Disclosures of the NLB Group for 2013

pursuant to the Regulation on Disclosures by Banks and Savings Banks

Ljubljana, April 2014

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1. Introduction

The European capital legislation, based on Basel II, among other introduced the requirements on the transparency of bank operations. The European banks are bound to disclose certain information with the aim to provide sufficient information for potential investors about the risks assumed by the Bank in its operations.

In Slovenian legislation, the mandatory disclosures as at 31 December 2013 were determined by the Regulation on Disclosures by Banks and Savings Banks. NLB d.d. published disclosures in line with this Regulation for the first time in 2007, while the set of disclosures has been expanded several times over the following years.

In accordance with the capital legislation, NLB d.d. has the position of an "EU parent bank" which is why it is obliged to disclose information on consolidated basis. Disclosures can be published as the part of the annual report or independently on the Bank's web portal; NLB d.d. decided on separate publication of disclosures on the web portal.

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

The NLB Group applies the following approaches for the calculation of capital requirements:

- credit risk - standardised approach,
- market risk - standardised approach,
- operational risk - basic indicator approach.

Thus, some disclosures relating to the approaches not used by the NLB Group are not applicable:

- disclosures related to the IRB approach for credit risk (Articles 13.c, 17 and 24),
- disclosures related to internal models for the calculation of market risk capital requirements (Articles 14.i and 19),
- disclosures related to the advanced measurement approach for operational risk (Articles 20.b and 26).

Furthermore, some other disclosures relating to the types of transactions not currently performed by the NLB Group are not relevant to it:

- disclosures related to securitisation (Article 23),
- disclosures related to credit derivatives (Article 14.g, 14.h and 25.d),
- disclosures related to balance-sheet netting as a credit protection (Article 25.a).

The bulk of numerical data in the material is prepared on the basis of the COREP reports sent to supervisory authorities. As the amounts are rounded to thousand euros, minimum deviations can occur in the sums within individual categories and between tables.

The disclosures of the NLB Group for 2013 have not been verified by the independent certified auditor but by the Bank’s Internal Audit.

2. Risk management objectives and policies

(Article 10 of the Regulation on the Disclosures by Banks and Savings Banks)

2.1. Strategies and processes for managing risks

(Article 10.a of the Regulation on the Disclosures by Banks and Savings Banks)

NLB d.d. is a universal bank present through the NLB Group on certain south-eastern markets defined as its core markets. These include, in addition to Slovenia, also BiH, Serbia, Montenegro, Macedonia and Kosovo. The key core market is Slovenia, where the NLB Group generates the bulk of its revenue. Besides the basic banking services, the NLB Group also offers other financial services and thus comprehensively services its clients' financial needs. The fundamental pillars of the Bank's offer are:

- retail banking (commercial banking - SME, asset management, life and pension insurance, private banking, distribution network) and
- corporate banking (commercial banking - large corporates, corporate finance, capital markets agency for the needs of its clients, trade finance).

On the ex-YU territory the NLB Group is above all present in the area of retail banking, including SMEs and retail banking operations.

In December 2013, the European Commission issued the final decision regarding the state aid, by which it imposed on the NLB d.d. a series of measures related to improvement of corporate governance, credit policy revision and the related management of credit risk, gradual withdrawal of the Bank from non-core markets and investments and improvement of cost efficiency. The Bank must carry out all measured by 31 December 2017 at the latest and report promptly thereon to the European Commission.

Business strategy of the Group is focused on providing long-term sustainable and profitable business model, focusing on providing traditional banking services, good knowledge of clients and high quality of provided services. Special emphasis is on segment of small and micro enterprises. Accordingly, it is necessary to take care of a sustainable risk profile, proper risk management culture, quality corporate governance, comprehensive integrity system and reputation of the NLB Group. Of great importance is also the optimal management of non-strategic activities from which the NLB Group will exit by the year 2020.

To achieve the above goals, special attention is being paid to proactive management of all types of risk. For this purpose, the NLB Group has set up internal policies and procedures that take into account the regulations adopted by the Bank of Slovenia and other laws, current EBA and other professional associations' guidelines and good business practices of banks in this area. The key internal policies of the Bank, approved by the Management Board and most relevant also discussed by the Supervisory Board of the NLB, specify the goals, approaches and methodologies for monitoring, measuring and managing all types of risk.

The internal risk management policies of the NLB Group, updated on the basis of amended methodologies, approved by the managements of individual Group members and discussed by the supervisory boards, specify in detail the approaches and methodologies for monitoring, measuring and managing all types of risk, aimed at:

- monitoring the credit portfolio and minimising losses arising from the credit risk, which is the principal risk of the NLB Group, considering its business model;
- ensuring sufficient liquidity;
- minimisation of negative income effects arising from market risks;
- prevention of potential loss events arising from operational risks.

Furthermore, the NLB Group also identifies all other key risks to which it is exposed in its operations. In line with the above, it monitors the strategic risk, reputation risk, capital risk and profitability risk. The policies of the members of the NLB Group for the management of individual types of risks must all be aligned with the standards of risk management in the NLB Group and the guidelines approved by the Management Board of NLB d.d.

Monitoring of any deviations from the set framework of the strategy and individual policies in risk management is provided through a system of reporting on achievement or potential exceeding of guidelines from individual policies and through a system of limits and specified framework ratios (foremost in non-credit risks) discussed by expert committees in NLB d.d. and the Management Board of NLB d.d.. The Management Board and the committees which are also given the power to adopt decisions take the appropriate corrective action.

2.2. Structure and organisation of the relevant risk management function

(Article 10.b of the Regulation on the Disclosures by Banks and Savings Banks)

The primary responsibility for the management of risks assumed by the members of the NLB Group lies with their managements which are obliged to pursue the strategic goals and implement the planned business results as well as monitor and manage risks. For this purpose they must adopt appropriate risk management policies. The supervisory board of the NLB Group member gives approval to objectives and policies and within its competence monitors their implementation as well as assesses effectiveness. The member's management or the management board and its committees may in accordance with their authorisations transfer certain, in particular operating responsibilities in risk management, to lower management levels.

In bank members of the NLB Group, risks are monitored centrally in the framework of independent organisational unit (the same is recommended for financial companies in the NLB Group). The centralised monitoring of risks ensures the establishment of standardised and systemic approaches to risk management, and thus a comprehensive overview of the events in the NLB Group's and each member's balance sheet. Pursuant to the Risk Management Standards of the NLB Group it is organised, in all members, so as to ensure separate measurement and monitoring of risks by risk management from business function, which is important for the purpose of objectivity needed for assessing business decisions.

The organisational unit, responsible for the risk area in each member of the NLB Group, monitors risk exposure in line with the adopted policies, and controls if they are within the limits set in advance together with the business part. As a rule, the limits are approved by the NLB Group member's supervisory body. The exception is credit rating treatment and determination of the limit (i.e. debt ceiling) for material clients at the level of the NLB Group, which lies within the competence of NLB d.d. If the clients are not material and an individual member records a "large" credit exposure to them (10% or more of the bank's capital), the new credit proposals must be approved by the supervisory body of the member, subject to obtaining an opinion from NLB d.d. Balancing of the exposure itself is the responsibility of the business front.

The organisational units for managing risks in NLB d.d. and in NLB Group members are directly responsible to the Management Board or its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board of NLB d.d. or Board of Directors of the NLB Group member).

In the level of the whole NLB Group, risks are monitored in the scope of two business lines in NLB d.d. Global Risk in NLB d.d. is in charge of drafting and controlling the risk management policies, monitoring of exposure of the NLB Group to all types of business risk, and preparation of external and internal reports. The Credit Analysis and Control Division in NLB d.d. prepares credit analyses and proposals for credit rating and debt ceiling for all clients and groups of related persons, and controls the conclusion and implementation of credit operations and businesses on financial markets in line with the internal and external risk management rules.

All members of the NLB Group being consolidated shall report on their risk exposure to NLB d.d. - Global Risk. Global Risk informs the Assets and Liabilities Committee of the NLB Group, the Management Board of the NLB d.d. and the Supervisory Board of NLB d.d. of all relevant information so that they can adopt the required measures or decisions. In co-operation with the Credit Analysis and Control Division, the Global Risk is responsible for drafting orientations that allow for reasonable harmonisation of policies in the area of managing credit, market and operational risks in individual members of the NLB Group and monitoring the implementation of these policies.

2.3. Scope and nature of internal risk reporting and risk measurement systems

(Article 10.c of the Regulation on the Disclosures by Banks and Savings Banks)

Organisation and delimitation of competencies in the risk management area in the NLB Group are designed to prevent conflict of interest and ensure a transparent and documented decision-making process, subject to appropriate information flow upwards and downwards. In the NLB Group, reporting is carried out in line with the internal guidelines which, in addition to internal requirements, take into account also the local regulation of the NLB Group members and the requirements of the Bank of Slovenia (in terms of contents and frequency). Reporting on the NLB Group level is carried out in the form of standardised reports. This allows for reasonable alignment of risk management policies with the methodologies for measuring and harmonising exposure to risks, and appropriate establishment of data and automation of report preparation at the Group level, which also ensures their quality and reduces the possibility of errors.

The risk measurement systems in NLB d.d. and other NLB Group members are a constituent part of risk management policies and are for control purposes aligned with the regulatory requirements of the Bank of Slovenia at consolidated level, which are aligned with the European directives on the banks' capital adequacy (NLB Group uses the standardised approach for credit and market risks, and basic indicator approach for operational risks; NLB d.d. on the solo basis applies the same approaches with the exception of operational risk, , wh where uses standardised approach).

In addition to regulatory methodologies, the NLB Group also uses internal methodologies for measuring the exposure to credit, market, interest rate and operational risks, which are aligned with the Basel guidelines and well established in the banking practice. Furthermore, the NLB Group has set up internal methodologies for measuring exposures arising from other non-financial risks.

2.4. Policies for hedging and mitigating risks, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

(Article 10.d of the Regulation on the Disclosures by Banks and Savings Banks)

The following documents are crucial for risk mitigation at the NLB Group level:

- Corporate Governance Policy of the NLB Group
- Risk Management in NLB d.d. and the NLB Group - after the publication of the business strategy of the NLB Group, the document will be upgraded to the Risk Strategy of NLB d.d. and the NLB Group.
- Standards of Risk Management in the NLB Group
- Minimum standards and development programme in the area of corporate banking and corporate back office in the members of the NLB Group
- Criteria and Procedures for Granting Loans in the NLB Group members
- Loan Collateral Manual in the NLB Group
- Methodology on credit risk impairments and provisions according to the International Financial Reporting Standards and the regulations of the Bank of Slovenia applying to NLB d.d. and the NLB Group
- Guidelines for managing liquidity risk in the NLB Group
- Minimum Standards Financial Markets.

The members of the NLB Group have their own policies for the major types of risks, which are drafted in accordance with the requirements of the NLB Group Risk Management Standards. Internal policies of NLB d.d. serve as the basis for establishing orientations for the members of the NLB Group, namely:

- Policy on Lending to Non-financial Companies of NLB d.d.
- Criteria and Procedures for Granting Investments in NLB d.d.
- Loan Collateral Manual of NLB d.d. (Modules I and II)
- Foreign Exchange Risk Management Policy
- Interest Rate Risk Management Policy
- Liquidity Risk Management Policy
- Operational Risk Management Policy
- Securities Management Policies
- Non-Financial Risk Management Policies.

The policies of NLB d.d. and other NLB Group members define the tolerance in assuming an individual risk by prescribing the limits (debt ceiling, internal limit system and similar orientations).

The following key mechanisms exist in NLB Group in the area of control environment:

- adoption of adequate organisational structure which ensures management of all types of risks and the signing method based on the four-eye principle;
- adequate IT security, audit trails and authorisation of input data (the four-eye principle),
- separate management of non-core activities and non-strategic investments in the NLB Group.

3. Information on entities included in disclosures

(Article 11 of the Regulation on the Disclosures by Banks and Savings Banks)

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

Disclosures are prepared on the basis of data for the NLB Group, using the consolidation for the purpose of supervision on consolidated basis pursuant to the Regulation on the Supervision of Banks and Savings Banks on a Consolidated Basis. The differences between this method of consolidation and consolidation for accounting purposes (pursuant to the IFRS) are in the list of companies (based on their activity) and in the method of consolidation:

- List of companies:
  The consolidation for accounting purposes comprises all subsidiaries (i.e. entities in which the Bank or the banking group directly or indirectly holds more than 50% of voting rights or can otherwise control their operations), all associates (in which it directly or indirectly holds between 20% and 50% of voting rights and has material impact, but does not control them), and joint ventures (i.e. jointly controlled by the NLB Group, based on contractual agreement). **For the purpose of supervision on consolidated basis**, of all subsidiaries, associates and joint ventures, only credit institutions, financial institutions, ancillary services undertakings and asset management companies are included in consolidation.

- Consolidation method:
  In consolidation for accounting purposes, subsidiaries are consolidated according to the method of full consolidation, while associates and joint ventures according to the equity method. Consolidation for the purpose of supervision on consolidated basis requires different treatment of joint ventures, which have to be consolidated according to the proportional method.

The table below shows both methods of consolidation for each subsidiary, associated company and joint venture in the NLB Group.

Furthermore, the last column of the table shows the data on whether an investment was a **capital deduction item in the calculation of capital adequacy on consolidated basis**. Deduction items are investments in credit and financial institutions and asset management companies exceeding a 10% voting share, and investments in insurance companies and pension companies exceeding a 20% voting share..

Members of the NLB Group (both methods of consolidation) and investments in companies that are considered a deduction item from the NLB Group's capital:

	Industry	Voting share of NLB Group	Seat	Method of consolidation for accounting purposes	Method of consolidation for prudential purposes	Deduction from capital (calculation of CAR for NLB Group)
Subsidiary companies:						
LHB AG, Frankfurt	finance	100.00%	Germany	full	full	
LHB Trade d.o.o. - in liquidation, Zagreb	trade	100.00%	Croatia	full	full	
NLB Tutunska Banka a.d., Skopje	banking	86.97%	Macedonia	full	full	
NLB Montenegrobanka a.d., Podgorica	banking	97.40%	Montenegro	full	full	
NLB Banka a.d., Belgrade	banking	99.996%	Serbia	full	full	
Conet d.o.o.- in bankruptcy, Belgrade	trade	94.85%	Serbia	full	full	
Convest d.o.o., Novi Sad	finance	100.00%	Serbia	full	full	
NLB Banka d.d., Tuzla	banking	96.32%	Bosnia and Herzegovina	full	full	
NLB Razvojna banka a.d., Banja Luka	banking	99.85%	Bosnia and Herzegovina	full	full	
NLB Prishtina sh.a., Prishtina	banking	81.21%	Republic of Kosovo	full	full	
NLB Leasing d.o.o., Ljubljana	finance	100.00%	Slovenia	full	full	
NLB Leasing Sofija E.o.o.d., Sofia	finance	100.00%	Bulgaria	full	full	
Optima Leasing d.o.o., Zagreb	finance	99.97%	Croatia	full	full	
OL Nekretnine d.o.o., Zagreb	real estate	100.00%	Croatia	full	full	
NLB Leasing Podgorica d.o.o., Podgorica	finance	100.00%	Montenegro	full	full	
NLB Leasing d.o.o., Belgrade	finance	100.00%	Serbia	full	full	
NLB Leasing d.o.o., Sarajevo	finance	100.00%	Bosnia and Herzegovina	full	full	
NLB Lizing d.o.o.e.l., Skopje	finance	100.00%	Macedonia	full	full	
NLB InterFinanz AG, Zürich	finance	100.00%	Switzerland	full	full	
NLB InterFinanz Praha s.r.o., Prague	finance	100.00%	Czech Republic	full	full	
NLB InterFinanz d.o.o., Belgrade	finance	100.00%	Serbia	full	full	
NLB Factoring a.s. "v likvidaci", Ostrava	finance	100.00%	Czech Republic	full	full	
NLB Skladi d.o.o., Ljubljana	finance	100.00%	Slovenia	full	full	
Plan d.o.o., Banja Luka	architecture	88.14%	Bosnia and Herzegovina	full	full	
NLB Nov penziski fond a.d., Skopje	insurance	100.00%	Macedonia	full	-	yes
NLB Crna gora d.o.o., Podgorica	real estate	100.00%	Montenegro	full	full	
FIN-DO d.o.o., Domžale	real estate	100.00%	Slovenia	full	full	
NLB Propria d.o.o., Ljubljana	real estate	100.00%	Slovenia	full	full	
NLB Srbija d.o.o., Belgrade	real estate	100.00%	Serbia	full	full	
CBS Invest d.o.o., Sarajevo	real estate	100.00%	Bosnia and Herzegovina	full	full	
Prospera plus d.o.o., Ljubljana**	tourism	100.00%	Slovenia	full	full	
Associated companies:						
Banka Celje d.d., Celje	banking	41.11%	Slovenia	equity	equity	yes
Adria Bank AG, Wienna	banking	28.46%	Austria	equity	equity	yes
Bankart d.o.o., Ljubljana	card operations	39.44%	Slovenia	equity	equity	
ICJ d.o.o., Domžale	real estate	50.00%	Slovenia	equity	equity	
Kreditni biro SISBON d.o.o., Ljubljana	credit ratings	29.68%	Slovenia	equity	equity	
Skupna pokojninska družba d.d., Ljubljana	insurance	28.13%	Slovenia	equity	-	yes
Skupina Argo, Horjul	trade and manufacturing	75.00%	Slovenia	equity	-	
Joint ventures:						
NLB Vita d.d., Ljubljana	insurance	50.00%	Slovenia	equity	-	yes
Skupina Prvi faktor, Ljubljana	trade finance	50.00%	Slovenia	equity	proportional	yes*
Other entities, which represent the deduction item from capital in calculation of capital adequacy of the NLB Group						
Banjalucka berza a.d. Banja Luka	finance	18.94%	Bosnia and Herzegovina	-	-	yes

** Due to proportional method of consolidation, only 50% of capital investment in the Prvi faktor Group is considered as a capital deduction item.*
*** Considering its activity, the company Prospera plus should by definition be excluded from the consolidation for the purpose of supervision; however, based on the agreement of the Bank of Slovenia, it is included in consolidation.*

In the NLB Group, there are no significant current or foreseen practical or legal impediments to the prompt transfer of capital or repayment of liabilities among the parent company and the subsidiaries in the NLB Group. Potential legal impediments to the transfer of capital arise from the provisions on minimum amount of capital in accordance with the local legislation relevant for individual group members.

As at 31 December 2013, all subsidiaries of the NLB Group that are not included in the consolidation under the Regulation on the Supervision on a Consolidated Basis, met the statutory requirement on minimum capital. The total amount of capital deficit was 0 euros.

4. Capital (own funds)

(Article 12 of the Regulation on the Disclosures by Banks and Savings Banks)

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

(Article 12.a of the Regulation on the Disclosures by Banks and Savings Banks)

Bank's 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 of the RS, nos. 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 represents the highest quality element of capital and is mostly composed of balance-sheet equity elements (share capital and related capital reserves) and to a limited extent may also include some high-quality hybrid instruments. Main features of Tier 1 capital components are permanency (without or having a very long maturity, limited possibility of exercising call options), flexibility in terms of disbursements (payments of returns are not cumulative) and full availability for covering losses (subordination to all other liabilities of the bank). The required characteristics are in greater detail defined in Articles 10 (Shares) and 16 (Hybrid instruments) of the Regulation on Capital.

Tier 1 capital of the NLB Group currently comprises only ordinary shares and the related reserves, having no other capital instruments eligible for inclusion in Tier 1 capital. The composition and the amount of Tier 1 capital of the NLB Group was in 2013 mainly influenced by: the conversion of hybrid instrument (CoCo) in the nominal amount of EUR 320 million into common equity, a capital increase of EUR 1,551 million (treated and approved by the EC as state aid) and operating loss.

Tier 2 capital can be composed of hybrid instruments, subordinated debt instruments and part of revaluation reserves. Tier 2 hybrid instruments have no maturity and can be called only after 5 years. Subordinated debt instruments can have a specific maturity, exceeding 5 years minimum. Subordinated debt instruments are gradually excluded from Tier 2 capital in the last five years prior to maturity (cumulative annual 20-percent discount). The required features of these instruments are in greater detail defined in Articles 25 (Hybrid instruments) and 28 (Subordinated debt) of the Regulation on Capital.

Based on the order of the Bank of Slovenia related to the approval of state aid, the NLB d.d. exercised bail-in of its Tier 2 capital instruments, so that at the end of 2013, Tier 2 capital only included subordinated instruments issued by NLB Group subsidiaries.

The key characteristics of capital instruments of the NLB Group:

in EUR thousand

Capital instrument	Type	Maturity	Incentive to redeem	Interest rate	31.12.2013 Nominal value	31.12.2013 Included in calculation of capital	31.12.2012 Nominal value	31.12.2012 Included in calculation of capital
Convertible hybrid - CoCo ((	loan	-	NO	10.0%	-	-	320,000	320,000
Hybrid financial instruments in Tier 1 capital						**0**		**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						**0**		**113,600**
Subordinated debt	loan	30.12.2014	YES	6M EURIBOR + 5.1% to 22.03.2014, thereafter 6M EURIBOR + 8.5%	4,500	0	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	9,600	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	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						**14,600**		**112,035**
Total					**21,500**	**14,600**	**652,982**	**545,635**

Tier 3 capital can include the subordinated debt instruments, which are subordinated only to ordinary liabilities of the Bank but not to previously stated capital instruments of higher quality. NLB Group currently holds no such instrument.

In addition to the above mentioned capital elements, several deduction items should be considered in the calculation of the Bank's 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 where the NLB Group holds more than a 10% share (or in the case of insurance companies 20%)[1]. The remaining 50% of such capital investments is deducted from Tier 2 capital.

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

(Article 12.b, c, d and e of the Regulation on the Disclosures by Banks and Savings Banks)

The amount of individual categories of the NLB's Group capital and calculation elements:

in EUR thousand

	31.12.2013	31.12.2012
TOTAL CAPITAL (OWN FUNDS)	**1,218,566**	**1,168,223**
Tier 1 capital	**1,199,596**	**1,011,264**
Paid up share capital	200,000	104,731
Own shares	0	-2,962
Capital reserves (share premium)	871,378	774,472
Reserves and retained profit or loss	159,515	-90,515
Minority interest	24,048	18,879
Revaluation reserves - prudential filters	-672	-874
Hybrid instruments in Tier 1 capital	0	320,000
Of which hybrid instruments in transition period (4th paragraph of Artic	*0*	*0*
Of which hybrid instruments with incentives to redeem	*0*	*0*
Other deductions	-54,673	-112,467
Intangible assets	-54,673	-112,467
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 regulation on loss assessment	0	0
Other	0	0
Tier 2 capital	**26,890**	**240,633**
Hybrid instruments	0	113,600
Subordinated debt	14,600	112,035
Other	12,290	14,998
Deductions from Tier 1 and Tier 2 capital *	**-7,920**	**-83,674**
Of which shortfall of impairments and provisions under IRB approach	*0*	*0*
Tier 3 capital (to cover market risks)	**0**	**0**
CAPITAL REQUIREMENTS	**640,430**	**884,431**
Total capital requirements for credit risk (standardised approach)	527,496	768,739
Total capital requirements for market risk	19,929	17,560
Capital requirement for operational risk	93,005	98,132
CAPITAL ADEQUACY RATIO	**15.2%**	**10.6%**
TIER 1 RATIO	**14.9%**	**8.8%**
CORE TIER 1 RATIO	**14.9%**	**8.8%**

** Deduction items reduce Tier 1 and Tier 2 capital, each by 50% of deduction items*

1 Shown in the last column of the table on page 9.

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

(Article 13 of the Regulation on the Disclosures by Banks and Savings Banks)

5.1. 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 the Disclosures by Banks and Savings Banks)

The internal capital adequacy assessment process (ICAAP) of the NLB Group meets the requirements of the regulations of the Bank of Slovenia and other relevant recommendations and good banking practices. The key highlights of the implementation of the ICAAP process in the NLB Group are as follows:

- determining the risk profile and the related internal limit system which serve as the basis for business orientation,
- definition of internal capital adequacy assessment process methodologies,
- planning the volume of available capital, defining target capital adequacy ratio,
- regular monitoring and definition of the measures to manage and mitigate risks.

The ICAAP process in the NLB Group is integrated in the implementation of long-term planning, with the active role of the Management Board of NLB d.d., and represents one of the components of the Group's corporate governance with the aim of ensuring long-term stable operations of the NLB Group. Risk identification and assessment are carried out on the basis of internal methodologies which take into account the complexity of the structure of the Group's operations with the tendency of upgrading in terms of advanced approaches to risk management. The ICAAP process includes regular quarterly monitoring, defines the set of corrective measures for managing and mitigating risks.

The NLB Group has produced a risk profile for 2014 which stipulates the identification of key risks and the risk appetite of NLB d.d. and NLB Group, while also setting the pertaining limits. The most important risk indicators are classified in two categories – as limits or as target values. They were defined especially for NLB d.d. and at the level of the NLB Group, whereby some risk indicators take into account the specific conditions of the NLB Group members. Regular monitoring of the risk indicators has been introduced, at least once a month by the ALCO of the NLB Group or promptly by the Risk Committee of the Supervisory Board of the NLB d.d..

The internal limit system will be revised again in 2014, particularly from the point of view of any changes in the short-term and definition of mid-term target values of key risk indicators, following the final adoption of the NLB Group's business strategy. Moreover, the risk appetite and risk management strategy for the NLB Group is also planned to be formulated.

The internal assessment of capital requirements of the NLB Group consists of the following steps:

- risk identification and defining of material risks,
- selection of the approach to the calculation of regulatory capital requirements ("Pillar 1"),
- definition of internal methodology for the identification, measurement and calculation of capital requirements for non-regulatory risks ("non-Pillar 1"),
- implementing stress scenarios for non-regulatory risks ("non-Pillar 1"),
- definition of methodology for the production of the aggregate assessment of capital requirements for all material risks.

In the scope of regulatory risks, which include credit risk, operational risk and market risk, the NLB Group uses the standardised approach for credit and market risks while the calculation of capital requirement for operational risks is made according to the basic indicator approach. For the calculation of capital requirements for NLB d.d. on the solo basis, same approaches are used except for operational risk, where standardised approach is applied.

In the preparation of internal capital adequacy assessment, NLB d.d. and other bank members of the NLB Group identify risks not included in the calculation under the regulatory approach, which are nevertheless equally important to them. The scope of additional credit risks also includes the concentration risk – to individual clients and groups of related parties, at the level of activity – and collateral concentration risk and add-on for exposures to countries from the former Yugoslav republics. The NLB Group calculates capital requirement for non-financial risks (which include capital risk, profitability risk, strategic risk and reputation risk), if it assesses that individual risk is crucial for the NLB Group. In addition to that, the non-regulatory risks include the effects of stress scenarios for credit (deterioration of credit rating structure, decrease in real estate market prices, cashed in guarantees), foreign exchange, liquidity, interest rate risk in the banking book and market risks arising from securities.

The internal methodologies of capital adequacy assessment for non-regulatory risks of NLB d.d. are defined in detail in the document "ICAAP Process – Methodology of assessing capital requirements". Bank members of the NLB Group have set up their own methodologies, taking into account the specifics of their operations, structure of their investment portfolio, their strategic guidelines, regulatory framework and macroeconomic environment.

5.2. Capital requirements

(Article 13.b, d and e of the Regulation on the Disclosures by Banks and Savings Banks)

The NLB Group uses the following approaches for the calculation of capital requirements on consolidated basis:

- credit risk - standardised approach,
- market risk - standardised approach,
- operational risk - basic indicator approach.

The amount of capital requirements for the NLB Group:

in EUR thousand

	31.12.2013	31.12.2012
TOTAL CAPITAL REQUIREMENTS	**640,430**	**884,431**
Total capital requirements for credit risk (standardised approach)	**527,496**	**768,739**
Central governments or central banks	1,402	1,208
Regional governments or local authorities	5,288	5,029
Public sector entities	4,625	3,985
Multilateral development banks	0	1,355
International organisations	0	0
Institutions	22,085	21,103
Corporates	187,753	285,950
Retail	183,300	209,055
Secured by real estate property	20,330	14,463
Past due items	35,190	88,600
Items belonging to regulatory high-risk categories	23,581	85,654
Covered bonds	224	467
Short-term claims on institutions and corporate	0	0
Collective investments undertakings	0	0
Other items	43,718	51,871
Total capital requirements for market risk	**19,929**	**17,560**
Capital requirement for operational risk	**93,005**	**98,132**

6. Credit risk and dilution risk

(Articles 15 and 16 of the Regulation on the Disclosures by Banks and Savings Banks)

The NLB Group is calculating the capital requirement for credit risk based on the standardised approach prescribed by the Regulation on the Calculation of Capital Requirements for Credit Risk under the Standardised Approach for Banks and Savings Banks, which is consistent with Directives 2006/48/EC and 2006/49/EC on capital adequacy of banks. The calculation of capital requirement takes into account the effect of loan collaterals as a secondary source of receivable repayment; the Bank uses the simple calculation method in accordance with the above-mentioned Regulation and the Regulation on Credit Collaterals. According to this methodology, capital requirement is calculated depending on the segment and credit quality of clients (as determined by external credit rating) and the quality of collaterals which must be adequately evaluated and at the same time satisfy the prescribed 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

(Article 16.a, b, c and d of the Regulation on the Disclosures by Banks and Savings Banks)

For the calculation of capital requirement for credit risk, the NLB Group appointed Fitch Ratings credit rating agency, which the Bank of Slovenia estimated to be an eligible external credit assessment institution and prescribed the rules for comparing its assessments with the credit quality steps from the law. The credit assessments of this agency are used for the categories of exposure:

- to the central government and central bank, and
- to institutions, including the exposure to institutions with short-term credit assessment.

The weight for each category of exposure is determined based on the Regulation on the Calculation of Capital Requirements for Credit Risk under the Standardised Approach.

In exposure categories for which a credit assessment institution was designated, the weight is assigned based on the financial instrument's rating. If such rating is not available, the higher of the weights applying to long-term credit rating of the debtor or other financial instruments of the same debtor or country is used. Weights are assigned to non-assessed financial instruments based on the prescribed increase in weight linked to the weight of other short-term instruments of the same debtor.

For categories of exposure for which a credit assessment institution was not appointed, the risk weight is assigned according to the prescribed legislation, meaning that it is assigned based on the rating of the debtor's country or specific rules applying to the respective exposure category.

6.2. Definition of past due and impaired items for accounting purposes and a description of the methodology for making value adjustments to items and provisions

(Article 15.a and b of the Regulation on the Disclosures by Banks and Savings Banks)

The category of past due items includes individual exposures of the debtor which is more than 90 days in delay, whereby the full exposure or its part exceeding 2% of the drawn amount or EUR 50,000, but no less than EUR 200. The definition is consistent with the Regulation on the Calculation of Capital Requirements for Credit Risk under the Standardised Approach.

The NLB Group is impairing financial assets individually, if these are individually significant financial assets with signs of impairment of these assets, while other financial assets are impaired collectively. The Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks defines that an individually significant financial asset or assumed off-balance liability is the total exposure towards one debtor with a value exceeding 0.5% of the bank's capital or EUR 650 thousands.

In 2013, all exposures towards banks, all exposures towards other legal persons exceeding EUR 20,000 and all exposures towards natural persons exceeding EUR 300,000 are defined as individually significant receivables in NLB Group requiring individual assessment. If the NLB Group finds that an individually assessed financial asset has no signs of impairment, the asset is included into a group of related financial assets with similar credit risk characteristics and all of them are impaired collectively.

In individually significant financial assets, the NLB Group assesses at each cut-off date of the financial status report whether there is impartial evidence of the impairment of the financial asset arising from events after the initial recognition of the asset and impacting the future cash flows which can be reliably evaluated.

The criteria for the NLB Group to assess whether there is impartial evidence on impairment, include:

- defaults in the payment of contractual interest or principal,
- breach of other contractual provisions,
- liquidity difficulties of the borrower,
- restructuring of financial liabilities of the borrower, where material loss is recognised,
- initiation of bankruptcy or insolvency proceedings,
- decrease in the fair value of the collateral received,
- other arrangements having an adverse effect on the Bank's or company's position.

If there is impartial evidence that there was a loss due to impairment in loans or financial assets held to maturity, the amount of impairment is measured as the difference between the book value of the assets and its current value of expected cash flows. The book value of the asset is reduced forming a value adjustment and is shown as loss in the income statement. If for existing clients who are in default, payment of the existing liabilities is possible only from the realisation of collaterals, the liquidation value of the collaterals is taken into account in the impairments. This value is calculated from the appraised market value of the collateral and the discount used as defined in the Collateral Manual. The assumed off-balance liabilities towards the debtor where there is impairment evidence must be assessed individually, any provisions are recognised as liabilities.

For collective assessments of impairments, the NLB Group uses migration matrices presenting the expected migrations between rating groups. The probability of migrations is estimated based on experience from the previous years, e.g. annual migration matrices for various types of clients. These data can be adapted to predicted future dynamics as past experience does not always reflect the current economical situation. The exposure to natural persons is additionally analysed from the aspect of the transaction type. Impairments are assessed based on the expected migrations of clients and consequently the receivables from the good rating groups into the groups D and E (to which the defaulters belong) and individually assessed average collectability of receivables from D and E clients.

If the amount of loss due to the impairment is subsequently lowered following an event arising after the recognised impairment (for example the recovery from the collateral in the collection process exceeds the assessed liquidation value), the impairment is reversed by reducing the value adjustment.

The NLB Group ultimately writes-off financial assets according to the amortised cost, if it estimates during collection that they will not be recovered and that conditions are met to cancel the recognition of such assets.

6.3. Breakdown of exposures and credit protection techniques by category of exposure

(Articles 15.c, 16.e and 25.f and g of the Regulation on Disclosures by Banks and Savings Banks)

Distribution of exposures, protection techniques, risk weighted assets and capital requirement of the NLB Group based on exposure categories

- at the end of 2013:

in EUR thousand

Category of exposure	Original exposure pre conversion factor	Share of each category	Net value of exposure	Credit risk mitigation techniques (CRM): Unfunded credit protection: adjusted values (GA): Guarantees	Credit risk mitigation techniques (CRM): Unfunded credit protection: adjusted values (GA): Credit derivatives	Credit risk mitigation techniques (CRM): Funded credit protection: Financial collateral: simple method	Credit risk mitigation techniques (CRM): Funded credit protection: Other funded credit protection	Value of CRM / Net exposure	Net exposure after CRM substitution effects pre conversion factors	Exposure value	Risk weighted exposure	Capital requirement	Share of capital requirement
	1	2=1/sum(1)	3	4	5	6	7	8=(4+5+6+7)/	9	10	11	**12**	13=12/sum(12)
Exposures to central governments and central banks	2,837,464	17.45%	2,836,141	0	0	0	0	0.00%	4,420,575	4,394,762	17,530	**1,402**	0.27%
Exposures to regional governments or local authorities	121,808	0.75%	116,959	0	0	0	0	0.00%	116,959	116,594	66,103	**5,288**	1.00%
Exposures to public sector entities	140,778	0.87%	134,315	69,118	0	464	0	51.81%	73,200	68,254	57,813	**4,625**	0.88%
Exposures to multilateral development banks	33,717	0.21%	33,717	0	0	0	0	0.00%	33,893	33,893	0	**0**	0.00%
Exposures to institutions	781,408	4.81%	766,776	64,730	0	9,195	0	9.64%	699,075	627,768	276,066	**22,085**	4.19%
Exposures to corporates	4,486,163	27.60%	4,094,595	1,351,539	0	77,903	0	34.91%	2,709,898	2,346,918	2,346,913	**187,753**	35.59%
Retail exposures	3,726,124	22.92%	3,603,855	1,781	0	120,130	0	3.38%	3,540,777	3,055,004	2,291,253	**183,300**	34.75%
Exposures secured by real estate property	668,043	4.11%	643,255	0	0	0	0	0.00%	643,255	630,047	254,119	**20,330**	3.85%
Past due items	1,320,318	8.12%	389,366	0	0	1,019	0	0.26%	388,968	388,362	439,876	**35,190**	6.67%
Items belonging to regulatory high-risk categories	865,489	5.32%	306,955	4,452	0	1,656	0	1.99%	302,780	250,818	294,759	**23,581**	4.47%
Exposures in the form of covered bonds	18,483	0.11%	18,483	3,447	0	0	0	18.65%	15,036	15,036	2,800	**224**	0.04%
Other items	1,257,304	7.73%	1,249,813	0	0	0	0	0.00%	1,249,813	1,249,808	546,474	**43,718**	8.29%
Total	**16,257,099**	**100.00%**	**14,194,231**	**1,495,066**	**0**	**210,368**	**0**	**12.01%**	**14,194,231**	**13,177,264**	**6,593,706**	**527,496**	**100.00%**

- at the end of 2012:

in EUR thousand

Category of exposure	Original exposure pre conversion factor	Share of each category	Net value of exposure	Credit risk mitigation techniques (CRM): Unfunded credit protection: adjusted values (GA): Guarantees	Credit risk mitigation techniques (CRM): Unfunded credit protection: adjusted values (GA): Credit derivatives	Credit risk mitigation techniques (CRM): Funded credit protection: Financial collateral: simple method	Credit risk mitigation techniques (CRM): Funded credit protection: Other funded credit protection	Value of CRM / Net exposure	Net exposure after CRM substitution effects pre conversion factors	Exposure value	Risk weighted exposure	Capital requirement	Share of capital requirement
	1	2=1/sum(1)	3	4	5	6	7	8=(4+5+6+7)/	9	10	11	**12**	13=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%**

At the end of 2013, the category of exposure to corporates accounted for 27.6% of total exposure (at the end of 2012 27.2%) and 35.6% of total capital requirement for credit risks (at the end of 2012: 37.2%), followed by retail banking with 22.9% of total exposure (at the end of 2012: 22.6%) and 34.7% of total capital requirement (at the end of 2012: 27.2%). If the categories of exposures collateralised by real estate, regulatory high-risk items and past due items which are also included in the segment of legal and natural persons are added to the above, all five categories of exposures account for 68% of total exposure (4.3 p.p. less than at the end of 2012) and more than 85.3% of total capital requirement for credit risks (at the end of 2011: 88.9%). At the end of 2013, the share of regulatory high-risk items and past due items decreased by 6.8 p.p. compared to the end of 2012, mainly due to the transfer of assets to the Bank Assets Management Company (BAMC). At the same time, the exposure to central government units rose by 3.1 p.p., predominantly due to the BAMC and RS bonds. The categories of exposure to countries and institutions considerably contribute to total exposure, where the capital requirement is relatively low owing to lower weights.

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

(Article 15.d of the Regulation on the Disclosures by Banks and Savings Banks)

The distribution of exposures by significant geographical area, broken down by material category of exposure

- at the end of 2013:

in EUR thousand

Country	Category of exposure						Total
	Exposures to central governments and central banks	Exposures to institutions	Exposures to corporates	Retail exposures	Past due items	Other	
Slovenia	1,697,917	100,810	3,320,425	2,348,276	333,494	1,885,040	9,685,962
Bosnia and Herzegovina	173,409	4,272	210,359	397,876	238,002	215,939	1,239,856
Macedonia	218,080	5,517	304,285	453,017	41,195	171,198	1,193,291
Serbia	172,634	1,287	132,653	112,746	244,897	250,205	914,422
Montenegro	54,925	2,041	151,482	211,512	112,326	240,340	772,625
Republic of Kosovo	79,444	687	137,083	177,694	11,828	73,665	480,402
Croatia	960	18,728	65,042	17,375	210,696	145,974	458,774
Germany	103,449	199,108	1,145	639	15,802	9,245	329,389
Austria	83,444	95,172	3,884	318	12,639	1,085	196,542
Belgium	90,495	61,147	30,574	198	567	853	183,834
Luxemburg	0	73,970	5,684	7	2,692	32,765	115,117
France	83,770	27,273	98	587	0	143	111,871
Netherlands	25,694	14,567	38,990	22	0	28,558	107,831
Italy	13,656	33,442	8,862	2,360	24,213	1,104	83,636
Switzerland	0	45,874	28,655	96	2,387	1,052	78,065
Czech republic	2,076	2,315	10,616	416	9,693	37,859	62,975
United States of America	0	40,755	11,628	169	1,137	1,673	55,363
Great Britain	0	20,464	19,931	761	438	7,209	48,803
Other countries	37,512	33,978	4,768	2,057	58,310	1,717	138,342
Total	**2,837,464**	**781,408**	**4,486,163**	**3,726,124**	**1,320,318**	**3,105,622**	**16,257,099**

- at the end of 2012:

in EUR thousand

Country	Category of exposure						Total
	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	11,799,437
Bosnia and Herzegovina	224,685	6,075	221,937	390,068	223,818	221,241	1,287,825
Macedonia	199,527	15,246	323,474	421,686	38,297	201,517	1,199,746
Serbia	141,300	15,084	236,344	115,884	160,923	238,285	907,821
Montenegro	37,468	0	218,362	227,211	130,197	143,845	757,082
Republic of Kosovo	50,140	0	131,086	173,303	12,507	44,355	411,392
Croatia	4,212	57,229	131,879	32,807	228,842	91,404	546,372
Germany	121,655	122,891	1,560	3,170	18,111	11,582	278,969
Austria	83,551	81,761	2,887	196	13,035	1,112	182,543
Belgium	56,949	33,214	8,005	232	263	877	99,540
Luxemburg	5,179	68,726	4,416	9	4,292	32,769	115,390
France	63,014	36,899	0	348	270	27	100,558
Netherlands	48,138	25,995	46,857	26	0	30,728	151,745
Italy	10,048	25,494	24,393	5,550	20,095	7,309	92,889
Switzerland	7	21,040	18,645	206	2,391	12,197	54,487
Czech republic	2,106	4,677	16,718	919	43,924	45,594	113,937
United States of America	11	23,904	4,912	1,004	588	2,092	32,511
Great Britain	0	66,130	1,684	742	1,077	7,237	76,869
Other countries	51,842	49,676	13,009	1,893	64,138	10,194	190,753
Total	**2,632,359**	**788,482**	**5,003,197**	**4,162,546**	**1,791,037**	**4,022,243**	**18,399,865**

The tables above show the geographical distribution of material categories of exposures, which represent 80.9% of total exposure (at the end of 2012: 78.1%) as at 31 December 2013.

The exposure of the NLB Group is geographically concentrated in markets where the bank members of the Group are based (core markets – in addition to Slovenia also Bosnia and Herzegovina, Macedonia, Serbia, Montenegro and the Republic of Kosovo). The exposure in Slovenia accounts for 59.6% of total exposure (at the end of 2012: 64.1%), whereas nearly 87.9% of total exposure (at the end of 2012: 88.9%) is concentrated in the said core markets of the NLB Group. In other markets, material exposure is only in the segment of countries and central banks and institutions (arising from liquidity reserves), whereas exposure to corporate and retail segment is smaller.

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

(Article 15.e of the Regulation on the Disclosures by Banks and Savings Banks)

Exposures by category of exposure and counterparty segment

- at the end of 2013:

in EUR thousand

Category of exposure	Counterparty segment								Total
	CD	FO	IN	JS	PO	RB	RD	Other	
Exposures to central governments and central banks	2,837,464	0	0	0	0	0	0	0	2,837,464
Exposures to regional governments or local authorities	0	0	0	0	0	0	121,808	0	121,808
Exposures to public sector entities	0	0	0	140,778	0	0	0	0	140,778
Exposures to multilateral development banks	0	0	0	0	0	33,717	0	0	33,717
Exposures to institutions	0	0	781,408	0	0	0	0	0	781,408
Exposures to corporates	0	0	0	0	4,485,239	0	0	924	4,486,163
Retail exposures	0	2,799,733	0	0	926,391	0	0	0	3,726,124
Exposures secured by real estate property	0	406,403	0	0	261,639	0	0	0	668,043
Past due items	233	141,569	24,842	22	1,151,073	0	2,579	0	1,320,318
Items belonging to regulatory high-risk categories	0	14,252	1,736	66	848,996	0	439	0	865,489
Exposures in the form of covered bonds	0	0	18,483	0	0	0	0	0	18,483
Other items	506,985	16,516	3,830	11	130,872	0	1	599,089	1,257,304
Total	**3,344,682**	**3,378,473**	**830,299**	**140,877**	**7,804,211**	**33,717**	**124,827**	**600,013**	**16,257,099**

- at the end of 2012:

in EUR thousand

Category of exposure	Counterparty segment								Total
	CD	FO	IN	JS	PO	RB	RD	Other	
Exposures to central governments and central banks	2,632,359	0	0	0	0	0	0	0	2,632,359
Exposures to regional governments or local authorities	0	0	0	0	0	0	114,550	0	114,550
Exposures to public sector entities	0	0	0	173,275	0	0	0	0	173,275
Exposures to multilateral development banks	0	0	0	0	0	33,866	0	0	33,866
Exposures to institutions	0	0	788,482	0	0	0	0	0	788,482
Exposures to corporates	0	0	0	0	5,003,197	0	0	0	5,003,197
Retail exposures	0	3,075,632	0	0	1,086,914	0	0	0	4,162,546
Exposures secured by real estate property	0	134,208	0	0	290,123	0	0	0	424,331
Past due items	138	159,054	25,904	32	1,602,809	0	3,101	0	1,791,037
Items belonging to regulatory high-risk categories	0	11,921	3,780	18	1,914,245	0	643	0	1,930,606
Exposures in the form of covered bonds	0	0	31,490	0	0	0	0	0	31,490
Other items	479,177	29,860	3,562	15	239,561	0	2	561,950	1,314,126
Total	**3,111,674**	**3,410,675**	**853,218**	**173,339**	**10,136,848**	**33,866**	**118,296**	**561,950**	**18,399,865**

Legend:
CD – central government
FO – natural persons
IN – institutions
IS – investment funds
JS – public sector
PO – corporate customers (companies)
RB – multilateral development banks
RD – regional governments

The distribution of exposure categories by type of client reveals that past due items mainly include corporates (87.2%, at the end of 2012: 89.5%), followed by natural persons (10.7%, at the end of 2012: 8.9%). At the end of 2013, past due items decreased compared to the previous year, mainly on the corporate customers segment on the account of transfer to the BAMC, as did their share in the structure of total exposure.

Regulatory high-risk exposures are practically completely classified in the corporate segment, which at the end of 2013 dropped by EUR 1,065 million, chiefly due to the transfer of assets to the BAMC.

Retail banking includes receivables from natural persons (75.1%, at the end of 2012: 73.9%) and companies (24.9%, at the end of 2012: 26.1%).

Exposures by category of exposure and institutional sector

- at the end of 2013:

in EUR thousand

Category of exposure	Institutional sector									Total
	Individuals	Ministries (public sector)	Heavy industry	Trade	Finance	Transport and storage	Other business activities	Construction	Other*	
Exposures to central governments and central banks	0	2,837,464	0	0	0	0	0	0	0	2,837,464
Exposures to regional governments or local authorities	0	0	0	0	0	0	44	353	121,411	121,808
Exposures to public sector entities	0	0	355	0	58,996	26,120	2	1,986	53,319	140,778
Exposures to multilateral development banks	0	0	0	0	33,717	0	0	0	0	33,717
Exposures to institutions	0	0	0	0	781,408	0	0	0	0	781,408
Exposures to corporates	0	0	953,149	725,707	141,111	779,871	736,053	224,592	925,680	4,486,163
Retail exposures	2,799,733	0	200,832	301,327	7,723	65,496	58,696	84,212	208,104	3,726,124
Exposures secured by real estate property	406,403	0	123,535	31,892	1,796	23,299	317	6,734	74,066	668,043
Past due items	141,569	233	227,949	313,175	35,217	24,281	23,221	218,243	336,429	1,320,318
Items belonging to regulatory high-risk categories	14,252	0	156,373	194,004	53,347	25,952	4,853	225,279	191,429	865,489
Exposures in the form of covered bonds	0	0	0	0	18,483	0	0	0	0	18,483
Other items	0	0	0	0	0	0	0	0	1,257,304	1,257,304
Total	**3,361,957**	**2,837,697**	**1,662,193**	**1,566,106**	**1,131,798**	**945,020**	**823,187**	**761,397**	**3,167,743**	**16,257,099**

Category "Other" includes other institutional sectors and the category of exposure "Other items"

- at the end of 2012:

in EUR thousand

Category of exposure	Institutional sector									Total
	Individuals	Ministries (public sector)	Heavy industry	Trade	Finance	Transport and storage	Other business activities	Construction	Other*	
Exposures to central governments and central banks	0	2,632,359	0	0	0	0	0	0	0	2,632,359
Exposures to regional governments or local authorities	0	0	4,021	0	0	0	10	539	109,980	114,550
Exposures to public sector entities	0	0	2,231	73	111,687	17,966	5	954	40,359	173,275
Exposures to multilateral development banks	0	0	0	0	33,866	0	0	0	0	33,866
Exposures to institutions	0	0	0	0	788,482	0	0	0	0	788,482
Exposures to corporates	0	0	1,242,737	1,066,790	261,632	820,670	59,342	329,238	1,222,787	5,003,197
Retail exposures	3,075,632	0	242,194	353,962	11,238	78,650	30,353	108,310	262,207	4,162,546
Exposures secured by real estate property	134,208	0	110,045	65,224	7,175	24,951	393	14,996	67,340	424,331
Past due items	159,054	138	240,469	372,767	89,526	49,648	30,751	395,607	453,077	1,791,037
Items belonging to regulatory high-risk categories	11,921	0	319,898	177,396	333,725	70,054	9,861	739,847	267,904	1,930,606
Exposures in the form of covered bonds	0	0	0	0	31,490	0	0	0	0	31,490
Other items	0	0	0	0	0	0	0	0	1,314,126	1,314,126
Total	**3,380,815**	**2,632,497**	**2,161,596**	**2,036,211**	**1,668,820**	**1,061,939**	**130,714**	**1,589,491**	**3,737,780**	**18,399,865**

** Category "Other" includes other institutional sectors and the category of exposure "Other items"*

Significant in terms of exposure are Individuals (20.7%, at the end of 2012: 18.4%) and Ministries, including the public administration (17.5%, at the end of 2012: 14.3%), whereas in industrial sector the largest concentration is that in Heavy industry, Trade and Finance. Compared to 2012, the exposure to the Construction industry halved, mainly due to the transfer of assets to the BAMC and lower off-balance sheet liabilities (guarantees).

The major portion of past due items is accounted for by Trade (23.7%, higher by 2.9 p.p. compared to the end of 2012), followed by Heavy industry with 17.3% (3.8 p.p. higher than at the end of 2012). At the end of 2013, past due items mostly decreased in Construction, Trade and Finance, predominantly due to the transfer of assets to the BAMC. Due to the latter, the balance of regulatory high-risk items decreased at the end of 2013, mainly in Construction, Finance and Heavy industry. The share of regulatory high-risk items remains the highest in Construction (26.0%, at the end of 2012: 38.3%).

6.6. 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 the Disclosures by Banks and Savings Banks)

Overview of exposure values, the amount in delay more than 90 days and the amount of established impairments and provisions by category of exposure:

in EUR thousand

Category of exposure	Remaining maturity	31.12.2013 Exposure value	31.12.2013 Amount in delay over 90 days	31.12.2013 Amount of established impairments and provisions	31.12.2012 Exposure value	31.12.2012 Amount in delay over 90 days	31.12.2012 Amount of established impairments and provisions
Exposures to central governments and central banks	Long-term	787,183	0	534	1,059,527	0	1,486
	Short-term	2,050,281	0	789	1,572,833	0	179
Exposures to regional governments or local authorities	Long-term	35,302	0	1,194	51,895	0	1,302
	Short-term	86,506	0	3,655	62,655	0	1,947
Exposures to public sector entities	Long-term	81,691	0	2,874	84,033	0	2,100
	Short-term	59,086	0	3,588	89,241	1	4,404
Exposures to multilateral development banks	Long-term	23,378	0	0	4,605	0	0
	Short-term	10,339	0	0	29,260	0	0
Exposures to institutions	Long-term	202,140	0	10,041	254,680	0	232
	Short-term	579,268	0	4,591	533,802	0	784
Exposures to corporates	Long-term	1,795,806	35	129,529	1,860,119	115	48,280
	Short-term	2,690,357	332	262,040	3,143,078	214	198,493
Retail exposures	Long-term	1,493,623	434	52,668	1,715,181	399	40,081
	Short-term	2,232,501	1,072	69,602	2,447,365	945	66,393
Exposures secured by real estate property	Long-term	345,880	0	7,464	171,004	0	3,815
	Short-term	322,163	1	17,324	253,326	0	7,235
Past due items	Long-term	482,597	433,119	323,119	687,316	563,047	384,759
	Short-term	837,721	591,925	607,833	1,103,720	710,225	497,990
Items belonging to regulatory high-risk categories	Long-term	339,939	279,106	236,768	1,146,583	992,898	630,071
	Short-term	525,550	315,643	321,765	784,023	478,507	356,571
Exposures in the form of covered bonds	Long-term	6,503	0	0	9,891	0	0
	Short-term	11,980	0	0	21,599	0	0
Other items	Long-term	77,144	2,221	499	2,636	0	16
	Short-term	1,180,160	6,105	6,992	1,311,490	4,722	5,828
Total		**16,257,099**	**1,629,994**	**2,062,868**	**18,399,865**	**2,751,074**	**2,251,964**

As evident from the table above, receivables more than 90 days in default are practically entirely classified as past due and regulatory high-risk items. In these categories, default is recorded in short- and long-term exposures. At the end of 2013, these two categories accounted for 72.2% of total provisions (at the end of 2012: 83.0%).

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

(Article 15.g, h and i of the Regulation on the Disclosures by Banks and Savings Banks)

The tables below present the amount of exposures with the amount of past due exposures for significant industries/significant geographical areas and in this scope the amount of value adjustment to impairments and provisions.

Overview of exposure values, the amount in delay more than 90 days and the amount of established impairments and provisions by institutional sector:

in EUR thousand

Institutional sector	31.12.2013 Exposure value	31.12.2013 Amount in delay over 90 days	31.12.2013 Amount of established impairments and provisions	31.12.2012 Exposure value	31.12.2012 Amount in delay over 90 days	31.12.2012 Amount of established impairments and provisions
Individuals	3,361,521	149,079	174,713	3,380,815	157,281	163,895
Ministries (public sector)	2,837,697	233	1,326	2,632,497	115	1,744
Heavy industry	1,662,629	271,249	415,512	2,161,596	418,921	381,603
Trade	1,565,974	357,259	507,485	2,036,211	392,747	399,756
Undefined*	1,280,797	12,785	2,083	1,224,128	0	0
Finance	1,131,931	87,879	123,695	1,668,820	331,616	271,657
Transport and storage	945,020	43,490	57,058	1,061,939	92,418	82,621
Other business activities	823,187	22,833	29,619	130,714	29,024	28,211
Construction	761,397	291,940	293,625	1,589,491	851,533	498,366
Professional, scientific and technical activities	313,484	55,098	70,337	510,637	116,796	92,942
Real-estate operations	285,665	90,355	103,973	403,044	131,075	108,486
Electricity, gas and water	283,787	23,146	51,225	323,619	15,961	20,860
Services - accommodation and food	238,194	98,745	70,090	336,812	54,761	45,080
General government and defence, compulsory social	168,757	2,220	10,014	133,192	3,359	6,333
Information and communication services	160,680	11,597	17,067	255,860	47,418	40,131
Agriculture, forestry and fishing	146,961	82,131	86,106	169,262	77,933	73,265
Water supply	68,076	4,777	9,581	100,413	4,581	9,609
Cultural, entertainment and recreation activities	63,236	12,517	15,803	70,880	15,858	11,615
Mining	61,209	9,362	12,212	67,715	4,459	5,035
Health care and social security	45,691	693	6,604	52,886	671	4,820
Services	27,125	1,591	2,641	64,670	3,240	3,481
Education	23,903	842	1,921	24,403	1,126	2,269
Activities of households with employees	174	174	174	184	181	184
Activities of exteritorial organisations and bodies	5	2	1	74	2	2
Total	**16,257,099**	**1,629,994**	**2,062,868**	**18,399,865**	**2,751,074**	**2,251,964**

** Category "Undefined" includes the exposures from "Other items" category of exposure.*

At the end of 2013, the share of default over 90 days was the highest in Trade, Construction and heavy industry, and consequently the highest impairments and provisions were made for these sectors. Compared to the year before, the share of default over 90 days in Construction and Finance was lower, mainly due to the transfer of assets to the BAMC.

Overview of exposure values, the amount in delay more than 90 days and the amount of established impairments and provisions by country:

in EUR thousand

Country	31.12.2013			31.12.2012		
	Exposure value	Amount in delay over 90 days	Amount of established impairments and	Exposure value	Amount in delay over 90 days	Amount of established impairments and
Slovenia	9,685,962	455,103	654,396	11,799,437	1,762,523	1,323,795
Bosnia and Herzegovina	1,239,856	150,970	230,009	1,287,825	109,081	144,274
Macedonia	1,193,291	62,678	127,990	1,199,746	55,732	116,625
Serbia	914,422	263,301	378,559	907,821	228,430	196,317
Montenegro	772,625	200,567	187,388	757,082	127,238	121,569
Republic of Kosovo	480,402	12,349	27,439	411,392	11,698	22,838
Croatia	458,774	307,907	245,051	546,372	258,423	136,072
Germany	329,389	15,582	14,438	278,969	18,243	14,117
Austria	196,542	8,978	25,388	182,543	14,095	14,081
Belgium	183,834	567	3,212	99,540	263	454
Luxemburg	115,117	1,550	2,819	115,390	1,642	1,276
France	111,871	27	29	100,558	296	297
Netherlands	107,831	24,427	48,787	151,745	1,043	26,755
Italy	83,636	24,320	27,175	92,889	20,300	24,778
Switzerland	78,065	2,306	2,756	54,487	2,392	2,372
Czech republic	62,975	44,078	37,082	113,937	82,344	64,735
United States of America	55,363	1,299	1,773	32,511	588	788
Great Britain	48,803	438	87	76,869	1,075	648
Bulgaria	30,961	19,361	23,558	31,619	14,735	19,553
Ukraine	28,548	27,293	20,204	31,042	27,678	14,345
Finland	13,826	0	0	25,750	0	0
Slovakia	12,851	5,277	2,018	20,621	11,871	3,748
Ireland	10,567	0	2	10,704	0	0
Poland	7,865	0	334	11,278	0	56
Canada	6,018	0	0	7,559	0	0
Other countries	27,707	1,616	2,373	52,179	1,384	2,471
Total	**16,257,099**	**1,629,994**	**2,062,868**	**18,399,865**	**2,751,074**	**2,251,964**

At the end of 2013, the amount of receivables over 90 days past due accounted for 10.0% of total exposure (at the end of 2012: 15.0%) and they are covered by provisions at 12.7% (0.5 p.p. increase compared to the end of 2012). In terms of default, the prominent among significant geographical areas is the exposure in Croatia (the amount in default over 90 days is 67.1%), followed by Serbia (28.8%) and Montenegro (26.0%). Accordingly, the coverage of exposure by provisions is high in both these areas (Croatia 53.4%, Serbia 41.4% and Montenegro 24.3%). In comparison to the year before, the balance of receivables over 90 days past due increased in these three areas as did the receivables/provisions ratio.

Loans and receivables in terms of delays:

in EUR thousand

	31.12.2013				31.12.2012			
	Loans and advances neither past due nor imapired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total	Loans and advances neither past due nor imapired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	702,791	0	0	702,791	88,617	0	0	88,617
Loans to government	445,368	12,010	22,042	479,420	474,341	13,664	24,780	512,785
Loans to banks	518,591	32	13,910	532,533	442,488	1,242	16,756	460,486
Loans to financial organisations	115,809	94	53,518	169,421	173,627	7,693	86,823	268,143
Loans to individuals	2,515,970	87,101	113,011	2,716,082	2,433,443	202,542	103,616	2,739,601
Granted overdraft	185,811	3,003	10,833	199,647	174,730	16,395	11,762	202,887
Loans for houses and flats	1,341,353	24,722	48,573	1,414,648	1,310,168	70,065	41,070	1,421,303
Consumer loans	816,606	33,289	42,560	892,455	797,399	55,417	31,823	884,639
Other loans	172,200	26,087	11,045	209,332	151,146	60,665	18,961	230,772
Loans to other customers	2,068,496	101,986	1,506,025	3,676,507	2,713,496	319,114	2,914,604	5,947,214
Loans to large corporate customers	1,380,513	21,314	601,956	2,003,783	1,597,599	116,704	1,259,596	2,973,899
Loans to small and medium size enter	687,983	80,672	904,069	1,672,724	1,115,897	202,410	1,655,008	2,973,315
Other financial assets	44,427	3,758	15,734	63,919	42,859	4,335	19,875	67,069
Total	**6,411,452**	**204,981**	**1,724,240**	**8,340,673**	**6,368,871**	**548,590**	**3,166,454**	**10,083,915**

In comparison to the previous year, the NLB Group at the end of 2013 disclosed a smaller amount of loans and receivables in delay (past due) and impaired individually. As regards delays, there is a notable decrease in exposure to corporates (large companies, SMEs), arising mainly from the transfer to the BAMC.

Loans and receivables in delays and impaired individually:

in EUR thousand

	31.12.2013			31.12.2012		
	Gross value	Impairment provision	Net value	Gross value	Impairment provision	Net value
Debt securities	3,750	-3,750	0	0	0	0
Loans to government	28,553	-6,511	22,042	27,114	-2,334	24,780
Loans to banks	42,527	-28,617	13,910	31,146	-14,390	16,756
Loans to financial organisations	119,536	-66,018	53,518	180,408	-93,585	86,823
Loans to individuals	254,791	-141,780	113,011	236,608	-132,992	103,616
Granted overdraft	24,393	-13,560	10,833	25,583	-13,821	11,762
Loans for houses and flats	89,606	-41,033	48,573	82,778	-41,708	41,070
Consumer loans	101,027	-58,467	42,560	83,368	-51,545	31,823
Other loans	39,765	-28,720	11,045	44,879	-25,918	18,961
Loans to other customers	2,995,480	-1,489,455	1,506,025	4,524,129	-1,609,525	2,914,604
Loans to large corporate customers	1,076,906	-474,950	601,956	1,761,321	-501,725	1,259,596
Loans to small and medium size enterprises	1,918,574	-1,014,505	904,069	2,762,808	-1,107,800	1,655,008
Other financial assets	80,723	-64,989	15,734	70,136	-50,261	19,875
Total	**3,525,360**	**-1,801,120**	**1,724,240**	**5,069,541**	**-1,903,087**	**3,166,454**

The gross and net amount of loans and receivables in delays and impaired individually decreased at the end of 2013. The latter is mainly due to the segment of loans to large companies and SMEs, since at the end of 2013 NLB d.d. transferred a significant portion of NPLs to the BAMC. Impairment provisions also somewhat decreased, but the coverage of individually impaired gross loans and receivables with established impairments and provisions greatly increased.

Impairment provisions movements: loans to banks, non-banks and other financial assets – loans to natural persons:

in EUR thousand

	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance at 1 January 2012	**14,471**	**38,157**	**65,347**	**19,880**	**137,855**
Effects of translation of foreign operations to	-55	-126	1	-150	-330
Impairments	2,885	7,706	-3,631	6,513	13,473
Write offs	-1,589	0	-1,759	-208	-3,556
Exchange differences	-11	105	13	-10	97
Balance at 31 December 2012	**15,701**	**45,842**	**59,971**	**26,025**	**147,539**
Effects of translation of foreign operations to	-13	-37	-61	-75	-186
Impairments	8,487	2,777	7,872	11,918	31,054
Write offs	-4,993	-638	-7,077	-6,618	-19,326
Exchange differences	1	-49	-3	-102	-153
Balance at 31 December 2013	**19,183**	**47,895**	**60,702**	**31,148**	**158,928**

In 2013, the NLB Group established additional impairments in all segments of loans to natural persons. The table above presents the movement in other items, such as write-offs (mainly under overdrafts and consumer loans) and exchange rate differences.

Impairment provisions movements: loans to banks, non-banks and other financial assets – loans to legal persons:

in EUR thousand

	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate ciustomers	Loans and advances to small and medium size enterprises	Total
Balance at 1 January 2012	**3,884**	**18,153**	**62,029**	**463,160**	**898,166**	**1,445,392**
Effects of translation of foreign operations to presentation currency	5	74	1	-1,441	1,167	-194
Impairments	4,161	-338	35,748	139,402	353,390	532,363
Write offs	-145	-3,315	-2,108	-82,981	-113,328	-201,877
Exchange differences	-3	-184	0	-358	-2,302	-2,847
Balance at 31 December 2012	**7,902**	**14,390**	**95,670**	**517,782**	**1,137,093**	**1,772,837**
Effects of translation of foreign operations to presentation currency	-8	-206	1	-1,457	-3,672	-5,342
Impairments	7,727	14,562	39,654	457,558	303,642	823,143
Write offs	0	-45	-254	-36,937	-40,393	-77,629
Exchange differences	8	-84	-1	-856	-1,064	-1,997
Effects of transfer of portfolio to BAMC	0	0	-67,625	-453,798	-355,632	-877,055
Balance at 31 December 2013	**15,629**	**28,617**	**67,445**	**482,292**	**1,039,974**	**1,633,957**

In comparison to the year before, impairments for all loans granted, with the exception to SMEs, increased in 2013. The table above presents the movement in other items, such as the effects of transfer to the BAMC, write-offs and exchange rate differences. The item presenting the effects of transfer to the BAMC indicates the decrease in impairments for loans to corporates, which were at the end of 2013 transferred to the BAMC. In 2013, the NLB Group made most write-offs of loans to large corporates and small and medium-sized companies.

7. Counterparty credit risk (CCR)

(Article 14 of the Regulation on the 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

(Article 14.a and f of the Regulation on the Disclosures by Banks and Savings Banks)

The NLB Group monitors its exposure to counterparty credit risk by using the method of current exposure, in accordance with the Decision on the calculation of capital requirement for market risks. Credit replacement value (CRV) is the sum of current and potential exposure. For repo transactions, the exposure equals the current value of the investment (comprising the nominal value and accrued interest) less the current value of collateral (market price of the security) where the highest exposure may equal the agreed amount not being transferred within the margin call.

Credit exposure is being monitored by applying a debt ceiling to clients. The debt ceiling is set according to the Criteria and Procedures for Granting Loans and the relevant regulations of the Bank of Slovenia.

The calculation of internal capital for the abovementioned financial instruments is analogous to that made for other types of investments by using a standardised approach for credit risks. Their consumption of capital is relatively low owing to relatively low transaction volumes and the low exposure arising from these financial instruments as a share of all transactions. In accordance with the new Capital Requirements Directive, the Bank will transfer in 2014 the settlement of the majority of these transactions to a suitable central counterparty. Therefore, there will be no material effect on the capital consumption.

The new Capital Requirements Directive (CRD IV - 2013/36/EU) and Regulation (CRR - 575/2013) will introduce changes in 2014 considering the exposure to counterparty credit risk and the related capital requirements. The valuation of these financial instruments must adjust fair value calculation by including counterparty credit risk (CVA - Credit Valuation Adjustment) unless the settlement is made via a central counterparty or clearing house. The CVA provisions do not concern transactions made with non-financial counterparties and transactions within groups of related persons. The NLB Group will implement the new requirements in 2014, as stipulated.

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

(Article 14.b and d of the Regulation on the Disclosures by Banks and Savings Banks)

The entry into derivatives transactions by the NLB Group is described in detail in the document Minimum Standards – Financial Markets, in the Strategy of operations in financial instruments. The internal business policies specify the minimum rating of the counterparty below which the bank will not enter into derivatives transactions. The bank has signed ISDA agreements (and some CSA, too) with several banks with which it enters into derivatives transactions. The CSA is an annex regulating the exchange of collateral to cover for market exposure under all transactions under an ISDA agreement.

If NLB d.d. was downgraded, the counterparties, financial institutions in particular, with whom the bank had or has entered into transactions could ask the bank to increase collateral or decide to terminate the transactions early. In accordance with the CRD, the bank will transfer in 2014 the monitoring and settlement of the majority of these transactions to a suitable central counterparty (CCP - Qualifying Central Counterparty) thus avoiding the risk of negative effects from early termination of a transaction or the necessary provision of additional collateral.

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

(Article 14.c of the Regulation on the Disclosures by Banks and Savings Banks)

If a counterparty who has been asked to provide additional prime collateral necessary due to adverse changes in financial markets fails to do so, the bank may close synthetic forward deals and liquidate the existing collateral while the collateral for other derivatives will be arranged based on the individual transaction, in accordance with the applicable Master agreement for trading in derivatives. In the interbank market, the bank performs derivatives transactions in accordance with the signed ISDA agreement and the pertaining annexes (CSA). The bank will transfer in 2014 the monitoring and settlement of the majority of these transactions made with financial institutions to a CCP.

7.4. The 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 the Disclosures by Banks and Savings Banks)

The NLB Group uses contractual offsets (such as CSA Agreement and Margin call) to a very limited extent and for internal needs of monitoring only. The NLB Group does not use the contractual offset in regulatory reporting (exposure and credit risk capital requirement calculation). In accordance with Item 2.a of Article 3 of the Regulation on Disclosures by Banks and Savings Banks, the bank is not disclosing details as, considering the low volume of transactions and their effect on the bank's business performance, it is not a material information which, if omitted or misstated, would alter or affect the assessment or decision of the person using the information to take economic decisions.

8. Credit protection

(Article 25 of the Regulation on the Disclosures by Banks and Savings Banks)

8.1. The policies and processes for collateral valuation and management

(Article 25.b of the Regulation on the Disclosures by Banks and Savings Banks)

Credit protection policy

The NLB Group applies a single set of standards to retail and corporate loan collaterals, developed by the members by the collateral harmonisation project. The master document regulating loan collaterals in the NLB Group is the Loan Collateral Policy in the NLB and the NLB Group. The Policy is adopted by the Management Board of NLB d.d. and by supervisory bodies of respective members for other members of the NLB Group. The Policy represents the basic orientations the bank employees must take into account in signing, evaluating, monitoring and reporting collaterals, aimed at reducing credit risk. The NLB Group members apply the Policy having only the necessary changes made[2], in agreement with NLB d.d..

The NLB Group primarily accepts collateral complying with the Basel II requirements with the aim of improving credit risk management and consuming capital economically. In accordance with Basel II, collateral may consist of pledged deposits, government guarantees, bank guarantees, debt securities issued by central governments and central banks, bank debt securities and real estate mortgages (the real estate must be located in the European Economic Area for the effect on capital to be recognised).

Collateral for loans made to companies and sole proprietors may be secured by other forms of collateral as well (for example, lien on movable property, pledge of an equity stake, collateral by pledged/assigned receivables etc.) if it is assessed that the collateral could generate cash flow if it were needed as a secondary source of payment. In case of a lower probability that such item of collateral would generate cash flow, a conservative approach is followed and such collateral is not reported.

The processes for collateral valuation

Pursuant to the law, the NLB Group has set up the system of monitoring and reporting collaterals at fair (market) value. Asset-backed collateral is evaluated prior to loan granting.

The market value of real estate or movable property used as collateral is obtained from valuation reports of licensed appraisers or, for low contract amounts, from sales agreements not older than one year. The market value of financial instruments held by the NLB Group is obtained on the organised market – stock exchange – for listed financial instruments or determined in accordance with the internal methodology for unlisted financial instruments (such collateral is used exceptionally and on a small scale in loans granted to companies and sole proprietors).

NLB d.d. has compiled a reference list of licensed appraisers. All appraisals must be made for the purpose of secured lending and in accordance with the International Valuation Standards (IVS). Appraisals related to retail loans are ordered generally only from appraisers with whom the bank has a contract for real estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal not made by an appraiser included in the bank's reference list, the expert department having licensed appraisers employed (certified appraisers in construction with licences granted by the Ministry of Justice and Public Administration and certified real estate value appraisers with licences granted by the Slovenian Institute of Auditors) will verify the appraisal. The expert department is also responsible for valuations of real estate serving as collateral for large loans.

Other NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all having the necessary licences. The NLB Group has compiled a reference list of appraisers for valuations of real estate located outside Slovenia. Appraisals must be made in accordance with the IVS.

[2] Adjustments by members are permitted to account for differences between national legal systems and organisational structures of members.

When liquidating collaterals, the NLB Group follows the internal regulations which define the minimum security or pledge ratios. The NLB Group strives to obtain collateral having a higher value than the underlying exposure (depending on the borrower's rating, loan maturity, quality of collateral etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral. In the case of reduced value of collateral and/or deteriorated debtor credit rating, additional collateral is sought, as necessary and in accordance with the contractual provisions.

If real estate, movable property and financial instruments serve as collateral, the bank's lien should be entered as top ranking. Exceptionally, in the case of large enough value of mortgaged real estate, the lien can be entered with a different priority order.

The NLB Group monitors the value of collateral during the loan repayment period, in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually, either by preparing individual assessments or by using the internal methodology for preparing an own value appraisal of real estate (applies to Slovenia) based on public records and indexes of real estate value published by the relevant government authorities (the Surveying and Mapping Authority in Slovenia).

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

(Article 25.c of the Regulation on the Disclosures by Banks and Savings Banks)

The NLB Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right, in case of a default on contractual obligations by the debtor (borrower), to sell specific property to recover claims, keep specific non-cash property or cash, or reduce or offset the amount of exposure against the counterparty's debt to the bank.

The NLB Group accepts the following material loan collaterals:

- asset-backed collateral:
  - collateral backed by business and residential real estate,
  - collateral backed by movable property,
  - cash receivable collaterals,
  - collateral by pledge of financial assets (bank deposits or cash-like instruments, debt securities of different issuers, investment fund units, equity securities or convertible bonds, portfolios under management);
  - pledge of equity stake
  - pledge or assignment of receivables as collateral
- other material loan collaterals (life insurance policies pledged to the Bank, etc.).

Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of primary debtor's (borrower’s) defaulting.

The NLB Group accepts the following personal loan collaterals:

- joint and several guarantees by retail and corporate clients
- bank guarantees;
- government guarantees (e.g. of the Republic of Slovenia)
- guarantees by national and regional development agencies
- insurance with an insurance company etc.

Loans are very often secured by a combination of collateral.

The general recommendations on loan collateral are specified in internal instructions and include the elements specified below. The decision on the type of collateral and the coverage of loan by collateral depends on the analysis of data on the debtor (debtor credit rating and creditworthiness) and loan maturity; the difference arises from whether the loan is granted to a retail or a corporate client. Corporate clients (companies and sole proprietors) must submit bills of exchange with written authorities for the creditor to fill them in for every loan.

Additionally, NLB d.d. has set up independent assessment of key risks involved in a loan in the process of redesigning the lending process with the aim of improving risk management in corporate loans. Upon the preparation of a loan proposal, the bank's expert department (Credit Analysis

Department) gives an opinion on loan collateral in the process of co-deciding or by preparing an opinion on the loan applying the set criteria.

The NLB Group strives to ensure the best possible collaterals for long-term loans, namely by mortgages in most cases. Thus the mortgaging of real estate is the most frequent form of loan collaterals of corporate and retail clients. In corporate loans, it is followed by government and corporate guarantees. In retail loans, it is followed by insurance companies and guarantors.

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

(Article 25.e of the Regulation on the Disclosures by Banks and Savings Banks)

Client/counterparty credit risk is very important for loan approval and therefore a detailed analysis of the clients' creditworthiness is performed. Collateral is only a secondary source of repayment and a decision on loan approval should not be based on the quality of collateral. Collateral does play an important role in cases where the client's creditworthiness deteriorates, though. The bank has prescribed the minimum ratios between the value of collateral and loan amount to avoid the effects of risks related to individual forms of collateral. The ratios reflect the underlying risk of an item of collateral and the client and are set based on experience of the bank and regulatory guidelines and prescribed in the Collaterals Manual.

In current situation when collateral could lose its value, the bank pays particular attention to close monitoring of fair value of collateral and regular and independent revaluation, by applying the International Valuation Standards. By a detailed examination of all collateral received, the bank has ensured that only those collaterals are taken into account from which payment can be realistically expected if they are liquidated.

The bank has the largest concentration arising from collateral by real estate, which used to be deemed a reliable and quality type of collateral; however, it has lost these attributes in a situation of limited liquidity of the real estate market and falling real estate market prices. Consequently, the bank is establishing higher amounts of impairments and provisions for non-performing loans secured by real estate, based on the estimated discounts of real estate's value (specified in the Collaterals Manual) which will be achieved in a sale (liquidation value).

Collateral by securities entails market risk, specifically the risk of changes of prices of securities on the capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below the loan amount, the Rules on determining pledge ratios for securing loans on the basis of pledged securities and equity shares in NLB d.d. specify the minimum ratios between the loan amount and the securities' value. Any deviation from the Rules is subject to an approval by the Credit Committee or the Management Board obtained beforehand. The ratio between the loan amount and the securities' value is determined with regard to the securities' liquidity, maturity, correlation with changes in market indexes, i.e. by considering the key features reflecting the level of volatility of market price and the ability to sell the securities at the market price. For certain types of securities, the ratio is determined also by considering the issuer's credit rating which reflects the credit risk entailed in collateral by the securities. In case of adverse changes on the capital markets, the loan to collateral ratio may fall under the prescribed limit; in such a case, the debtor will be asked to provide additional securities or other type of collateral.

Collateral by sureties of retail or corporate clients and by guarantees entails the credit risk of the provider of collateral. Therefore, the bank includes the amount of the received guarantees in the debt ceiling of the guarantor where the guarantees are only applied in the amount of the guarantor's creditworthiness remaining after his or her own liabilities have been settled. A client's creditworthiness thus includes the potential credit risk arising from realization of collateral.

The Collaterals Manual regulates taking of collateral, liquidation and properties of collateral that are needed for collateral to comply with the law and the bank's internal rules. It is a method the bank uses to eliminate operational and legal risks.

The bank is thus not restricting the scope of collateral entailing market and credit risk but monitors it regularly (by volume and value).

9. Operational risk

(Article 20 of the Regulation on the Disclosures by Banks and Savings Banks)

Operational risk is defined as the risk arising from the shortcomings or defects in the Bank's internal processes, systems and human resources or from external events; it affects (in gross) the income statement. This definition includes the legal risk but not the strategic risk and the risk of loss of goodwill. The latter is difficult to evaluate. It is nevertheless considered in the assessment of operational risk owing to its importance.

The calculation of the regulatory capital requirement for operational risks applies the basic indicator approach on the level of the NLB Group and the standardised one on the individual level of NLB d.d..

In accordance with the guidelines arising from the legislation and based on good practices of the banks, the NLB Group has set up monthly reporting of detected loss events. At the level of the Operational Risk Committee of NLB d.d., at the level of line management of NLB d.d. and at the level of the members of the NLB Group the analyses of loss events serve as a basis for decision-making on the measures to reduce the number of similar cases in the future. In addition to reporting the actual loss events, special attention is paid to reporting potential loss events. The latter are events in which operational risks have been identified but the loss will not necessarily occur and which serve as a basis for improving internal controls. A preventive method for operational risk management used in the NLB Group is identification and assessment of operational risks in all processes, which enables taking preventive action to manage all material risks.

NLB d.d. has zero tolerance for internal and external criminal acts and gross negligence. It pays special attention to the current developments, such as prevention of loss events in the crediting process, risks related to divestment of activities and transfer of activities to external contractors, and the risk of human resource potential management in the process of reducing the number of employees. Additional control activities have also been introduced in other areas, such as integrity, for example.

The Operational Risk Management Policy of NLB d.d. is an umbrella document guiding operational risk management in NLB d.d. and partly in the NLB Group. It has a number of subordinated documents prescribing methodologies of risk management and providing actual guidelines for risk management in specific segments such as IT, money laundering, security of persons, information and property, business continuity etc. Based on this Policy the members of the NLB Group adopted their own documents regarding operational risk management. They took into account the uniform definition and methodology, which were to some extent adjusted to the size of the member and the complexity of the business activities the member performs, considering also the local legislation.

10. Market risks

(Article 18 of the Regulation on the Disclosures by Banks and Savings Banks)

The NLB Group uses the standardised approach in the calculation of capital requirement for market risks in line with the Regulation on the Calculation of Capital Requirements for Market Risks for Banks and Savings Banks.

The capital requirement for **foreign exchange risk** is calculated by taking into account in the currency position the established value adjustments (impairments) and provisions for all receivables – "net approach". The net principle or the net position represents net asset items reduced by liability items. The calculation of the capital requirement for foreign exchange risk is made by multiplying the sum of net positions in foreign currencies and net position in gold by a weight of 8%.

The Group classifies its net positions in **debt instruments in the trading book** depending on the currency in which they are denominated. The Bank calculates the capital requirement for the general and position risk for net positions in each currency. The capital requirement for the position risk related to debt financial instruments is calculated as the sum of capital requirement for the specific and general position risk. The Group calculates the capital requirement for debt financial instruments using the maturity based approach.

For **equity instruments in the trading book**, all net long positions are first added up followed by all net short positions. The sum of the absolute values of all net long positions and all net short positions represents the total gross position in equity financial instruments. The difference between the value of all net long positions and the value of all net short positions represents the common net position in equity financial instruments.

The Bank calculates the capital requirement for the specific position risk related to equity instruments by multiplying its total gross position in equity instruments by a weight of 8%. The Bank calculates the capital requirement for the general position risk related to equity financial instruments by multiplying its total net position in equity financial instruments by 8%. The capital requirement for the position risk related to equity financial instruments is calculated as the sum of capital requirement for the specific position risk and capital requirement for the general position risk.

Breakdown of market risk capital requirements of the NLB Group:

in EUR thousand

	31.12.2013	31.12.2012
Total capital requirements for market risks	**19,929**	**17,560**
Settlement / delivery risk	0	80
Position risk - traded debt instruments	1,799	2,649
of which general and specific risk in MKR SA TDI	*1,799*	*2,649*
of which specific risk for traded portfolio with correlation	*0*	*0*
Position risk - equity instruments	2,844	2,995
Foreign exchange	15,285	11,836
Commodities	0	0

The exposure of the NLB Group to market risks as at the end of 2013 slightly rose compared to the end of the previous year but remained relatively low. The increase was primarily the result of open currency positions of non-bank members as a result of structural imbalances arising from credit risk. The exposure in other segments has fallen from the previous year.

11. Investments in equity securities not included in the trading book

(Article 21 of the Regulation on the Disclosures by Banks and Savings Banks)

Investments in equity securities not included in the trading book:

in EUR thousand

Category of securities	31.12.2013					31.12.2012				
	Book value	Profit / loss from sale	Valuation at fair value through P&L account	Impairment through P&L account	Revaluation reserve	Book value	Profit / loss from sale	Valuation at fair value through P&L account	Impairment through P&L account	Revaluation reserve
Available for sale	82,957	4,757		-23,978	12,422	119,010	716		-32,535	15,475
Recognised at fair value through P&L account	5,720		468			4,969		389		
Non-short term assets available for sale		-2,160		-4,916		14,377		21	-2,676	
Investments in subsidiaries, associates and joint ventures, not included in consolidation	7,663					7,663				
Total	**96,340**	**2,597**	**468**	**-28,894**	**12,422**	**146,019**	**716**	**410**	**-35,211**	**15,475**

The total amount of the investments in equity securities of the NLB Group not included in the trading book as at the end of 2013 was EUR 96,340 thousand, accounting for less than one percent of the total assets.

In terms of accounting treatment, the bulk of the portfolio is classified in the group of financial assets available for sale (EUR 82,957 thousand) which, according to the NLB Group's policy, are valuated at fair value through capital. The negative effects of valuation can be transferred from capital to income statement in the case of a significant or long-term drop in the fair value below the purchase value. In 2013 the income statement disclosed EUR 23,978 thousand of recognised negative effects of valuation.

The NLB Group has EUR 12,422 thousand of net unrealised profit arising from equity securities, which were recorded at the end of the year as capital revaluation adjustment.

In compliance with the legislation, total negative effects of revaluation of equity securities in the banking book are included in Tier 1 capital (original opwn funds). As the result of including unrealised losses from such securities, Tier 1 capital of the NLB Group is lower by EUR 672 thousand. On the other hand, 80% of positive revaluation effects are included in Tier 2 capital (additional own funds) which means that unrealised profits from equity securities in the banking book contributed EUR 10,475 thousand of the Tier 2 capital of the NLB Group.

The NLB Group generated EUR 4,757 thousand of net profit from sales of equity securities available for sale. By transferring two investments in the total amount of EUR 2,406 thousand to the BAMC it incurred EUR 34 thousand of loss.

In order to eliminate or substantially reduce inconsistency in measuring of financial assets that would arise from measurement on different bases, a portion of equity securities is treated as assets recognised at a fair value through the income statement. Assets constituting investments in the venture capital fund. As at the end of 2013, the value of such investments of the NLB Group was EUR 5,720 thousand. In NLB d.d. returns on investments in venture capital funds of EUR 3,800 thousand are linked to the returns on structured deposits which are categorised among financial liabilities recognised at fair value through income statement.

In 2013 the NLB Group generated EUR 468 thousand of net profit from assets recognised at fair value through income statement.

NLB d.d. treated the investment in Pivovarna Laško in 2012 as financial asset available for sale because of the absence of important influence, despite the fact it holds a 23.51% equity stake in the company. It regained important influence over the company in the third quarter of 2012 due to return of the voting rights. Owing to this it started treating the investment as an associated company. As NLB d.d. has already started the activities aimed at selling the investment in Pivovarna Laško and there was high probability that the Bank would actually sell it, it temporarily reclassified it among non-current asset available for sale, at the market price as at 30 September 2012. In 2013 the income statement disclosed additional EUR 4,916 thousand of recognised negative effects of valuation as a result of the declining market price of the investment. In December 2013 NLB d.d. transferred its investment in Pivovarna Laško to the BAMC and incurred EUR 2,160 thousand of loss.

In compliance with the Regulation on the Supervision of Banks and Savings Banks on Consolidated Basis, four members of the NLB Group (NLB Vita, Skupna Pokojninska družba, Nov Penziski fond and Argo) are not included in consolidation for the purpose of prudential supervision, but treated as equity investments.. They are recognised in the statement of financial position according to the investment method. At the end of 2013 these investments totalled EUR 7,663 thousand and did not change compared to the end of 2012.

The bulk of equity securities in the banking book are investments acquired as collateral for credit transactions (75.6% or EUR 72,864 thousand of book value of investments as at the end of 2013). In compliance with the internal regulations of the NLB Group the members are very limited in concluding new equity securities trading deals (prohibition of new deals, gradual sales of the existing ones), therefore, most investments of the members were made for strategic reasons and part to comply with the requirements of the local legislation.

Pursuant to the applied accounting guidelines of the NLB Group, the book value always equals the fair value of the investment. In the case the security is listed on the stock exchange, its fair value equals its market price. If the security is not listed on the stock exchange, the fair value is determined based on generally accepted valuation models which are based on market assumptions. As at the end of 2013, EUR 77,594 thousand were listed on the stock exchange or 80.5% of the book value of investments.

The accounting guidelines for equity securities did not change in 2013.

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

(Article 22 of the Regulation on the Disclosures by Banks and Savings Banks)

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

(Article 22a of the Regulation on the Disclosures by Banks and Savings Banks)

Monitoring of exposures arising from interest-rate risks and their management at the NLB Group level is not centralised; reporting on the exposure of NLB d.d. and other NLB Group members is implemented regularly within the ALCO of the NLB Group. The NLB Group members monitor exposure to interest-rate risks which are mainly the consequence of structural movements and macroeconomic conditions in accordance with the risk management guidelines in the NLB Group. Exposure to interest-rate risk of NLB d.d. mainly arises from the portfolio of prime-rated debt securities (mostly ECB eligible assets) which, in the given circumstances on the financial markets, represent an important source of the Bank's secondary liquidity, whereas the exposure arising from classical loan-deposit banking deals is relatively low.

Exposure to interest risks is monitored at least monthly according to the interest gap methodology and the related limits, namely separately for NLB d.d., the banking members and financial organisations (Leasing and factoring companies) in the NLB Group. The reports include an analysis of interest sensitivity, stress scenarios and limits fulfilment.

In the monitoring of interest rate risk, NLB d.d. includes the early terminated deposit and early payments of loans. At mid-year and at the end of the year, the bank verifies their impact on the interest-rate risk exposure. Analysis in 2013 showed that the proportion of early terminated deposits and early repayments is not high and has no material impact on the interest rate positions

NLB d.d. uses internally developed model for predicting the stability of sight deposits, based on historical data. Stability is calculated for the total sight deposits, and separately for households and companies (both divided in more detailed segments). Stability is monitored on a daily basis and is compared with the quarterly forecasts. On 31 December 2013, core deposits of NLB d.d. amounted to 79.3%. Using the "decay rate" methodology, stable part of sight deposits is distributed in time pockets of interest position. The methodology is quite conservative, as the majority of stabile sight deposits is distributed in a shorter time pockets. The same methodology is also used for the management of the interest-rate position.

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 22b of the Regulation on the Disclosures by Banks and Savings Banks)

The changes in the market value of the position in the banking book as a result of a parallel move of the yield curve are assessed using the BPV (Basis Point Value) method. The BPV method is a measure of sensitivity of financial instruments to market interest rates, i.e. changes of the required yield to maturity. The BPV upon a parallel move of the yield curve by 50 basis points totalled EUR 18.2 million as at 31/12/2013, considering the distribution of stable deposits of NLB d.d. (it totalled EUR 26.4 million at the end of 2012).

An analysis of sensitivity of interest income assumes a shift in the interest rates of 50 basis points in the short-term period of one year. The analysis is based on the assumption that net open positions remain unchanged in the calculation and the assumption of a parallel move of the short-term part of the yield curve. The assessment of the effect of the change in interest rate by 50 basis points (+/- 0.5 percentage point) on the amount of net interest income for the position of the banking book of the NLB Group as at the end of 3013 totalled EUR 17.2 million (EUR 14.8 million as at the end of the previous year).

13. Liquidity risk

(Article 23a of the Regulation on the Disclosures by Banks and Savings Banks)

Liquidity risk monitoring and management in the NLB Group is carried out in accordance with adequate policies and strategies that define the rules and the system of responsibilities. With its Liquidity Risk Management Guidelines for the NLB Group the Bank implemented the uniform liquidity risk monitoring and management guidelines in the NLB Group members. Liquidity management is decentralised, and each member provides for its own liquidity by means of appropriate sources of funding, their suitable diversification and maturity, the management of liquidity reserves and compliance with the regulations on liquidity. A standardised system of regular reporting operates in the Group, ensuring adequate control over the liquidity in all companies of the NLB Group.

The NLB Group fulfils the requirements concerning liquidity management in accordance with the requirements of the local legislation of individual member and the internal documents of the NLB Group:

- Liquidity Risk Management Policy,
- Plan for Liquidity Management in Exceptional Circumstances,
- Policy for Managing Debt Securities in the Banking Book,
- Guidelines for Liquidity Management in NLB Group
- Risk Management Standards in NLB Group.

The liquidity risk monitoring and management in the NLB Group and its members pursues the following objectives:

- ensuring sufficient liquidity for settling all overdue obligations,
- minimising the costs of maintaining liquidity,
- optimising the liquidity reserves,
- ensuring regular dynamic projections of liquidity in different circumstances,
- ensuring regular exercising of liquidity risk stress tests,
- anticipating extraordinary circumstances or a crisis situation, and implement the adopted crisis plans in such an event.

Liquidity management in the NLB Group is implemented at three levels, namely the operational, structural and strategic levels.

Liquidity management at the **operational level** means liquidity management in the period of several days or weeks, based on cash flow monitoring and planning. Liquidity management at the operational level is carried out in the NLB Group in a decentralised manner as every member of the NLB Group is responsible for its own liquidity position, whereby it implements the following:

- monitoring and managing cash flows,
- monitoring and ensuring compliance with the central bank's regulations related to liquidity,
- adopting business decisions,
- establishing and managing the liquidity reserve portfolio.

NLB d.d. as the parent bank regularly monitors and, if required, provides liquidity for its subsidiaries.

Liquidity management **at the structural level** means liquidity management within a longer time frame and includes the following activities:

- determination of structural liquidity indicators and their regular calculation and monitoring,
- definition of the target values and/or target trends of individual selected structural liquidity indicators,
- monitoring of trends in the selected structural liquidity indicators,
- monitoring of liquidity gaps by time interval,
- calculation of the LCR and NSFR liquidity ratios,
- implementing of liquidity risk stress tests.

The goal of the structural liquidity management is to achieve such a structure of the Group's balance sheet that will ensure the Group's long-term liquidity according to the criteria of maturity match, forms and concentration of the sources of financing as well as recoverability and credit rating of assets.

NLB d.d. once a month calculates a larger set of structural liquidity indicators of the Bank and monthly monitors liquidity of the NLB Group members. The statuses of selected structural liquidity indicators are defined as a target value or a target trend, as shown in the tables below:

- for NLB d.d.:

	Indicator	Limits / Guidelines
1a	Share of sources from non-banking sector in total assets/liabilities	At least 50%
1b	Share of sources from banking sector in total assets/liabilities	Decreasing trend
2	Share of sources from 30 largest depositors in total sources	At most 10%
3a	Coverage of loans to NBS (net) with deposits from NBS (Loan-To- Deposit Ratio)	At most 110%
3b	Coverage of loans to NBS (gross) with deposits from NBS (Loan-To-Deposit Ratio)	At most 125 %
4	Liquid assets vs. short-term liabilities	At least 50%
5	Share of long-term sources from banks in total long-term sources	Decreasing trend, target value at most 70%
6	Share of long-term loans from NBS in total loans from NBS (residual maturity)	Decreasing trend, target value at most 70%
7	Coverage of long-term loans with long-term sources (residual maturity)	Increasing trend, target value at least 70%
8	Amount of structural liquidity deficit	Decreasing trend
9	LCR	At least 115 %
10	NSFR	A least 110 %

- for the banking members of the NLB Group:

	Indicator	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 loans to NBS (net) with sources from NBS (Loan-To-Deposit Ratio)	At most 125 %
4b	Coverage of loans to NBS (gross) with sources from NBS (Loan-To-Deposit Ratio)	At most 125 %
5	Liquid assets vs. short-term liabilities	Providing the appropriate level of secondary liquidity in accordance with guidelines of treasury business-line
6	Share of long-term sources from banks in total long-term sources (residual maturity)	Providing the appropriate level of secondary liquidity in accordance with guidelines of treasury business-line
7	Share of long-term loans from NBS in total loans from NBS (residual maturity)	At most 70%
8	Coverage of long-term loans with long-term sources	At least 40%

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

	Indicator	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 (quality of investment portfolio)	Decreasing trend

Early warning system for the Bank's liquidity risk

In 2013, NLB d.d. started using the new internal methodology for the identification and monitoring of liquidity risk of the Bank, the so-called Scoring Model which represents an early warning system for liquidity situation in the Bank.

This model includes 43 indicators divided in two groups: special (specific) banking risk and systemic risk. The indicators within special banking risk measure only liquidity risk of NLB d.d. The systemic risk indicators are used to measure and monitor the risk factors of the entire financial system and their effect on the Bank's liquidity (macroeconomic indicators).

The Scoring Model for the selected period calculates the values of indicators by multiplying individual values of an indicator with assigned weights. Based on the results, the Scoring Model calculates the final value as percentage showing the degree of liquidity risk of the Bank in the observed period and the pertaining scenario (there are five scenarios: low, acceptable, moderate, high and extremely high liquidity risk).

Proposals for improving liquidity of the Bank in the current situation are defined besides the results. Different measures are recommended for each scenario separately, which are intensified according to the seriousness of the liquidity situation.

The major value added of the model is warning about potential threats which decrease liquidity of the Bank as it highlights the indicators with high values and then proposes appropriate measures. The model enables us to monitor liquidity risk more effectively at timely warn and therefore reducing liquidity risk by appropriate measures taken.

In the framework of liquidity management **at the strategic level**, the members of the NLB Group perform the following:

- preparation of dynamic projections of liquidity, taking into account several scenarios of the Bank’s cash flows,
- monitoring liquidity gaps by time interval, prepare analyses, proposals and measures for the changes in the structure of the Bank’s balance sheet which influence the liquidity position and liquidity risk of the Bank,
- implementation of stress tests for liquidity risk and on this basis determine the necessary volume of liquidity reserves,
- definition and management of liquidity reserves,
- preparation of proposals for establishing additional financial assets for secured financing.

Liquidity reserves consist of cash, funds in the settlement account with the central bank, sight deposits and short-term deposits with banks, debt securities and loans fulfilling the criteria for the collateralisation of the Eurosystem receivables. The Bank uses dynamic liquidity projections to monthly monitor the development of available liquidity reserves in view of the expected cash outflows as well as guarantees appropriate control over the liquidity of individual member of the NLB Group.

Liquidity stress tests are performed for measuring of liquidity risk of the NLB Group, warning the Bank about unexpected cash outflows in the future. Based on liquidity stress tests, the Bank determines the optimal and minimum volume of liquidity reserves. Each member of the NLB Group must ensure the necessary volume of liquidity reserves. The decrease in the volume of liquidity reserves to a minimum, as defined by liquidity stress tests, is used as a basis for activating the liquidity management plan in extraordinary circumstances. The plan sets guidelines and activities aimed at recognising problems, searching for solutions and acting in exceptional circumstances as well as establishing a system for managing liquidity so as to ensure maintaining of the NLB Group's liquidity and protecting of business interests of clients and shareholders of the Bank.

In December NLB d.d., through recapitalisation of the Slovenian banking sector by the Republic of Slovenia, received securities of the RS in the nominal amount of EUR 415.5 million and the BAMC (Bank Assets Management Company) bonds in the amount of EUR 621.7 million which increased the volume of available liquidity reserves. At the end of 2013 the received debt securities were ECB eligible and had a favourable effect on the Bank's liquidity. In the time of crisis, the NLB Group maintains an appropriate level of high-quality liquid reserves that can be used to cover unexpected cash outflows in stress circumstances.

Volume and structure of the liquidity reserves:

in EUR thousand

	31.12.2013		31.12.2012	
	NLB Group	**NLB d.d.**	**NLB Group**	**NLB d.d.**
Cash and central bank reserves	942.657	374.775	922.831	371.184
Placements with banks	512.049	279.319	398.453	207.828
Trading book securities	55.362	55.362	14.022	14.022
Banking book securities	3.164.398	2.647.140	2.363.004	1.917.973
ECB eligible loans	820.721	820.721	842.967	842.967
Total liquid assets	**5.495.187**	**4.177.317**	**4.541.277**	**3.353.974**
Encumbered liquid assets	1.400.615	1.400.615	1.408.655	1.408.655
Unencumbered liquid assets	4.094.572	2.776.702	3.132.622	1.945.319

The Bank has pledged liquidity reserves for different purposes and the bulk of them are ECB eligible loans and securities for secured financing by the ECB.

Structure of the sources of financing of the NLB Group

The bulk of the sources of financing of the NLB Group as at 31/12/2013 were deposits by the non-banking sector accounting for 67.4% of total sources of financing. Compared to 2012, the share of deposits by the non-banking sector in 2013 rose by 3.4 percentage points, whereas the share of loans by banks decreased by 4.7 percentage points, thus accounting for 9.3% at the end of 2013. Owing to the amended banking legislation and extraordinary measures for stabilisation of the situation in the banking system, the Bank of Slovenia imposed a measure to write off subordinated debt of banks which had receives state aid, including the NLB. The share of sources of financing by the ECB increased relatively (no changes in nominal terms), but the Bank already announced early gradual repayment of the secured ECB sources because of a favourable liquidity situation after the December capital increase.

Plan for settling the liabilities

The NLB Group promptly monitors the movements on the plan of liabilities and implements activities aimed at acquiring sources of financing, accordingly. The type of borrowing will mostly be influenced by the circumstances on the market and the interest of investors in individual instruments.

As before, the NLB Group will continue to pursue the goal to find, in the given circumstances, the optimal borrowing terms and conditions for every member. The principle of diversification of sources will be followed, which means that the NLB Group will strive to maintain its presence in different segments of the financial market as it enables the use of different borrowing instruments and broadening of the investor base. To pursue such a concept, it is necessary to maintain and develop good business relations with key partners, which the NLB Group has striven to achieve for a number of years.

Methodology of internal transfer prices

The system of internal transfer prices is designed on the methodology which, considering the current market conditions and strategic guidelines of the Bank, enables, at daily and monthly levels, a more efficient management of liquidity risk and monitoring of performance of operations at the level of the entire Group. The currently valid system of internal transfer prices and its planned development is geared towards redistribution of costs and benefits of the liquidity management among other business lines. Based on individual elements of internal transfer prices, each of them representing a basis for risk management, an analysis of the Bank's operations by segment is regularly conducted, showing also the effect of redistribution of costs, benefits and risks.

14. Remuneration system

(Article 23b of the Regulation on the Disclosures by Banks and Savings Banks)

14.1. The description of the decision-making process used to determine the Bank's remuneration policy

(Article 23b. a of the Regulation on the Disclosures by Banks and Savings Banks)

The Policy of Remuneration for the Employees Performing Special Work (hereinafter: the Remuneration Policy) was formulated by the Human Resources in co-operation with the Accounts Administration and Payroll, the Legal Centre and the colleagues from the Global Risk. No outsourced staff participated in the formulation of the policy.

The Remuneration Policy was adopted on 6 January 2012 by the Supervisory Board of NLB d.d. and entered into force on 1 January 2012. In compliance with the Remuneration Policy, its adequacy is checked annually. Based on the above the expert service prepared a proposal of amendments concerning the definition of the employees performing special work who can, in line with the authorisations, assume specific risks and the definition of the body which decides on the payment of annual variable part. The Bank's Management Board approved the proposed amendments on 30 April 2013 and the Supervisory Board on 30 August 2013.

The composition and mandates of the Appointment and Remuneration Committee pursuant to Article 75 of the ZBan-1:

The Appointment and Remuneration Committee is composed of the following members: Tit A. Erker (Chairman), Gorazd Podbevšek (Deputy Chairman), Miha Košak (Member) and Dr Sergeja Slapničar (Member).

The Committee discusses the key strategic issues and prepares proposals for resolutions to be adopted by the Supervisory Board that address the following areas:

- appointment and recalling of the President and members of the Management Board;
- determining of the method of recruiting candidates for the President and members of the Management Board and the method of selecting the President and members of the Management Board;
- conclusion and contents of service contracts made with the President and members of the Management Board;
- remuneration of the President and members of the Management Board and determining the remuneration criteria;
- remuneration policies; and
- other issues which the Supervisory Board deems to fall within the terms of reference of the Committee.

The Remuneration Committee is, among other, responsible for the following as regards remuneration policies:

- preparing proposals of general principles of remuneration policies, including the formulating of opinions on individual aspects of remuneration policies;
- assessing the adequacy of established methodologies, based on which the remuneration system promotes adequate risk, capital and liquidity management;
- preparing recommendations for the Supervisory Board on implementation of remuneration policies;
- preparing draft decisions about remuneration of employees, including those affecting the Bank's risks and their management;
- assessing the adequacy of the outsourced adviser whose services the Supervisory Board commissioned to determine the remuneration policy of the Bank;
- examining the adequacy of general principles of the remuneration policies and their implementation;
- examining the compliance of remuneration policies with the business policy of the Bank over a long period;
- direct supervision over remuneration of the categories of employees performing special work within the internal control system and other control functions.

14.2. The 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 the employee's remuneration

(Article 23.b b of the Regulation on the Disclosures by Banks and Savings Banks)

Definition of performance criteria

The Remuneration Policy stipulates the following performance criteria:

a) Financial criteria:

- The goals of NLB d.d. (or the goals of the NLB Group for the Management Board and the employees in the Corporate Governance) for each business year are set by the Management Board of the Bank and approved by the Supervisory Board. The goals of NLB d.d. may include:
    - the profit of NLB d.d.,
    - the ratio between profit before provisions and capital requirements for risks,
    - the cost/income ratio (CIR),
    - the ratio between loans to the non-banking sector and retail and corporate deposits,
    - return on equity after tax (ROE).
- The goals of the organisational unit of the employee performing special work:
  The concrete goals of the organisational unit (deriving from the goals of NLB d.d.) where the employee performing special work assumes risk are set by their direct superior officer for each business year and include the following areas:
    - business goals of the organisational unit,
    - financial goals of the organisational unit (if any).

b) Non-financial criteria are the *development goals* of the employee performing special work, which are set by the superior director or the Management Board.

Definition of goals in 2013

Along with the introduction of the Remuneration Policy, the Bank also started redesigning the goal planning and monitoring system as well as the assessment of job performance (targeted leadership) for all employees of the Bank. Already in 2012 the employees performing special work and other heads participated in trainings so as to learn about the new model for planning of goals and remuneration system, which continued also in 2013. A new information support was prepared enabling prompt monitoring of the achieved goals, any corrections in the case of year-on-year changes and more efficient management of job performance.

Planning of goals and assessment of the employees performing special work are conducted once a year; the planning of the goals is carried out by the end of January and the assessment of performance by the end of March or until the results of operations are known.

The definition of *goals of NLB d.d*. in 2013 was the same as in the previous year and the goals were equal for all employees performing special work. The *goals for individual organisational units* were defined top-down which means that each member of the Management Board set goals for their directly subordinate employees performing special work and these set goals down the line of management. The goals of the organisational unit can be financial or non-financial and must be defined according to the SMART method, which means that they have to be clear (specific), measurable (or verifiable), real, defined in terms of time and be worth the effort (acceptable).
In 2013 the *development goals* of all employees performing special work were set on the basis of the analysis of the 360° assessment method and the assessment centres.

The enforcement of the target leadership method helped harmonise the performance management system for all employees in the Bank so as to guarantee that the system is transparent and that it offers effective support to the Bank in its achievement of the set strategic goals.

Overview of the payments of the variable part of the salary for the employees performing special work

The Remuneration Policy stipulates that a decision whether the performance criteria have been achieved and the decision to pay the annual variable part of salary to the Management Board members are adopted by the Supervisory Board, whereas for other employees performing special work and included in the business function these decisions are adopted by the Bank's Management Board.

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

The table below shows the possible payments of the variable part of the salary and the method of payment in case of deferment, as stipulated in the Remuneration policy:

<table>
<tr><th>Performance criterion</th><th>Achieving of goals</th><th>Achieving of goals</th><th>Achieving of goals</th><th>Achieving of goal</th></tr>
<tr><td>1. Goals of the NLB Group (for the Management Board and the Corporate Governance) and/or goals of NLB d.d.</td><td>Yes</td><td>No</td><td>No</td><td>Yes</td></tr>
<tr><td>2. Goals of the organisational unit</td><td>Yes</td><td>Yes</td><td>No</td><td>Yes</td></tr>
<tr><td>3. Non-financial or personal goals</td><td>Yes</td><td>Yes</td><td>Yes</td><td>No</td></tr>
<tr><td>Entitlement to the variable part of salary</td><td>Yes</td><td>Yes</td><td>Yes</td><td>No</td></tr>
<tr><td>Amount of the variable part of salary</td><td>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</td><td>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</td><td>For employees performing special work
1 salary in total</td><td>No payment of the variable part</td></tr>
</table>

During the deferment 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.

During the deferment period, the deferred part of the variable part of the salary bears interest is reduced according to the ROE.

14.3. The most important contextual characteristics of the Remuneration Policy

(Article 23b. c of the Regulation on the Disclosures by Banks and Savings Banks)

The Remuneration Policy (Article 4) lays down that NLB d.d. ensures that the Remuneration Policy is compatible with adequate and efficient risk management and that it stimulates such management. Moreover, as regards the payment of the variable part of the salary, the fulfilment of obligations or achievement of goals referring to capital or liquidity are taken into account.

Allocation and payment of the variable part (also the deferred part) to the employee performing special work depends on adjustment criteria which result from risk management. These criteria include: compliance with the adopted policies, methodologies, orientations, regulators' and auditors' requirements as well as authorisations linked to the work of the employee performing special work. (Article 11)

The Remuneration Policy (Article 12) stipulates that the performance criteria for employees performing special work who are included in a supervisory function are established on the basis of the goals of the supervisory function and are independent from the efficiency of the organisational work they supervise.

The criterion for the setting of the ratio between the fixed and variable part of the salary also in 2013 remains unchanged and differs depending on the area of work of the employee performing special work. The bulk of the variable part is intended for the employees in the business line and the minor portion to employees working in other areas of the Bank. The criterion for the definition of appropriate ratio also considers the influence of the employee on decision making and thus assuming of risks, whereby the variable part must be stimulating enough to motivate employees to achieve results.

The following ratio is envisaged for the employees included in a business function – 12 salaries (fixed part) : 5 salaries (variable part). The employees performing special work in other areas of the Bank have the following ratio – 12 salaries (fixed part) : 3 salaries (variable part).

In the deferment period, if the payment of the variable part in 2012 already occurred, 50% of the variable part of the salary of the employees performing special work and included in business function, would be paid after the approval of the results of the operations by the General Meeting. The remaining, deferred part, accounting for 50%, would be paid over the period of 3 years and would bear interest or would be decreased in line with the ROE. The Appointment and Remuneration Committee could decide to defer the payment of the variable part of the salary also for other employees if it assesses that the relevant employee has a significant impact on the risk profile of NLB d.d.

14.4. The 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 (bonuses) for employees

(Article 23b. d of the Regulation on the Disclosures by Banks and Savings Banks)

The Bank does not pay the variable part of the salary in financial instruments as it considers it to be part of the salary which does not include other types of income (e.g. bonuses).

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 the Disclosures by Banks and Savings Banks)

Aggregate amount of remuneration paid, broken down by business area

- in 2013:

in EUR

Business segment	No.	Gross salaries + holiday allowance	Bonuses	Supplementary pension insurance	Other remunerations	Total remunerations
Investment banking	2	134,051	1,407	1,384	0	**136,841**
Retail banking	25	1,699,544	37,600	15,152	5,157	**1,757,453**
Asset management	1	83,865	676	705	0	**85,246**
Other	40	3,240,280	62,985	26,504	9,969	**3,339,738**
Total	**68**	**5,157,739**	**102,667**	**43,745**	**15,126**	**5,319,278**

- in 2012:

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 in the previous financial year, broken down by employee category

(Article 23b. f of the Regulation on the Disclosures by Banks and Savings Banks)

Aggregate amount of remuneration paid, broken down by employee category

- in 2013:

in EUR

Employee category	No.	Gross salaries + holiday allowance	Bonuses	Supplementary pension insurance	Other remunerations	Total remunerations
Management board	7	600,383	19,514	4,933	9,459	**634,289**
Back office & general admini	26	2,071,578	31,507	17,463	50	**2,120,597**
Front office	35	2,485,779	51,646	21,349	5,617	**2,564,391**
Total	**68**	**5,157,739**	**102,667**	**43,745**	**15,126**	**5,319,278**

- in 2012:

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 admini	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 2013 the Bank did not pay any variable parts of salaries.

The Policy of Remuneration for the Employees Performing Special Work of the Bank was enforced on 1 January 2012 and was redesigned on 30 August 2013. In accordance with the applicable Policy, the Bank does not pay the variable parts of the salaries in financial instruments. In 2013 the Bank did not record any deferred variable parts of salaries.

The amount of the severance pay is stipulated in the employment contract pursuant to the law and the collective agreement.

Table of accounted remuneration by Management Board member

- in 2013:

in EUR

Member	Remuneration	Amount
Janko Medja	Short - term benefits:	135,649
1.1.2013 - 31.12.2013	Gross salary, benefits and holiday allowance	135,649
	Cost refunds	2,533
	Long - term bonuses:	705
	Severance pay	0
	Post employment benefits	705
	Other bonuses	0
	Total	**138,887**
Blaž Brodnjak	Short - term benefits:	134,720
1.1.2013 - 31.12.2013	Gross salary, benefits and holiday allowance	134,720
	Cost refunds	1,304
	Long - term bonuses:	705
	Severance pay	0
	Post employment benefits	705
	Other bonuses	0
	Total	**136,729**

in EUR

Member	Remuneration	Amount
Nima Motazed	Short - term benefits:	156,277
6.2.2013 - 31.12.2013	Gross salary, benefits and holiday allowance	156,277
	Cost refunds	1,291
	Long - term bonuses:	0
	Severance pay	0
	Post employment benefits	0
	Other bonuses	0
	Total	**157,568**
Archibald Kremser	Short - term benefits:	74,363
31.7.2013 - 31.12.2013	Gross salary, benefits and holiday allowance	74,363
	Cost refunds	698
	Long - term bonuses:	0
	Severance pay	0
	Post employment benefits	0
	Other bonuses	0
	Total	**75,061**
Andreas P. Burkhardt	Short - term benefits:	51,711
18.9.2013 - 31.12.2013	Gross salary, benefits and holiday allowance	51,711
	Cost refunds	398
	Long - term bonuses:	0
	Severance pay	0
	Post employment benefits	0
	Other bonuses	0
	Total	**52,108**
Guy Snoeks	Short - term benefits:	33,084
1.1.2013 - 31.3.2013	Gross salary, benefits and holiday allowance	33,084
	Cost refunds	361
	Long - term bonuses:	352
	Severance pay	0
	Post employment benefits	352
	Other bonuses	0
	Total	**33,798**
Total		**594,151**

- in 2012:

in EUR

Member	Remuneration	Amount
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**

Member	Remuneration	Amount (in EUR)
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**
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**
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**
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**
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**
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)

None of the members of the Management Board of NLB d.d. and the members of the Supervisory Board of NLB d.d. and managements of the subsidiaries and/or their immediate family members has "significant business contacts" with the company where he or she is a member of the management board or management of the company or has the role of the supervisory body of the company "in accordance with Article 12 of the Regulation on the Diligence of the Members of the Management and Supervisory Boards of Banks and Savings Banks".

16. Compliance with the regulations that govern conflicts of interests 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 subsidiary financial companies based outside the Republic of Slovenia, the regulations on conflicts of interests are complied with. No conflict of interests occurred in 2013 with the members of the management and supervisory bodies in the companies; therefore, no relevant measure was adopted.

17. Measures and procedures adopted to re-establish the Bank's reputation

(Order of the Bank of Slovenia on additional measures to comply with the risk management rules)

Since the end of 2012, the NLB d.d. has been carrying out a **systematic and structured process of determining the reasons, internal and external, for the occurrence of non-performing loans**. This process also includes examination and investigation of any suspicions of criminal offences and liability for damages of individuals. By the end of 2013, the Bank has thoroughly examined a portfolio of EUR 800 million in relation to 200 biggest problem clients, which is approximately one-third of the total exposure to them. With regard to the findings of the thorough review, the Bank has identified and collected by the end of 2013 several factors contributing to the reasons for the occurrence of NLPs and directly included them in the reorganisation of the business processes with the aim to improve risk management.

In this process, in 2013 the Bank established suspicions of different criminal offences and reported to the law enforcement authorities 32 cases of suspected criminal offences related to individual loans. In 2013, the Bank also filed actions for damages against three persons.

An intensive review of the portfolio of the biggest problem clients with the establishment of the responsibility for the losses continues in 2014.

Considering the established reasons for the occurrence of NPLs, the NLB d.d. implements **appropriate measures to redesign the business processes in order to prevent similar losses in the future**. The activities carried out by the end of the previous year were the following:

1. The Bank carried out client segmentation in the area of legal persons and sole proprietors. The aim of this segmentation is to guarantee an optimal treatment of each of the client segments in the area of legal persons and sole proprietors which will be efficient and target-oriented. With regard to the international classification and urgent specialisation, adjusted to the needs of individual segments of legal persons, it was crucial to introduce client segmentation that would identify and satisfy these common and detected needs through specialised skills. The Bank established the Rules on the Segmentation of Legal Persons and Sole Proprietors, whose purpose is to give the business lines clear criteria and guidelines for client segmentation and transfer of clients between organisational units. In accordance with the Rules on the Segmentation of Legal Persons and Sole Proprietors, the management of business relations with legal entities and sole proprietors is divided into three areas: operations with key clients, operations with medium-sized companies and operations with small companies.
   Clients were transferred to the Intensive Care and Non-performing Loan Management Division in accordance with the internal transfer rules and criteria laid down in the Methodology for monitoring and managing risky clients in NLB d.d. The Bank implemented the rule that problem clients are obligatorily transferred to the unit specialised for problem clients within the Intensive Care and Non-performing Loan Management Division.

2. Organisational changes were made in order to clearly define the missions linked with individual client segments together with strict criteria for segmentation of clients according to organisational units of the bank.

3. The early warning system for detection of increased credit risk (EWS) was also upgraded. The purpose of the early warning system for detection of increased credit risk in NLB d.d. is primarily to collect and process various information about a client that may indicate increased credit risk in relation to the client. The secondary purpose of the EWS is to ensure further actions if increased credit risk is detected. These actions comprise the transfer of the client to one of the lists, either the Watch list of NLB d.d. or the Intensive Care List of NLB d.d. and, if necessary, the transfer of its handling to the specialised units within the Intensive Care and Non-performing Loan Management Division.

4. In October 2013, the Bank redesigned the business process of loan granting, including the following changes:
   - introduction of co-decision of the representatives of the Credit Analyses and Control Division on loans through the preparation of credit advice;
   - introduction of a redesigned credit proposal for decision-making on loans;
   - introduction of new rating structure, redefinition of rating grades and control of the age of rating.

All this was technologically supported by an application with the implementation of a new version on 14 October 2013.

- Based on the changes introduced in the loan granting process, the following changes were also made to the system of control activities: transfer of the performance of control activities from the front office to the Credit Analyses Department and the Corporate Banking Back Office.
- Account managers and analysts from the Credit Analyses Department underwent training in relation to the changes to the credit process both in terms of its contents and in terms of the applications (name of the courses: Redesigning of the credit process and POND – redesigning of the credit process).

5. Transition to e-credit files started in 2013. The introduction of the scanning of the new credit documentation in all front offices was completed.

6. Last year (as of 1 September 2013), the Bank also introduced credit scoring model for rating clients with exposure of up to EUR 20,000.

7. The Committee for monitoring the clients on the watch list and the intensive care list was established in May 2013. This Committee is one of the key elements in the process of identifying increased credit risk, constituting the final decision-making stage where clients are classified based on the findings made by means of the early warning system for detection of increased credit risk (EWS). The Committee also checks the efficiency of the Bank's place of activities in relation to an individual client on the watch list or in intensive care.

8. In order to monitor the sales process, measure the success of the sales activities, identify bottlenecks in the sales process and monitor the efficiency of individual activities, we developed the technological support Sales process monitoring, put to production on 12/12/2013. The standard reports were also defined.

Special attention is paid to the **strengthening of the Bank's integrity**, primarily by setting up a comprehensive system to prevent future harmful conducts. We systematically strengthen the organisational structure of responsibility for the prevention of irregularities in the Bank's operations and their identification, detection of irregularities and establishment of the responsibility for them. To this end, the Bank is organising training and is internally informing and raising the awareness of its employees, and above all taking care of exemplary, transparent and responsible adoption of business decisions. In the case of suspicion of crime, the Bank withdraws criminal charges or announcements to law enforcement authorities and also examines and requires the potential damage responsibility of individuals. In the case of the harmful practices by employees, the Bank initiates the appropriate legal proceedings in labour law. The Bank pursues the position of zero tolerance to all kinds of harmful practices, which is also stated in the Code of corporate compliance of NLB d.d..

In 2013, the Bank also adopted clear instructions regarding the investigation of suspected harmful conducts which define the responsibilities and procedures in this area and were also introduced in the members of the NLB Group. In this way, we are also systematically strengthening corporate governance in the NLB Group.

Appendix: List of requested disclosures in accordance with the Regulation on Disclosures by Banks and Savings Banks with references to the relevant chapters of the material

Articl	Regulation on Disclosures by Banks and Savings Banks	Chapter of the material
10.	**Risk management objectives policy 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 risks, 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	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 a separate disclosure of: - hybrid instruments in original own funds specified in Article 16 of the Regulation on the Calculation of Capital of Banks and Savings Banks (own funds regulation) - financial instruments with the incentives to redeem specified in own funds regulation - financial instruments specified in the 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	6.2.
	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	6.3.
	d) The geographic distribution of exposures, broken down by material categories of exposure, and further detailed if appropriate	6.4.
	e) The distribution of exposures by institutional sector or counterparty type, broken down by category of exposure, and further detailed if appropriate	6.5.
	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	6.6.
	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 exposures, - 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	6.7.
	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	6.7.
	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 period	6.7.
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	6.3.

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, comparison with the market price where it is materially different from 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	6.3.
	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	6.3.
26.	**Operational risk – advanced measurement approach**	**Not applicable**