

Pillar 3
Disclosures

2018

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Abbreviations

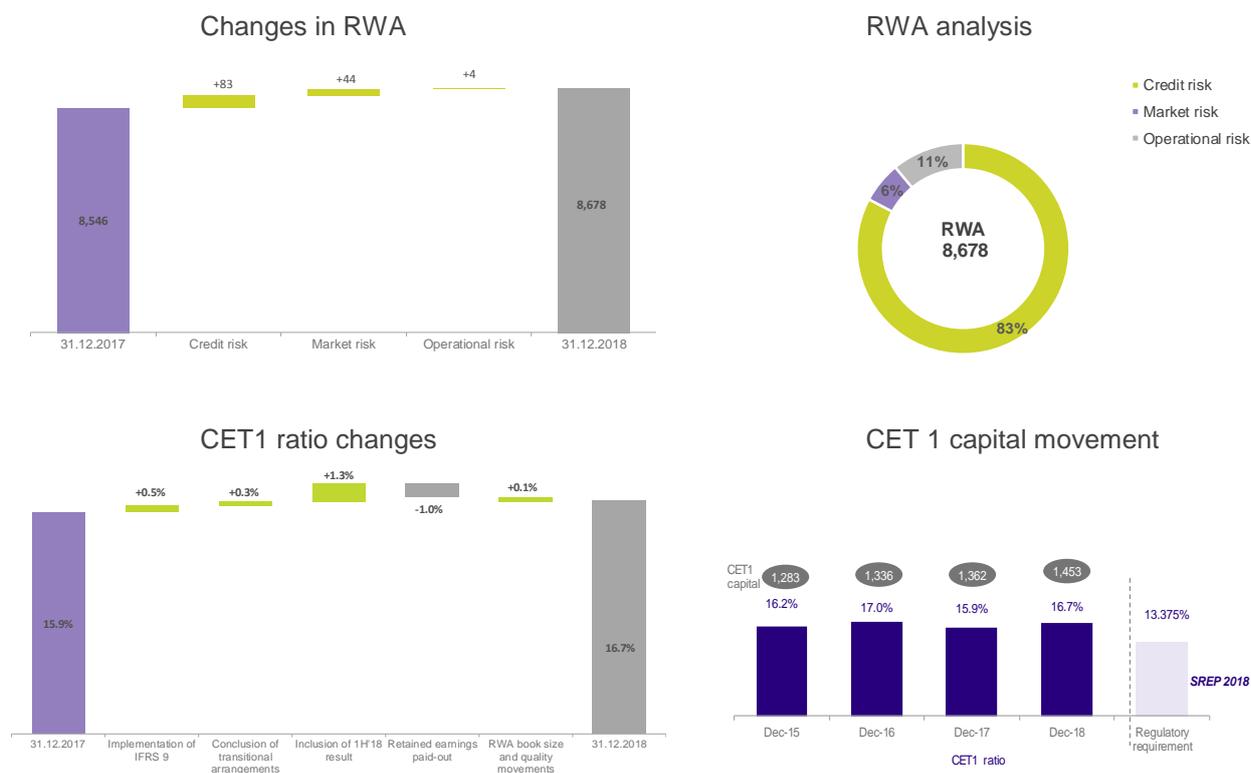
ALCO	Asset and Liability Committee	ILAAP	Internal Liquidity Adequacy Assessment Process
ALM	Asset and Liability Management	IRB	Internal ratings-based approach
AE	Asset Encumbrance	IRRBB	Interest rate risk in the banking book
AML	Anti-Money Laundering	ISDA	International Swaps and Derivatives Association
AMLTF	Anti-Money Laundering Task Force	IT	Information Technology
AT1	Additional Tier 1 capital	IVS	International Valuation Standards
AVA	Additional Valuation Adjustments	LCR	Liquidity coverage ratio
BCBS	Basel Committee on Banking Supervision	LGD	Loss given default
BPV	Basis point value	LTD	Loan-to-deposit
CAR	Capital Adequacy ratio	LTI	Loan-to-income
CBR	Combined buffer requirement	LTV	Loan-to-value
CCB	Capital Conservation Buffer	MDA	Maximum Distributable Amount
CCF	Credit conversion factor	MRSA	Market Risk Standardized Approach
CCP	Central Counterparty	NII	Net interest income
CCR	Counterparty credit risk	NPE	Non Performing Exposures
CET 1	Common equity tier 1 capital	NPL	Non Performing Loans
CIR	Cost-income ratio	NPV	Net Present Value
COSO	Committee of Sponsoring Organisations of the Treadway Commission	NSFR	Net Stable Funding Ratio
CRD	Capital Requirements Directive	OCI	Other comprehensive income
CRD IV	Capital Requirements Directive and Regulation	OCR	Overall capital requirement
CREM	Corporate real estate management	OpRC	Operational Risk Committee
CRM	Credit Risk Mitigation	O-SII	Other systemically important institutions
CRR	Capital Requirements Regulation	OTC	Over-the-counter
CSA	Credit Support Annex	OU	Organisational unit
CTF	Combating the Financing of Terrorism	PD	Probability of default
CVA	Credit valuation adjustment	P2G	Pillar 2 Guidance
CVaR	Conditional Value at Risk	P/L	Profit and Loss
D-SIB	Domestic systemically important banks	P2R	Pillar 2 Requirement
DVA	Debit Valuation Adjustments	QCCP	Qualifying Central Counterparty
DWH	Data Ware House	RAF	Risk Appetite Framework
EAD	Exposure at default	RICO	Risk Committee
EaR	Earnings at Risk	RICS	Royal Institution of Chartered Surveyors
EBA	European Banking Authority	ROE	Return on Equity
ECAI	External Credit Assessment Institutions	RP	Recovery plan
ECB	European Central Bank	RWA	Risk-weighted assets
ECRA	Enterprise compliance and integrity risk assessment	SA	Standardized Approach
EHQLA	Extremely High-quality Liquid Assets	SEE	Southeast Europe
EMIR	European Market Infrastructure Regulation	SFT	Securities Financing Transactions
ESRB	European Systemic Risk Board	SME	Small Medium Enterprise
EU	European Union	SREP	Supervisory Review and Evaluation Process
EVE	Economic Value of Equity	SSM	Single Supervisory Mechanism
EVS	European Valuation Standards	ST	Stress test
EWS	Early Warning System	TC	Total Capital
FX	Foreign Exchange	T2	Tier 2 capital
GLTDF	Gross Loans to Deposit Flows ratio	TSCR	Total SREP capital requirement
GMRA	Global Master Repurchase Agreement	VaR	Value at risk
G-SIB	Global systemically important banks	ZBan-2	Banking Act
HHI	Herfindahl-Hirschman Index	ZGD-1	Companies Act
HQLA	High-quality liquid assets	ZNVP-1	Book-Entry Securities Act
IAS 39	International Accounting Standard 39	ZOSRB	Bank Authority and Fund Act
ICAAP	Internal Capital Adequacy Assessment Process	ZPPOGD	Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities
IFRS	International Financial Reporting Standards	ZTFI	Financial Instruments Market Act

Key highlights

Table 1 – Key metrics

NLB Group	31.12.2018	31.12.2017
Available capital		
Common equity tier 1 (CET 1)	1,453,402	1,362,140
Tier 1	1,453,402	1,362,140
Total capital	1,453,402	1,362,140
Risk weighted assets		
Total RWA	8,677,624	8,546,482
Capital ratios		
Common equity tier 1 ratio (%)	16.7%	15.9%
Tier 1 ratio (%)	16.7%	15.9%
Total capital ratio (%)	16.7%	15.9%
Additional CET1 buffer requirements as a % of RWA		
Capital conservation buffer requirement	1.875%	1.25%
Countercyclical buffer requirement	0.0%	0.0%
Bank G-SIB and /or D-SIB additional requirements	0.0%	0.0%
Total of bank CET1 specific buffer requirements	1.875%	1.25%
CET1 available after meeting the bank's minimum Pillar 1 capital requirements	12.2%	11.4%
Leverage ratio		
Total leverage ratio exposure measure	14,709,318	14,044,985
Leverage ratio (%)	9.88%	9.70%
Liquidity Coverage Ratio		
Total HQLA	3,150,557	2,466,737
Total net cash outflow	873,297	893,680
LCR ratio	361%	276%

Key ratios and figures are reflected throughout the Pillar 3 disclosures and a summary is presented in Table 1.



Statement of Management of Risk

(Articles 435 f of CRR)

NLB's Management Board and Supervisory Board provide herewith a concise statement of the risk management according to Article 17 of the Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (*Official Gazette of the RS*, no. 73/2015, 49/2016, 68/2017, 33/2018 and 81/2018), and Regulation (EU) 575/2013 (date of publication 21 December 2015), article 435 (Risk management objectives and policies), point (e) and (f), as well as EBA Guidelines on Disclosure requirements (EBA GL/2016/11).

Risk management in the Group is implemented in accordance with the established internal policies and procedures which take into account the European banking regulations, the regulations adopted by the Bank of Slovenia, the current EBA guidelines and the relevant good banking practices. EU regulations are followed by all Group members, where the Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. NLB Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group. Business and operating environment, relevant for the Group's operations, is changing with trends such as changing customer behavior, emerging new technologies and competitors, increasing new regulatory requirements. Consequently risk management is continuously adapting with aim to detect and manage new potential emerging risks.

The risk management function, acting as second line of defence, represents an important part of the overall management and governance system in the Group. NLB Group's risk management framework is defined and organised with regard to the Group's business and risk profile, based on forward looking perspective to meet internal objectives and all external requirements. The proactive risk management and control system is based on Risk appetite and risk strategy, which are consistent with the Group's Business strategy, and is focused on early identification and efficient risk management. Set governance and different risk management tools enable adequate oversight of the Group's risk profile, proactively support its business operations and its management by incorporating escalation procedures and using different mitigation measures when necessary. Nevertheless, the Group is constantly enhancing and complementing the existing methods and processes in all risk management segments.

NLB Group plans a prudent risk profile, optimal capital usage, and profitable operations in the long run, considering the risks assumed. The Business strategy, the Risk appetite, the Risk strategy, and the key internal risk policies of the Group, approved by the Management Board and the Supervisory Board of NLB, specify the strategic objectives and guidelines concerning risk assumption, the approaches and methodologies of monitoring, measuring, mitigating, and managing all types of risk at different relevant levels. Moreover, main strategic risk guidelines are integrated into the annual business plan review and budgeting process. NLB Group is regularly monitoring its target Risk appetite profile, representing the key component of risk mitigation process. Risk profile enables detailed monitoring and proactive management. Risk limits usage and potential deviations from limits or target values are reported regularly to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank.

Additionally, NLB Group established a comprehensive stress testing framework and other early warning systems in different risk areas with the intention to contribute to setting and pursuing Group's business strategy, support decision making on on-going basis, strengthen the existing internal controls and timely responding when necessary. Stress testing framework includes all material types of risk and different relevant stress scenarios or sensitivity analysis, according to the vulnerability of the Group's business model. Stress testing has an important role when assessing the Group's resilience to stressed circumstances, namely from profitability, capital adequacy and liquidity forward looking perspective. As such it is embedded into Group's Risk management system, namely Risk appetite, ICAAP, ILAAP, and Recovery plan as an important component of sound risk management. Beside internal stress testing NLB Group as a systemically important bank also participates in the regulatory stress test exercises carried out by ECB.

NLB Group is the largest Slovenian banking and financial group with important presence in the SEE region. In accordance with its strategic orientations intends to be a sustainably profitable, predominantly working with clients on its core markets, providing innovative but simple customer-oriented solutions. NLB Group has a well-diversified business model. Based on the Group's business strategy credit risk is the dominant risk category, followed by operational risk, interest rate risk in banking book, liquidity risk, market risk and other non-financial risks. Regular risk identification and their assessment is performed within ICAAP process with the aim to assure their overall control and effective risk management. Moreover, in 2018 ICAAP process was substantially upgraded in accordance with newly published ECB Guidelines, including its stronger integration into overall risk management system in order to assure proactive support for informed decision making.

Managing risks and capital efficiently at all levels is crucial for NLB Group sustained long-term profitable operations. Management of credit risk, representing the Group's most important risk, focuses on the taking of moderate risks – diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk, and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. The Group must maintain an appropriate level of liquidity at all times to meet its short-term liabilities, even if a specific stress scenario is realised. Further, with the aim of minimizing this risk, the Group pursues an appropriate structure of sources of financing. When assuming operational risk, the NLB Group pursues the orientation that such risk must not significantly impact its operations. Risk appetite for operational risks is low to moderate, with focus on mitigation actions for important risks and key risk indicators servicing as an early warning system. NLB Group's basic orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital that would arise from changed market interest rates and, therefore, a moderate tolerance for this risk is stated. The conclusion of transactions in derivative financial instruments at NLB is primarily limited to servicing customers and hedging Bank's own positions. In the area of currency risk, NLB Group thus pursues the goals of low to moderate exposure. The tolerance for all other risk types, including non-financial risks, is low with a focus on minimizing their possible impacts on the Group's operations.

The main NLB Group Risk appetite objectives of the Group are following:

- preservation of a prudent level of capital adequacy considering also regulatory requirements and capital buffers and maintaining of low financial leverage,
- maintaining of a solid level and structure of liquidity where stable customers' deposits are representing the main funding base,
- adequate quality and diversification of the credit portfolio, sufficient coverage of non-performing loans and sustainable cost of risk across the economic cycle,
- diversification of risk in exposures to banks and sovereigns,
- sustainable tolerance to net losses from operational risk,
- limited exposure to interest rate risk in the banking book and to foreign exchange risk,
- sustainable profitability in terms of risk-return,
- sustainable size of subsidiary banks.

Values of the most important risk appetite indicators of NLB Group as at the end of 2018, reflecting interconnection between strategic business orientations, risk strategy, and targeted risk appetite profile, were as follows:

- CAR 16.7%,
- Cost of risk –43 bps,
- The share of non-performing exposure by EBA (NPE) 4.7%,
- LTD 68.3%,
- LCR 361%,
- Net stable funding ratio (NSFR) 158.7%,
- Net losses from operational risk 5.7% of capital requirement for operational risk,
- BPV sensitivity (of 200 bps) 7.0% of capital.

Consequently, NLB Group concluded the year 2018 within its target risk appetite. Self-funded, strong capital and liquidity position continued, demonstrating the Group's financial resilience.

During 2018 no transactions of sufficiently material nature to impact on NLB Group's risk profile or distribution of risks on NLB Group were carried out.

The Condensed Statement of the management of risk is also published on NLB intranet, to foster strict adherence of the banks' employees at daily operations of the Bank, as regards the definition and importance of a consistent tendency of the adopted risks, and ways to take into account when adopting its daily business decisions.

Ljubljana, 12 April 2019

The Supervisory Board



Primož Karpe

Chairman of the Supervisory Board

The Management Board



László Pelle
Member of the
Management Board



Archibald Kremser
Member of the
Management Board



Andreas Burkhardt
Member of the
Management Board



Blaž Brodnjak
President & CEO

1. Introduction

The purpose of this Report is to provide disclosures as required by the global regulatory framework for capital and liquidity, established by the Basel Committee on Banking Supervision. On the European level these are implemented in the disclosure requirements as laid down in Part Eight of the 'Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms' (Capital Requirements Regulation, or 'CRR') and 'Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms' (Capital Requirements Directive IV, or 'CRD'). The CRD IV commonly refers to both CRR and CRD, which were published in the *Official Journal of the EU* on 27 June 2013. The CRR had a direct effect in EU member states while the CRD was required to be implemented through national legislation in EU member states by 31 December 2013. Slovenia implemented these CRD requirements into national law with the Slovenian Banking Act (Zakon o bančništvu – ZBan-2).

In the context of this document, the CRD IV describes the package of CRR, CRD and regulatory / implementing technical standards. CRD IV is commonly referred to as containing the following three Pillars:

- Pillar 1 contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk,
- Pillar 2 is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with valuating how well financial institutions are assessing their capital adequacy needs relative to their risks. Risks not considered under Pillar 1 are considered under this Pillar,
- Pillar 3 is intended to complement Pillar 1 and Pillar 2. It requires that financial institutions disclose information on the scope of the application of CRD IV requirements, particularly covering capital requirements/risk-weighted assets (RWA) and resources, risk exposures and risk assessment processes.

NLB Group was required to comply with the CRD IV disclosure requirements by 31 December 2018. For ease of reference, the requirements are referred to as 'Pillar 3' in this Report. Pillar 3 contains both qualitative and quantitative disclosure requirements. In December 2016, the European Banking Authority (EBA) published final guidelines on the Pillar 3 disclosure requirements aimed at improving and enhancing the consistency and comparability of institutions' disclosures. These guidelines apply from 31 December 2017 and NLB Group's disclosures have been prepared in accordance with these guidelines.

All disclosures are prepared on a consolidated basis (Prudential consolidation) and in EUR thousand, unless otherwise stated.

Areas covered

In accordance with Pillar 3 requirements, the areas covered by NLB Group's Pillar 3 disclosures include the Group's CRD IV capital requirements and resources, credit risk, counterparty credit risk, market risk, operational risk, liquidity risk, encumbered and unencumbered assets, leverage ratio and the Group's remuneration disclosures.

NLB Group uses the following approaches for the calculation of capital requirements:

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

Thus, the disclosures relating to other approaches, such as IRB approach, securitisation, advanced measurement approach for operational risk and disclosures related to internal models for the calculation of market risk capital requirements not used by NLB Group are not applicable. In addition, disclosures that relate to types of transactions that NLB Group is currently not involved in are also not applicable and therefore not disclosed in this report. Rows and columns in prescribed templates, related to transactions, not applicable to NLB Group are, in accordance with the EBA guidance, deleted.

Frequency of disclosures and media

CRD IV and EBA guidelines require NLB Group to disclose information at a minimum on an annual basis. To ensure the effective communication of NLB Group's business and risk profile, NLB Group also pays particular attention to the possible need to provide information more frequently than annually. We publish Pillar 3 disclosures annually on the NLB's website www.nlb.si, following the release of annual report for

NLB Group. A separate Pillar 3 document is also published quarterly following our Interim Report disclosure.

Verifications and source of information

The Pillar 3 report is subject to a robust internal control and governance process, explained in the Policy of Disclosures on risk and capital management in the NLB Group. The Policy was adopted by the Management Board of NLB d.d. (here after ‘NLB’) and acknowledged by the Risk Committee. The key elements of this policy are:

- identification of roles and responsibilities of the departments involved in the process of producing the disclosures;
- identification of the information to be published (in accordance with EBA GL/2014/14 and EBA GL 2016/11 and CRR Article 432 and 433);
- instructions for departments’ contributions and related controls;
- consolidation of the disclosure contributions and related controls;
- approval of disclosures by the Management Board.

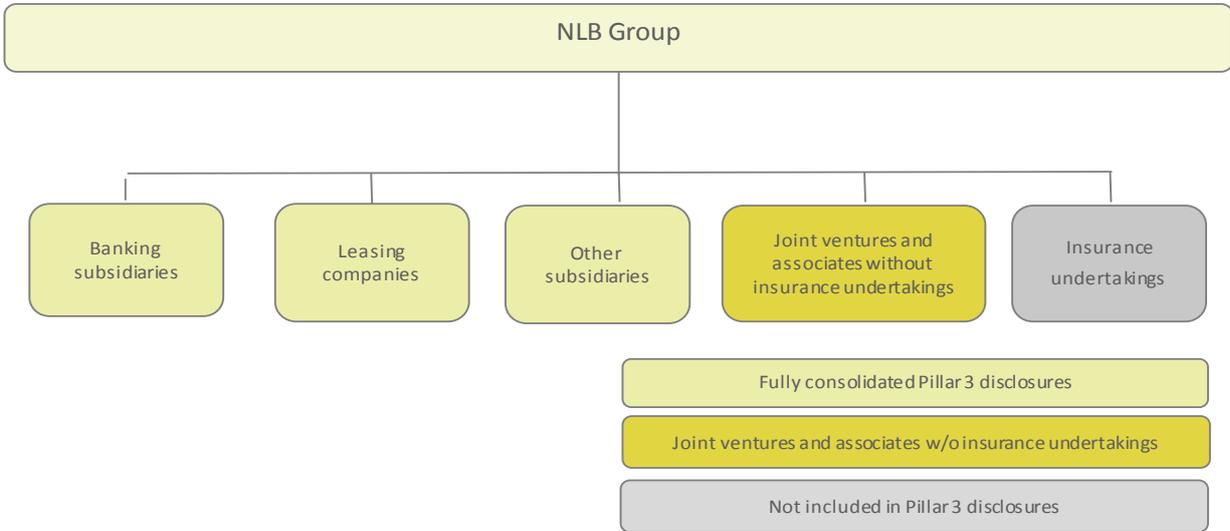
Verification of information included in the disclosures is subject to strict procedure of internal control and management. The persons in charge of individual contents are responsible for primary controls. Quantitative reports must be submitted in individual templates and precisely aligned with the information disclosed in the annual report or the reports prepared for the regulator (Corep and Finrep). The report is unaudited.

It should be noted that while some quantitative information in this document is based on financial data contained in the Annual Report for NLB Group 2018, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the Annual Report for NLB Group 2018. Some details of the key differences between the Group’s accounting and regulatory exposures are set out in Table 2 - EU LI1.

2. Scope of application

(Articles 436 b, c, and d of CRR)

In accordance with the capital legislation, NLB has the position of an “EU parent bank,” and is therefore obliged to disclose information on a consolidated basis. Consolidated financial statements for the purpose of Pillar 3 disclosures are based on CRR requirements (regulatory scopes of consolidation). A summarised representation of the regulatory consolidation group is presented below.



A significant subsidiary of NLB Group that exceeds 10% Group’s RWA is NLB Banka a.d., Skopje. Detailed informations a disclosed in the annual report published on the website <http://www.nlb.mk>.

Table EU LI1 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the Annual Report for NLB Group 2018, and under the scope of regulatory consolidation.

The differences between the scope of consolidation for regulatory purposes and accounting purposes (pursuant to the IFRS) of NLB Group (entity by entity) as at 31 December 2018 are seen from Table EU LI3 (disclosed in Appendix 5) The consolidation for *accounting purposes* comprise all:

- subsidiaries (banking, leasing and other subsidiaries) controlled by the Bank or the NLB Group,
- associated companies in which NLB directly or indirectly holds between 20% and 50% of the voting rights, has a material impact but does not control them and
- jointly controlled companies (i.e. jointly controlled by NLB Group based on a contractual agreement).

In contrast to accounting consolidation the *regulatory consolidation* only includes (in accordance with the definitions under Article 4 of CRR) credit institutions, financial institutions, ancillary service undertakings and asset management companies. As regards NLB Group, this means that the regulatory consolidation does not include companies operating in the area of insurance.

Concerning the consolidation method there are no differences between the accounting and regulatory consolidation as at 31 December 2018, as companies from the Prvi Faktor Group (see table EU LI3) are excluded from the regulatory consolidation (that would otherwise require the proportional consolidation method, in accordance with CRD IV) due to immateriality in accordance with CRR. In the accounting consolidation, the net assets of the Prvi Faktor Group using the equity method amounts to zero. More details are disclosed in the Annual Report for NLB Group 2018 - note 5.14 b (page 246).

Table 2 – EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories of NLB Group

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items			Not subject to capital requirements or subject to deduction from capital
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	
31.12.2018						
Cash, cash balances at central banks, and other demand deposits at banks	1,588,349	1,588,349	1,588,349	-	-	-
Financial assets held for trading	63,609	63,609	-	15,386	63,609	-
Non-trading financial assets mandatorily at fair value through profit or loss	32,389	32,389	32,389	-	-	-
Financial assets measured at fair value through other comprehensive income	1,898,079	1,898,079	1,898,079	-	-	-
Financial assets measured at amortised cost						
- debt securities	1,428,962	1,428,962	1,415,015	-	-	13,947
- loans and advances to banks	118,696	118,696	118,696	-	-	-
- loans and advances to customers	7,124,633	7,124,633	7,124,186	-	-	447
- other financial assets	75,171	75,171	75,171	-	-	-
Derivatives - hedge accounting	417	417	-	417	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,517	2,517	-	-	-	-
Investments in associates and joint ventures	37,147	10,652	10,652	-	-	-
Tangible assets						
Property and equipment	177,404	177,404	177,404	-	-	-
Investment property	58,644	58,644	58,644	-	-	-
Intangible assets	34,968	34,968	-	-	-	34,968
Current income tax assets	877	877	877	-	-	-
Deferred income tax assets	22,847	22,847	22,847	-	-	-
Other assets	70,971	70,971	70,971	-	-	-
Non-current assets and disposal group classified as held for sale	4,349	4,349	4,349	-	-	-
Total assets	12,740,029	12,713,534	12,597,629	15,803	63,609	49,362
Trading liabilities	12,300	12,300	-	12,300	12,300	-
Financial liabilities measured at fair value through profit or loss	4,190	4,190	-	-	-	-
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	26,775	26,775	-	-	-	-
- borrowings from banks and central banks	258,423	258,423	-	-	-	-
- due to customers	10,464,017	10,464,017	-	-	-	-
- borrowings from other customers	61,844	61,844	-	-	-	-
- subordinated liabilities	15,050	15,050	-	-	-	-
- other financial liabilities	100,887	100,887	-	-	-	-
Derivatives - hedge accounting	29,474	29,474	-	29,474	-	-
Provisions	80,134	80,134	-	-	-	-
Current income tax liabilities	12,152	12,152	-	-	-	-
Deferred income tax liabilities	2,499	2,499	-	-	-	-
Other liabilities	14,840	14,840	-	-	-	-
Total liabilities	11,082,585	11,082,585	-	41,774	12,300	-
Equity and reserves attributable to owners of the parent						
Share capital	200,000	200,000	-	-	-	-
Share premium	871,378	871,378	-	-	-	-
Accumulated other comprehensive income	7,823	3,598	-	-	-	-
Profit reserves	13,522	13,522	-	-	-	-
Retained earnings	523,493	501,223	-	-	-	-
	1,616,216	1,589,721	-	-	-	-
Non-controlling interests	41,228	41,228	-	-	-	-
Total equity	1,657,444	1,630,949	-	-	-	-
Total liabilities and equity	12,740,029	12,713,534	-	41,774	12,300	-

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				Not subject to capital requirements or subject to deduction from capital
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	
31.12.2017							
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	1,256,481	1,256,481	-	-	-	-
Trading assets	72,189	72,189	-	12,229	-	72,189	-
Financial assets designated at fair value through profit or loss	5,003	5,003	5,003	-	-	5,003	-
Available-for-sale financial assets	2,276,493	2,276,493	2,276,493	-	-	-	-
Derivatives - hedge accounting	1,188	1,188	-	1,188	-	-	-
Loans and advances							
- debt securities	82,133	82,133	67,090	-	-	-	15,043
- loans and advances to banks	510,107	510,107	510,107	-	-	-	-
- loans and advances to customers	6,912,333	6,912,333	6,911,717	-	-	-	616
- other financial assets	66,077	66,084	66,084	-	-	-	-
Held-to-maturity financial assets	609,712	609,712	609,712	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	719
Non-current assets and disposal group classified as held for sale	11,631	6,224	6,224	-	-	-	-
Property and equipment	188,355	188,355	188,355	-	-	-	-
Investment property	51,838	51,838	51,838	-	-	-	-
Intangible assets	34,974	34,974	-	-	-	-	34,974
Investments in associates and joint ventures	43,765	12,359	10,971	-	-	-	-
Current income tax assets	2,795	2,795	2,795	-	-	-	-
Deferred income tax assets	18,603	18,603	18,603	-	-	-	-
Other assets	93,349	93,349	93,349	-	-	-	-
Total assets	12,237,745	12,200,939	12,074,822	13,417	-	77,192	51,352
Trading liabilities	9,502	9,502	-	9,502	-	9,502	-
Financial liabilities designated at fair value through profit or loss	635	635	-	-	-	-	-
Derivatives - hedge accounting	25,529	25,529	-	25,529	-	-	-
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	40,602	40,602	-	-	-	-	-
- borrowings from banks and central banks	279,616	279,616	-	-	-	-	-
- due to customers	9,878,378	9,878,809	-	-	-	-	-
- borrowings from other customers	74,286	74,286	-	-	-	-	-
- subordinated liabilities	27,350	27,350	-	-	-	-	-
- other financial liabilities	111,019	111,019	-	-	-	-	-
Liabilities of disposal group classified as held for sale	440	-	-	-	-	-	-
Provisions	88,639	88,639	-	-	-	-	-
Current income tax liabilities	2,894	2,894	-	-	-	-	-
Deferred income tax liabilities	1,096	1,096	-	-	-	-	-
Other liabilities	9,596	9,596	-	-	-	-	-
Total liabilities	10,549,582	10,549,573	-	35,031	-	9,502	-
Equity and reserves attributable to owners of the parent							
Share capital	200,000	200,000	-	-	-	-	-
Share premium	871,378	871,378	-	-	-	-	-
Accumulated other comprehensive income	26,752	16,989	-	-	-	-	-
Profit reserves	13,522	13,522	-	-	-	-	-
Retained earnings	541,901	515,147	-	-	-	-	-
	1,653,553	1,617,036	-	-	-	-	-
Non-controlling interests	34,610	34,330	-	-	-	-	-
Total equity	1,688,163	1,651,366	-	-	-	-	-
Total liabilities and equity	12,237,745	12,200,939	-	-	-	-	-

Table 2 (EU LI 1) provides the reconciliation of the accounting consolidated financial statements (as presented in the Annual Report for NLB Group 2018 (Audited Financial Statements of NLB Group Pursuant to the International Financial Reporting Standards as adopted by the European Union) to the regulatory consolidated financial statements. Certain assets can be subject to multiple RWA frameworks. Details of items not subject to capital requirement or subject from deduction from capital or explanation of differences with the comparative period are explained below:

- None of NLB Group's investments in subsidiaries, associated companies, and jointly controlled companies represents a deduction from capital. The total amount of investments that could become deductions from capital is relatively low and remains under the statutory thresholds.
- In accordance with CRR article 36 (b), intangible assets are a deduction item from capital.
- Positive valuations of hedged items in fair value hedge relationships are excluded from positions, subject to credit risk.

Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries are disclosed in Appendix 6.

Table 3 – EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements of NLB Group

31.12.2018	Total	Items subject to		
		Credit risk framework	CCR framework	Market risk framework
1 Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	12,677,041	12,597,629	15,803	63,609
2 Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(54,074)	-	(41,774)	(12,300)
3 Total net amount under the regulatory scope of consolidation	12,622,967	12,597,629	(25,971)	51,309
4 Off-balance-sheet amounts	2,041,400	2,041,400	-	-
5 <i>Differencies due to derivatives</i>	12,289	-	12,289	-
6 Exposure amounts considered for regulatory purposes	14,676,656	14,639,029	(13,682)	51,309

31.12.2017	Total	Items subject to		
		Credit risk framework	CCR framework	Market risk framework
1 Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	12,165,431	12,074,822	13,417	77,192
2 Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(44,533)	-	(35,031)	(9,502)
3 Total net amount under the regulatory scope of consolidation	12,155,929	12,074,822	13,417	67,690
4 Off-balance-sheet amounts	1,890,531	1,890,531	-	-
5 <i>Differencies due to derivatives</i>	9,455	-	9,455	-
6 Exposure amounts considered for regulatory purposes	14,055,915	13,965,353	22,872	67,690

Table 3 – EU LI2 presents carrying values of items, subject to credit risk, CRR and market risk framework (see Table 2 - EU LI1) and other items (potential liabilities from financial and non-financial guarantees, commitments to extend credit, and credit replacement value for derivative financial instruments) and adjustment of the derivative valuation, together presenting the total exposure considered for regulatory purposes.

3. Capital and capital requirements

3.1. Capital adequacy

European bank capital legislation – CRD IV, is based on the Basel III guidelines. The legislation defines three capital ratios reflecting a different quality of capital:

- Common Equity Tier 1 ratio (ratio between common or CET1 capital and risk-weighted exposure amount or RWA), which must be at least 4.5%;
- Tier 1 capital ratio (Tier 1 capital to RWA), which must be at least 6%; and
- Total capital ratio (total capital to RWA), which must be at least 8%.

In addition to the aforementioned ratios, which form the Pillar 1 requirement, the Bank must meet other requirements and recommendations that are imposed by the supervisory institutions or by the legislation:

- Pillar 2 Requirement (SREP requirement): bank-specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 requirement it represents the minimum total SREP capital requirement – TSCR);
- Applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank-specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR);
- Pillar 2 Guidance: capital recommendation set by the supervisory institution through the SREP process. It is bank-specific, and as a recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital, however, it might lead to intensified supervision and the imposition of measures to re-establish a prudent level of capital.

Table 4 – Capital requirements and buffers of NLB Group

		2018	2017
Pillar 1	CET1	4.5%	4.5%
	AT1	1.5%	1.5%
	T2	2.0%	2.0%
Pillar 2 (P2R)	CET1	3.5%	3.5%
Total SREP Capital Requirement (TSCR)	CET1	8.0%	8.0%
	AT1	9.5%	9.5%
	T2	11.5%	11.5%
Combined Buffer requirement (CBR)			
Conservation buffer	CET1	1.875%	1.25%
O-SII buffer	CET1	0.00%	0.0%
Countercyclical buffer	CET1	0.00%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.875%	9.25%
	AT1	11.375%	10.75%
	T2	13.375%	12.75%
Pillar 2 Guidance (P2G)	CET1	1.5%	2.25%
OCR + P2G	CET1	11.375%	11.50%

As at 1 January 2018, NLB was required to maintain the OCR at the level of 13.375% on a consolidated basis and meet the following capital requirements on a consolidated basis:

- 9.875% CET 1 ratio (transitional),
- 11.375% Tier 1 ratio (transitional),
- 13.375% Total Capital ratio (transitional).

The above ratios are inclusive of 3.5% Pillar 2 Requirement (P2R) and 1.875% Capital Conservation Buffer (CCB).

From 1 March 2019, NLB is required to maintain the OCR on the level of 14.75% on a consolidated basis, consisting of 11.25% TSCR and 3.5% CBR. The increase of the requirement in comparison to the 2018 level is due to the phasing-in of the capital conservation buffer and the implementation of the O-SII buffer. As prescribed by CRD IV and the Banking Act (ZBan-2), the CCB was linearly increasing and has reached the fully loaded level of 2.5% in 2019, whereas the Bank of Slovenia requires NLB to apply the O-SII buffer at the rate of 1% on the consolidated level from 2019 on. In contrast, the Pillar 2 Requirement (P2R) decreased by 0.25 p.p. to 3.25%, as a result of better overall SREP assessment.

The bank intends to further strengthen and also optimise NLB Group capital structure by issuing a Tier 2 instrument in 2019.

The Bank's dividend policy envisages yearly distribution of dividends in the approximate amount of around 70% of the Group's profit.

The capital adequacy of NLB Group and NLB at the end of year 2018 remains strong in accordance with risk appetite orientations, and at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements, and the Pillar 2 Guidance.

In 2018, the capital of the Bank and the Group consists merely of the components of top quality CET1 capital (no subordinated instruments that would rank in lower capital categories), which is why all three capital ratios are the same. NLB Group's capital adequacy in terms of CET 1 was within the stated risk appetite limit and above the EU average as published by the European Banking Authority (EBA).

Table 5 – Capital adequacy of NLB Group:

	31.12.2018	30.9.2018	31.12.2017
Paid up capital instruments	200,000	200,000	200,000
Share premium	871,378	871,378	871,378
Retained earnings	293,026	291,525	296,773
Current result	108,829	108,829	29,280
Accumulated other comprehensive income	3,598	6,129	(11,450)
Other reserves	13,522	13,522	13,522
Prudential filters: Additional Valuation Adjustments (AVA)	(1,983)	(1,972)	(2,389)
(-) Goodwill	(3,529)	(3,529)	(3,529)
(-) Other intangible assets	(31,439)	(27,564)	(31,445)
COMMON EQUITY TIER 1 CAPITAL (GET1)	1,453,402	1,458,318	1,362,140
Additional Tier 1 capital	-	-	-
TIER 1 CAPITAL	1,453,402	1,458,318	1,362,140
Tier 2 capital	-	-	-
TOTAL CAPITAL	1,453,402	1,458,318	1,362,140
Risk exposure amount for credit risk	7,179,678	7,101,587	7,096,413
Risk exposure amount for market risks	541,901	551,113	499,726
Risk exposure amount for CVA	2,563	1,238	850
Risk exposure amount for operational risk	953,482	953,482	949,493
TOTAL RISK EXPOSURE AMOUNT (RWA)	8,677,624	8,607,420	8,546,482
Common Equity Tier 1 Ratio	16.7%	16.9%	15.9%
Tier 1 Ratio	16.7%	16.9%	15.9%
Total Capital Ratio	16.7%	16.9%	15.9%

At the end of 2018, the capital ratios for NLB Group stood at 16.7% (or 0.8 percentage points higher than at the end of 2017), and for NLB at 24.1% (or 2.3 percentage points higher than at the end of 2017). The improvement of capital adequacy derives from higher capital, mainly due to inclusion of first six months 2018 result (EUR 108.8 million for NLB Group), lower retained earnings (EUR - 81.5 million) as part of a dividend pay-out, the inclusion of the positive effect from the implementation of IFRS 9 (EUR 43.8 million for NLB Group and EUR 27.7 million for NLB), and the conclusion of transitional arrangements relevant until the end of 2017.

The drivers behind the differences between the RWAs as at 31 December 2018 and 2017 are explained in chapter 3.2 Capital requirements in the Table 6 – EU OV1 – Overview of RWAs.

3.2. Capital requirements

(Article 438 c, e, and f and 445 of CRR)

NLB Group uses the following approaches to calculate Pillar 1 capital requirements on a consolidated basis:

- credit risk – standardised approach,
- market risk – standardised approach, and
- operational risk – basis indicator approach.

In the calculation of capital ratios, risk is expressed as a risk exposure amount or a capital requirement. The capital requirement for an individual risk amounts to 8% of the total exposure to the individual risk.

The Table 6 shows the detailed composition of the capital requirements of NLB Group at the end of 2018, at the end of September 2018, and at the end of 2017.

Table 6 – EU OV1 – Overview of RWAs of NLB Group

	31.12.2018		30.9.2018		31.12.2017	
	RWA	Minimum capital requirement - 8% of RWA	RWA	Minimum capital requirement - 8% of RWA	RWA	Minimum capital requirement - 8% of RWA
1 Credit risk (excluding CCR)	7,071,808	565,745	6,999,528	559,962	6,993,567	559,485
2 Of which the standardised approach	7,071,808	565,745	6,999,528	559,962	6,993,567	559,485
6 CCR	26,625	2,130	21,632	1,731	20,983	1,679
7 Of which mark to market	24,062	1,925	20,394	1,632	20,133	1,611
12 Of which CVA	2,563	205	1,238	99	850	68
13 Settlement risk	100	8	-	-	-	-
19 Market risk	541,801	43,344	551,113	44,089	499,726	39,978
20 Of which the standardised approach	541,801	43,344	551,113	44,089	499,726	39,978
23 Operational risk	953,482	76,279	953,482	76,279	949,493	75,959
24 Of which basic indicator approach	953,482	76,279	953,482	76,279	949,493	75,959
27 Amounts below the thresholds for deduction (subject to 250% risk weight)	83,808	6,705	81,665	6,533	82,713	6,617
29 Total	8,677,624	694,210	8,607,420	688,594	8,546,482	683,719

The RWA for Credit risk increased by EUR 83.3 million (lines 2, 7, and 27 in Table 6), mainly due to an increase of exposure in the retail segment as a result of increased lending activities in all strategic markets in NLB Group. A material decrease is shown in the exposures in default due to an ambitious NPL Reduction Strategy.

The increase in RWA for market risk and CVA (Credit value adjustments) amounted EUR 43.9 million (lines 12, 13 and 20 in Table 6), as a result of structural FX positions arising from operations of NLB Group's non-euro subsidiary banks. These positions are long, non-trading and deliberately taken. On a consolidated level, foreign exchange translation differences from these positions are recognised in the consolidated capital and do not have an impact on the NLB Group's profit and loss.

The increase in the RWA for operating risks (EUR 4.0 million) arises from the higher three-year average of income, which represents the basis for the calculation.

3.3. Summary of the approach to assessing the internal capital needed for current and planned activities

(Article 438 a of CRR)

The Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) of NLB Group meets the requirements of the CRR, the guidelines of the ECB and EBA and follows good banking practice. Additionally, banking members operating in other SEE countries also follow their own local regulation requirements. Moreover, the ICAAP process was substantially upgraded in 2018 in accordance with newly published ECB Guidelines, including its stronger integration into the overall risk management system in order to assure proactive support for informed decision-making.

The most important goal of the ICAAP is ensuring adequate capital and sustainability at all times. The purpose of implementation of the ICAAP process is to have in place sound, effective, and comprehensive strategies and processes to assess and maintain on an on-going basis the amount, types, and distribution of internal capital that is considered adequate to cover the nature and level of the risks to which NLB Group is or might be exposed. The ICAAP plays a key role in maintaining adequate capitalisation of NLB Group. In order to ensure this contribution to its continuity, prudent and conservative assumptions are built into two complementary internal perspectives.

From an economic perspective NLB Group manages its capital adequacy by ensuring that all its risks are adequately covered by internal capital. NLB Group covers in this perspective a full universe of risks that may have a material impact on its risk profile, as a result of risk identification materiality which gives a very comprehensive view of risks. Moreover, economic risks and losses affect internal capital immediately and to their full extent, based on a point-in-time perspective. Some of those risks, or risks related to them, may also partially or fully materialise later under the normative perspective via accounting losses, own funds reductions or prudential provisions.

A normative perspective is a multiyear forward-looking assessment of NLB Group which shows its ability to fulfil all of its capital-related requirements, defined by the regulator and the Group's risk appetite. Within these capital constraints, NLB Group defines its management buffer, above the regulatory and supervisory requirement, including internal capital needs that allow the NLB Group to sustainably follow its business strategy. A normative perspective includes several stress scenarios and a reverse stress test. From a

baseline perspective, NLB Group's goal is to maintain overall capital requirement (OCR) increased by the management buffer at all times. From a stress perspective, NLB Group's goal is to maintain its total SREP requirement (TSCR) increased by the management buffer at all times, fulfilled also during prolonged downturn developments that may imply a serious capital depletion.

Both perspectives mutually inform each other where the economic perspective shows the coverage of risks with internal capital, while on the other hand a normative perspective represents a potential reduction of internal capital in a forward-looking perspective, which also influences the economic perspective. Outcomes of the normative perspective informs the economic risk quantification and adjusts or complements the latter if they do not adequately capture the risks arising from the considered adverse scenarios.

Moreover, the ICAAP process represents an integral input for business strategy by defining growth options, considering the risks involved, and directing the sustainable allocation of disposable capital resources under normal and stressed conditions. The ICAAP is incorporated in the capital planning, risk assessment of new products, or other relevant changes to proactively support strategic decision-making in NLB Group.

The ICAAP process as such provides an assured robust risk management process (from the organisational and methodological point of view) on an ongoing and forward-looking basis. Risk identification is embedded in a very early stage focusing on the efficient risk management and mitigation of them with aim to ensure the prudent and economic use of its capital. The ICAAP outcomes support the Group's proactive risk management through limits in monitoring and reporting, adequate risk assessment, and measurement.

3.4. Capital instruments included in the capital (Article 437.1 b and c of CRR)

In 2018, the capital of NLB Group solely consisted of Common Equity Tier 1 capital; the only instruments included in Common Equity Tier 1 capital were the ordinary shares of the parent company NLB.

In 2018, NLB Group had no capital instruments issued that would be eligible for inclusion in Additional Tier 1 capital or Tier 2 capital. Two subsidiary banks in NLB Group do have subordinated instruments, which they themselves use as a capital component, but because of the non-comparability of the legislation, these instruments do not meet the conditions for inclusion in the capital of NLB Group. Subordinated liabilities for NLB Group are disclosed in the Annual Report for NLB Group 2018- note 5.18 c Subordinated liabilities (page 254).

Table 7 – The main characteristics of the ordinary shares of NLB:

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	SI002117344
3	Governing law(s) of the instrument	Companies Act (ZGD-1), Banking Act (ZBan-2), Regulation (EU) No. 575/2013 (CRR), Financial Instruments Market Act (ZTFI) and the Book-Entry Securities Act (ZNVF-1)
Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary share
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	Paid up capital and related share premium: 1,071
9	Nominal amount of instrument	N/A – No par value shares (20,000,000 shares)
9a	Issue price	EUR 77.55
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	18.12.2013
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	First loss absorbent instrument, subordinated to all instruments
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

N/A – not relevant for this instrument

The ordinary shares are fully included in the Common Equity Tier 1 capital of NLB Group as the only source. The shares meet all the conditions for inclusion in the capital as stated under the relevant provisions of CRR.

3.5. Capital buffers – Countercyclical buffer (Article 440 of CRR)

On 1 January 2016, the Bank of Slovenia introduced a macro-prudential measure: a countercyclical capital buffer intended to protect the banking sector from losses potentially caused by cyclical risks in the economy. The purpose of the countercyclical capital buffer is to ensure that the Bank has a sufficient capital base in periods of credit growth, to be used in stress periods or when the conditions for lending are less favourable, i.e. to absorb losses. When the defined buffer rate is more than 0%, or when the already established rate is increased, the new buffer rate applies 12 months after publication (except for extraordinary cases). The buffer value may fluctuate between 0% and 2.5% of the amount of total risk exposure (in exceptional cases also more) and depends on the amount of risk in the system.

The buffer value for exposures in Slovenia was 0% as at 31 December 2018 and stayed the same as the one that was in force from 1 January 2016. To define the buffer rate, the Bank of Slovenia followed the methodology of the BCBS, ESRB, and the credit cycle assessment for Slovenia. The buffer rates applicable to exposure in other countries of the European Economic Area are those defined on the ESRB website, refreshed quarterly, while the buffer rate applying to credit exposures to countries not listed on that page nor prescribed by the Bank of Slovenia or a competent authority of that country are 0%. Countercyclical capital rates have generally been set at 0%, except for Sweden and Norway, which have as at 31

December 2018 a countercyclical capital rate of 2.0%, Slovakia with a rate of 1.25%, the Czech Republic and United Kingdom 1%, and Lithuania 0.5%.

A calculation of the bank-specific countercyclical capital buffer is made on an individual, as well as a consolidated level. The Bank defines the geographic distribution of exposures, which are subject to the calculation of capital requirement for credit risk using the standardised approach and the special risk or risk of non-payment, and migrations for exposures from the trading book. If the Bank's exposures represent less than 2% of its total risk-weighted exposures, these exposures may be presented at the geographic location of the Bank and additionally explained.

The rate of the bank-specific countercyclical capital buffer is composed of the weighted average of countercyclical capital buffer rates used in those countries where the relevant credit exposures of this institution are located.

Table 8 – Amount of bank-specific countercyclical capital buffer:

31.12.2018	NLB Group	NLB
Total risk exposure amount	438,161	266,525
Institution specific countercyclical buffer rate	0%	0%
Institution specific countercyclical buffer requirement	-	-
31.12.2017	NLB Group	NLB
Total risk exposure amount	415,869	267,649
Institution specific countercyclical buffer rate	0%	0%
Institution specific countercyclical buffer requirement	-	-

Table 9 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer in NLB Group

31.12.2018	General credit exposures	Own funds requirements		Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Of which: General credit exposures	Total		
Country					
Slovenia	4,040,732	244,841	244,841	0.56	-
Macedonia	880,147	56,444	56,444	0.13	-
Bosnia and Herzegovina	715,362	45,970	45,970	0.10	-
Kosovo	475,897	31,270	31,270	0.07	-
Serbia	403,081	24,473	24,473	0.06	-
Montenegro	356,635	24,202	24,202	0.06	-
United Kingdom	58,715	4,677	4,677	0.01	1
Croatia	38,250	3,381	3,381	0.01	-
United States	27,505	2,190	2,190	0	-
Belgium	3,466	277	277	0	-
Germany	1,544	112	112	0	-
Czech Republic	991	90	90	0	1
Austria	892	51	51	0	-
Bulgaria	290	34	34	0	-
Switzerland	574	32	32	0	-
Netherlands	350	27	27	0	-
Cyprus	508	21	21	0	-
Luxembourg	438	19	19	0	-
Latvia	129	8	8	0	-
Spain	215	7	7	0	-
United Arab Emirates	128	6	6	0	-
France	149	6	6	0	-
Italy	84	5	5	0	-
Lithuania	114	3	3	0	0.5
Other	267	15	15	0	-
Total	7,006,463	438,161	438,161	1.00	-

Table 10 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer in NLB

31.12.2018	General credit exposures	Own funds requirements		Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Of which: General credit exposures	Total		
Slovenia	4,041,693	245,860	245,860	0.92	-
Serbia	58,290	5,016	5,016	0.02	-
United Kingdom	58,701	4,676	4,676	0.02	1
Montenegro	32,853	3,018	3,018	0.01	-
Croatia	30,719	2,777	2,777	0.01	-
Switzerland	28,173	2,240	2,240	0.01	-
United States	22,466	1,788	1,788	0.01	-
Bosnia and Herzegovina	7,997	674	674	0	-
Kosovo	1,654	100	100	0	-
Czech Republic	988	90	90	0	1
Macedonia	1,131	69	69	0	-
Austria	851	49	49	0	-
Bulgaria	286	34	34	0	-
Netherlands	347	27	27	0	-
Belgium	275	21	21	0	-
Cyprus	463	19	19	0	-
Germany	310	17	17	0	-
Latvia	129	8	8	0	-
Spain	215	7	7	0	-
United Arab Emirates	128	6	6	0	-
France	149	6	6	0	-
Italy	82	5	5	0	-
Lithuania	114	3	3	0	1
Luxembourg	78	3	3	0	-
Other	230	12	12	0	-
Total	4,288,322	266,525	266,525	1.00	-

3.6. Detailed presentation of capital elements (Article 437 d and e, and 492.3 of CRR)

The table below shows in detail the elements of the calculation of the capital of NLB Group at the end of the years 2018 and 2017, and at the end of September 2018 in the form prescribed by the EBA implementing technical standards, published as Commission Implementing Regulation (EU) No. 1423/2013 of 20 December 2014 (Annex IV – Own funds disclosure template). A summarised substantive presentation of the elements relevant for NLB Group is given in Chapter 3.1. Capital adequacy.

NLB Group does not have any capital instruments (issued before the implementation of CRR) that would no longer be eligible for inclusion and therefore subject to pre-CRR treatment.

Table 11 – Own funds for NLB Group

	31.12.2018	30.9.2018	31.12.2017	
Common equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	1,071,378	1,071,378	1,071,378
	of which: ordinary shares	1,071,378	1,071,378	1,071,378
2	Retained earnings - including current result	401,855	400,354	296,773
3	Accumulated other comprehensive income (and other reserves)	17,120	19,651	30,511
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-	29,280
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,490,353	1,491,383	1,427,942
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(1,983)	(1,972)	(2,389)
8	Intangible assets (net of related tax liability) (negative amount)	(34,968)	(31,093)	(34,974)
26a	Regulatory adjustments related to unrealised gains and losses pursuant to Articles 467 and 468	N/A	N/A	(28,439)
	of which: filter for unrealised loss - exposures to central governments	N/A	N/A	126
	of which: filter for unrealised loss - other exposures	N/A	N/A	4,325
	of which: filter for unrealised gains - exposures to central governments	N/A	N/A	(31,302)
	of which: filter for unrealised gains - other exposures	N/A	N/A	(1,588)
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional	N/A	N/A	6,995
	of which: intangible assets (including goodwill)	N/A	N/A	6,995
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	N/A	N/A	(6,995)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(36,951)	(33,065)	(65,802)
29	Common Equity Tier 1 (CET1) capital	1,453,402	1,458,318	1,362,140
41	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) no 575/2013 (i.e. CRR residual amounts)	N/A	N/A	-
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) no 575/2013	N/A	N/A	6,995
42	Qualifying T2 deductions that exceeded the T2 capital of the institution	-	-	(6,995)
43	Total regulatory adjustments to Additional Tier 1 (AT1)	-	-	-
44	Additional Tier 1 (AT1) capital	-	-	-
45	Tier 1 capital (T1= CET1 + AT1)	1,453,402	1,458,318	1,362,140
58	Tier 2 (T2) capital	-	-	-
59	Total capital (TC = T1 + T2)	1,453,402	1,458,318	1,362,140
60	Total risk weighted assets	8,677,624	8,607,420	8,546,482
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.7%	16.9%	15.9%
62	Tier 1 (as a percentage of total risk exposure amount)	16.7%	16.9%	15.9%
63	Total capital (as a percentage of total risk exposure amount)	16.7%	16.9%	15.9%
64	Institution specific buffer requirement (CET1 Requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	6.375%	6.375%	5.750%
65	of which: capital conservation buffer requirement	1.875%	1.875%	1.250%
66	of which: countercyclical buffer requirement	0.0%	0.0%	0.0%
67	of which: systemic risk buffer requirement	0.0%	0.0%	0.0%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	N/A	N/A	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	8.7%	8.9%	7.9%
Amounts below the threshold for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2,359	2,595	1,692
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	10,652	10,561	14,482
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38(3) are met)	22,847	22,105	18,603
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	N/A	N/A	N/A
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	N/A	N/A	N/A
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	N/A	N/A	N/A
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	N/A	N/A	N/A
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements	N/A	N/A	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	N/A	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A	N/A	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A	N/A	N/A
84	Current cap on T2 instruments subject to phase out arrangements	N/A	N/A	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A	N/A	N/A

N/A – not relevant

3.7. Reconciliation of items with financial statements

(Articles 437 a and f, and 447 e of CRR)

Calculations of the capital and capital ratios are based on the financial statements of NLB Group prepared according to regulatory consolidation. Essentially, the capital of NLB Group consists of the elements of equity of the balance sheet (not all elements and not fully) and, in addition, it is reduced by deduction items and prudential filters.

The table below shows to what extent individual balance sheet items are included in the calculation of capital and capital adequacy.

Table 12 – Mapping of the balance sheet items (statement of financial position items) and capital for the purpose of capital adequacy of NLB Group

	31.12.2018		30.9.2018		31.12.2017	
	Prudential consolidation	Included in capital as reported	Prudential consolidation	Included in capital as reported	Prudential consolidation	Included in capital as reported
Cash, cash balances at central banks and other demand deposits at banks	1,588,349	-	1,557,372	-	1,256,481	-
Financial assets held for trading	63,609	(64)	45,244	(45)	72,189	(72)
Non-trading financial assets mandatorily at fair value through profit or loss	32,389	(9)	26,536	(5)	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	5,003	(5)
Financial assets measured at fair value through other comprehensive income	1,898,079	(1,898)	1,889,384	(1,889)	-	-
Financial assets measured at amortised cost	8,747,462	-	8,850,395	-	-	-
Available-for sale financial assets (IAS 39)	-	-	-	-	2,276,493	(2,276)
Loans and advances (IAS 39)	-	-	-	-	7,570,657	-
Held to maturity financial assets (IAS 39)	-	-	-	-	609,712	-
Derivatives - hedge accounting	417	-	1,530	-	1,188	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,517	-	748	-	719	-
Investments in associates and joint ventures	10,652	-	10,561	-	12,359	-
Tangible assets	236,048	-	234,041	-	-	-
<i>Property and equipment</i>	-	-	-	-	188,355	-
<i>Investment property</i>	-	-	-	-	51,838	-
Intangible assets	34,968	(34,968)	31,093	(31,093)	34,974	(34,974)
<i>Goodwill</i>	3,529	(3,529)	3,529	(3,529)	3,529	(3,529)
<i>Other intangible assets</i>	31,439	(31,439)	27,564	(27,564)	31,445	(31,445)
Current income tax assets	877	-	921	-	2,795	-
Deferred income tax assets	22,847	-	22,105	-	18,603	-
<i>That rely on future profitability and arise from temporary differences</i>	22,847	-	22,105	-	18,603	-
Other assets	70,971	-	82,214	-	93,349	-
Non-current assets classified as held for sale	4,349	-	4,381	-	6,224	-
Total assets	12,713,534	-	12,756,525	-	12,200,939	-
Trading liabilities	12,300	(12)	9,987	(10)	9,502	(10)
loss	4,190	-	9,631	-	635	(1)
Financial liabilities measured at amortised cost	10,926,996	-	10,746,639	-	10,411,682	-
Derivatives - hedge accounting	29,474	-	22,747	(23)	25,529	(25)
Provisions	80,134	-	82,690	-	88,639	-
Current income tax liabilities	12,152	-	10,276	-	2,894	-
Deferred income tax liabilities	2,499	-	2,533	-	1,096	-
Other liabilities	14,840	-	14,660	-	9,596	-
Total liabilities	11,082,585	-	10,899,163	-	10,549,573	-
Share capital	200,000	200,000	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	3,598	3,598	6,129	6,129	16,989	(11,450)
Profit reserves	13,522	13,522	13,522	13,522	13,522	13,522
Retained earnings	501,223	401,855	726,256	400,354	515,147	326,053
Non-controlling interests	41,228	-	40,077	-	34,330	-
Total equity	1,630,949	-	1,857,362	-	1,651,366	-
Total liabilities and equity	12,713,534	-	12,756,525	-	12,200,939	-
Sum of balance sheet items		1,453,402		1,458,318		1,362,140
Capital		1,453,402		1,458,318		1,362,140

Table 13 – Reconciliation of the accounting capital to the regulatory capital for the calculation of capital adequacy of NLB Group

31.12.2018	Equity - Prudential consolidation	Retained earnings not included in the regulatory equity	Exclusion of minority interest not eligible according to CRR requirements	Prudential filters and deduction items from capital	Capital (included in calculation of capital adequacy)	Item in capital and capital adequacy calculation
Share capital	200,000	-	-	-	200,000	Paid in capital instruments
Share premium	871,378	-	-	-	871,378	Share premium
Accumulated other comprehensive income	3,598	-	-	-	3,598	Accumulated other comprehensive income
Profit reserves	13,522	-	-	-	13,522	Other reserves
Retained earnings - from previous years	293,026	-	-	-	293,026	Retained earnings - from previous years
Retained earnings - current results	208,197	(99,368)	-	-	108,829	Current results
Minority interest	41,228	-	(41,228)	-	-	- Minority interest
				(1,983)	(1,983)	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
				(3,529)	(3,529)	Deduction item: Goodwill (Article 36.b)
				(31,439)	(31,439)	Deduction item: Other intangible assets (Article 36.b)
Total equity	1,630,949	(99,368)	(41,228)	(36,951)	1,453,402	Common Equity Tier 1 (CET1) capital
						- Additional Tier 1 capital
						1,453,402 Tier 1 capital
						- Tier 2 capital
						1,453,402 Total capital

30.9.2018	Equity - Prudential consolidation	Dividends	Temporary exclusion of unaudited interim profit	Exclusion of minority interest not eligible according to CRR requirements	Prudential filters and deduction items from capital	Capital (included in calculation of capital adequacy)	Item in capital and capital adequacy calculation
Share capital	200,000	-	-	-	-	200,000	Paid in capital instruments
Share premium	871,378	-	-	-	-	871,378	Share premium
Accumulated other comprehensive income	6,129	-	-	-	-	6,129	Accumulated other comprehensive income
Profit reserves	13,522	-	-	-	-	13,522	Other reserves
Retained earnings - from previous years	562,125	(270,600)	-	-	-	291,525	Retained earnings - from previous years
Retained earnings - current results	164,131	-	(55,302)	-	-	108,829	Current results
Minority interest	40,077	-	-	(40,077)	-	-	- Minority interest
					(1,972)	(1,972)	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
					(3,529)	(3,529)	Deduction item: Goodwill (Article 36.b)
					(27,564)	(27,564)	Deduction item: Other intangible assets (Article 36.b)
Total equity	1,857,362	(270,600)	(55,302)	(40,077)	(33,065)	1,458,318	Common Equity Tier 1 (CET1) capital
							- Additional Tier 1 capital
							1,458,318 Tier 1 capital
							- Tier 2 capital
							1,458,318 Total capital

31.12.2017	Equity - Prudential consolidation	Dividends	Exclusion of minority interest not eligible according to CRR requirements	Exclusion of 100% of unrealised profits from exposures to central governments (in transitional period)	Exclusion of 20% of unrealised losses from exposures to central governments (in transitional period)	Exclusion of 20% of unrealised losses and profits from other exposures (in transitional period)	Prudential filters and deduction items from capital	Capital (included in calculation of capital adequacy)	Item in capital and capital adequacy calculation
Share capital	200,000	-	-	-	-	-	-	200,000	Paid in capital instruments
Share premium	871,378	-	-	-	-	-	-	871,378	Share premium
Accumulated other comprehensive income	16,989	-	-	(31,302)	126	2,737	-	(11,450)	Accumulated other comprehensive income
Profit reserves	13,522	-	-	-	-	-	-	13,522	Other reserves
Retained earnings - from previous years	296,773	-	-	-	-	-	-	296,773	Retained earnings - from previous years
Retained earnings - current results	218,374	(189,094)	-	-	-	-	-	29,280	Current results
Minority interest	34,330	-	(34,330)	-	-	-	-	-	Minority interest
									Prudential filter: Additional valuation adjustment (AVA) (Article 34)
							(2,389)	(2,389)	
							(3,529)	(3,529)	Deduction item: Goodwill (Article 36.b)
									Deduction item: Other intangible assets (Article 36.b)
							(31,445)	(31,445)	
Total equity	1,651,366	(189,094)	(34,330)	(31,302)	126	2,737	(37,363)	1,362,140	Common Equity Tier 1 (CET1) capital
									- Additional Tier 1 capital
									1,362,140 Tier 1 capital
									- Tier 2 capital
									1,362,140 Total capital

During 2018 total accounting equity decreased by EUR 20 million to EUR 1,631 million as at 31 December 2018, primarily due to accumulated other comprehensive income and retained earnings from current year.

4. Risk management, objectives, and policies

4.1. General information on risk management, objectives, and policies

(Articles 435.1 a, b, c, d, e, and f, and 435.2 e of CRR)

NLB Group is the largest banking and financial group in Slovenia with a strategic focus on selected markets in SEE, namely Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, and Kosovo. NLB Group is comprised of NLB as the parent entity in Slovenia, six subsidiary banks in SEE, several companies for ancillary services (asset management, insurance, real estate management, etc.), and a limited number of non-core subsidiaries in a controlled wind-down. NLB Group has a leading position in selected SEE markets with significant growth potential, focusing mainly on corporate and retail lending. Moreover, it has a very strong retail deposit-taking franchise, whereby providing asset management services is also important. NLB Group continues to pursue its vision to become an innovative with simple, customer-oriented solutions focused on Slovenia and SEE countries. Its implementation is expected to sustain the Group's profitability and achieve growth, including the alertness for future challenges in the banking environment.

NLB Group gives high importance to the risk culture and awareness of all relevant risks within the entire NLB Group. NLB Group is committed to developing a culture of client focus, risk awareness, integrity, efficient organisation, and social responsibility. The trust of the Group's clients, employees, shareholders, and the society in which it works is seen by NLB Group as a profound responsibility. Risk management in NLB Group is implemented in accordance with the established internal policies and procedures which take into account European banking regulations, the regulations adopted by the Bank of Slovenia, the current EBA guidelines and relevant good banking practice. EU regulations are followed by all NLB Group members, where NLB Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. The business and operating environment relevant for the Group's operations is changing with trends such as: changing customer behaviour, emerging new technologies and competitors, and increasing new regulatory requirements. Consequently, risk management is continuously adapting with the aim to detect and manage new potential emerging risks.

In accordance with its business model and strategy, the Group plans a prudent risk profile, optimal capital usage, and profitable operations in the long run, considering the risks assumed. NLB Group Risk Management Framework is defined and organised with regard to NLB Group's business and risk profile, based on a forward-looking perspective to meet internal objectives and all external requirements. The Group's Risk Management Framework supports business decision-making at a strategic and operating level, comprehensive steering and proactive risk management by incorporating:

- risk appetite and risk strategy orientations,

- yearly review of strategic goals, budgeting and the capital planning process,
- the internal capital adequacy assessment process (ICAAP) process and the internal liquidity adequacy assessment process (ILAAP) process,
- recovery plan activities,
- other internal stress-testing capabilities and ongoing risk analysis,
- regulatory and internal management reporting.

Risk appetite

NLB Group's Risk Appetite Statement represents a strategic statement defining the maximum level of risk NLB Group is willing to assume or to avoid based on its risk-bearing capacity, in order to achieve the strategic business objectives. Risk appetite is defined through qualitative assertions and quantitative measures. Qualitative statements define key risk principles regarding risk management, while quantitative metrics provide directions for risk steering from a forward-looking perspective in terms of capital, liquidity, and risk-return optimisation. As such, risk appetite codifies the existing risk culture, principles, objectives, and measures in NLB Group.

NLB Group is the largest Slovenian banking and financial group and has an important presence in the SEE region. In accordance with its strategic orientations, the Group's intention is to: be a sustainably profitable; to work predominantly with clients on its core markets; and to provide innovative, but simple customer-oriented solutions. NLB Group has a well-diversified business model. Based on the Group's business strategy, credit risk is the dominant risk category, followed by operational risk, interest rate risk in the banking book, liquidity risk, market risk and other non-financial risks. Regular risk identification and their assessment is performed within the ICAAP process with aim to assure their overall control and effective risk management in a very early stage. In addition, the ICAAP process was substantially upgraded and more comprehensively integrated into an overall risk management system in order to assure proactive support for informed decision making.

Managing risks and capital efficiently at all levels is crucial for NLB Group's sustained, long-term profitable operations. Management of credit risk, which is the most important risk in NLB Group, focuses on the taking of moderate risks – a diversified credit portfolio, adequate credit portfolio quality, a sustainable cost of risk, and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. NLB Group must maintain an appropriate level of liquidity at all times to meet its short-term liabilities, even if a specific stress scenario is realised. Furthermore, with the aim of minimising this risk, NLB Group pursues an appropriate structure of sources of financing. When assuming operational risk, NLB Group pursues the orientation that such risk must not significantly impact its operations. The risk appetite for operational risks is low to moderate, with a focus on mitigation actions for important risks and key risk indicators servicing as an early warning system. NLB Group's basic orientation in the management of interest rate risk is to limit the unexpected negative effects on revenues and capital that would arise from changed market interest rates and, therefore, a moderate tolerance for this risk is stated. The conclusion of transactions in derivative financial instruments at NLB is primarily limited to servicing customers and hedging the Bank's own positions. In the area of currency risk, NLB Group thus pursues the goals of low to moderate exposure. The tolerance for all other risk types, including non-financial risks, is low with a focus on minimising their possible impacts on the Group's operations.

The main NLB Group risk appetite objectives are the following:

- preservation of a prudent level of capital adequacy, that also considers also regulatory requirements and relevant capital buffers, and maintains a low financial leverage;
- maintaining a solid level and structure of liquidity where stable customers' deposits are representing the main funding base;
- adequate quality and diversification of the credit portfolio, sufficient coverage of non-performing loans and sustainable cost of risk across the economic cycle;
- diversification of risk in exposures to banks and sovereigns;
- limited exposure to interest rate risk in the banking book, and to foreign exchange risk;
- sustainable profitability in terms of risk-return;
- sustainable and limited size of subsidiary banks.

NLB Group established risk appetite limit framework (key risk indicators and selected relevant triggers) to support its strategic objectives, which is the subject of the comprehensive consistency validation in the ICAAP process. NLB Group regularly monitors its target risk appetite profile, representing the key component of the risk mitigation process. Thus, the risk profile enables detailed monitoring and proactive management. Limit usage and potential deviations from limits or target values are regularly reported to the

respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank.

Values of the most important risk appetite indicators of NLB Group as at the end of 2018, reflecting the interconnection between strategic business orientations, risk strategy and targeted risk appetite profile, were the following:

- Capital adequacy ratio (CAR) 16.7%,
- Cost of risk –43 bps,
- Share of non-performing exposure (NPE) by EBA 4.7%,
- Loan-to-deposit (LTD) 68.3%,
- LCR 361%,
- NSFR 158.7%,
- Net losses from operational risk 5.7% of capital requirement for operational risk,
- BPV sensitivity (of 200 bps) 7.0% of capital.

Consequently, NLB Group concluded the year 2018 within its target risk appetite. Self-funded, strong liquidity and capital position continued, demonstrating the Group's financial resilience.

Risk management, hedging, and mitigation

Managing risks and capital efficiently is crucial for NLB Group's sustained long-term profitable operations. A robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group.

The key goal of NLB Group's Risk Management is to proactively manage, assess, and monitor risks within NLB Group. A sound and holistic understanding of risk management is embedded into the entire organisation, focusing on risk identification in a very early stage, efficient risk management, and mitigation of them with the aim to ensure the prudent use of its capital, adequate liquidity structure, and related buffers to support the financial resilience of the Group.

Key risk management guidelines of NLB Group are defined by its Risk Appetite and Risk Strategy with regard to the Group's business model, based on a forward-looking perspective. They are regularly revised and enhanced. The Strategy of NLB Group, the Risk Appetite and Risk Strategy guidelines, and the key internal policies of NLB Group – which are approved by the Management Board and by the Supervisory Board – specify the strategic goals, risk appetite guidelines, approaches, and methodologies for monitoring, measuring, and managing all types of risk in order to meet internal objectives and all external requirements. In addition, the main strategic risk guidelines are integrated into the annual business plan review and budgeting process.

Risk management focuses on managing and mitigating risks in line with the Group's Risk Appetite and Risk Strategy, representing the foundation of the Group's Risk management framework. Within these frameworks, the Group monitors a range of risk metrics in order to assure the Group's risk profile is in line with its risk appetite. The usage of risk limits and potential deviations from limits and target values are regularly reported to the respective committees and/or the Management Board of the Bank. The comprehensive Risk Report is reviewed quarterly by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. The banking subsidiaries within NLB Group have adapted a corresponding approach to monitor their target risk profiles. Additionally, NLB Group has set up early warning systems in different risk areas with the intention of strengthening existing internal controls and timely responses when necessary.

For the purpose of an efficient credit risk mitigation process, NLB Group applies a single set of standards to retail and corporate loan collateral with the aim of efficient credit risk mitigation and consuming capital economically. NLB Group applies a cash-flow based credit policy that considers the repayment capacity of the client when approving or extending the loan or other credit exposure. The received collateral represents a secondary source of repayment. In the area of project finance, a careful monitoring process is established by different experts within relevant phases of the project, namely in terms of fulfilling requested conditions and criteria before each disbursement. A project's finance status is regularly reported to the respective committees.

NLB Group has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). The Collateral Management Policy additionally defines requirements regarding collateral enforceability and a list of acceptable and eligible types of collateral. The

eligibility of different types of collateral, by types and ratios, referring to prudent lending criteria, is further set within internal lending guidelines. Credit portfolio and collateral structure, also in terms of concentrations, and other relevant analyses are regularly reported to the respective committees. In the retail segment, special focus is placed on the monitoring of fulfilment of macro-prudential guidelines (LTV, LTI). NLB Group has also established guidelines with respect to prudent foreign exchange (FX) lending across different SEE markets where NLB Group members operate, and where market practices vary along with different business strategies.

NLB Group's profitability is to a large extent based on its respective net interest income levels. For that reason, stabilising net interest income is the Group's primary goal when managing interest rate risk, where the Group monitors its interest rate sensitivity from the aspects of income and economic value. All Group members manage their interest rate risk positions proactively in accordance with relatively conservative interest rate risk policies and limits. When hedging market risks, specifically interest rate risk and foreign exchange risk, in line with the set risk appetite, NLB Group follows the principle of natural hedge or using derivatives in line with hedge accounting principles.

NLB Group has defined detailed Standards for Liquidity Risk Management, where regulatory and internally developed measures, approaches, and stress test capabilities are constantly monitored, controlled, managed, and further developed in line with the latest banking practices. Additionally, all banking members have established a Contingency Plan that focuses on measures for overcoming potential temporary and/or long-term liquidity disruptions.

NLB Group operates its main business activities in euros, while in the case of the subsidiary banks, in addition to their domestic currencies, they also partly operate in euros, which is the Group's reporting currency. The Group's net open foreign exchange position from transactional risk is relatively low and proactively managed on a daily basis.

Through comprehensive identification of operational risks possible future losses are identified, estimated, and managed in most efficient way, where NLB Group follows the guideline that such risk may not considerably influence its operations. The major operational risks are actively managed with the measures taken to reduce such risks in accordance with risk appetite, mostly by improving controls referring to relevant internal processes. Special attention is dedicated to the scenario-based analysis and related prevention measure, referring to high severity, low frequency events, which also includes cyber risk. Furthermore, key risk indicators, servicing as an early warning system for the broader field of operational risks, are established with the aim to further improve the existing internal controls and to respond in a timely manner when necessary.

Stress testing

Stress testing is an important part of risk management in NLB Group since alerts to unexpected adverse outcomes arise from a wide range of risks, and provide an indication of the financial resources (capacity) that might be needed to absorb losses if large shocks might occurred.

NLB Group established a comprehensive internal stress testing programme and other early warning systems in different risk areas with the intention to:

- contribute to setting and pursuing the Group's business strategy,
- support decision-making on an ongoing basis,
- strengthen the existing internal controls and timely responding when necessary.

Stress testing programme comprises all major stress testing types – different stress scenarios, reverse stress tests and sensitivity analysis. The stress testing framework is developed and performed on the level of NLB Group, according to the vulnerability of its business model. It includes all material, existing and potential, risk types stemming from current Group's risk profile and forward-looking perspective. In addition, partial stress test exercises are also carried out, like per individual risk type, selected portfolio level, etc.

NLB Group conducts so-called a "bottom-up" stress testing approach. It comprises group-wide stress tests based on the presumption of severe but plausible stress scenarios (namely different scenarios considering macroeconomic downturn) and other relevant scenario analysis.

The table below sketches risk categories, types of stress tests, their frequency, corresponding stress test applications, and the relevant decision-making bodies where the results are discussed and approved.

Table 14: Scope of stress testing exercises on the level of NLB Group

Risk category	Stress test type	Stress test application	Decision making body	Frequency
CREDIT RISK				
stress testing segment: credit portfolio				
Credit risk - default & migration risk	scenario analysis	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	Quarterly, Yearly
Individual concentration	Herfindahl-Hirschman Index (HHI)	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
Industry concentration		Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
Internal IRB - Sensitivity of risk components (PD, EAD, LGD, maturity)	sensitivity analysis	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
FX Lending	sensitivity analysis (PD change)	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
NPL Strategy	sensitivity analysis	NPL Strategy	MB, SB	
OPERATIONAL RISK				
stress testing segment: potential loss events				
High risk low frequency analysis	scenario analysis	Strategy & budgeting, ICAAP, RP, other internal ST	OpRC, MB, SB	Yearly (more frequently if necessary)
MARKET RISK				
stress testing segment: overall FX position, trading positions, exposures to sovereigns and banks				
Foreign exchange (FX) risk	scenario analysis, sensitivity analysis	Strategy & budgeting, ICAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
Market risk	sensitivity analysis	Strategy & budgeting, ICAAP, internal ST	ALCO, MB, SB	Monthly / Quarterly
EWS for exposures to sovereigns and banks - stressed credit spread	sensitivity analysis	Internal ST	ALCO, MB, SB	Daily / Monthly / Quarterly
IRRBB				
stress testing segment: overall interest rate position in banking book				
IR risk in banking book	scenario analysis, sensitivity analysis	Strategy & budgeting, ICAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
Credit spread risk/valuation risk	scenario analysis, sensitivity analysis	Strategy & budgeting, ICAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
LIQUIDITY RISK				
stress testing segment: overall liquidity position or relevant liquidity subsegments				
Liquidity risk: overall liquidity position	scenario analysis, reverse stress test	Strategy & budgeting, ICAAP, ILAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
Liquidity risk: intraday liquidity	scenario analysis	ILAAP; internal ST	ALCO	Monthly
Liquidity risk: stability of sight deposits	sensitivity analysis	ILAAP, internal ST	ALCO	Monthly

* RP=Recovery plan, ST=Stress test

Stress testing has an important role when assessing the Group's resilience to stressed circumstances. As such it is embedded into the Group's risk management system, as an important component of sound risk management. In addition, stress testing is integrated into risk appetite, ICAAP, ILAAP, and a recovery plan to determine how severe unexpected changes in the business and macro environment might affect NLB Group's capital adequacy or liquidity position. Furthermore, stress tests results are considered as an important element when setting risk appetite and risk limits.

NLB Group established a clear governance process in the area of stress testing. The stress testing programme was developed by the senior management (under responsibility of Risk management function), and approved and monitored by the Management Board. Stress testing results on the level of NLB Group are regularly discussed in the respective Committees, Management Board, and Supervisory Board, and are used to support business decisions, and capital and liquidity planning. Moreover, stress testing exercises contribute to proactive management of the Group's overall risk profile, namely the capital and liquidity position using a forward looking perspective, and the selection of risk management actions as mitigation when necessary.

In addition to internal stress-test approaches, NLB Group also participates in regulatory stress test exercises. The ECB conducts, in cooperation with the EBA, overall ECB stress testing exercises (presumes a very unfavourable market conditions and includes all material risk types with aim to test capital adequacy resilience in such circumstances) and thematic ECB stress test exercises (partial stress tests, including selected specific risk type). Qualitative outcomes of regulatory stress-test exercises are included in the determination of Pillar 2 requirement (P2R), namely as an element of risk governance, and setting Pillar 2 Guidance (P2G).

Risk measurement and reporting systems

As a systemic banking group, NLB Group is subject to the Single Supervisory Mechanism (SSM), which is supervised by the Joint Supervisory Team of the ECB and the Bank of Slovenia. Each NLB Group member complies with ECB regulation while NLB Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators.

NLB Group's measurement systems and risk management principles are crucial elements of the risk management policies which, for the purpose of consolidated control, are aligned with all regulatory requirements of the Bank of Slovenia and the European Central Bank, and which take into account the provisions of the Directive (CRD), Decision (CRR), and EBA guidelines. With regards to capital adequacy, NLB Group applies the standardised approach to credit and market risk, and the basic approach (a simplified approach with less data granularity) to operational risks, with the exception of NLB which applies the standardised approach.

NLB Group performs a uniform assessment and the management of risks across the entire Group, taking into account the specifics of the markets in which individual Group members are operating, and in line with the Group's risk management standards. For the purposes of measuring of exposure to credit, market, interest, operational, and non-financial risks, in addition to prescribed regulations, NLB Group uses internal methodologies and approaches that enable more detailed monitoring and management of risks. These internal methodologies are aligned with the Basel and EBA guidelines, as well as best practices in banking methodologies.

As for risk reporting, NLB Group's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the Bank of Slovenia and the ECB. In addition, each member of NLB Group also complies with the requirements of its local regulations. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies founded on reasonable methodologies for measuring and harmonising exposure to risks, appropriate databases, and the automation of report preparation, which ensures the quality of reports and reduces the possibility of errors.

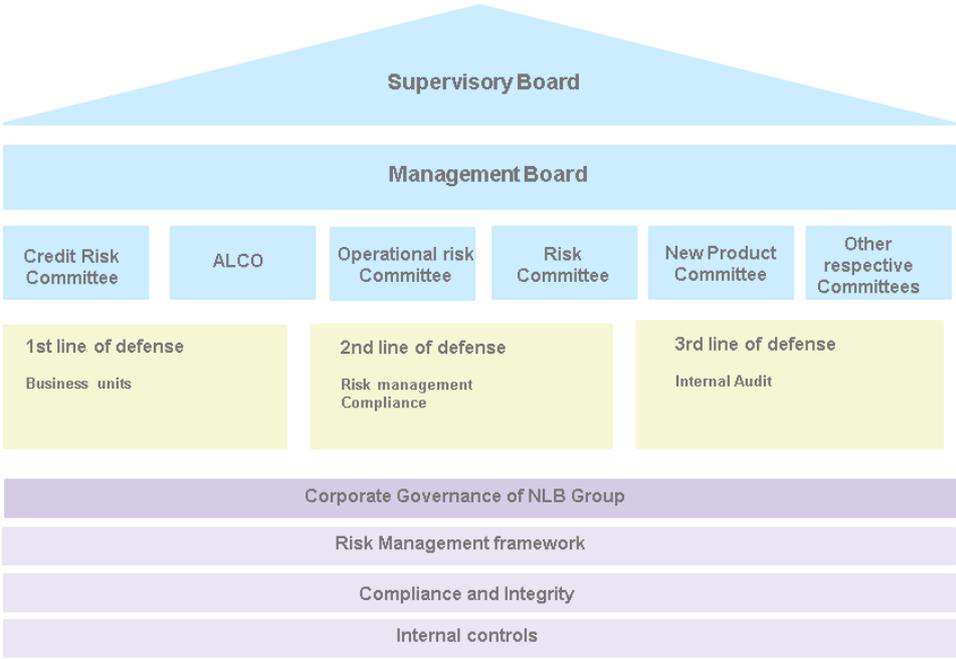
Data and IT system

Most of the risk data are calculated and stored in the NLB Data Warehouse (DWH). The data are collected from transactional source systems, group member's DWH, and other source systems (e.g. general ledger). The established process provides an integrated information in common reference structure where business users can access in a consistent and subject-oriented format. Data are regularly checked and validated. Data used for internal risk assessment, management, and reporting are the same as data which NLB Group uses for regulatory reporting.

Corporate governance in relation to risk management and internal controls

NLB Group established a corporate governance framework based on the principles of sound and responsible governance, in accordance with the applicable legislation of the Republic of Slovenia, particularly the provisions of the Companies Act (ZGD-1) and the Banking Act (ZBan-2), Regulation on Internal Governance Arrangements, the Management Body, and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, the EBA Guidelines on internal governance, the EBA Guidelines on the assessment of the suitability of members of the management body, and key function holders, as well as the EBA Guidelines on remuneration practices. Several layers of management, as shown in the diagram below, provide cohesive risk management governance in NLB Group.

Corporate Governance in NLB Group



A steady and reliable internal governance system on the level of NLB Group was developed, encompassing the following:

- a clear organisational structure with precisely defined, transparent and consistent internal relations in the area of responsibility;
- effective risk management processes for identifying, measuring or assessing, managing and monitoring risks, including risk appetite, risk strategy, ICAAP, ILAAP, the recovery plan, and the reporting of risks to which the Group is exposed or could be exposed in its operations;
- incorporation of main strategic risk guidelines into an annual business plan review, the budgeting process and other relevant decision-making;
- adequate internal control mechanisms, also including also appropriate administrative and accounting procedures;
- appropriate remuneration policies and practices that are in line with prudent and effective risk management, and thus also promote risk management.

NLB Group uses the ‘three lines of defence framework’ as an important element of its internal governance. The three lines of defence principles provides a clear division of activities. Moreover, it defines roles and responsibilities for risk management at different levels of NLB Group.



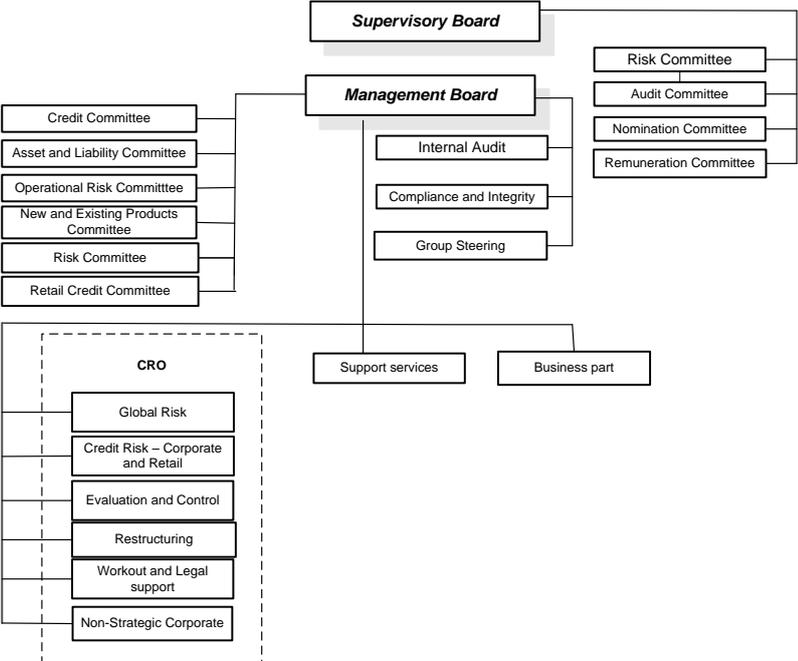
Within this framework business units represent the first line of defence, having primary responsibility for day-to-day risk management. In addition, they are accountable for identifying and managing the risks that occur while conducting their activities with clients within risk appetite framework or other risk management limits. They also ensure that adequate internal controls are in place for risk mitigation.

Risk Management and Compliance comprises the second line of defence. Risk management defines rules about the risk appetite, risk strategy, other risk policies and guidelines, risk monitoring, and management. Some units within the Chief Risk Officer area (in relation to underwriting, restructuring, and workout decisions) are analysing and co-deciding on the risks suggested by the business part, and thereby assuming responsibility for the analysis and the risks. However, a specialised risk management function within Global Risk covers overarching aspects of risk management, namely to assure compliance with a set risk appetite or other risk management limits. Its mandate is to provide an increased focus on holistic risk management and cross-risk oversight to further enhance risk steering and mitigation within the whole Group. Beyond monitoring fulfilment of legal and regulatory requirements Compliance is also concerned with ethics and integrity within the whole Group.

An Internal Audit represents the third lines of defence. It reviews key risks referring to the Group's operations and provides an independent and comprehensive supervision of the internal control system, including risk management activities performed by both, the first and second line of defence.

The tasks and responsibilities of Global Risk, Compliance (also covering the information security function in accordance with the BoS regulation), and Internal Audit are set out in accordance with the definitions of the Zban-2, under which all such functions are independent and have direct access to NLB's Supervisory Board. During 2018, there were no material changes in functions that present the second and third line of defence of the internal control framework (Global Risk, Compliance and Internal Audit in NLB). In 2019, a new general manager of Internal Audit will be appointed (followed after regular expiry of an employment contract).

Risk management organisation in NLB



The responsibilities of the respective specific risk management bodies in NLB Group are described below.

Management Board and its working bodies

The Management Board of NLB leads, presents and acts in the name of the Bank individually and on its own responsibility, and has authority in accordance with law and the Act of the Bank itself.

With the aim of appropriate and effective performance management, the Management Board has created a system of adequate risk management, internal audit, and corporate management. The Management Board of NLB is a working body that manages its business process and adopts key management decisions.

Additional working bodies of the Management Board, where risk-related issues are the subject of discussion and decision-making, are the:

- Credit Committee whose role is to accept decisions on grading classifications, set exposure limits and approve loans in commercial banking, in line with the Rules on Authorisations and Signing, including materially important clients within the NLB Group. In addition, the Retail Credit Committee accepts decisions on lending and other investments with terms and conditions deviating from the regular offer and exceeding authorisations of retail network directors, as defined by the Management Board.
- Asset and Liability Committee (ALCO) whose role is to analyse balance sheet positions, changes and trends, and also to form decisions to achieve a balance sheet structure in line with the Bank's business policy. Its wider role includes overseeing normal banking activity; that goals are set and targets are achieved.
- Operational Risk Committee whose role is monitoring, guiding, and supervising operational risk and other risks related to operational risk (such as IT and physical security, incidents, risk associated with projects, internal controls, etc.) management in NLB and NLB Group.
- New and Existing Products Committee whose role is assessing and mitigating risks when introducing new products and when substantial changes of existing products is proposed.
- Risk Committee whose role is to discuss, oversee, follow-up, and periodically review risk and risk-commercial related issues and submit them to the Management Board for a decision. Information on the Risk Committee and the number of times the Risk Committee has met is disclosed in Appendix 1.

Supervisory Board and its working bodies

The Supervisory Board of NLB is composed of members who are appointed and recalled by the General Meeting of the Bank. Its task is to monitor and supervise the management of NLB and its operations. There are four working committees of the Supervisory Board, namely the:

- Risk Committee monitors and drafts resolutions for the Supervisory Board in all areas of risk relevant to NLB's operations. It consults on the current and future risk appetite and the risk management strategy, and it helps exercise control over senior management as regards implementation of the risk management strategy.
- Audit Committee monitors and prepares draft resolutions for the Supervisory Board on financial reporting, internal control and risk management, internal audit, compliance, external audit, and supervises the implementation of regulatory measures.
- Nomination Committee drafts proposed resolutions for the Supervisory Board concerning the appointment and dismissal of Management Board and Supervisory Board members, evaluates the performance of the Management Board and the Supervisory Board, and assesses the knowledge, skills and experience of individual members of the Management Board as a whole. The Committee proposes amendments to the Management Board's policy on the selection and appointment of suitable candidates for senior management of NLB.
- Remuneration Committee carries out expert and independent assessments of remuneration policies and practices, and on this basis formulates initiatives for measures related to improving the management of NLB's risks, capital, and liquidity, prepares proposals for decisions of the Supervisory Board in relation to remuneration, and supervises the remuneration of senior management performing risk management and compliance functions.

Risk management role in NLB Group

The risk management framework is comprehensively integrated into the decision-making, steering, and mitigation processes within the Group in order to proactively support its business operations. The risk management function in NLB Group is in charge of managing, assessing, and monitoring risks within NLB as the parent entity in Slovenia, and the competence centre for six banking subsidiary banks, and a number of non-core subsidiaries which are in a controlled wind-down.

Overall, the organisation and delineation of competencies in NLB Group's risk management structure is designed to prevent conflicts of interest and to ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Risk management in NLB Group is centralised within the Risk management business line which is a specialised business line encompassing several professional areas, for which the Global Risk Department, the Corporate and Retail Credit Analysis Department, and the Evaluation and Control Department are responsible within NLB, and which reports to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board. The Risk Management business line is in charge of formulating and controlling the risk management policies of NLB Group, setting limits, establishing methodologies, overseeing the harmonisation of risk management policies within NLB Group, monitoring NLB Group's risk exposures, and the preparation of external and internal reports.

All members of NLB Group which are included in the financial statements of NLB Group report their exposure to risks to the competent organisational units within the Risk management business line. These organisational units then report all relevant risk information to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board, which is where the Management Board and the Supervisory Board adopt appropriate measures.

The primary responsibility for managing the risks assumed by NLB Group members within the framework of their business strategy lies with each NLB Group member's management, which, in accordance with the set limits, targets and other guidelines established at NLB Group level, pursue NLB Group's strategic goals, implement NLB Group's planned business results and monitor and manage risks. In furtherance of this, NLB Group members each adopt appropriate risk management policies approved by the Supervisory board of the applicable member. The Supervisory Board of each NLB Group member also monitors the implementation of that member's risk management policies and assesses their effectiveness.

Credit ratings of clients that are materially important to NLB Group, and the issuing of credit risk opinions are centralised via the Credit Committee of NLB. The process follows the co-decision principle, in which the Credit committee of the respective group member first approves their decision, following which the Credit Committee of NLB gives their opinion. The resolution of the Credit Committee of NLB is made on the basis of all available documentation, including a non-binding rating opinion prepared by the underwriting department of NLB (Corporate and Retail Credit Analysis Department). This same principle and process is also set for the issuing of credit exposures for the materially important clients of NLB Group.

Risk monitoring in NLB Group members is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks aims to establish standardised and systemic approaches to risk management, and therefore, a comprehensive overview of the Group's and of each member's statement of financial position. In compliance with the risk management policies of NLB Group, risk monitoring in each NLB Group member is separated from its management and/or business function in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

Compliance and Integrity in NLB and NLB Group

Compliance and Integrity in NLB Group performs the compliance function with respect to the main following areas:

- prevention and development, including: regulatory compliance, coordination, and harmonisation of policies and practices within NLB Group; and ethics and integrity;
- supervision and internal investigations,
- data protection and privacy data protection,
- anti-money laundering and anti-terrorist financing protocols,
- relationship management with ECB and Bank of Slovenia regulators.

In close cooperation with different organisational units, Compliance and Integrity helps in assessing and managing compliance risks in different areas of operations in NLB Group.

The main activities of the Compliance and Integrity Centre are:

- conducting compliance checks in various areas covered by the compliance audits, identification of shortcomings in this regard, suggestion of mitigation measures to be undertaken, and the monitoring of improvement;
- managing the system for the reporting of suspected harmful practices (directing the system for reporting on violations through different channels) and conducting internal investigations of the reported cases;
- providing advisory services on compliance-related issues and regular analysis of compliance trends or observed problems and weaknesses in the NLB Group;
- identifying and assessing risks associated with compliance and integrity that occur in the daily operations of the bank, including investment processes, processes for the development of (new) products and services, projects (IT and other projects), organisational and HR changes, and other changes which can have a significant impact on the Bank's operations, as well as through conducting

- regular annual comprehensive assessment of the risks for compliance and integrity at NLB and NLB Group level within the SOTIS/ECRA process (Enterprise compliance and integrity risk assessment);
- participation in assessing the suitability of key functions holders in NLB and NLB Group, as well as members of the Management Board and the Supervisory Board of NLB;
 - providing compliance communication, training, workshops, and targeted surveys for employees and the implementation of activities for strengthening the culture of assuming and managing the risks of compliance and integrity in NLB and NLB Group;
 - overseeing the regulatory compliance management system (monitoring, reporting, and assessing the implementation of regulatory changes required in NLB's legal environment);
 - central management and monitoring of all communication with the regulators of the ECB and the Bank of Slovenia, monitoring and support to the supervision procedures of the ECB and the Bank of Slovenia, and monitoring the implementation of their recommendations and measures;
 - managing the Compliance and Integrity Business Line for ensuring the same standards throughout NLB Group, with higher requirements for the core subsidiaries.

As regulatory risk is one of the top compliance risks, which NLB is additionally exposed to due to the listing of its financial instruments on the London and the Ljubljana Stock Exchange, NLB Group has in place a regulatory compliance management system for handling and managing changes in the legal environment. This system is managed centrally by the compliance function, while implementation processes are decentralised. This means that OUs responsible for certain areas affected by a change in applicable regulations prepare action plans and lead implementation processes, thus ensuring NLB Group's compliance. The Compliance and Integrity function oversees the relevant regulatory changes' effects and the status of implementation. Focusing also on other compliance and integrity risks specific to the SEE region where NLB Group operates, specific policies and procedures are in place to identify and manage other types of compliance and integrity risks within NLB Group where higher requirements are set for core subsidiaries.

As part of its approach to standards for conduct within NLB Group and building a risk culture within NLB and NLB Group, NLB Group has in place a uniform NLB Group Code of Conduct which prohibits any breaches of internal acts (including risk procedures and policies). Dedicated reporting channels are established within NLB Group to ensure that any suspected violations or breaches are reported and dealt with to prevent damages to NLB Group members, as well as prevent prohibited or harmful practices.

At the level of NLB Group, standards in the field of compliance and integrity are defined, which regulate the policies, rules, and procedures for each member of NLB Group, which must be implemented in the individual member in the field of compliance and of integrity. In this way, NLB Group provides a unified and harmonised approach to risk management in this area, which is regularly checked by Compliance and Integrity within its regular activities (onsite reviews, off-site reviews, quarterly reporting, extraordinary reporting, and total implementation of certain activities).

The compliance functions in NLB Group thus define the rules for managing the risks of compliance and integrity, and analyse which risks the bank exposes in its operations, and with recommendations and guidelines, supports other organisational units in determining control mechanisms that can adequately manage the risks of compliance and integrity. The compliance of operations and the strengthening of integrity, as well as other compliance functions in the strategic members of NLB Group, is directly responsible to the Management Board and has direct access to the Supervisory Board.

The compliance functions of NLB Group are thus focused on systematic monitoring of the regulatory environment, including the assessment of its impact on the operations of NLB Group. In addition to regulatory issues, the compliance function in NLB Group members also, in line with NLB Standards, deals with ethics and integrity, and depending on local regulatory requirements, as well as other areas governed by NLB Standards in the field of compliance and integrity (i.e. AMLTF, internal investigations, regulatory relations, protection of information and protection of personal data). For some banking members of NLB Group, for example, due to local requirements, the AMLTF area is organised in a separate organisational unit, separate from the compliance function.

The compliance functions within NLB Group thus give great emphasis on preventive activities with the aim of preventing harmful behaviour and incidents in the entire NLB Group.

Internal Audit

NLB Group, through its Internal Audit, seeks to adequately monitor key risks which might jeopardise the achievement of its strategy and goals, related control systems, and governance processes. By providing assurances and advice, and with a deep understanding of operations, Internal Audit helps to strengthen and protect the value of NLB Group. The best practice examples and international guidelines established by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") are the criteria Internal Audit uses to cover all control objectives and risk management.

Internal Audit serves as an advisory tool for the systematic and professional assessment of the success of NLB Group's risk management procedures, control system, and governance of NLB Group operations. Following a risk-based methodology, Internal Audit prepares the yearly audit plan, which has been approved by the Management Board and Supervisory Boards. On that basis, Internal Audit serves as an impartial guide to the Management and Supervisory Boards regarding those areas of NLB and of NLB Group with the highest risk in order to help ensure such risks are managed appropriately. Internal Audit also performs "Group Audits" in which internal auditors of NLB Group members participate in order to provide assurance at NLB Group level, as well as to provide additional expertise and assistance. Furthermore, a review of the quality of the internal audit service performance was carried out on all six banking members of NLB Group.

Internal Audit dedicates significant resources to verifying whether audit recommendations have been fulfilled, providing training, consultancy to the management, and promoting the assurance of high-quality and professional operations of the internal audit function. Internal Audit introduces the uniform rules of operation as part of the internal audit function and supervising compliance with these rules across the entire Group. Internal Audit and other internal audit services in NLB Group operate in accordance with the International Standards for the Professional Practice of Internal Auditing, the ZBan-2, or other relevant laws which regulate the operations of a member, the Code of Ethics of Internal Auditors and the Code of Internal Auditing Principles.

4.2. The number of directorships held by members of the management body (Articles 435.2 a of CRR)

Director	Number of directorships	External directorships as counted under Article 91(3) and 91(4) of Directive 2013/36/EU
Blaž Brodnjak	5	President of the Association of Banks in Slovenia
Andreas Burkhardt	4	None
Archibald Kremser	3	None
Laszlo Pelle	2	President of the Supervisory Board of Bankart

Details on functions, held by members of the management body are disclosed in the Annual Report for NLB Group 2018, in the chapter Corporate Governance (page 102).

4.3. The recruitment policy for the selection of the management body and their actual knowledge, skills, and expertise (Articles 435.2 b of CRR)

According to the ZBan-2, the Supervisory Board sets the framework for the selection and appointment of suitable Management Board candidates. The framework is defined with the selection process policy, with the goal of the Management Board as a whole to possess the whole spectrum of relevant knowledge, skills, and experience required for the in-depth understanding of the Bank's activities and the risks to which it is exposed. The Management Board selection policy determines the professional standards of the selection process, as well as the professionally managed candidate selection, which gives the Supervisory Board a solid basis for their selection, as well as fulfils their duty of care in line with the highest ethical standards and diligence in the selection process. This approach ensures that the Management Board consists of individuals with a different base of knowledge and experience, so that it will dispose of a balanced set of skills, relevant knowledge, and experience in regard to the Bank's size, complexity, and risk profile. Professionally led operations are not only in the best interest of the Bank, but also in the best interest of the selected candidates by deterring all possible doubts with regard to their expertise, references, and the appropriateness of their selection.

NLB Group member's management

Beside all legal and statutory set conditions, Management Board member candidates need to have adequate experience, skills, expertise, and competences, including their individual personal integrity and ability to dedicate adequate time to carry out their duties in view of possible other candidate's activities outside the Bank. By this the candidates are able to carry out their duties diligently, responsibly, effectively, as well as define and determine the values of the Bank and strategy of its operations in order to follow the objectives of its long-term success and to ensure they are in line with the Bank's best interests and highest ethical standards of its management. Management Board candidates need to demonstrate the ability of constructively-critical cooperation when addressing the most important issues of the Bank with the objective of the continuous pursuit of the Bank's best interest, and with this the ability of active involvement in Bank's operations and its risk management. Management Board candidates must subordinate their personal interests, the partial interest of third parties, as well as interests which could arise from the candidate's past functions or other activities, economic, professional, and private relationships (including the Management Board and Supervisory Board members), which could by any means influence decision-making in the Bank's best interest.

In the case of any circumstances, which could lead to conflict of interest and consequently jeopardise the adopting of independent decisions in best interest of the Bank, such conflicts should be disclosed in the selection process, and a member should accept full responsibility to take timely measures to eliminate such conflicts of interest. During the Management Board member selection process, recommendations of both genders being appropriately represented are followed.

The selection of Management Board Members should strive for the Management Board as a whole to have all the necessary expertise, knowledge, skills, and experience at their disposal for successfully managing the Bank. Besides meeting all conditions for their work, Members of the Management Board need to act complementarily in line with the Bank's objectives, strategies, and policies in order to follow the Bank's best interest.

At 31 December 2018 the Management Board comprises of four members; namely the Chairman of the Board (CEO) – who is also responsible for the Large Corporates area, Retail Banking, and Private Banking; the CRO; the CFO; and the COO – who besides the IT area is, also responsible for the Procurement and CREM area, as well the Back Office area.

With regard to the wide range of relevant knowledge, skills, and experience from the international environment, as well as a number of successfully completed projects, the Management Board as a whole has the appropriate expertise, skills, and experience to effectively and successfully lead the Bank. There are no foreseeable changes within the overall composition of the management body.

4.4. The policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved (Article 435.2 c of CRR)

The Bank accepted the Policy of Supervisory Board diversity on 8 August 2016 and published it on its internet page. In 2018, there was no change or complement to it. A new Policy of diversity with regard to selection of members of the management body is prepared in 2019 referring not only to the Supervisory board, but also to the Management Board and B-1 level and needs to be confirmed on General Assembly.

With the policy of assuring diversity of the Supervisory Board, based on Article 34 of ZBan-2, NLB sets the framework which enables the composition of the Supervisory Board in such a way that it, as a whole, possesses the relevant knowledge, skills, and experience that are required for the in-depth understanding of the Bank's operations and the risks to which it is exposed, as well as the realisation of the objectives of its strategy. The policy is focused on the selection of the Supervisory Board members, who primarily fulfil the requirements of the highest ethical and professional standards, exercise the highest level of diligence, as well as form the most competent governing body as a whole. Taking into account the policy, the Supervisory Board shall be composed in a way that it, as a whole, possesses the relevant knowledge, skills, and experience that are required with regard to the size, complexity, and risk profile of the Bank. Diversity of the Supervisory Board is recognised as one of the key business advantages of the Bank. According to the ZBan-2 and other grounds, as covered by the Policy, only a person who fulfils all set of the conditions for the Supervisory Board member in the Bank can be a member of the Supervisory Board.

Beside these qualifications, Supervisory Board Members need to possess the adequate experience, skills, knowledge, and competences, including personal integrity and the possibility of dedication of sufficient time to perform the Supervisory Board member functions, regardless of their possible external activities. All listed requirements need to enable the Supervisory Board Members to monitor the Bank's operations diligently, responsibly, and effectively with which, together with Management Board, the values and the strategy of the Bank are defined in the way they assure the Bank's long-term success, and are coherent with its best interests and the general ethical standards of the Bank's governance. Supervisory Board members need to demonstrate the ability of constructively-critical cooperation when addressing the most important issues of the Bank, with the objective of the continuous pursuit of the Bank's best interest, and with this the ability of active involvement in the monitoring of the Bank's management.

Supervisory Board members must subordinate their personal interests, partial interest of third parties, as well as interests which could arise from the candidate's past functions or other activities, and economic, professional and private relationships (including Management Board and Supervisory Board members), which could by any means influence their decisions in monitoring the Bank. In the composition of the Supervisory Board, recommendations of both genders being appropriately represented is followed.

The Supervisory Board is comprised of eight members, of which there are two female members, and as a whole fulfils the objective of representation of both genders. The diversity of expertise, experience, and skills is ensured in the following areas: strategy and development, privatisation, finance, financial investments, investment banking, accounting and auditing, risk control and risk management, retail banking, corporate banking, banking, and general legislation HRM. On 30 November 2018, the Supervisory Board took note of the resignation of two of its members. Members of the Supervisory Board submitted their resignation statements with a three-month notice in accordance with the Articles of Association, which follows the EC commitments on independence of all members of the Supervisory Board (in the field of corporate governance) that the Republic of Slovenia submitted to the EC in 2018. After the expiration of the notice period, the Supervisory Board has started the process of fulfilment and is continuing to work with full powers. The Supervisory Board has already begun procedures for completing the members of the Supervisory Board.

5. Credit risk and general information on CRM

5.1. General qualitative information on credit risk (Article 435.1 a, b, c, and d of CRR)

In addition to information disclosed in section 4.1 (General information on risk management, objectives and policies), specifics related to credit risk are disclosed below.

Credit risk management strategies and policies

Considering that the core business activities of NLB Group will continue to pursue a continuous focus on clients with the aim of improving: effectiveness of the sales force, intensified development of distribution channels, and new solutions for clients. On the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized, and small enterprises segments, while on the corporate segment the NLB Group intends to reinforce the cooperation with selected corporate clients (through different types of lending or investment instruments). Furthermore, functionality in all of the Group's banking members, NLB Group will approach and service clients in a more structured and consistent way across the region via the international desk. Nevertheless, even in such circumstances, NLB Group is oriented towards appropriate credit portfolio diversification in order to avoid large concentration. NLB Group carefully monitors its loan portfolio and new approved loans from different aspects, including their migration and default rate.

In recent years, NLB Group has focused on active NPL management and used the positive momentum of macroeconomic recovery in order to improve its portfolio quality. As part of the NPL Management Strategy, the NPL level was reduced from 19.3% in 2015 to 13.8% in 2016 then to 9.2% in 2017 and reached 6.9% at the end of 2018. The NPL Reduction Strategy follows the intention of reducing the existing NPL by using different measures, and at the same time a conservative credit policy enables very low NPL formation from new business.

Credit Risk appetite

With the aim to maintain the medium-term and long-term sustainability of operations, NLB Group strives to maintain the adequate quality of the credit portfolio, and increase profitability based on a better ratio

between the return and the assumed risks. While maintaining a balanced overall risk profile, NLB will foster the development of micro and small companies to support their evolution into a robust backbone of target market economies. NLB Group places great emphasis on monitoring the concentration risk (industry, single client/group of related persons) to avoid the exposure to excessive risk. More detailed guidelines concerning the credit portfolio's quality and its concentration are defined in NLB Group Risk Strategy and NLB Group Risk profile, whereby the target values and limits are the subject of a regular, at least quarterly review.

Credit risk management and mitigation

In its operations, NLB Group is exposed to credit risk or the risk of losses due to the failure of a debtor to settle its liabilities with NLB Group. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, NLB Group follows the International Financial Reporting Standards, regulations issued by the Bank of Slovenia and the EBA guidelines. This area is governed in detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of NLB Group members, NLB ensures that the credit risk management of those entities function in accordance with NLB Group's risk management standards in order to ensure meaningfully uniform procedures at the consolidated level.

NLB Group manages credit risk at two levels:

- At the level of the individual customer or group of customers, where appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with NLB are assessed. NLB Group applies a cash-flow-based credit policy that considers the repayment capacity of the client when approving or extending the loan or other credit exposure. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models for particular client segments have been developed. It is also important to secure high-quality collateral that does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. As regards the detection of risks, regular monitoring of clients within the Early Warning System (EWS) is important. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models for particular client segments have been developed.
- The quality of the credit portfolio, including on-balance and off-balance sheet exposures, is actively monitored and analysed at the level of the overall portfolio of NLB Group and NLB. Comprehensive analyses are regularly performed in terms of client segmentation (depending on the client type and size), credit rating structure, volume of non-performing/Stage 3 receivables, past due and restructured loans, coverage with impairments and provisions, collateral received, concentrations arising from a group of related clients and concentrations within an industry, currency exposure, and other indicators of risks in the credit portfolio. To ensure the efficient monitoring of the credit portfolio, a comprehensive system of risk indicators is established. The general limits set in the Risk Appetite Framework are based on the bank's Business Strategy and Risk Appetite Capacity under normal and stressed circumstances. They set the target values for the following areas: Cost of Risk, Non-performing loan ratios (in line with the NPL Management and Reduction Strategy), rating structure within the performing sub-portfolio, required NPL coverage, and acceptable industry concentration. In the Credit portfolio management policy, additional limits and targets are determined in order to more precisely observe the movements in the credit portfolio and contribute to the early detection of any deviations from the Risk Strategy of Risk Appetite limits.

A lot of attention is put on regular monitoring of new deals, vintage analysis, and other changes or trends, with an emphasis on the early detection of increased risks and their optimisation in relation to profitability. NLB Group appropriately diversifies its portfolio to mitigate specific components of credit risk (i.e. the risk deriving from operations with a specific customer, sector, positions in financial instruments, or other specific events). Increasing emphasis is also placed on stress tests that forecast the effects of negative macroeconomic movements on the portfolio on the level of impairments and provisions, and on capital adequacy within the second pillar. Capital requirements for credit risk at NLB Group level within the Pillar 1 are calculated according to the standardised approach, while within the Pillar 2 an internal IRB (internal ratings-based) approach is used to estimate the RWA for default and migration risk, while a credit concentration add-on is estimated based on the HHI concentration indexes.

The Group is constantly developing a wide range of advanced approaches, supported by mathematical and statistical models, in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools. In order to manage exposures with higher risk, NLB Group established several measures, including the introduction of an early warning system and a loan watch committee. The restructuring approaches built in the past are focused on early warning detection of clients with potential financial difficulties and their proactive resolving. These approaches encompass systematic usage of standardised tools for the timely restructuring of exposures. Moreover, the Group has taken an active approach to the management of non-performing exposures through the implementation of its NPL reduction strategy, under which the use of different alternative measures to reduce the Group's NPL level is planned. The realisation of NPL Strategy is subject of regular follow-up by the Management board and Supervisory board, including the implementation of mitigation measures necessary to fulfil internally set targets.

Structure and organisation of the credit risk management and control function

The credit risk management function in NLB is organised within the Risk (CRO), headed by the member of the Management Board responsible for the risk area. The credit risk management function is performed by the Global Risk. The Global Risk is in functional and organisational terms separate from other functions where business decisions are adopted, and where a conflict of interest may arise with the risk management function. The head of the risk management function has direct access to the Management Board of NLB, and at the same time unhindered and independent access to the Supervisory Board.

The risk management function is organised in a way that the head of the risk management function obtains the information (and must be informed) by the directors of other OUs in NLB and NLB Group members (primarily directors within risk area) about all major risks and circumstances that influence or could influence the specific development of risks and the risk profile of NLB and NLB Group. The head of the risk management function thus ensures that all major risks in NLB and NLB Group are identified and reported. In NLB Group members, the risk management function is organised according to the local legislation and Group's guidelines, as defined in "Risk Management Standards in NLB Group". The guidelines on risk management provide NLB Group members with the main principles, with which they have to align their business policies, organisation, work procedures, and reporting system.

Credit process

General principles of lending to non-financial clients in NLB Group are:

- NLB Group finances only clients that it knows (Know Your Client) and trusts, and only those acting according to ethical and moral values, conducting legal business and transparently disclosing their operations;
- NLB Group finances only clients with a sufficient level of anticipated free cash flow, as the primary source of repayment. Furthermore, credit approval is not based only on client's financial statements, a comprehensive analysis is done by also taking into account the client's industry specifics, future cash flow generation capability, the references and competences of owners and management bodies, and critical judgement of future financial plans;
- The received collateral cannot influence on the client creditworthiness assessment. The accepted collateral represents a secondary source of repayment as a risk mitigation tool.
- In case of restructuring, NLB Group primarily follows restructuring criteria and measures with the aim to optimally resolve the client's financial difficulties. Before restructuring, a detailed analysis is performed testing the client's viability to reach sustainable financial indebtedness in mid-term and the willingness to cooperate in the restructuring process. For Corporate clients, different economic options are tested and the option that maximises the NPV for the bank is selected.

More detailed principles and rules are defined in NLB Group's Lending policy and measures, and procedures.

For materially important clients of NLB Group, the credit ratings and the issuance of credit risk opinions are centralised via the Credit Committee of NLB. The process follows the co-decision principle, in which the credit committee of the respective group member first approves their decision, following which the Credit Committee of NLB gives their opinion. The resolution of the Credit Committee of NLB is made on the basis of all available documentation, including a non-binding rating opinion prepared by the underwriting department of NLB (Corporate and Retail Credit Analysis). This same principle and process is also set for the issuing of credit exposures for materially important clients of NLB Group.

As part of credit granting process, the Validation and control function ensures that all contractual covenants are met, before the funds are actually transferred, including the minimum pre-conditions regarding collateral. By following strict procedures before credit transfer, the bank makes sure to have credit risk mitigation measures in place for the case of repayment problems.

Restructuring and collection

NLB Group banking members have in place an early warning system (EWS) for identifying increased credit risk and thus, in a systematic manner, identifying in the early stage the clients with high credit risk for inclusion in the watch list, or for commencing the process of restructuring. An action plan is compiled for such clients and its implementation is regularly monitored with the aim of implementing the measures for the improvement of the client's financial position.

In the segment of restructuring, NLB Group performs different measures in order to ensure financial and business restructuring of the clients, with the purpose to proactively prevent them becoming non-performing clients, while on the other side it performs different restructuring measures with already non-performing clients when the client's business model is assessed as viable. The focus is on a fast and active approach in order to start to resolve the client's financial difficulties in the early stages. Minimum activities for NLB Group members are set in the standards "Restructuring and non-performing loan management in NLB Group members".

Those clients whose business model is not assessed as viable, do not meet the criteria for restructuring and are transferred to the Work-out and Legal Support Unit. In line with the relevant methodologies that regulate restructuring and legal collection area, clients must be transferred from the sales segments into special and separate units for managing non-performing loans, Restructuring or Work-out and legal support, while the sales units must focus only on the healthy part of the credit portfolio.

Within the framework of NPE management, NLB Group uses a wide range of possible collection measures. The principal mission in the work-out area is to optimally resolve the collection of unpaid claims through (out of) court and by conducting litigation, which also requires constant professional and ethical communication with third parties. Other approaches to resolve NPL are liquidation of collateral, where the bank established a group of real-estate management specialists to enable optimal recovery. Furthermore, individual or package sales of claims are performed and finally unpaid part of facilities are written-off based on Bank of Slovenia guidelines. The Group's goal is to achieve the maximum value of repayments, and thus minimise the losses with the existing NPL portfolio.

NPL Management and Reduction Strategy on the level of NLB Group describes all aforementioned NPL management and reduction measures, and sets anticipated results of single measures and mid-term objectives in terms of NPL reduction. Targets defined in the NPL Strategy and yearly budget are regularly monitored and revised at least on a yearly basis.

Internal control assessment in credit risk function

In 2018, Internal Audit performed several reviews in the area of credit risk management and mitigation. As the leading strengths, they identified an enhanced automatisisation and performed additional activities for optimisation of the credit process in the Retail and SME segment. Furthermore, as part of the audit reviews, progress in the internal model development and validation, introducing of new products and marketing channels for retail and micro segment, and additional improvements of loan collateral management were identified. Internal Audit also sees that the NPL Strategy, the regular monitoring of NPL, and achievement of the mid-term goals represents a major strength of credit risk management process.

Internal Audit also identified certain possibilities for improvements in credit risk management process. A changing and very complex regulatory environment was identified as one of the major challenges for the bank/group. Furthermore, improvements in the existing IT support for credit process and loan collateral management are needed, which will enable higher level of automatisisation and optimisation of the process. Possibilities for improvement of private individuals restructuring process have also been noticed. Internal Audit noticed challenges in high regulatory expectations regarding NPL reduction and complex regulatory reporting, since the bank still faces a high level of NPL portfolio. Identified shortcomings were addressed with adequate audit recommendations to responsible organisation units. Recommendations are in progress.

Compliance in credit risk function

NLB Group Code of Conduct (<https://www.nlb.si/code-of-conduct>) obliges all employees within NLB and other NLB Group members to follow internal rules and procedures, as well as to comply with relevant

regulatory requirements, inter alia also in the area of managing credit risk. Therefore, they must respect the rules regulating the credit processes, the rules arising from the investment policies regarding natural persons and legal entities, including limits set to manage credit risk. They must also respect the core principles and values that are prescribed by NLB Group Code of Conduct. The latter stipulates, inter alia, that NLB and other NLB Group members have zero tolerance for misconduct related to fraud or other types of harmful behaviour, including breaches of limits and other risk management-related measures to ensure business within the risk management policies and procedures on a daily basis.

The intertwined internal control system in NLB also incorporates close involvement of the compliance function in credit risk activities.

During 2018, Compliance and Integrity closely cooperated with credit risk management as a separate specialised function in supporting the identification and management of compliance and integrity, as well as reputation risk related to proposed investments of the bank, including AML/CTF and data protection risks. These assessments are also an integral part of major changes of the bank's business or internal processes (usually managed through a project management approach) to enable the bank to foresee risks related to changes in credit risk management policies, processes, and methodologies (this approach is followed for other risks as well). The same approach to manage credit risks, compliance risks and other types of risks is followed when assessing risks related to new or existing products which the bank offers to its clients, i.e. before introducing a new product or when regularly assessing the existing products and services of the bank.

Furthermore, as part of fraud prevention and management, Compliance and Integrity monitors all information communicated in relation to any deviations from standard procedures, and is actively involved in the conduct of investigations, corrective actions, and issuing recommendations to eliminate any irregularities detected and possible damage in cases where suspected of fraudulent or other types of harmful behaviour. This approach was used in 2018 as a standard procedure for compliance functions in NLB.

5.2. General quantitative information on credit risk (Article 442 c, 444 e, and 453 f and g of CRR)

Table 15 – EU CRB-B – Total and average net amount of exposures of NLB Group

	2018		2017	
	Net value of exposures at the end of the period	Average net exposures over the period	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	3,583,490	3,360,314	3,061,676	2,954,752
Regional governments or local authorities	135,483	119,140	110,016	113,289
Public sector entities	112,730	87,112	88,563	90,520
Multilateral development banks	103,283	85,447	69,399	58,259
International organisations	27,196	27,196	-	-
Institutions	747,301	1,104,393	1,318,979	1,329,830
Corporates	3,342,433	3,216,310	3,186,049	3,210,014
Of which: SMEs	1,129,782	1,085,566	1,088,190	1,116,165
Retail	4,563,190	4,423,865	4,201,708	4,066,568
Of which: SMEs	957,920	932,638	871,456	830,386
Secured by mortgages on immovable property	701,415	720,463	710,275	675,602
Of which: SMEs	117,086	121,009	114,004	105,404
Exposures in default	248,034	288,986	347,546	408,048
Items associated with particularly high risk	78,272	88,390	90,762	87,076
Covered bonds	284,238	219,323	89,191	65,188
Collective investments undertakings	45,671	45,785	45,662	45,383
Equity exposures	21,833	24,171	26,660	27,095
Other exposures	644,483	626,780	618,869	639,849
Total standardised approach	14,639,054	14,437,675	13,965,353	13,771,474
Total	14,639,054	14,437,675	13,965,353	13,771,474

The highest net exposure is reached in the segments of Retail, Central government or central banks, and the Corporate segment. The highest increase of net exposure compared to 31 December 2017 is shown in the segment of Central Government or central banks as a consequence of liquidity management. The increase of exposure in the Retail segment is a result of increased lending activities in all strategic markets in NLB Group. A material decrease is shown in the exposures in default due to an ambitious NPL Reduction Strategy.

5.3. Geographical breakdown of exposures (Article 442 d of CRR)

Table 16 – EU CRB-C – Geographical breakdown of exposures of NLB Group

31.12.2018	Slovenia	Macedonia	Bosnia and Herzegovina	Kosovo	Montenegro	Serbia	Other countries	Total
Central governments or central banks	1,549,150	297,308	306,023	132,802	129,720	124,383	1,044,106	3,583,490
Regional governments or local authorities	72,860	3,501	30,741	-	5,375	3	23,003	135,483
Public sector entities	18,494	21,215	30,021	404	2,357	26,920	13,319	112,730
Multilateral development banks	-	-	-	-	-	-	103,283	103,283
International organisations	-	-	-	-	-	-	27,196	27,196
Institutions	21,675	8,114	6,973	1,183	180	5,366	703,810	747,301
Corporates	2,289,612	306,240	272,526	218,430	55,836	99,044	100,745	3,342,433
Retail	2,468,564	679,778	535,238	309,533	262,234	302,576	5,266	4,563,190
Secured by mortgages on immovable property	699,732	-	-	-	-	-	1,683	701,415
Exposures in default	146,810	17,129	12,515	1,760	40,314	22,435	7,072	248,034
Items associated with particularly high risk	24,071	5,776	8,646	15,973	7,440	2,397	13,968	78,272
Covered bonds	-	-	-	-	-	-	284,238	284,238
Collective investments undertakings	45,671	-	-	-	-	-	-	45,671
Equity exposures	15,350	525	69	-	-	-	5,890	21,833
Other exposures	297,387	92,674	73,266	29,998	76,407	55,389	19,363	644,483
Total standardised approach	7,649,375	1,432,260	1,276,018	710,083	579,863	638,513	2,352,941	14,639,054
Total	7,649,375	1,432,260	1,276,018	710,083	579,863	638,513	2,352,941	14,639,054

31.12.2017	Slovenia	Macedonia	Bosnia and Herzegovina	Kosovo	Montenegro	Serbia	Other countries	Total
Central governments or central banks	1,347,553	257,132	299,785	131,854	139,026	97,168	789,158	3,061,676
Regional governments or local authorities	74,134	4,519	25,954	-	5,381	26	2	110,016
Public sector entities	18,208	22,345	28,717	171	2,486	3,326	13,310	88,563
Multilateral development banks	-	-	-	-	-	-	69,399	69,399
Institutions	23,214	10,286	8,006	1,226	26	6,091	1,270,130	1,318,979
Corporates	2,252,234	311,987	225,952	175,197	37,640	56,767	126,273	3,186,049
Retail	2,348,100	626,896	495,537	272,792	221,872	231,967	4,544	4,201,708
Secured by mortgages on immovable property	709,255	-	-	-	-	-	1,020	710,275
Exposures in default	204,730	12,022	16,569	3,159	61,039	38,621	11,407	347,546
Items associated with particularly high risk	26,386	7,034	11,165	10,637	12,737	3,755	19,047	90,762
Covered bonds	-	-	-	-	-	-	89,191	89,191
Collective investments undertakings	45,662	-	-	-	-	-	-	45,662
Equity exposures	16,380	2,679	69	-	10	-	7,522	26,660
Other exposures	290,475	85,824	64,296	28,751	65,554	55,922	28,046	618,869
Total standardised approach	7,356,329	1,340,724	1,176,049	623,786	545,771	493,644	2,429,049	13,965,353
Total	7,356,329	1,340,724	1,176,049	623,786	545,771	493,644	2,429,049	13,965,353

The table shows net exposures by country. The materiality threshold was determined in such a way that all countries where NLB Group has banking subsidiaries are included. In this display, exposures to 'Other countries' have thresholds below 3.9%, of which France has 2% and the rest of countries have below 2%. The net exposure at the end of 2018 in Slovenia represents 52% of the total, followed by Macedonia (10%), Bosnia and Herzegovina (9%), and Kosovo (5%), Montenegro, and Serbia (4%). Other countries mostly include different EU member states, where a bulk of exposure is on the Central government and Institutions for liquidity management purposes.

Compared to the end of 2017, the net exposure in Slovenia increased mainly on the Central governments or central banks segment and on the Retail segment. A material decrease is shown in the exposures in default. NLB as a parent bank maintained its leading position in the Retail segment in Slovenia. In other markets of NLB Group net exposures increased mainly due to increased lending activity in Retail and Central governments or central banks.

5.4. Concentration of exposures by industry or counterparty types (Article 442 e of CRR)

Table 17 – EU CRB-D – Concentration of exposures by industry or counterparty types of NLB Group

	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human Health services and social work activities	Arts, entertainment and recreation	Other services	Total	
31.12.2018																				
Central governments or central banks	-	-	683	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,582,807	3,583,490	
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	59	7	135,417	0	-	0	-	135,483	
Public sector entities	547	4	4,820	3,852	2,427	1,338	31	3,609	2,137	26,709	1,564	1,972	34	20,679	7,182	976	1,897	32,950	112,730	
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	103,283	103,283
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,196	27,196
Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	747,301	747,301
Corporates	26,025	12,288	879,452	169,358	38,212	244,113	609,834	614,803	36,897	167,948	93,391	145,462	140,250	7,324	3,077	11,186	15,627	127,186	3,342,433	
Retail	89,499	2,963	183,725	6,917	6,307	114,275	273,044	84,977	26,810	18,812	11,661	39,094	32,438	1,685	4,155	12,554	7,833	3,646,441	4,563,190	
Secured by mortgages on immovable property	1,041	61	54,931	18	3,198	5,370	37,301	24,135	12,416	2,356	4,337	13,577	3,347	221	230	958	1,408	536,511	701,415	
Exposures in default	5,986	511	21,103	3,192	59	31,329	87,015	8,774	18,851	2,581	9,153	8,386	1,452	5	58	3,151	1,186	45,243	248,034	
Items associated with particularly high risk	132	48	1,903	7,743	4	42,479	745	134	176	5	15,689	8,487	113	0	22	104	54	433	78,272	
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	284,238	284,238
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,671	45,671
Equity exposures	-	-	-	-	-	-	-	625	3,186	7,284	-	-	-	-	-	-	-	-	10,739	21,833
Other exposures	0	-	23,321	2	15	4,801	485	219	4	1,403	40,659	397	65	12	27	0	188	572,886	644,483	
Total standardised approach	123,229	15,876	1,169,937	191,082	50,222	443,706	1,008,455	737,275	100,477	227,097	176,455	217,434	177,705	165,342	14,752	28,931	28,192	9,762,886	14,639,054	
Total	123,229	15,876	1,169,937	191,082	50,222	443,706	1,008,455	737,275	100,477	227,097	176,455	217,434	177,705	165,342	14,752	28,931	28,192	9,762,886	14,639,054	
31.12.2017																				
Central governments or central banks	-	-	97	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,061,579	3,061,676
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	3	25	-	14	109,973	0	-	-	-	0	110,016
Public sector entities	176	-	4,589	4,352	2,414	47	31	4,765	2,279	4,474	4	1,575	40	30,543	8,496	993	2,095	21,691	88,563	
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	69,399	69,399
Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,318,979	1,318,979
Corporates	28,441	13,354	806,230	186,685	31,195	213,555	542,454	622,008	39,747	190,645	48,647	110,004	170,040	-	3,838	12,625	25,488	141,095	3,186,049	
Retail	64,895	3,450	171,902	6,921	5,608	98,591	260,113	84,511	24,400	16,375	12,081	37,763	27,783	612	2,584	11,349	7,677	3,365,093	4,201,708	
Secured by mortgages on immovable property	1,191	58	72,658	48	4,376	4,777	34,512	20,380	11,499	3,048	4,444	18,101	3,818	391	530	1,809	1,156	527,480	710,275	
Exposures in default	4,609	2,698	27,827	8,077	906	52,676	111,319	10,711	26,764	4,848	32,336	8,933	1,584	39	59	3,973	3,291	46,896	347,546	
Items associated with particularly high risk	36	0	246	7,791	3	55,910	880	344	214	111	19,527	5,200	7	-	10	35	2	444	90,762	
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	89,191	89,191
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,662	45,662
Equity exposures	-	-	10	28	-	-	-	480	3,056	6,847	-	-	-	-	-	-	-	-	16,239	26,660
Other exposures	68	-	27,132	17	110	5,132	472	352	20	692	38,296	433	40	6	40	-	72	545,984	618,869	
Total standardised approach	99,416	19,561	1,110,691	213,918	44,612	430,688	949,781	743,551	107,979	227,043	155,360	182,009	203,327	141,564	15,557	30,783	39,780	9,249,730	13,965,353	
Total	99,416	19,561	1,110,691	213,918	44,612	430,688	949,781	743,551	107,979	227,043	155,360	182,009	203,327	141,564	15,557	30,783	39,780	9,249,730	13,965,353	

The prevailing industries at the end of 2018 are Manufacturing, Wholesale, and the Retail trade. Other services include segments that cannot be attributed to an industry, for example the Central government, Institutions, and Retail. The highest increase in net exposure was noticed in the Manufacturing and Wholesale and retail trade sector as a result of new financing, while the largest decrease is noticed in Administrative and support service activities due to loan repayment.

5.5. Maturity of exposures (Article 442 f of CRR)

Table 18 – EU CRB-E – Maturity of on-balance exposures of NLB Group

31.12.2018	Net exposure value				Total
	On demand	Up to1 year	1 year to 5 years	Over 5 years	
Central governments or central banks	1,191,789	451,040	1,056,329	882,702	3,581,860
Regional governments or local authorities	-	2,477	33,781	97,937	134,195
Public sector entities	16,620	12,104	23,788	35,594	88,107
Multilateral development banks	-	30,509	27,049	45,725	103,283
International organisations	-	5,019	17,485	4,692	27,196
Institutions	210,905	261,989	204,135	35,076	712,105
Corporates	45,387	1,005,663	654,468	545,050	2,250,568
Retail	1,947	664,884	1,971,179	1,099,005	3,737,015
Secured by mortgages on immovable property	-	10,546	283,785	397,886	692,217
Exposures in default	-	63,461	96,086	49,911	209,458
Items associated with particularly high risk	-	19,337	18,043	28,050	65,430
Covered bonds	-	-	192,479	91,759	284,238
Collective investments undertakings	1,176	11	-	44,484	45,671
Equity exposures	-	-	-	21,809	21,809
Other exposures	312,748	54,322	93,766	183,640	644,476
Total standardised approach	1,780,572	2,581,364	4,672,375	3,563,318	12,597,629
Total	1,780,572	2,581,364	4,672,375	3,563,318	12,597,629

At the end of 2018, 37.1% of net on-balance exposure has a remaining maturity of 1 year to 5 years, followed by the 'over 5 years' category with 28.3%, and 'Up to 1 year' category with 20.5%.

31.12.2017	Net exposure value				Total
	On demand	Up to1 year	1 year to 5 years	Over 5 years	
Central governments or central banks	798,757	583,392	898,744	779,252	3,060,144
Regional governments or local authorities	-	156	26,234	82,805	109,195
Public sector entities	-	12,150	17,685	44,973	74,807
Multilateral development banks	-	6,512	30,048	32,839	69,399
Institutions	188,025	808,797	234,527	34,237	1,265,587
Corporates	36,460	821,502	1,043,622	336,567	2,238,151
Retail	-	1,114,953	1,505,384	790,520	3,410,857
Secured by mortgages on immovable property	-	146,658	161,593	388,883	697,134
Exposures in default	-	74,092	149,019	73,889	297,000
Items associated with particularly high risk	-	29,822	27,880	11,990	69,692
Covered bonds	-	1,552	31,993	55,646	89,191
Collective investments undertakings	-	36	-	45,626	45,662
Equity exposures	-	6,684	-	21,364	28,048
Other exposures	269,697	15,658	63,031	271,571	619,957
Total standardised approach	1,292,939	3,621,963	4,189,759	2,970,161	12,074,822
Total	1,292,939	3,621,963	4,189,759	2,970,161	12,074,822

5.6. Credit quality of exposures by exposure class and instrument types (Article 442 g and h of CRR)

Table 19 – EU CR1-A – Credit quality of exposures by exposure class and instrument types of NLB Group

		Gross carrying values of					Credit risk adjustment charges of the	
31.12.2018		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	period	Net values
16	Central governments or central banks	-	3,589,788	-	6,298	-	315	3,583,490
17	Regional governments or local authorities	-	137,996	-	2,513	-	(194)	135,483
18	Public sector entities	-	114,257	-	1,527	-	(637)	112,730
19	Multilateral development banks	-	103,311	-	29	-	10	103,283
20	International organisations	-	27,217	-	21	-	12	27,196
21	Institutions	-	747,994	-	693	-	(1,889)	747,301
22	Corporates	224	3,384,109	224	41,676	1	(14,524)	3,342,433
23	Of which: SMEs	224	1,150,604	224	20,822	-	1,876	1,129,782
24	Retail	-	4,604,153	-	40,963	81	(6,737)	4,563,190
25	Of which: SMEs	-	970,676	-	12,756	60	308	957,920
26	Secured by mortgages on immovable property	-	702,616	-	1,201	-	(429)	701,415
27	Of which: SMEs	-	117,851	-	765	-	(371)	117,086
28	Exposures in default	617,945	-	369,911	-	85,194	(670)	248,034
29	Items associated with particularly high risk	60,345	66,859	47,398	1,534	13,269	(5,689)	78,272
30	Covered bonds	-	284,569	-	331	-	224	284,238
32	Collective investments undertakings	-	45,671	-	-	-	-	45,671
33	Equity exposures	3,860	17,973	-	-	-	-	21,833
34	Other exposures	2,405	644,207	2,047	82	5	5	644,483
35	Total standardised approach	684,779	14,470,719	419,580	96,866	98,551	(30,203)	14,639,054
36	Total	684,779	14,470,719	419,580	96,866	98,551	(30,203)	14,639,054
37	Of which: Loans	613,480	8,473,071	391,164	77,968	98,551	(27,753)	8,617,419
38	Of which: Debt securities	798	3,272,613	798	6,569	-	706	3,266,044
39	Of which: Off- balance-sheet exposures	66,195	2,015,152	27,618	12,328	-	(3,156)	2,041,401

		Gross carrying values of					Credit risk adjustment charges of the	
30.6.2018		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	period	Net values
16	Central governments or central banks	-	3,160,423	-	6,479	-	512	3,153,944
17	Regional governments or local authorities	-	118,864	-	2,190	-	(506)	116,675
18	Public sector entities	-	76,807	-	1,254	-	(845)	75,552
19	Multilateral development banks	-	74,363	-	20	-	2	74,343
21	Institutions	-	1,251,340	-	1,007	-	(1,505)	1,250,333
22	Corporates	-	3,253,150	-	38,002	-	(12,818)	3,215,148
23	Of which: SMEs	-	1,080,415	-	20,015	-	1,032	1,060,399
24	Retail	-	4,434,661	-	38,008	41	(4,740)	4,396,653
25	Of which: SMEs	-	943,370	-	12,820	35	170	930,549
26	Secured by mortgages on immovable property	-	723,196	-	1,251	-	752	721,944
27	Of which: SMEs	-	125,700	-	811	-	(181)	124,889
28	Exposures in default	738,788	-	439,019	-	22,805	5,623	299,769
29	Items associated with particularly high risk	85,942	72,061	63,571	2,461	975	(2,210)	91,971
30	Covered bonds	-	194,564	-	237	-	130	194,327
32	Collective investments undertakings	-	45,853	-	-	-	-	45,853
33	Equity exposures	3,695	21,548	-	-	-	-	25,243
34	Other exposures	1,472	622,657	52	2,125	-	-	621,952
35	Total standardised approach	829,897	14,049,486	502,642	93,033	23,821	(15,605)	14,283,708
36	Total	829,897	14,049,486	502,642	93,033	23,821	(15,605)	14,283,708
37	Of which: Loans	746,237	8,401,687	473,766	75,282	23,821	(12,520)	8,598,876
38	Of which: Debt securities	798	3,081,411	798	6,695	-	838	3,074,716
39	Of which: Off- balance-sheet exposures	78,656	1,875,558	28,078	11,055	-	(3,923)	1,915,080

		Gross carrying values of					Credit risk adjustment charges of the	
31.12.2017		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	period	Net values
16	Central governments or central banks	-	3,061,690	-	14	130	12	3,061,676
17	Regional governments or local authorities	-	113,326	-	3,310	-	(5,965)	110,016
18	Public sector entities	-	92,265	-	3,702	1	(2,220)	88,563
19	Multilateral development banks	-	69,399	-	-	-	-	69,399
21	Institutions	-	1,319,943	-	964	1	(360)	1,318,979
22	Corporates	-	3,251,092	-	65,044	40	(6,296)	3,186,049
23	Of which: SMEs	-	1,116,840	-	28,650	-	(12,449)	1,088,190
24	Retail	-	4,254,231	-	52,523	186	(22,484)	4,201,708
25	Of which: SMEs	-	893,598	-	22,142	177	(9,960)	871,456
26	Secured by mortgages on immovable property	-	716,083	-	5,808	-	(2,745)	710,275
27	Of which: SMEs	-	116,806	-	2,802	-	(1,302)	114,004
28	Exposures in default	850,290	-	502,744	-	231,878	(3,088)	347,546
29	Items associated with particularly high risk	89,120	69,075	64,353	3,081	27,702	(324)	90,762
30	Covered bonds	-	89,191	-	-	-	-	89,191
32	Collective investments undertakings	-	45,662	-	1	-	-	45,662
33	Equity exposures	3,602	23,058	-	-	-	-	26,660
34	Other exposures	5,993	615,501	50	2,576	612	-	618,869
35	Total standardised approach	949,005	13,720,516	567,147	137,020	260,551	(43,470)	13,965,353
36	Total	949,005	13,720,516	567,147	137,020	260,551	(43,470)	13,965,353
37	Of which: Loans	854,832	8,286,217	533,180	133,201	260,551	(40,001)	8,474,669
38	Of which: Debt securities	798	2,900,286	798	73	-	(10)	2,900,213
39	Of which: Off- balance-sheet exposures	83,715	1,843,731	33,170	3,746	-	(3,459)	1,890,531

In 2018, gross exposure increased by EUR 486 million, mostly in the Central government or central banks and Retail segments. The decrease in gross defaulted exposures was partially compensated by additional

non-default exposures, primarily in the Retail segment. The decrease of default exposures was achieved mostly due to measures of defaulted exposure management. The volume of specific risk adjustment was reduced by EUR 148 million, mostly due to default exposure reduction.

Table 20 – EU CR1-B – Credit quality of exposures by industry or counterparty types of NLB Group

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
31.12.2018							
Agriculture, forestry and fishing	13,018	118,673	7,032	1,429	1,533	1,582	123,229
Mining and quarrying	4,493	15,554	3,934	237	4	1,014	15,876
Manufacturing	70,192	1,165,242	49,090	16,408	13,932	3,202	1,169,937
Electricity, gas, steam and air conditioning supply	5,718	189,407	2,525	1,519	209	(2,403)	191,082
Water supply	191	50,643	117	494	7	141	50,222
Construction	114,675	411,393	75,867	6,495	15,500	(905)	443,706
Wholesale and retail trade	214,726	935,567	127,647	14,191	31,705	(7,239)	1,008,455
Transport and storage	29,499	730,330	20,100	2,454	2,549	(4,031)	737,275
Accommodation and food service activities	25,600	79,561	3,564	1,120	1,042	(517)	100,477
Information and communication	4,907	226,866	2,232	2,444	82	(478)	227,097
Real estate activities	41,300	165,412	26,726	3,531	15,493	(5,380)	176,455
Professional, scientific and technical activities	33,908	211,273	25,521	2,226	712	181	217,434
Administrative and support service activities	4,365	177,978	2,881	1,757	123	371	177,705
Public administration and defence, compulsory social security	1,494	168,459	1,489	3,122	-	(1,182)	165,342
Education	79	15,146	21	452	386	61	14,752
Human health services and social work activities	5,382	26,303	2,231	523	-	(792)	28,931
Arts, entertainment and recreation	3,666	27,546	2,380	639	2,092	(545)	28,192
Other services	111,565	9,755,367	66,221	37,825	13,185	(13,283)	9,762,886
Total	684,779	14,470,719	419,580	96,866	98,551	(30,203)	14,639,054
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
30.6.2018							
Agriculture, forestry and fishing	9,845	111,508	5,343	1,730	939	(1,985)	114,279
Mining and quarrying	4,597	16,270	3,840	203	-	888	16,824
Manufacturing	79,212	1,177,178	54,804	16,384	946	(4,438)	1,185,201
Electricity, gas, steam and air conditioning supply	11,827	187,295	4,414	1,748	-	(443)	192,959
Water supply	1,850	44,161	182	533	7	246	45,296
Construction	146,360	381,593	90,677	5,769	1,674	(3,731)	431,506
Wholesale and retail trade	255,760	876,679	157,247	13,092	11,588	(1,914)	962,099
Transport and storage	32,322	750,337	21,939	2,656	28	(3,419)	758,064
Accommodation and food service activities	33,998	82,574	5,530	1,184	13	424	109,857
Information and communication	7,411	171,910	2,950	2,240	7	4	174,131
Real estate activities	76,813	122,821	48,988	3,371	5	981	147,274
Professional, scientific and technical activities	34,510	201,895	25,560	2,127	128	(314)	208,717
Administrative and support service activities	4,334	187,597	2,812	2,568	47	1,073	186,551
Public administration and defence, compulsory social security	2,255	138,618	2,247	2,758	-	(776)	135,869
Education	126	14,837	24	481	385	93	14,458
Human health services and social work activities	6,200	29,019	2,673	514	-	(361)	32,033
Arts, entertainment and recreation	3,423	26,591	2,520	723	2,090	(320)	26,772
Other services	119,056	9,528,603	70,890	34,952	5,965	(1,613)	9,541,817
Total	829,897	14,049,486	502,642	93,033	23,821	(15,605)	14,283,708
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
31.12.2017							
Agriculture, forestry and fishing	11,273	97,619	6,596	2,880	801	(579)	99,416
Mining and quarrying	4,361	17,281	1,663	418	1	(4,475)	19,561
Manufacturing	83,166	1,111,907	55,208	29,174	55,451	(20,131)	1,110,691
Electricity, gas, steam and air conditioning supply	12,534	209,960	4,429	4,147	1,336	(2,692)	213,918
Water supply	1,233	44,381	217	785	2,157	313	44,612
Construction	162,089	370,532	92,724	9,209	50,648	2,947	430,688
Wholesale and retail trade	305,606	865,027	194,047	26,805	71,781	5,327	949,781
Transport and storage	36,144	736,394	24,952	4,035	2,440	(3,416)	743,551
Accommodation and food service activities	34,737	81,096	4,917	2,937	7,419	(3,064)	107,980
Information and communication	7,833	226,906	2,907	4,788	197	(1,009)	227,043
Real estate activities	100,012	112,414	54,473	2,593	7,682	167	155,360
Professional, scientific and technical activities	34,563	176,734	25,628	3,659	8,389	(4,083)	182,009
Administrative and support service activities	4,885	203,187	3,270	1,475	11,956	(4,928)	203,327
Public administration and defence, compulsory social security	2,384	145,769	2,345	4,244	376	(6,311)	141,564
Education	456	15,986	398	488	7	175	15,557
Human health services and social work activities	6,643	27,839	2,671	1,028	2,212	2,832	30,783
Arts, entertainment and recreation	8,169	38,448	4,870	1,967	45	(657)	39,780
Other services	132,914	9,239,037	85,832	36,388	37,655	(3,885)	9,249,730
Total	949,005	13,720,516	567,147	137,020	260,552	(43,470)	13,965,353

Manufacturing, Wholesale and the Retail trade remain the strongest industries at the end of 2018, each representing around 8% of total gross exposure. Non-defaulted exposures decreased most in the

Manufacturing, Wholesale and Retail trade segments, Transport and storage and in the Construction industry. Other services represent all client segments that are not considered non-financial corporations (including Central government, Retail, and Institutions).

Table 21 – EU CR1-C – Credit quality of exposures by geography of NLB Group

31.12.2018	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
Slovenia	249,456	7,534,151	101,978	32,254	37,044	(12,777)	7,649,375
Macedonia	59,643	1,438,207	42,512	23,077	9,128	8,762	1,432,260
Bosnia and Herzegovina	85,944	1,275,854	72,360	13,419	5,717	332	1,276,018
Kosovo	16,259	724,998	14,442	16,733	1,619	4,048	710,083
Montenegro	123,527	540,204	79,157	4,711	14,908	288	579,863
Serbia	72,657	618,267	48,353	4,057	13,835	559	638,513
Other countries	77,294	2,339,039	60,778	2,614	16,299	(31,415)	2,352,941
Total	684,779	14,470,719	419,580	96,866	98,551	(30,203)	14,639,054

30.6.2018	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
Slovenia	327,344	7,273,127	144,129	30,235	5,389	(6,019)	7,426,107
Macedonia	51,460	1,334,254	38,694	23,112	8,163	3,817	1,323,908
Bosnia and Herzegovina	86,075	1,224,027	72,638	12,855	2,253	(3,245)	1,224,610
Kosovo	15,885	667,206	14,014	16,024	44	1,341	653,052
Montenegro	159,247	504,281	94,486	4,082	370	(465)	564,959
Serbia	87,331	503,122	57,352	3,704	4,576	(941)	529,397
Other countries	102,555	2,543,469	81,328	3,021	3,026	(10,093)	2,561,674
Total	829,897	14,049,486	502,642	93,033	23,821	(15,605)	14,283,708

31.12.2017	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
Slovenia	402,555	7,199,546	194,806	50,966	27,964	(6,646)	7,356,329
Macedonia	56,421	1,368,554	44,171	40,080	8,981	(3,977)	1,340,724
Bosnia and Herzegovina	94,580	1,178,566	76,849	20,248	87,111	(26,156)	1,176,049
Kosovo	16,741	635,799	13,551	15,203	2,763	1,971	623,786
Montenegro	162,312	482,279	93,190	5,630	21,583	1,816	545,771
Serbia	101,859	456,831	60,924	4,122	25,112	10	493,644
Other countries	114,537	2,398,940	83,656	772	87,037	(10,488)	2,429,049
Total	949,005	13,720,516	567,147	137,020	260,552	(43,470)	13,965,353

Slovenia is the biggest market for NLB Group with 51% of gross exposure at the end of 2018, followed by Macedonia (10%), Bosnia and Herzegovina (9%), and other countries where the Group's banking subsidiaries are established. Nevertheless, the growth rate of gross exposure in countries where banking subsidiaries are established exceeds the growth in Slovenia. The increase of non-default exposures was the highest in Slovenia, however, this also includes exposures to Central governments as part of liquidity management.

Table 22 – EU CR1-D – Ageing of past-due exposures of NLB Group

31.12.2018	Gross carrying values					
	Up to 30 days	30 days to 60 days	60 days to 90 days	90 days to 180 days	180 days to 1 year	Over 1 year
Loans	431,521	66,171	36,247	23,555	22,948	332,554
Debt securities	-	-	-	-	-	-
Total exposures	431,521	66,171	36,247	23,555	22,948	332,554

30.6.2018	Gross carrying values					
	Up to 30 days	30 days to 60 days	60 days to 90 days	90 days to 180 days	180 days to 1 year	Over 1 year
Loans	662,795	67,402	47,496	17,646	32,825	405,493
Debt securities	-	-	-	-	-	-
Total exposures	662,795	67,402	47,496	17,646	32,825	405,493

31.12.2017	Gross carrying values					
	Up to 30 days	30 days to 60 days	60 days to 90 days	90 days to 180 days	180 days to 1 year	Over 1 year
Loans	673,913	67,103	31,682	23,409	38,188	433,883
Debt securities	-	-	-	-	-	-
Total exposures	673,913	67,103	31,682	23,409	38,188	433,883

The value of exposure in delays decreased in 2018 by EUR 355 million (or 28%), which is to be attributed to a Default exposure decrease. At the end of 2018, past-due exposures represent 6% of the total gross exposure.

5.7. Non-performing and forborne exposures (Article 442 a, b, and i of CRR)

The bank uses a unified definition of past due and default exposures that is aligned with Article 178 of CRR. Defaulted clients are rated D, DF, or E based on the Bank's internal rating system and contain clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. The retail clients are rated on the facility level, however, the rating can be deteriorated based on the rating of other credit facilities of the same client.

The Bank has an objective credit rating classification methodology that classifies all past-due exposures to D, DF, or E credit rating. Based on that, an assessment of (individual or collective) impairments and provisions is performed.

The Bank prepares individual impairments for all defaulted exposures exceeding the materiality threshold, while clients with lower exposure obtain collective impairments and provisions. These are based on 100% PD and LGDs applicable based on available collateral and expected repayments from other sources.

A forborne loan (or restructured financial asset) is a financial asset in relation to which forbearance has been introduced. The most frequent forbearance measures in NLB Group are, but not limited to:

- an extension or forbearance on asset repayment,
- lower interest rates,
- a lower amount of receivables resulting from a contractually agreed debt waiver and ownership restructuring,
- debt-to-equity swap,
- a takeover of other assets (including collateral liquidation) for a full or partial repayment.

Table 23 – EU CR1-E – Non-performing and forborne exposures of NLB Group

31.12.2018	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received		
	Total	Of which performing but past due 30 to 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures	
				Total	Of which defaulted	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne			
Debt securities	3,287,357	-	-	798	798	798	-	6,569	-	798	-	-	-	-
Loans and advances	9,087,029	80,607	73,018	613,925	613,925	583,353	339,515	77,968	5,174	391,164	203,851	200,049	128,942	
Off-balance-sheet exposures	2,036,111	2,416	1,173	60,114	60,114	60,114	4,060	12,328	10	26,754	1,055	10,259	2,438	

30.6.2018	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
	Total	Of which performing but past due 30 to 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
				Total	Of which defaulted	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne		
Debt securities	3,096,546	-	-	798	798	798	-	6,695	-	798	-	-	-
Loans and advances	9,148,482	97,245	98,694	746,765	746,765	746,765	440,256	75,282	7,765	473,766	269,155	244,448	141,451
Off-balance-sheet exposures	1,954,213	5,865	2,222	78,656	78,656	78,656	1,041	11,055	59	28,078	702	7,990	-

	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
	Total	Of which performing but past due 30 to 90 days		Of which non-performing			On performing exposures		performing exposures		On non-performing exposures	Of which forborne exposures	
		Of which performing forborne	Total	Of which defaulted	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne			
31.12.2017													
Debt securities	2,916,127	-	-	798	798	798	-	73	-	798	-	-	-
Loans and advances	9,141,690	79,671	78,129	855,447	885,447	885,447	534,202	133,201	9,204	533,180	323,263	279,886	194,741
Off-balance-sheet exposures	1,927,446	5,663	1,128	83,715	83,715	83,715	9,510	3,746	1	33,170	6,081	13,059	3,421

Table 24 – EU CR2-A – Changes in the stock of general and specific credit risk adjustments of NLB Group

	2018		H1 2018		2017	
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1 Opening balance	(530,972)	(88,002)	(530,972)	(88,002)	(864,961)	(152,953)
2 Increases due to amounts set aside for estimated loan losses during the period	(23,649)	(61,686)	(11,808)	(32,901)	(74,065)	(84,429)
3 Decreases due to amounts reversed for estimated loan losses during the period	36,488	52,637	16,698	27,627	75,163	123,342
4 Decreases due to amounts taken against accumulated credit risk adjustments	98,451	100	23,772	49	256,622	3,930
5 Transfers between credit risk adjustments	-	-	-	-	(21,005)	21,005
8 Other adjustments	102	86	(332)	194	94,268	(44,169)
9 Closing balance	(419,580)	(96,865)	(502,642)	(93,033)	(533,978)	(133,274)
Recoveries on credit risk adjustments recorded						
10 directly to the statement of profit or loss	26,402	11	15,987	2	19,621	-
Specific credit risk adjustments directly recorded						
11 to the statement of profit or loss	-	-	-	-	-	-

Credit impairments and provisions were released in the amount of EUR 30.2 million, mainly as a result of a successful restructuring of several major exposures and the recovery of NPLs. In 2017, credit impairments and provisions were affected by the release of pool provisions in the amount of approximately EUR 21 million, mostly in the Corporate segment. The cost of risk in both periods is negative, but increased from -62 basis points to -43 basis points.

Table 25 – EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities of NLB Group

	2018	H1 2018	2018
	Gross carrying value defaulted exposures	Gross carrying value defaulted exposures	Gross carrying value defaulted exposures
Opening balance	855,630	855,630	1,317,167
Loans and debt securities that have defaulted or impaired since the last reporting period	60,468	24,495	60,566
Returned to non-defaulted status	(50,144)	(37,857)	(63,849)
Amounts written off	(98,551)	(23,821)	(260,552)
Other changes	(153,124)	(71,412)	(197,702)
Closing balance	614,278	747,035	855,630

In 2018 based on the NPL Strategy, there was a material decrease of default exposures that amounted to EUR 302 million or 35% of the initial default exposure volume. The measures that led to an increase were repayments, sale of loans, liquidation of collateral, and write-offs (final and those to off-balance based on the Bank of Slovenia regulation). New default flow is a result of normal portfolio movements and represents 10% of the portfolio at the end of 2018.

5.8. Use of credit risk mitigation techniques

(Article 453 b, c, e, f, and g of CRR)

Credit protection policy

NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the NLB Group members in accordance with regulatory requirements. The master document regulating loan collateral in NLB Group is the Loan Collateral Policy in NLB and NLB Group. The Policy has been adopted by the Management Board of NLB and by the supervisory bodies of respective members for other members of NLB Group. The Policy represents the basic principles that NLB Group's employees must take into account when signing, evaluating, monitoring, and reporting collateral, with the aim of reducing credit risk.

In line with the policy, the primary source of loan repayment is the debtor's solvency, and the accepted collateral is a secondary source of repayment in case the debtor ceases to repay the contractual obligations.

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 or 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).

Loans made to companies and sole proprietors may be secured by other forms of collateral as well (for example, a lien on movable property, a pledge of an equity stake, collateral by pledged/assigned receivables, etc.) if it is assessed that the collateral could generate a cash flow if it were needed as a secondary source of payment. If there is a lower probability that this type of collateral would generate a cash flow, NLB Group takes a conservative approach and accepts the collateral while reporting its value as zero.

The processes for valuing collateral

In compliance with relevant regulations, NLB Group has established a system for monitoring and reporting collateral at fair (market) value.

The market value of real estate used as collateral is obtained from valuation reports of licensed appraisers. The market value of movable property is obtained from valuation reports of licensed appraisers or from sales agreements. Both, valuation reports and sales agreements must not be older than one year. In NLB and members of NLB Group, most reports of external appraisers are controlled. Controls are performed by internal appraisers. The subject of control is the content, value, scope and format of the report, its compliance with international valuation standards and the estimated value. If they notice deviations, they estimate needed correction of the value of the external valuation (in %) and correct the value of the external valuation. The value adjustment can only be negative and can be applied only in a limited range. For the purposes of business decisions and the calculation of the necessary impairments and provisions, additional deductions (hair-cuts) are applied to the eventual adjusted market value, depending on the type of collateral. These haircuts are for real estate in the range between 30 and 70%, depending on the type of real estate and location, for movables they range between 50 and 100% depending on the type of movable.

The market value of financial instruments held by NLB Group is obtained from the organised market – such as the 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 has compiled a reference list of licensed appraisers for real estate. All appraisals must be made for the purpose of secured lending and in accordance with the international valuation standards (IVS, EVS, and RICS). Appraisals related to retail loans are generally ordered only from appraisers with whom the NLB has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal that is not made by an appraiser included on NLB's reference list, NLB's expert department which employs certified appraisers in construction with licences granted by the Slovenian Ministry of Justice, 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 reviewing valuations of real estate serving as collateral for large loans.

Other NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all possessing the necessary licences. NLB Group has compiled a reference list of appraisers for valuations of real estate located outside the Republic of Slovenia. Appraisals must be made in accordance with the international valuation standards, and for larger exposures, real-estate evaluations must also be reviewed by an internal licensed appraiser with knowledge of the local real-estate market. If the appraisal does not correspond to the international valuation standards or if the value adjustment is greater than certain limit, the appraisal is rejected as inadequate.

When assuring collateral, NLB Group follows the internal regulations which define the minimum security or pledge ratios. NLB Group strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral. If real estate, movable

property, and financial instruments serve as collateral, NLB Group's lien on such assets should be top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can have a different priority order.

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 by either preparing individual assessments or using the internal methodology for preparing an own value appraisal of real estate (which applies to Republic of Slovenia, and partly, for the housing segment to Serbia, Montenegro and Bosnia and Herzegovina) based on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in the Republic of Slovenia). The value of pledged movable property is monitored once a year (in NLB automated, with a straight-line depreciation over the period of the remaining useful life).

The main types of collateral taken by the Bank

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

Material loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduces or offsets the amount of exposure against the counterparty's debt to the Bank.

NLB Group accepts the following material types of loan collateral:

- Collateral in the form of business and residential real estate: land, buildings and individual parts of buildings in a storeyed property intended for living in or performing a business activity, such as land in the area foreseen for construction, apartments, residential buildings, garages and holiday homes, business premises, industrial buildings, offices, shops, hotels, branches and warehouses, forests, parking spaces, etc. Objects can be completed or under construction. Priority is given to property where the pledge right of the bank is entered in the first place and the real estate is already owned by the debtor and/or the pledger. For real estate, there must be a market, and it must be redeemable within a reasonable time.
- Collateral in the form of movable property: priority is given to the types of movable property, that are highly likely to be sold in the event of execution, and the funds received are used to repay the collateralised claims (their market value must be estimated with considerable reliability). Among the appropriate types of movable property, the bank includes motor vehicles, agricultural machinery, construction machinery, production lines and series-produced machines, and some custom-made production machines.
- Collateral by a pledge of financial assets (bank deposits or cash-like instruments, debt securities of different issuers, investment fund units, equity securities, or convertible bonds):
 - Cash receivable collateral; bank deposits and savings with the bank are appropriate in domestic and foreign currency.
 - Debt securities: shares and bonds which, according to the bank's assessment, are suitable for securing investments and are traded on a regulated market (marketable securities of higher-quality Slovenian and foreign issuers). In the area of legal entities, the Bank conditionally accepts non-marketable securities, subject to appropriate conditions.
 - The pledge of investment coupons of mutual funds managed by management companies (a priority company NLB Skladi, asset management d.o.o.) and are, according to the bank assessment, suitable for insurance of investments.
- A pledge of an equity stake: non-marketable capital shares with a credit rating of at least B are adequate.
- A pledge or assignment of receivables as collateral: cash receivables must have longer maturities than the maturity of the investment and they must not be due and not be paid.
- Other material forms of loan collateral (e.g. life insurance policies pledged to NLB): the Bank accepts products of NLB Vita, life insurance company d.d. Ljubljana – the pledge of an investment life insurance policy and a life insurance policy with a guaranteed return that includes savings, in addition to insurance.

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

NLB Group accepts the following types of personal loan collateral:

- Joint and several guarantees by retail and corporate clients: for the collateralisation of private individuals loans, employees or pensioners are adequate guarantors. They must not be in the

process of personal bankruptcy. They are responsible for fulfilling the debtor's obligations for loans with a repayment period not exceeding 60 months. For the collateralisation of legal entities investments, legal entities, private individuals, or private individuals are adequate guarantors,

- Bank guarantees,
- Government guarantees (e.g. of the Republic of Slovenia),
- Guarantees by national and regional development agencies with which the Bank has a contract on the acceptance of guarantees (egg. Slovene Enterprise Fund),
- Other types of personal loan collateral.

Loans are very often secured by a combination of collateral types.

The general recommendations on loan collateral are specified in the 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 client's creditworthiness (credit ranking), loan maturity and varies depending on whether the loan is granted to 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. NLB has also created, in the area of real-estate loan collateral, an 'on-line' connection with the Surveying and Mapping Authority in the Republic of Slovenia which allows direct and immediate verification of the existence of property.

NLB Group strives to ensure the best possible collateral for long-term loans, in particular mortgages where possible. As a result, the mortgaging of real estate is the most frequent form of loan collateral of corporate and retail clients. In corporate exposures, the next most frequent forms of collateral are government and corporate guarantees, while in retail loans, it is followed by insurance companies and guarantors.

Concentration that arises due to CRM measures and may prevent CRM instruments from being effective

The CRR eligible collateral that allow a decrease in RWA for credit risks amounts to EUR 746 million and represents 6.6% of the net exposure pre CCR and CRM. The prevailing types of collateral used as CRM are government guarantees and cash deposits, the bank does not use credit derivatives to manage capital requirements. The low volume of eligible collateral shows the low concentration from a CRM point of view.

Table 26 – EU CR3 – CRM techniques – Overview of NLB Group

	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
31.12.2018					
Total loans	7,958,824	658,594	619,594	565,493	-
Total debt securities	3,139,899	126,145	126,109	126,109	-
Total exposures	11,098,724	784,739	745,703	691,602	-
Of which defaulted	7,011	26,419	647	108	-
30.6.2018					
Total loans	7,893,975	704,902	660,539	605,684	-
Total debt securities	2,959,071	115,645	115,616	115,616	-
Total exposures	10,853,046	820,546	776,155	721,299	-
Of which defaulted	4,465	24,588	620	158	-
31.12.2017					
Total loans	7,748,685	725,983	700,613	643,827	-
Total debt securities	2,776,733	123,480	123,480	123,480	-
Total exposures	10,525,418	849,463	824,093	767,307	-
Of which defaulted	8,929	29,079	614	225	-

At the end of 2018, the secured part of the portfolio represents 7.1% of the total portfolio. However, it has to be considered that such a low share is due to stick rules applied to the eligible collateral in the standardised approach. The values of secured exposure decreased in 2018, primarily due to the repayment of the exposure with state guarantees.

Table 27 – CRM techniques – Overview by exposure classes of NLB Group

31.12.2018	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
Exposure classes				
Central governments or central banks	3,557,312	-	-	-
Regional government or local authorities	134,193	-	-	-
Public sector entities	82,050	5,856	5,855	5,836
Multilateral development banks	103,283	-	-	-
International organisations	27,196	-	-	-
Institutions	654,159	53,528	53,496	53,496
Corporates	1,580,803	668,541	640,275	627,447
Retail	3,689,224	46,998	39,524	23
Secured by mortgages on immovable property	692,217	-	-	-
Exposures in default	208,508	856	622	108
Exposures associated with particularly high risk	56,471	8,960	5,931	4,692
Covered bonds	284,238	-	-	-
Collective investment undertakings	1,187	-	-	-
Other items	27,883	-	-	-
Total	11,098,724	784,739	745,703	691,602

31.12.2017	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
Exposure classes				
Central governments or central banks	3,037,756	-	-	-
Regional government or local authorities	109,193	-	-	-
Public sector entities	67,236	7,401	7,398	7,398
Multilateral development banks	69,399	-	-	-
Institutions	1,220,730	40,681	40,681	40,681
Corporates	1,499,155	740,065	726,582	716,423
Retail	3,358,948	50,910	44,619	334
Secured by mortgages on immovable property	697,134	-	-	-
Exposures in default	296,133	749	614	225
Exposures associated with particularly high risk	60,025	9,656	4,198	2,246
Covered bonds	89,191	-	-	-
Collective investment undertakings	1,147	-	-	-
Other items	19,371	1	1	-
Total	10,525,418	849,463	824,093	767,307

Table 28 – EU CR4 – Standardised approach – Credit risk exposure and CRM effects of NLB Group

31.12.2018	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Exposure classes						
1 Central governments or central banks	3,581,860	1,630	4,327,557	14,260	1,101,858	25%
2 Regional government or local authorities	134,195	1,288	134,195	258	53,195	40%
3 Public sector entities	88,106	24,624	82,252	5,088	69,635	80%
4 Multilateral development banks	103,283	-	103,283	-	-	-
5 International organisations	27,196	-	27,196	-	-	-
6 Institutions	712,105	35,196	658,615	12,189	238,054	35%
7 Corporates	2,250,568	1,091,865	1,610,293	344,753	1,902,214	97%
8 Retail	3,737,015	826,175	3,697,491	187,635	2,782,815	72%
9 Secured by mortgages on immovable property	692,217	9,198	692,217	3,138	260,664	37%
10 Exposures in default	209,458	38,576	208,836	8,750	268,623	123%
11 Exposures associated with particularly high risk	65,430	12,841	59,499	2,596	93,143	150%
12 Covered bonds	284,238	-	284,238	-	30,989	11%
14 Collective investment undertakings	45,671	-	45,671	-	6,970	15%
15 Equity	21,809	-	21,809	-	37,848	173%
16 Other items	644,477	7	644,476	1	333,670	52%
17 Total	12,597,629	2,041,401	12,597,628	578,667	7,179,678	54%

30.6.2018	Exposures before CCF and CRM				Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density		
	Exposure classes							
1 Central governments or central banks	3,152,457	1,487	3,928,608	15,837	993,610	25%		
2 Regional government or local authorities	113,829	2,846	113,829	569	52,327	46%		
3 Public sector entities	61,409	14,143	54,944	3,244	40,995	70%		
4 Multilateral development banks	74,343	-	74,343	-	-	-		
6 Institutions	1,212,967	37,366	1,175,980	14,369	500,428	42%		
7 Corporates	2,235,882	979,266	1,550,999	316,049	1,820,199	97%		
8 Retail	3,585,729	810,923	3,544,434	183,510	2,667,722	72%		
9 Secured by mortgages on immovable property	714,231	7,713	714,231	2,938	271,623	38%		
10 Exposures in default	249,191	50,578	248,592	10,896	317,188	122%		
11 Exposures associated with particularly high risk	81,215	10,756	75,294	2,065	116,039	150%		
12 Covered bonds	194,327	-	194,327	-	28,985	15%		
14 Collective investment undertakings	45,853	-	45,853	-	7,116	16%		
15 Equity	25,243	-	25,243	-	43,597	173%		
16 Other items	621,951	2	621,951	-	350,053	56%		
17 Total	12,368,628	1,915,080	12,368,628	549,477	7,209,883	56%		

31.12.2017	Exposures before CCF and CRM				Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density		
	Exposure classes							
1 Central governments or central banks	3,060,144	1,532	3,884,233	12,788	1,031,854	26%		
2 Regional government or local authorities	109,195	821	109,195	175	50,094	46%		
3 Public sector entities	74,807	13,756	67,410	3,496	54,043	76%		
4 Multilateral development banks	69,399	-	69,399	-	-	-		
6 Institutions	1,265,587	53,392	1,224,909	14,310	523,027	42%		
7 Corporates	2,240,628	945,421	1,514,045	273,243	1,743,491	98%		
8 Retail	3,410,857	790,851	3,366,237	175,452	2,538,590	72%		
9 Secured by mortgages on immovable property	697,134	13,142	697,134	4,186	264,396	38%		
10 Exposures in default	297,001	50,545	296,386	11,820	365,169	118%		
11 Exposures associated with particularly high risk	69,692	21,070	65,494	5,780	106,911	150%		
12 Covered bonds	89,191	-	89,191	-	12,260	14%		
14 Collective investment undertakings	45,662	-	45,662	-	6,489	14%		
15 Equity	26,660	-	26,660	-	48,383	181%		
16 Other items	618,867	2	618,868	-	351,706	57%		
17 Total	12,074,822	1,890,531	12,074,822	501,250	7,096,414	56%		

The table shows exposures before CRM and CCF, exposure post-CCF and -CRM, and the RWA for all customer segments. In 2018, the increase of both types of exposures was noticed in the Retail segment, which is in line with the findings in other disclosure tables. The last column shows RWA density, or the average risk weight for each client segment. The average weight decreased from 56.4% in 2017 to 54.5% in 2018.

6. Use of ratings by external rating institutions (ECAI)

(Article 444 a, b, c, and d of CRR)

For calculating the capital requirement for credit risk, NLB Group uses the standardised approach as prescribed by CRR. Calculation of the capital requirement takes into account the effect of loan collateral as a secondary source of repayment. NLB Group uses the simple calculation method for collateral. According to this methodology, the capital requirement is calculated depending on the segment of clients, their credit quality (in case ECAI was nominated for the segment and external credit rating is available), and the quality of collateral which must be adequately evaluated and at the same time satisfy the prescribed minimum requirements.

For the calculation of capital requirement for credit risk, NLB Group nominated Fitch Ratings credit rating agency, which was estimated to be an eligible external credit assessment institution, at the same time the mapping to the credit quality steps was determined by the EBA. The credit assessments of this agency are used for the categories of exposure:

- to the central government or 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 CRR.

In exposure categories for which a credit assessment institution was designated, the weight is assigned based on the financial instrument's rating. If such a 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.

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.

Table 29 – EU CR5 – Standardised approach of NLB Group

31.12.2018	Risk weight																Total	Of which unrated	
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted			
Central governments or central banks	3,169,852	-	-	-	80,443	-	79,757	-	-	988,919	-	22,847	-	-	-	-	-	4,341,817	4,341,817
Regional government or local authorities	23,001	-	-	-	72,820	-	-	-	-	38,631	-	-	-	-	-	-	-	134,453	134,453
Public sector entities	13,927	-	-	-	244	-	7,165	-	-	66,004	-	-	-	-	-	-	-	87,339	87,339
Multilateral development banks	103,283	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	103,283	103,283
International organisations	27,196	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,196	27,196
Institutions	4,896	-	-	-	344,715	-	304,163	-	-	17,030	-	-	-	-	-	-	-	670,803	106,000
Corporates	-	-	-	-	-	-	-	-	-	1,955,046	-	-	-	-	-	-	-	1,955,046	1,955,046
Retail	-	-	-	-	-	-	-	-	3,885,125	-	-	-	-	-	-	-	-	3,885,125	3,885,125
Secured by mortgages on immovable property	-	-	-	-	-	540,408	154,946	-	-	-	-	-	-	-	-	-	-	695,354	695,354
Exposures in default	-	-	-	-	-	-	-	-	-	115,514	102,072	-	-	-	-	-	-	217,587	217,587
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	62,095	-	-	-	-	-	-	62,095	62,095
Covered bonds	-	-	-	258,585	25,653	-	-	-	-	-	-	-	-	-	-	-	-	284,238	89,278
Collective investment undertakings	-	-	-	-	-	-	-	-	-	1,187	-	-	-	-	44,485	-	-	45,671	45,671
Equity	-	-	-	-	-	-	-	-	-	11,157	-	10,676	-	-	-	-	-	21,833	21,833
Other items	302,607	-	-	-	10,250	-	-	-	-	331,620	-	-	-	-	-	-	-	644,477	626,591
Total	3,644,761	-	-	258,585	534,126	540,408	546,031	-	3,885,125	3,525,108	164,167	33,523	-	-	44,485	-	-	13,176,319	12,398,670

30.6.2018	Risk weight																Total	Of which unrated	
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted			
1 Central governments or central banks	2,874,836	-	-	-	94,118	-	64,677	-	-	889,668	-	21,146	-	-	-	-	-	3,944,445	3,944,445
2 Regional government or local authorities	-	-	-	-	77,588	-	-	-	-	36,810	-	-	-	-	-	-	-	114,398	114,398
3 Public sector entities	13,781	-	-	-	161	-	6,566	-	-	37,680	-	-	-	-	-	-	-	58,188	58,188
4 Multilateral development banks	74,343	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	74,343	74,343
6 Institutions	-	-	-	-	354,563	-	812,541	-	-	23,245	-	-	-	-	-	-	-	1,190,349	227,497
7 Corporates	-	-	-	-	-	-	-	-	-	1,867,048	-	-	-	-	-	-	-	1,867,048	1,867,048
8 Retail	-	-	-	-	-	-	-	-	3,727,944	-	-	-	-	-	-	-	-	3,727,944	3,727,944
9 Secured by mortgages on immovable property	-	-	-	-	-	538,519	178,650	-	-	-	-	-	-	-	-	-	-	717,169	717,169
10 Exposures in default	-	-	-	-	-	-	-	-	-	144,085	115,402	-	-	-	-	-	-	259,487	259,487
11 Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	77,359	-	-	-	-	-	-	77,359	77,359
12 Covered bonds	-	-	-	98,806	95,520	-	-	-	-	-	-	-	-	-	-	-	-	194,327	60,694
14 Collective investment undertakings	-	-	-	-	-	-	-	-	-	1,327	-	-	-	-	44,526	-	-	45,853	45,853
15 Equity	-	-	-	-	-	-	-	-	-	13,007	-	12,236	-	-	-	-	-	25,243	25,243
16 Other items	260,009	-	-	-	14,862	-	-	-	-	347,080	-	-	-	-	-	-	-	621,951	607,150
17 Total	3,222,968	-	-	98,806	636,813	538,519	1,062,434	-	3,727,944	3,359,951	192,762	33,382	-	-	44,526	-	-	12,918,105	11,806,819

31.12.2017	Risk weight														Total	Of which unrated		
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%			Others	Deducted
Central governments or central banks	2,782,364	-	-	-	101,015	-	59,621	-	-	935,418	-	18,603	-	-	-	-	3,897,021	3,897,021
Regional government or local authorities	-	-	-	-	74,095	-	-	-	-	35,275	-	-	-	-	-	-	109,370	109,370
Public sector entities	13,639	-	-	-	252	-	6,044	-	-	50,971	-	-	-	-	-	-	70,906	70,906
Multilateral development banks	69,399	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	69,399	69,399
Institutions	-	-	-	-	361,930	-	853,297	-	-	23,993	-	-	-	-	-	-	1,239,219	326,258
Corporates	-	-	-	-	-	-	-	-	-	1,787,287	-	-	-	-	-	-	1,787,287	1,787,287
Retail	-	-	-	-	-	-	-	-	3,541,689	-	-	-	-	-	-	-	3,541,689	3,541,689
Secured by mortgages on immovable property	-	-	-	-	-	531,446	169,874	-	-	-	-	-	-	-	-	-	701,320	701,320
Exposures in default	-	-	-	-	-	-	-	-	-	194,280	113,926	-	-	-	-	-	308,206	308,206
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	71,274	-	-	-	-	-	71,274	71,274
Covered bonds	-	-	-	55,778	33,413	-	-	-	-	-	-	-	-	-	-	-	89,191	19,734
Collective investment undertakings	-	-	-	-	-	-	-	-	-	1,147	-	-	-	-	44,514	-	45,662	45,662
Equity	-	-	-	-	-	-	-	-	-	12,178	-	14,482	-	-	-	-	26,660	26,660
Other items	256,594	-	-	-	13,211	-	-	-	-	349,063	-	-	-	-	-	-	618,869	604,800
Total	3,121,996	-	-	55,778	583,916	531,446	1,088,835	-	3,541,689	3,389,613	185,200	33,085	-	-	44,514	-	12,576,073	11,579,586

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), 35% for Secured by real estate exposure, and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures whose provision coverage does not exceed 20%. In 2018, the highest increase was noticed on the 0% weight, due to the increase of exposure in the Central government or central banks segment, while the highest decrease appeared under 50% weight in the Institutions segment.

7. Exposure to counterparty credit risk

7.1. Goals and Principles of Counterparty Credit Risk Management

(Article 435.1 a, b, c, and d of CRR)

Management of Counterparty Credit Risk

Counterparty Credit Risk (CCR) arises when NLB Group engages in derivative transactions with a counterparty for instruments like exchange-traded (futures) and OTC derivatives (forwards, swaps traded off the exchange), or due to long settlement transactions (meaning that a delivery date is later than the earliest of the market standard for the particular transaction). The purpose of entering into the derivatives is to support corporate customers and financial institutions in their management of financial exposures. This is managed within Investment Banking and Custody, Financial Markets and Evaluation, and Control. Financial Markets also use derivatives to protect cash flows and fair values of financial assets and liabilities of NLB Group.

CCR is defined as the risk that the counterparty to a transaction may default before the settlement of the transaction. CCR is a particular case of a general credit risk and creates a bilateral risk of loss, therefore the market value of the transaction can be positive or negative to either counterparty of the transaction. The market value is uncertain and can vary over time with the movement of underlying market factors. CCR exposure is estimated considering the effect of a period of stress and the collateral management practices.

Limits for counterparty exposures are set in the regular credit process. Evaluation and Control identifies, measures, reports, and follows up on NLB Group's counterparty credit risk. The risk is measured daily and reported monthly to the ALCO.

CCR for OTC derivatives is the sum of relevant replacement cost (i.e. positive market value) and potential replacement costs resulting from potential future changes in market values (FX prices, interest rates, etc.). A dedicated IT solution is in place for monitoring, along with customisation made to meet specific needs. It enables us to monitor CCR on a real-time basis, a deal-by-deal level, as well as on a group level by an individual counterparty or counterparty group. Limits must be checked before any transaction is agreed upon and confirmed.

In settling the concluded financial transactions, NLB Group is exposed to the settlement risk which is a risk that one of the parties would not (be able to) meet its liabilities arising from the transactions in accordance with the agreed conditions, after the counterparty has already met its part of the obligations. The tolerance towards the assumptions of the settlement risk is low. NLB Group has adopted internal regulations and a system of performing settlements, as well a system of control mechanisms for the management of settlement risk. The standardised approach is used to determine the regulatory capital charge for the settlement risk.

Organisation

Credit risks from derivatives are fully integrated into the general credit risk management system. CCR risk is measured and monitored on a daily basis by an independent risk management unit Evaluation and Control. Global Risk is responsible for calculation of own fund requirements for CCR risk according to a standardised approach.

Risk Measurement and control of CCR

CCR risk is monitored and controlled at the transaction level, as well as at the client level. The market value of derivative transactions fluctuate during the term to maturity, for this reason the uncertainties of future market conditions have to be taken into consideration when measuring credit exposure to derivatives.

For calculation of a regulatory capital for counterparty credit risk, NLB Group uses a standardised approach (SA) for the derivatives. NLB Group currently uses the Current Exposure Method (also referred to as the 'marked-to-market method') according to the CRD IV.

Credit valuation adjustment (CVA) and debit valuation adjustment (DVA)

Counterparty credit risk in derivatives affects the Bank's profit and loss through credit/debt valuation adjustments (CVA/DVA), reflecting the credit risk associated with the derivative positions. These adjustments depend on credit rating or/and credit spread of a certain client. NLB Group uses the standardised approach to calculate the regulatory capital requirement for CVA. Where collateral exists, it is

taken into consideration when CVA/DVA is calculated. The calculation is done on a monthly basis. DVA is not recognised in the Profit or Loss Statement, but only calculated for internal purposes.

7.2. Risk mitigation – netting and collateral

(Article 439 b of CRR)

NLB Group mitigates CCR risk from derivatives through the use of close-out netting agreements such as the ISDA Master Agreement, Global Master Repurchase Agreement (GMRA), and the Slovenian Framework Agreement. Along with these agreements, collateral agreements (e.g. ISDA Credit Support Annex) are in place to substantially reduce credit risk arising out of derivatives transactions. In addition to this, clearing transactions via a clearing house is in place for relevant derivatives transactions.

Daily margin call calculations are in place for each relevant counterparty. Portfolio reconciliation is agreed as per European Market Infrastructure Regulation (EMIR).

7.3. Internal capital allocation and definition of credit limits for CCR exposures

(Article 439 a of CRR)

The CCR exposures of NLB Group are not material, thus NLB Group sets aside capital for CCR exposures within Internal Capital Adequacy Assessment (Pillar 2). Internal capital for counterparty credit exposures is calculated with a stress testing of CVA where the additional shock on PDs is applied. In addition, there is a set of internal credit limits in place for CCR exposure which are guided by the internal policies and methodologies.

NLB Group has in place instructions for determining derivative financial instrument limits. There is a set of guidelines in use when concluding derivative transactions with clients. Each client has to have a limit in place, and all transactions are concluded by using the contract. Only standard interest and foreign exchange derivatives can be subject to proposal and/or approval. The limit is treated as an arrangement decided in line with the credit process. Only clients rated as in the A and B credit rating group and clients classified as CCC rating class are suitable for new limits. To approve the new limits, the underlying pre-conditions have to be met as follows: the primary business has to have sustainable cash flow, the client has to be able to cover derivatives exposure and potential negative effect, and the derivative is subject to support primary business transactions.

NLB Group has an important risk management tool in place which is an early warning system for exposures towards banking groups, sovereigns, and international corporates. The respective exposures are limited by the risk appetite, monitored, and reported to the senior management and Supervisory Board on a regular basis.

7.4. Securing of collateral and establishing of reserves

(Article 439 b of CRR)

Framework agreements signed with the relevant counterparty provide the ability to collect collateral for the purpose of reducing CCR. As mentioned in previous chapters, NLB Group calculates the net positive market value for individual counterparty exposure on a daily basis and as a result, collateral is adjusted accordingly. For the vast majority of framework agreements only cash is eligible collateral. Where other forms of collateral are possible, haircuts are applied as per the credit rating of such collateral along with the days to maturity. If securities are an eligible collateral form, only top-rated bonds are permitted. All this results in the fact that NLB Group only takes into account top-rated collateral, and therefore we do not create any additional reserves to mitigate CCR.

7.5. Wrong-way risk management

(Article 439 c of CRR)

In accordance with risk mitigation techniques in place (real-time monitoring, framework agreements, collateral agreements, daily margining process, CVA/DVA calculation, etc.), NLB Group does not find wrong-way risk exposures as material.

7.6. Downgrading impacts on collateralisation
(Article 439 d, e and f of CRR)

Framework agreements covering derivatives transactions usually do not have provisions that would reflect any additional collateral posting due to credit rating change of NLB Group. Therefore, downgrading impacts on collateralisation are not material.

Table 30 – EU CCR1 – Analysis of CCR exposure by approach for NLB Group

	a	b	c	f	g
	Notional	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
31.12.2018					
1 Mark to market	-	15,386	12,705	28,092	24,062
11 Total	-	-	-	-	24,062
	a	b	c	f	g
	Notional	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
30.6.2018					
1 Mark to market	-	14,773	11,696	28,015	23,186
11 Total	-	-	-	-	23,186
	a	b	c	f	g
	Notional	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
31.12.2017					
1 Mark to market	-	12,229	10,641	22,872	20,133
11 Total	-	-	-	-	20,133

Table 31 - EU CCR2 – CVA capital charge for NLB Group

	31.12.2018		30.6.2018		31.12.2017	
	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
4 All portfolios subject to the standardised method	5,890	2,563	6,821	2,100	2,607	850
EU4 Based on the original exposure method	-	-	-	-	-	-
5 Total subject to the CVA capital charge	5,890	2,563	6,821	2,100	2,607	850

Table 32 – EU CCR8 – Exposures to CCPs of NLB Group

	31.12.2018		30.6.2018		31.12.2017	
	EAD post CRM	RWAs	EAD post CRM	RWAs	EAD post CRM	RWAs
1 Exposures to QCCPs (total)	-	11,065	-	11,833	-	14,059
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	11,065	11,065	11,833	11,833	14,059	14,059
3 OTC derivatives	11,065	11,065	11,833	11,833	14,059	14,059
7 Segregated initial margin	19,154	-	22,433	-	21,691	-
11 Exposures to non-QCCPs (total)	-	-	-	-	-	-
20 Unfunded default fund contributions	-	-	-	-	-	-

Table 33 – EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk of NLB Group

31.12.2018		Risk weight											Total	Of which unrated
Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others			
1 Central governments or central banks	3,169,852	-	-	-	80,443	79,757	-	-	989,784	-	21,405	4,341,241	4,341,241	
2 Regional government or local authorities	23,001	-	-	-	72,820	-	-	-	38,632	1	-	134,454	134,454	
3 Public sector entities	13,927	-	-	-	244	7,165	-	-	68,416	5	426	90,183	90,183	
4 Multilateral development banks	103,283	-	-	-	-	-	-	-	-	-	-	103,283	103,283	
5 International organisations	27,196	-	-	-	-	-	-	-	-	-	-	27,196	27,196	
6 Institutions	4,896	-	-	258,585	370,369	304,163	-	-	17,070	6	333	955,420	195,657	
7 Corporates	-	-	-	-	-	48,426	-	-	1,164,518	66,580	3,409	1,282,932	1,282,932	
8 Retail	-	-	-	-	-	106,521	-	3,885,125	920,549	97,576	592,843	5,602,613	5,602,613	
10 Other items	302,607	-	-	-	10,250	-	-	-	326,139	-	-	638,996	621,110	
11 Total	3,644,761	-	-	258,585	534,126	546,031	-	3,885,125	3,525,108	164,167	618,416	13,176,319	12,398,670	

30.6.2018		Risk weight											Total	Of which unrated
Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others			
1 Central governments or central banks	2,874,836	-	-	-	94,118	64,677	-	-	889,715	7	20,201	3,943,554	3,943,554	
2 Regional government or local authorities	-	-	-	-	77,588	-	-	-	36,808	6	-	114,402	114,402	
3 Public sector entities	13,781	-	-	-	161	6,566	-	-	43,743	7	2,532	66,790	66,790	
4 Multilateral development banks	74,343	-	-	-	-	-	-	-	-	-	-	74,343	74,343	
6 Institutions	-	-	-	98,806	450,083	812,541	-	-	23,284	6	145	1,384,867	288,381	
7 Corporates	-	-	-	-	-	63,123	-	-	1,118,937	68,144	3,409	1,253,614	1,253,614	
8 Retail	-	-	-	-	-	115,528	-	3,727,944	908,196	124,591	590,139	5,466,397	5,466,397	
10 Other items	260,009	-	-	-	14,862	-	-	-	339,268	-	-	614,138	599,338	
11 Total	3,222,968	-	-	98,806	636,813	1,062,434	-	3,727,944	3,359,951	192,762	616,427	12,918,105	11,806,819	

31.12.2017		Risk weight											Total	Of which unrated
Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others			
1 Central governments or central banks	2,782,364	-	-	-	101,015	59,621	-	-	935,470	8	17,912	3,896,390	3,896,390	
2 Regional government or local authorities	-	-	-	-	74,095	-	-	-	35,296	11	-	109,402	109,402	
3 Public sector entities	13,639	-	-	-	252	6,044	-	-	57,675	3	2,514	80,128	80,128	
4 Multilateral development banks	69,399	-	-	-	-	-	-	-	-	-	-	69,399	69,399	
6 Institutions	-	-	-	55,778	395,342	853,297	-	-	23,993	65	214	1,328,689	346,271	
7 Corporates	-	-	-	-	-	65,559	-	-	1,134,209	62,152	3,409	1,265,330	1,265,330	
8 Retail	-	-	-	-	-	104,315	-	3,541,689	859,938	122,954	584,995	5,213,891	5,213,891	
10 Other items	256,594	-	-	-	13,211	-	-	-	343,033	7	-	612,845	598,776	
11 Total	3,121,996	-	-	55,778	583,916	1,088,835	-	3,541,689	3,389,613	185,200	609,045	12,576,073	11,579,586	

The exposure values are distributed to the prescribed segments and the risk weights that apply based on the riskiness of the exposure in accordance with the standardised approach. The 0% weight prevails in the Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual

maturity of the exposure), 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is applied to Retail and Corporate customers that represent High risk exposures and those Default exposures whose provision coverage does not exceed 20%. In 2018, the highest increase was noticed on the 0% weight, due to the increase of exposure in the Central government or central banks segment, while the highest decrease appeared under 50% weight in the Institutions segment.

Table 34 – EU CCR5-A – Impact of netting and collateral held on exposure values for NLB Group

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
31.12.2018					
1 Derivatives	15,666	3,845	11,821	1,028	10,793
4 Total	15,666	3,845	11,821	1,028	10,793
30.6.2018					
1 Derivatives	15,682	5,178	10,504	1,579	8,925
4 Total	15,682	5,178	10,504	1,579	8,925
31.12.2017					
1 Derivatives	13,703	3,976	9,717	1,516	8,201
4 Total	13,703	3,976	9,717	1,516	8,201

Table 35 – EU CCR5-B – Composition of collateral for exposures to CCR of NLB Group

	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated
31.12.2018				
Cash	1,028	-	55,277	-
Total	1,028	-	55,277	-

	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated
30.6.2018				
Cash	1,579	-	53,471	-
Total	1,579	-	53,471	-

	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated
31.12.2017				
Cash	1,516	-	52,905	-
Total	1,516	-	52,905	-

8. Unencumbered assets

(Article 443 of CRR)

General narrative information on asset encumbrance

Asset encumbrance presents an important aspect of liquidity risk management. NLB Group regularly monitors and reports on asset encumbrance. The increase in the volume of encumbered assets contributes to higher liquidity risk and the risk of financing, since an institution with encumbered assets has less available assets for pledging, used as liquidity reserve for unexpected liquidity needs (e.g. approved credit lines, margin calls on derivatives).

NLB Group must ensure that it has at every moment enough high-quality liquid assets so it is able to meet all liquidity needs. Possible operations for asset encumbrance:

- pledge of securities,

- repo transactions via interbank or ECB funding,
- derivatives trading (CSA contracts),
- issue of covered bonds,
- financing on capital and interbank markets.

Monthly reports on the Group's asset encumbrance are submitted to ALCO by the Financial Markets (for each banking member and on a consolidated level), while the Global Risk (Market and Liquidity Risk) quarterly reports are submitted to the Bank of Slovenia on solo and consolidated levels.

In NLB Group, all assets that are pledged are reported as encumbered assets. Regarding a transparent way of reporting, NLB Group has no example of giving the pledge which then would not be included in AE reporting. There is also no difference between the regulatory consolidation scope and liquidity requirements on an IFRS consolidated basis.

At the structural level the goal of liquidity management is to achieve such a structure of the Group's balance sheet that will ensure the Group's long-term stability and liquidity based on the criteria of long-term maturity match, forms, and concentration of the sources of financing.

In alignment with Liquidity Risk Management Policy, the unencumbered assets represent a liquidity buffer, which includes cash, money market placements, high-quality debt securities, and ECB eligible loans.

NLB Group holds an adequate amount of unencumbered High-Quality Liquid Assets (HQLA) that can be converted easily and immediately into cash. NLB Group can use those stocks of assets as a source of contingent funds that are available to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period. According to Basel III, NLB Group demonstrates monthly that its LCR ratio – HQLA divided by total net cash outflows – is always greater than 100% (361% at the end of December 2018) which indicates that the Group does not need any additional liquidity to withstand cash outflows during a “significant stress scenario” lasting 30 days. Also from this point of view, there is no need to carry a greater extent of encumbered assets. However, all assets that have been pledged are treated and reported as encumbered.

NLB Group has a strong liquidity position, all internal liquidity indicators and liquidity reserves are high and well above required standards, which means that NLB Group encumbers assets only because of regulatory aspects, such as the deposit guarantee scheme and the resolution fund.

As at 31 December 2018 NLB Group and NLB had a large share of unencumbered assets. On NLB Group level the amount of encumbered assets equalled EUR 119.1 million. On the solo level the amount of encumbered assets equalled EUR 114.6 million.

Encumbered assets consist of debt securities of which: issued by general governments (EUR 59.7 million on NLB Group level and NLB) and placed deposits (EUR 59.4 million on NLB Group level and on the solo level EUR 54.9 million). Group members are self-funded and have a strong liquidity position, therefore NLB has the majority of encumbered assets in NLB Group.

The amount of encumbered assets is denominated in EUR currency which is the most significant currency of NLB Group. There are no other significant currencies of AE to be reported.

The calculation of asset encumbrance was made based on median values in such a way that they rolled over the previous 12 months on a quarterly basis and were determined by interpolation (used for display in tables 36 to 40).

Table 36 – Encumbered and unencumbered assets of NLB Group

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
31.12.2018								
Assets	116,115	54,996	-	-	12,214,216	3,108,293	-	-
Equity instruments	-	-	-	-	58,150	-	-	-
Debt securities	61,162	54,996	66,744	60,769	2,950,642	2,336,905	2,990,802	2,376,980
of which: issued by general governments	61,162	54,996	66,744	60,769	1,992,760	1,522,859	2,033,029	1,563,522
of which: issued by financial corporations	-	-	-	-	783,624	712,690	784,527	713,613
of which: issued by non-financial corporations	-	-	-	-	102,333	99,031	101,415	98,036
Other assets	56,264	-	-	-	9,187,840	762,729	-	-
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
31.12.2017								
Assets	130,593	81,440	-	-	11,882,668	2,790,387	-	-
Equity instruments	-	-	-	-	67,595	-	-	-
Debt securities	82,551	81,440	89,457	88,293	2,699,660	2,008,040	2,745,337	2,052,425
of which: issued by general governments	74,214	73,327	80,989	80,025	1,839,693	1,387,497	1,884,552	1,440,230
of which: issued by financial corporations	8,105	8,092	8,272	8,258	698,673	550,689	699,415	551,434
of which: issued by non-financial corporations	-	-	-	-	97,821	94,662	92,144	88,738
Other assets	48,975	-	-	-	9,105,204	783,954	-	-

Table 37 – Collateral received of NLB Group

	Fair value of encumbered collateral received or own debt securities issued		Non-encumbered Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
31.12.2018				
Collateral received	-	-	7,723,121	-
Loans on demand	-	-	-	-
Equity instruments	-	-	198,129	-
Loans and advances other than loans on demand	-	-	118,254	-
Other collateral received	-	-	7,405,635	-
Own debt securities issued other than own covered bonds or asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged	-	-	-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	116,115	54,996	-	-
	Fair value of encumbered collateral received or own debt securities issued		Non-encumbered Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
31.12.2017				
Collateral received	-	-	7,719,007	-
Loans on demand	-	-	-	-
Equity instruments	-	-	184,659	-
Loans and advances other than loans on demand	-	-	123,100	-
Other collateral received	-	-	7,409,502	-
Own debt securities issued other than own covered bonds or asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged	-	-	-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	130,593	74,175	-	-

Table 38 – Encumbered and unencumbered assets of NLB

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
31.12.2018								
Assets	111,138	54,996	-	-	8,698,970	3,108,293	-	-
Equity instruments	-	-	-	-	47,515	-	-	-
Debt securities	60,983	54,996	66,744	60,769	2,449,962	2,336,905	2,490,122	2,376,980
of which: issued by general governments	60,983	54,996	66,744	60,769	1,562,624	1,522,859	1,602,747	1,563,522
of which: issued by financial corporations	-	-	-	-	783,625	712,690	784,528	713,613
of which: issued by non-financial corporations	-	-	-	-	102,331	99,031	101,412	98,036
Other assets	51,421	-	-	-	6,201,511	762,729	-	-
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
31.12.2017								
Assets	125,720	81,440	-	-	8,642,269	2,790,387	-	-
Equity instruments	-	-	-	-	57,499	-	-	-
Debt securities	82,551	81,440	89,457	88,293	2,225,771	2,008,040	2,271,842	2,052,425
of which: issued by general governments	74,214	73,327	80,989	80,025	1,448,457	1,387,497	1,493,314	1,440,230
of which: issued by financial corporations	8,105	8,092	8,272	8,258	698,096	550,689	698,838	551,434
of which: issued by non-financial corporations	-	-	-	-	97,821	94,662	92,144	88,738
Other assets	40,597	-	-	-	6,341,191	783,954	-	-

Table 39 – Collateral received of NLB

	Fair value of encumbered collateral received or own debt securities issued		Non-encumbered Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
31.12.2018				
Collateral received	-	-	3,987,454	-
Loans on demand	-	-	-	-
Equity instruments	-	-	187,919	-
Loans and advances other than loans on demand	-	-	28,186	-
Other collateral received	-	-	3,771,415	-
Own debt securities issued other than own covered bonds or asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged	-	-	-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	111,138	54,996	-	-

	Fair value of encumbered collateral received or own debt securities issued		Non-encumbered	
			Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
31.12.2017				
Collateral received	-	-	4,013,015	-
Loans on demand	-	-	-	-
Equity instruments	-	-	171,692	-
Loans and advances other than loans on demand	-	-	37,431	-
Other collateral received	-	-	3,801,123	-
Own debt securities issued other than own covered bonds or asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged	-	-	-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	125,720	74,175	-	-

Table 40 – Sources of encumbrance of NLB Group and NLB

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
31.12.2018		
Carrying amount of selected financial liabilities	5,358,649	111,436
31.12.2017		
Carrying amount of selected financial liabilities	5,158,148	125,720

9. Exposure to market risk

(Article 445 of CRR)

Market risk is the risk that the Bank's earnings and/or economic value may be negatively affected by changes in market rates and parameters that effect on- and off-balance sheet positions (for example changes in foreign exchange rates, fluctuations in interest rates, credit spreads, equity prices, implied volatilities, and market liquidity). Market risks predominately arise from the Bank's core business activities – the banking book and the liquidity portfolio needed to support these activities.

Table 41 – EU MR1 – Market risk under the standardised approach of NLB Group

	31.12.2018		30.6.2018		31.12.2017	
	RWAs	Capital requirements	RWAs	Capital requirements	RWAs	Capital requirements
Outright products						
1 Interest rate risk (general and specific)	7,213	577	10,075	806	5,638	451
3 Foreign exchange risk	534,588	42,767	517,225	41,378	494,088	39,527
9 Total	541,801	43,344	527,300	42,184	499,726	39,978

In 2018, the RWA for position risk increased by EUR 1.6 million due to the purchase of debt securities and the RWA for foreign exchange risk increased by EUR 40.5 million due to the increased open FX positions in local currencies of the non-euro banking subsidiaries of NLB Group.

9.1. Goals and principles of Market risk management

(Article 435.1 a, b, c, and d of CRR)

The objectives and risk management policy

The key objectives of NLB Group Market Risk Management as an independent risk function is to:

- regularly identify, evaluate, and assess all material market risk,
- monitor, manage, control, and steer market risk,

- define limits for trading activities consistent with the Group's Risk Appetite Framework (RAF), NLB Group Risk Strategy and business strategy in order to align top-down management targets with bottom-up business initiatives,
- ensure that NLB Group business lines do not expose the bank to unacceptable losses outside of the risk appetite, and to contribute to income stability via independent identification, assessment, and understanding of market risk,
- constantly develop and upgrade market risk models and methodologies, including stress-testing and early warning systems.

Market Risk Management aims to accurately measure all types of market risks by a comprehensive set of risk metrics reflecting economic and regulatory requirements. To achieve this objective, market risk management works closely with business lines and other control and support groups.

NLB Group strategy is to secure cost-efficient funding from several diversified sources with an emphasis on ensuring of a long-term stable deposit basis, not to be exposed to large refinancing risk, and arrange lending with assurance of optimised risk-adjusted profitability. This gives rise to foreign exchange risk and structural interest risk due to mismatches in the Bank's assets and liabilities in terms of currency composition, maturity profile, and interest rate characteristics.

The Bank's security portfolio held for liquidity purposes is exposed to interest rate risk and credit spread risk, for example potential decline in market value due to a perceived change in credit quality of the issuers of the securities held in the portfolio.

NLB, as the parent bank, is the only member of NLB Group which has a trading book according to the CRR. The bank maintains a small-size trading portfolio allocated to the position management for the purpose of achieving the additional earnings and monitoring market signals in the global markets. The Bank's tolerance for interest rate risk and credit spread risk in the trading portfolio is low.

Structure and organisation

Financial Markets (Trading, Treasury, and ALM) and Investment Banking and Custody together with Global Risk and Evaluation and Control, manage market risk in NLB Group. The Investment Banking and Custody is responsible for customer sales, Financial Markets is responsible for short- and long-term funding activities and investments for NLB Group's own account, for asset and liability management, liquidity portfolio collateral account portfolios, as well as other banking activities. These Business Lines are responsible for managing the risk under the framework (principally through limits) as set by the Management Board and controlled by the ALCO.

NLB Group Market Risk Management operates under the three lines of defence framework, as described in section 4.1 (General information on risk management, objectives, and policies).

In order to effectively manage NLB Group's market risks, the organisational structure allow making clear distinctions between market risk methods and risk models, valuations, and reporting. Market Risk is organised in following units:

- Global Risk, responsible for defining rules on risk appetite, Global Standards and Policies, and for the financial risk reporting coherence and coordination across the Group, as well as development of the ICAAP/ILAAP,
- Market and Liquidity Unit of Global Risk, responsible for governing and checking the Group's market and liquidity risk, parameterisation of the internal VaR limit system, calculation of capital requirement for the trading book position, improvements and development of methodologies, as well as for internal and regulatory stress testing and reporting to senior management and external reporting for regulatory purposes,
- Control and Evaluation, responsible for monitoring trading activities and its compliance, designing stop-loss limits, controlling credit counterparty exposures, and evaluating the financial instruments and additional valuation adjustments for managerial P/L.

The key responsibility of Global Risk is overseeing and controlling Group Market Risk through the assessment of strategies, policies, and the proposal of relevant risk limits and regulation. The department manages a coordination of the market risk operations of the banking subsidiaries, according to NLB Group Risk Management Standards and integrates the risk culture throughout NLB Group. Additionally, it formulates and modifies Group Methodologies and Market Risk Measurement Framework, and takes into

account the recommendations of regulators and the market best practices. The department ensures compliance of the market risk management with applicable laws and regulations.

The existing organisational structure assures a functional capability of governance, alignment, and monitoring market risk activities at an integrated portfolio level with dedicated and specialised risk managers, and thus contributes to bring management processes in line with the best international practices.

Global Risk provides independent oversight of all significant market risks, supporting the Risk Committee, the ALCO and the Financial Markets with risk measurement, analysis, daily monitoring, and reporting.

Risk measurement and control

The Management Board of NLB bank sets strategic objectives for exposing to market risk, which is aligned with the risk appetite and intended to create value for shareholders and to hold an adequate level of capital related to market risk. There are two committees responsible for market risk, namely the Group ALCO and the Risk Committee.

The Group ALCO monitors and addresses the risk profile and area of asset and liability of NLB Group. It is engaged in monitoring and analysing the developments in the global markets, changes and trends associated with the risk profile, balance sheet structure, and financial statements of NLB Group, and formulating conclusions and guidance to achieve the target balance sheet structure.

The Committee's key objectives define and monitor the implementation of NLB Group policies related to risk management and the balance sheet, defining methodologies and limits for interest rate risk in the banking book, liquidity risk, foreign currency risk, transfer pricing, the Funding Plan, and the Contingency Funding Plan. The Group ALCO also discusses the profitability of security portfolios and other activities in the area of treasury and investment banking. Furthermore, the Committee ensures the alignment of practices and methodologies of NLB subsidiaries to NLB Group best practices in the respective areas and targets to optimise the liquidity and capital management aligned with the Group Business Strategy and Risk Appetite.

The Risk Committee is responsible for advising on general and future risk-taking, and with regard to risk strategy. It supports a supervisory function on the top management related to the implementation of the risk strategy, reviewing the remuneration and incentives whether they are linked to the risk, capital, and liquidity and checking whether the product pricing is aligned with the business model and risk strategy of the bank.

As regards the trading activities, the most significant market risks identified are interest rate risk (together with basis risk), credit spread risk and foreign exchange risk. Market risk from trading activities is managed and monitored daily within the trading market risk framework, which includes all of the derivative book and the bond trading book. A prudent limit and control structure is in use. Market risk is guided by separate policies and methodologies, such as the Trading Book Market Risk Policy, the IRRBB Policy, and the FX Risk Policy.

Proper control is exercised over all elements in the process of market risk measurement and monitoring, including collection and delivery of data about positions, market factors, key preconditions, calculation of risk amount, and reporting of risk exposure via appropriate chains of rights and responsibilities.

In relation to the market risk framework, several key risk metrics complimentary to each other are reported in order to measure and monitor businesses:

- Market risk models for limit-setting: value at risk (VaR), stressed value at risk (CVaR), and a basis point value approach (BPV) for a trading book.
- Stress testing: portfolio stress testing and event risk scenarios.
- Other market metrics: sensitivities.

The impact of larger market disruptions on the portfolio's present value is quantified by stress testing. The scenarios used are calibrated to historically observed market data and defined by hypothetical, but plausible parameter changes. Scenario analyses are performed for interest rate, FX rates, credit spread, and share price. Daily backtesting is employed to identify and analyse the potential exceedance of the value at risk.

To manage market risk, internal limits are set that correspond to NLB Group Risk Profile to thereby prevent market risk from exceeding our ability to withstand losses based on our financial strength represented by capital. The risk appetite towards market risk is low.

The amount of market risk in the trading book is limited by a value at risk (VaR) that may arise in order to close relevant positions. With the VaR model, the Bank seeks to approximate the changes in value the Bank's value would experience in response to changes in the underlying risk factors. VaR identifies the probability that losses will be greater than a pre-specified threshold level. The Bank estimates VaR with a variance-covariance method. The VaR measure is computed daily with a 10-day holding period at a 99% confidence level.

For banking activities, the position limits are based on interest rate sensitivity using a basis point value approach (BPV). It assumes a parallel curve shift by 200 bps and NII sensitivity of 50 bps.

9.2. Policies for hedging or mitigating risk (Article 435.1 d of CRR)

NLB Group separately identifies, measures, monitors, and controls market risk for banking and trading book. Hedges of positions are separated on these two books.

When hedging interest rate risk in the banking book, in the majority of cases NLB Group applies hedge accounting principles. Within that process, NLB Group regularly measures hedge effectiveness of hedges on a monthly basis. Hedging in the banking book is well-documented where a description is given of the: reasons for hedging, a description of the hedged risk, hedged items, and derivatives; the hedge accounting method (fair value hedge or cash flow hedge); the method for measuring effectiveness of the hedge; and how the results of hedges are recognised in our accounting statements. The trading book items are directly recognised in the income statement. NLB Group has BPV, VaR, and stop-loss limits in place, and open positions are managed within those limits.

Data Management and Reporting

The Evaluation and Control provides and maintains data quality in the front office system for market data in a trading book and utilises tools to control accuracy of report results. The Back Office provides and maintains data input and quality in reporting systems for market data in a banking book. The Global Risk is responsible for defining a reporting structure and calculation methodology. The bank uses a centralised system for providing market data.

Global Risk reports timely, accurate, and material market risk data internally and externally. There is a close alignment with the front and middle office in order to assess market risk at the integral level. This overall view is essential to inform management discussions that seek alignment between portfolios and the integrated risk appetite.

An adequate internal reporting system reflecting the NLB Group's exposure to market risk consists of:

- Daily measurement and limit control of the market risk in a trading book (VaR, sensitivity, stop-loss limit and P/L reporting to Management),
- Weekly Report on the interest rate risk from the banking book,
- Comprehensive monthly and quarterly reports including Risk Reports and Stress Testing Results to Group ALCO and the Supervisory Board and own funding requirements for market risk in the trading book and interest rate risk in the banking book,
- Stress testing.

External reporting is as follows:

- Capital requirements based on the standardised approach,
- Quarterly report to the regulators.

Own funds requirement for Market Risk

Global Risk monitors exposures and addresses risk issues and concentrations of certain exposures under a specific Market Risk Standardised Approach (MRSA). MRSA is used to determine the regulatory capital charge for the market risk of the trading book as set out in CRR.

In the standardised approach for market risk arising from position risk involving interest rate risk and derivatives, the minimum capital requirement is expressed in terms of two separately calculated charges.

The capital charge for specific risk is modelled to protect against adverse movements in the price of an individual security due to factors related to the individual issuer. The capital charge for a general market risk is designed to measure the risk of loss arising from the changes in the market. In the case of foreign currency risk, the methods involved include measuring the exposure in a single currency position and measuring the risk inherent in a bank's mix of long and short positions in different currencies. For the capital requirements due to the general position risk at NLB Group, the maturity-based approach is used. Share price risk is not relevant for NLB Group.

Global Risk quarterly assesses and computes additional own fund requirements within Pillar II for market risk in a trading book (ICAAP). It is computed for a positions with respect to FX risk and interest rate risk in a trading book. The purpose of an ICAAP is to determine the adequate capitalisation of the bank, given the risks endured as well as future risks arising from growth, new markets, and expansion of the product portfolio.

Compliance with the Article 104 of CRR regarding Inclusion in the Trading Book

Compliance with an Article 104 of the CRR is ensured by appropriate policies and is regularly reviewed. The definition of the trading book is included in the Separation of Trading and Banking Book Policy.

Trading Book

The Trading Book includes the positions in financial instruments held either with trading intent or in order to hedge other elements of the Trading Book itself. Trade separation to the banking and trading book is done on the basis of the content. The risk that the value of a financial instrument changes over time is determined by the following standard market risk factors: credit spreads, equity risk, interest rate risk, foreign exchange risk.

Banking Book

The main components of market risk in the Banking Book are:

- credit spread risk,
- interest rate risk,
- foreign currency risk.

More precisely, the different and complementary perspectives involve:

- Economic value (EVE) perspective,
- Earnings at Risk (EaR) perspective.

Compliance with the Article 105 of CRR regarding Prudent Valuation

All trading positions are valued according to the prudent valuation specified in Article 105 of CRR. Valuation is done on real-time basis as well as via end-of-day procedures. Senior management is being briefed on regular basis as well. All procedures are standardised and well-documented. The prudent valuation is set in the Financial Instruments Evaluation Methodology and other internal operational guides. Valuation adjustments are made where applicable (e.g. low liquid assets). On a daily level, different types of controls are performed to ensure that real-time data gathered for valuation purposes are appropriate.

10. Interest rate risk on positions not included in the trading book

(Article 448 of CRR)

10.1. The nature of the interest rate risk and key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and the frequency of measurement of the interest rate risk

Interest rate risk in the Banking Book is measured and monitored within a framework of Interest rate risk management policy that establishes consistent methodologies, models, limit systems, and controls. NLB Group regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in the level and shape of the interest rate yield curve and, furthermore, applies a cash flow modelling approach for positions with uncertain maturity and behavioural options. Part of non-maturing deposits, which is considered as a core part, is allocated long-term by using replicating portfolio. Optionality risk is mainly derived from behavioural options, reflecting in prepayments and withdrawals, and embedded options such as caps and floors. Moreover, in light of expected cash flows, non-performing exposures as well as off-balance sheet items are considered when measuring interest rate

risk exposure. Optionality models are, to a large extent, based on linear regression using the historical data as input.

The management of NLB Group's interest rate exposure is decentralised. Each member is responsible for its own interest rate risk policy, which includes a limit system and is in line with local regulatory requirements as well as the parent Bank's guidelines and standards. NLB monitors the interest rate risk exposure on weakly basis and of individual member of NLB Group on a monthly basis in accordance with the Standards for Risk Management in NLB Group.

Interest rate risk exposure arises mainly from banking book positions, particularly in current low interest rate environment and surplus liquidity where NLB Group records increased volume of fixed interest rate loans, mostly housing loans, and long-term high quality debt securities. In terms of funding, non-banking sector deposits continue to increase mostly in the form of sight deposits and savings accounts.

10.2. The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency

Interest rate risk is the risk to NLB Group's capital and earnings arising from changes in market interest rates. Interest rate risk management of NLB Group includes all interest rate-sensitive on- and off-balance sheet assets and liabilities which are divided into trading and banking book according to regulatory standards. It takes into account the positions in each significant currency (EUR, USD, CHF, and other). Interest rate risk management in NLB Group is adopted in accordance with conservative risk strategy and is based on general Basel standards and EBA guidelines.

NLB Group is managing interest rate risk exposure through two main measures:

- Economic value sensitivity – using the BPV method, which measures the extent to which the value of the portfolio would change if interest rates changes according to the scenario,
- Sensitivity of net interest income – using the EaR method, which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure.

NLB Group manages interest rate positions and stabilises its interest rate margin through an appropriate pricing policy and a fund transfer pricing policy. An important part of managing interest rate risk is also the securities portfolio of the banking book, whose primary purpose is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin. This is why a valuation risk has been included in NLB Group's interest rate risk management model. NLB Group also manages risk by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting.

11. Equity holdings not in the trading book

(Article 447 of CRR)

NLB Group's non-trading book equity holdings primarily consist of financial assets measured at fair value through other comprehensive income (in 2017 - available-for-sale financial assets) of which the main part represents the National Resolution Fund which was funded and is controlled by the Bank of Slovenia in accordance with the Bank Authority and Fund Act (ZOSRB).

Table 42 – Equity holdings not in the trading book of NLB Group

	31.12.2018	31.12.2017
1 Investments in associates and joint ventures	10,652	12,359
2 Non-current assets classified as held for sale	-	2,123
3 Equity investments - measured at fair value through OCI	49,061	-
3a of which: National Resolution Fund	44,484	-
4 Equity investments - available-for-sale	-	53,184
4a of which: National Resolution Fund	-	44,514
5 Equity instruments mandatorily at FV through P&L	2,513	-
6 Total	62,226	67,666

Accounting treatment and valuation

NLB Group's exposure to equity securities measured at fair value through other comprehensive income has a balance sheet value of EUR 49,061 thousand (in 2017: EUR 53,184 thousand available-for-sale equity securities) of which quoted on active market amounted to EUR 3,185 thousand (2017: EUR 3,598 thousand).

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. At the subsequent measurements, equity investments are measured at fair value. The fair value of financial instruments traded on active markets is based on the price that would be received at the sale of the assets, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method of accounting. In March 2018, NLB Group sold its subsidiary NLB Nov Penziski Fond, Skopje, which was in 2017 classified as the disposal group held for sale, and at sale realised a profit in the amount of EUR 12 million for NLB Group and EUR 9 million for NLB.

By selling equity securities measured at fair value through other comprehensive income, in 2018 NLB Group realised a net gain in the amount of EUR 2,101 thousand, and NLB a net gain in the amount of EUR 44 thousand. Unrealised gains and losses on equities in amount of EUR 2,043 thousand were fully recognised in CET1 for 2018.

By selling equity securities available for sale, in 2017 NLB Group realised a net gain in the amount of EUR 9,964 thousand. Unrealised gains and losses on equities in amount of EUR 3,733 thousand were fully recognised in CET1 for 2017.

12. Liquidity risk management – goals and principles of Risk management

(Article 435.1 of CRR)

Liquidity Risk Management Framework

Liquidity Risk Management is considered as one of the most important risk, and consequently is managed very deliberately. Liquidity Risk Management of NLB Group is defined as the capacity to meet its cash and obligations without incurring potential losses that are not aligned with risk appetite. Adequate liquidity is dependent upon NLB Group's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting daily operations and the financial position of NLB Group. The primary role of liquidity risk management is to assess the need for funds to meet obligations and ensure the availability of cash or collateral to fulfil those needs on time by coordinating the various sources of funds available to NLB Group under normal and stressed conditions.

Liquidity risk is related to funding liquidity risk (the Group's liquidity on the liabilities side) and market liquidity risk (liquidity reserves on the assets side). On the liabilities side, liquidity risk can result in a loss if NLB Group is unable to settle all of its liabilities or when the bank, because of its incapacity to provide sufficient funds to settle its obligations, is forced to provide the necessary funds at a cost which significantly exceeds the normal cost. On the assets side, the liquidity risk is related to the market value of liquidity reserves and arises in the case of significant reduction of market value of an individual financial instrument and may result in the insufficient value of liquidity reserves to cover the Bank's liquidity needs.

Strategies and processes in the management of liquidity risk

NLB Group has set up a sound Liquidity Risk Management Framework which enabled a reliable process for identifying, measuring, monitoring, and controlling liquidity risk in the short and long-term period. NLB Group defined the risk appetite towards liquidity risk wherein the tolerance was determined as low. It is in line with NLB Group's business strategy and aligned with the most important strategic business, financial, and risk objectives.

NLB Group identified key liquidity risk drivers, set the limit system framework, liquidity score, designed liquidity stress testing scenarios, prepared a contingency funding plan, set a determination of the appropriate level of the liquidity buffer. NLB Group has active strategies and clearly defined measurable tolerances to manage liquidity and funding risk, which were established through the Liquidity Risk Management Policy.

Furthermore, NLB Group defines liquidity risk tolerance with several indicators such as LCR, NSFR, and LTD. The respective risk bearing capacity is accordingly taken into account in Group's daily operations and in financial planning activities.

The goal of NLB Group is that it fulfils the regulatory liquidity requirements at any point of time. In this regard, NLB Group focuses on exceeding short-term liquidity disruptions (LCR), and exceeding a stable funding profile in relation to the composition of assets and off-balance sheet activities (NSFR).

The LCR is designed to ensure that financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions. NLB Group is required to hold an amount of highly liquid assets, such as cash and bonds equal to or greater than the potential outflow position over a 30-day period. Under the Basel regulation, an LCR of 100% has been required since 2018.

The NSFR requires banks to maintain a stable funding profile in relation to the composition of assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the probability that disruptions to the Group's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress.

Furthermore, NLB Group established the ILAAP process with the aim of ensuring the robust management of liquidity risk and comprehensive internal liquidity adequacy assessment on a solo and consolidated level. NLB Group strategic guidelines for liquidity risk are aligned with the Risk Appetite and the Risk Strategy, while elaborated into more details in an internal liquidity policy. At the operational level, it describes how liquidity management is executed, supported, and controlled in NLB Group.

More detailed rules, limits, guidelines, and competences related to risk management are defined in the individual internal guidelines, policies, and rules on the level of NLB Group (for an example NLB Group Risk Management Standards), or on the level of each individual member of NLB Group.

Due to local specifics (macroeconomic conditions, requirements of the local regulation), some sets also include more detailed guidelines for bank members of NLB Group, but nevertheless all group members should follow the uniform key risk guidelines at the Group level established by the parent bank NLB.

As regards the assumption and management of liquidity risk, NLB Group has rules and a system of responsibility specified in:

- Definition of the risk profile and risk appetite at the level of NLB Group,
- ILAAP process in NLB Group,
- Liquidity Risk Management Policy of NLB with appendixes,
- NLB Group Risk Management Standards and Guidelines for managing liquidity risk in NLB Group,
- Methodology of implementing the ICAAP process in NLB Group in the area of liquidity risk,
- Operating instructions and lists of work procedures in the Bank's liquidity management,
- Rules of Procedure of the Assets and Liabilities Committee of NLB Group,
- Assets and Liabilities Management Policy of NLB Group,
- Funds Transfer Pricing - manual.

Structure and organisation of the liquidity risk management function

Liquidity governance is established in a way that enables reliable process for identifying, measuring, monitoring, and controlling liquidity risk. Ensuring of appropriate volume of liquidity and the management of liquidity reserves in NLB Group is carried out in a decentralised manner, in accordance with the requirements of the local regulations and the applicable internal guidelines and policies inside NLB Group.

The Management Board is obliged to define the Group's risk appetite (risk profile of the Group) as a framework for the determination of the method of managing liquidity risk in NLB Group. The Management is also responsible for adopting decisions in the area of liquidity management, ordinarily through membership and participation in the work of the ALCO. The Management Board is also responsible for the establishment of appropriate procedures for the measurement, management, supervision, and reporting in the area of liquidity risk management.

There are two committees responsible for liquidity risk management of NLB Group: the ALCO and Risk Committee. ALCO adopts decisions concerning liquidity risk management and provides guidelines, defines the structural and income criteria in order to ensure an adequate volume of liquid investments, sets up the

basic criteria for the structure of bank sources, establishes internal control mechanisms in the field of liquidity risk management and analyses the findings of audit services in this area, approves and revises the Liquidity Risk Management Policies approves and revises the Contingency Funding Plan and ensures its implementation in the case of activation.

The Liquidity Risk in NLB Group is managed in several departments as follows:

- **The Global Risk, Market, and Liquidity Risk Unit** is responsible for setting liquidity risk appetite and risk capacity bearing, and the Liquidity Risk Management Framework by establishing policies, methodologies, and limits on solo and consolidated levels. Global Risk independently controls and measures liquidity risk, reports liquidity risk independently to senior management, the Supervisory Board, and regulators. Global Risk prepares the ILAAP with other relevant departments, monitors daily data, monitors deposits from early withdrawals, performs a set of liquidity stress tests, prepares static liquidity gaps, prepares Minimal Liquidity Standards of NLB Group, and delegates the implementation of methodologies in banking members, etc.
- **Financial Markets, Assets & Liabilities Management (ALM) Unit** is responsible for adopting liquidity management decisions compliant with the policies and limits. ALM Unit is responsible for internal transfer pricing and long-term borrowings on the capital markets. ALM prepares dynamic liquidity projections and several simulations, taking care of the rational use of the Group's secondary liquidity reserves and regularly reports to ALCO.
- **Financial Markets, Trading, and Treasury Unit** is responsible for managing debt securities portfolio, providing liquidity within a single day, derivatives for the needs of liquidity in a certain currency and placing liquidity surpluses on the interbank market, preparing Group's liquidity based on the plan of transactions, and others.

Scope of nature of liquidity risk reporting and measurement systems

NLB Group identifies and manages several liquidity risk types such as market liquidity risk, operational, structural, and intraday liquidity risk, stressed liquidity risk, funding concentration risk and foreign exchange liquidity risk.

NLB Group implemented different tools for measuring liquidity risk in the form of maturity structures, stress tests, the stability of sight deposits, liquidity projections of future cash flows, a scoring model, and other relevant indicators. Internal methodological approaches enable monitoring liquidity on the operating (including intraday liquidity), as well as the structural level, including the definition of a crisis plan and liquidity management in exceptional circumstances. Liquidity risk management is continuously reviewed and the liquidity situation regularly evaluated.

NLB Group measures and manages its liquidity in three stages: current exposure and compliance, forward-looking and stress testing, and liquidity in exceptional circumstances. Overall assessment of liquidity position of the Group (including all three stages) is assessed in the ILAAP process.

Global Risk calculates a larger set of internal liquidity ratios on a solo level for NLB on a monthly basis, and reports them to the Assets and Liabilities Committee of the Group. Limits and warning levels are defined for each liquidity ratio, separately for core (banking members) and non-core members and for consolidated level. Global Risk in NLB as a parent bank determines internal liquidity ratios, limits and warning levels for other banking members. For other Group members, internal liquidity ratios are monitored monthly and reported quarterly to the ALCO, including results on the consolidated level. Reports on the liquidity risk management are submitted to senior management, ALCO, the Supervisory Board, and regulators on a regular basis.

Global Risk reports liquidity risk such as:

- Monthly Reports to the ALCO (Calculations of internal liquidity ratios and monitoring results for other group members, Results of the Scoring Model, Results of Liquidity Reserves, Liquidity Gaps, Stressed Stability of Sight Deposits, Results of the Regular Stress tests and preparing simulations in case of sudden realisation of unexpected outflows and Results of the Intraday Liquidity Stress Tests),
- Monthly Reports to the Central Bank (LCR, ALM metrics, Liquidity ladder),
- Quarterly Reports to the ALCO and Supervisory Board,
- Quarterly Reports to the Central Bank (asset encumbrance, GLTDF indicator, NSFR ratio).

Policies for hedging and mitigating the liquidity risk, and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

NLB Group mitigates liquidity risk in a several ways, such as planning liquidity needs for different periods, maintaining sufficient liquidity reserves, monitoring early warning indicators, performing stress testing, and updating the Contingency Funding Plan for an extreme circumstance.

Global Risk conducts liquidity stress tests and reverse stress tests on a monthly basis. NLB Group performs stress tests under three scenario types (market, idiosyncratic, and combined) and five intensities.

Based on the stress tests, the minimum and optimum amount of unencumbered liquidity reserves is determined for each banking member that it has to hold in order to cover potential unexpected outflows.

The limits set are:

- minimum level of liquidity reserves equals outflows in two months of severe stress scenario,
- optimum level of liquidity reserves equals outflows in three months of severe stress scenario.

In planning cash flows, NLB Group must consider several possible situations, scenarios, which have different impacts on the Bank's liquidity. The first projection of cash flows must be prepared in the so-called normal or current circumstances in which NLB Group operates and satisfies daily requirements for liquid funds (baseline scenario, assumptions used according to the budget). A second projection of cash flows is prepared on the basis of the first, basic projection, and takes into account the deterioration of current circumstances. Less inflows and more outflows from the Group's operations are foreseen, as well as deteriorated situation in fundraising, and the negative effects of the debt securities' credit quality which represent the largest part of liquidity reserves, a so-called moderate scenario. Furthermore, NLB Group prepares adverse scenarios, taking into account additional deterioration of liquidity situation of the Bank and future cash flows.

Dynamic liquidity projections are prepared monthly or, if necessary, more often. Static liquidity gaps are prepared by the Global Risk, Market, and Liquidity Risk. Dynamic liquidity projections are prepared by the Financial Markets, Assets and Liabilities Management, namely it includes in the projection of cash flows also the real assumptions and information on new transactions from business plans and the known business events. The Assets and Liabilities Management presents the dynamic liquidity projections to the ALCO, which then adopts the necessary decisions for successful management of the Bank's liquidity in the future, based on the presented results.

NLB Group has developed methodology for intraday liquidity stress testing in order to define the minimum level of liquidity reserves that have to be held for intraday liquidity purposes.

The purpose of the Contingency Liquidity Plan is to establish guidelines for liquidity management in stressed circumstances. The objective of the Contingency Liquidity Plan is timely identification of potential problems, drafting proposals and finding resolutions for performing activities in stressed circumstances. A Contingency Funding Plan is prepared on standalone basis, taking into account only the liquidity stress of NLB. Each banking member of NLB Group has its own document describing potential funding sources and roles and responsibilities of units and decision-makers in times of stressed circumstances.

In early warning system (EWS), warning limits for liquidity indicators were defined for each banking member of NLB Group. The main goal of a warning limit is to prevent any exceeding in the future and to activate at an early stage a warning that a member is moving towards the limit. If a bank or banking member exceeds the limit this would result in a higher Liquidity Score of that bank, which is closely correlated with the Contingency Funding Plan activation. If the Contingency Funding Plan is activated there are detailed activities defined in the plan that would enable the bank or a member to restore its liquidity position. Additionally, a Recovery Plan has been set up on the Group level, where detailed recovery options are defined and would enable NLB Group to recover from liquidity run-off shock back to normal business.

NLB Group maintains the appropriate level of liquidity reserves in the form of cash and other highly liquid and unencumbered assets that are available in a relatively short time. Liquidity reserves enable the settling of overdue liabilities within a predefined short period of stressed liquidity situation. Unencumbered assets represent a liquidity buffer, which includes cash, money market placements, high quality debt securities, and ECB eligible loans. At the end of December 2018, NLB Group had 37.31% of unencumbered liquidity reserves in total assets (41.09% at the end of 2017).

Declaration of the management on the adequacy of liquidity risk arrangements and a liquidity risk statement approved by the management board associated with the business strategy are disclosed in Appendix 2 and Appendix 3.

Liquidity coverage ratio

The liquidity coverage ratio (LCR) refers to highly liquid assets (HQLA), which consist of cash or assets that can be converted into cash at little or no loss of value in private markets to meet its liquidity needs for a 30-calendar day liquidity stress scenario. The LCR aims to protect NLB Group from runs by increasing the creditor's confidence in such a way to rely more on equity and less on debt. LCR may also reduce their maturity mismatches by means of extension in the liability maturities and the reduction of asset maturities. The minimum liquidity coverage is set at 100%.

Concentration of funding and liquidity sources

In accordance with the Risk appetite statement of the Group, tolerance for liquidity risk is low. Therefore, the goal of the funding strategy is to ensure a sufficient, stable, and well-diversified funding base in the long term and compliance with relevant regulatory frameworks.

The funding strategy in NLB is established in a way that enables diversification, minimises concentration risk, and limits the reliance on a short-term wholesale funding or other unstable sources. With the objective to efficiently manage liquidity and funding risk, NLB Group regularly performs stress tests and makes liquidity projections under different scenarios. With this approach, NLB Group is able to detect any potential liquidity and funding needs early.

In accordance with the business model, the primary source of funding of NLB Group represent non-banking sector deposits. NLB Group's deposit base is highly stable and diversified. Due to the high importance of non-banking deposits in the Group's funding, it is very important limiting high concentration. The desired diversification is achieved through the use of different instruments, including the application of limits by type of counterparty. Dependence on wholesale funding is low. NLB Group takes into consideration concentration of funding in order to have well diversified sources of funding and to prevent unwanted effects of concentration. For non-banking sector deposits as main funding sources of NLB Group, a limit is set to prevent a too high concentration of depositors.

Limits values are also set for other Group members and defined in the Group Risk Management Standards members must adopt limits values in their policy and comply with limits. Any deviations from limits values must be reported and justified to the parent bank. Funding structure is presented on ALCO on a monthly basis.

ALM metrics are prepared internally on solo and Group levels. In terms of funding providers, product and assets in the counterbalancing are monthly monitored and reported to the Central Bank.

On NLB Group level, at the end of 2018, the top 30 counterparties provided 2.46% of the total liabilities, mostly by retail, while top 30 counterparties in NLB provided 2.69% of total liabilities.

Derivative exposures and potential collateral calls

NLB Group enters into the derivatives to support corporate customers and financial institutions in their management of financial exposures (sales business) and in order to manage the Group's risks such as interest rate risk and FX risk.

To mitigate risk arising from derivatives, NLB Group uses netting agreements such as ISDA Master Agreement, Global Master Repurchase Agreement (GMRA), and Slovenian framework agreement. Further, collateral agreements (e.g. ISDA Credit Support Annex) are in place to substantially reduce credit risk arising out of derivatives transactions. Additionally, clearing transactions via clearing house is in place for relevant derivatives transactions. Daily margin call calculations are in place for each relevant counterparty. Portfolio reconciliation is agreed as per European Market Infrastructure Regulation (EMIR). NLB is calculating net positive market value for individual counterparty exposure on daily basis, and as a result collateral is adjusted accordingly. Regarding the LCR, the CCR exposure from the derivatives is low and there are no significant outflows to be recorded.

Currency mismatch in the LCR

The parent bank NLB actively manages liquidity risk exposures and funding needs within and across legal entities, business lines and currencies, taking into account legal, regulatory and operational limitation to the

transferability of liquidity. Specific characteristics and liquidity risks of foreign exchange positions are taken into account, particularly when preparing the plan of cash flows by currency.

In NLB Group, there are no currency mismatches in the LCR. The LCR indicator is fulfilled in all currencies because NLB Group has enough liquidity reserves in all currencies where the outflows might happen. The most significant currency of NLB Group is euro currency. Besides, the Group also reports LCR in a second significant currency and that is the Macedonian denar (MKD). In the last quarter of 2018, the aggregate liabilities in MKD was 6.08% of total liabilities of the Group, therefore MKD is qualified as a significant currency.

A description of the degree of centralisation of liquidity management and interaction between the group's units

All core members of NLB Group (banking members) are self-funded. Intragroup funding is provided only to non-core members that are in the process of disinvestment. Liquidity risk management is decentralised under strict monitoring by NLB as a parent bank. Reporting to NLB by all group members is done on a daily and monthly basis.

Other items in the LCR calculation that are not captured in the LCR disclosure table

NLB Group is focused on the retail banking activities, therefore the structure of the balance sheet does not include any complex products. There are no other items in the LCR calculation that are not captured in the LCR disclosure table.

Liquidity of the bank is strong, and the volume of unencumbered liquidity reserves is at high level. The Global Risk view is, that liquidity position is strong and it will continue to maintain at high levels as also reflected in liquidity planning and cash flow forecasting.

Tables 43 and 44 illustrates the values and data for each of the four calendar quarters (January-March, April-June, July-September, and October-December). They are calculated as a simple average of observations on the last calendar day of each month for a period of 12 months before the end of each quarter.

Table 43 – LIQ1 – LCR disclosure table, on quantitative information of LCR which complements Article 435.1 f of CRR of NLB Group

Quarter ending on	Total unweighted value (average)				Total weighted value (average)			
	31.12.2018	30.9.2018	30.6.2018	31.3.2018	31.12.2018	30.9.2018	30.6.2018	31.3.2018
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets								
1 Total high-quality liquid assets (HQLA)	-	-	-	-	2,774,539	2,633,052	2,460,750	2,390,376
Cash-outflows								
2 Retail deposits and deposits from small business customers, of which:	7,334,797	7,148,602	6,891,446	6,631,866	514,943	508,599	495,078	481,148
3 <i>Stable deposits</i>	4,882,123	4,731,225	4,557,934	4,389,576	244,106	236,561	227,897	219,479
4 <i>Less stable deposits</i>	2,452,674	2,417,378	2,333,511	2,242,291	270,837	272,038	267,181	261,669
5 Unsecured wholesale funding	1,244,045	1,255,617	1,243,999	1,260,239	643,619	662,492	653,111	667,366
7 <i>Non-operational deposits (all counterparties)</i>	1,244,045	1,255,617	1,243,999	1,236,733	643,619	662,492	653,111	643,860
8 <i>Unsecured debt</i>	-	-	-	23,506	-	-	-	23,506
10 Additional requirements	1,146,909	1,129,898	1,116,330	1,107,193	95,016	95,059	94,042	92,952
11 <i>Outflows related to derivative exposures and other collateral requirements</i>	10,907	10,520	10,371	10,154	10,907	10,520	10,371	10,154
13 <i>Credit and liquidity facilities</i>	1,136,002	1,119,378	1,105,960	1,097,040	84,109	84,539	83,671	82,798
14 Other contractual funding obligations	24,533	24,596	25,831	31,149	11,813	11,950	13,150	19,016
15 Other contingent funding obligations	783,737	763,035	744,624	731,573	66,593	64,368	62,391	60,871
16 TOTAL CASH OUTFLOWS					1,331,984	1,342,468	1,317,773	1,321,352
Cash-inflows								
18 Inflows from fully performing exposures	621,233	642,602	644,226	633,669	463,094	478,876	483,359	475,450
19 Other cash inflows	29,296	21,441	21,821	24,640	29,296	21,441	21,821	24,640
20 TOTAL CASH INFLOWS	650,529	664,043	666,047	658,309	492,390	500,317	505,180	500,090
EU-20c <i>Inflows subject to 75% cap</i>	650,529	664,043	666,047	658,309	492,390	500,317	505,180	500,090
					TOTAL ADJUSTED VALUE			
21 LIQUIDITY BUFFER	-	-	-	-	2,774,539	2,633,052	2,460,750	2,390,376
22 TOTAL NET CASH OUTFLOWS	-	-	-	-	839,594	842,151	812,593	821,261
23 LIQUIDITY COVERAGE RATIO (%)	-	-	-	-	332%	313%	304%	294%

Quarter ending on	Total unweighted value (average)				Total weighted value (average)				
	31.12.2017	30.9.2017	30.6.2017	31.3.2017	31.12.2017	30.9.2017	30.6.2017	31.3.2017	
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12	
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	2,322,374	2,318,111	2,380,347	2,344,910
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	6,381,155	6,120,144	5,965,424	5,844,199	464,845	444,888	432,626	422,729
3	<i>Stable deposits</i>	4,243,212	4,108,308	4,082,870	4,100,265	212,161	205,415	204,143	205,013
4	<i>Less stable deposits</i>	2,137,943	2,011,836	1,882,554	1,743,935	252,684	239,473	228,483	217,716
5	Unsecured wholesale funding	1,251,102	1,200,457	1,182,720	1,137,388	643,035	604,544	588,065	547,864
7	<i>Non-operational deposits (all counterparties)</i>	1,227,596	1,176,951	1,159,214	1,137,388	619,529	581,038	564,559	547,864
8	<i>Unsecured debt</i>	23,506	23,506	23,506	-	23,506	23,506	23,506	-
10	Additional requirements	1,100,042	1,103,184	1,129,226	1,164,867	91,889	97,451	109,968	128,039
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	9,931	15,060	20,753	27,710	9,931	15,060	20,753	27,710
13	<i>Credit and liquidity facilities</i>	1,090,111	1,088,125	1,108,472	1,137,158	81,957	82,392	89,214	100,329
14	Other contractual funding obligations	31,058	36,072	41,787	44,044	19,671	24,124	20,525	10,716
15	Other contingent funding obligations	728,820	740,663	764,726	797,175	60,591	61,646	61,337	61,047
16	TOTAL CASH OUTFLOWS					1,280,030	1,232,652	1,212,520	1,170,395
Cash-inflows									
18	Inflows from fully performing exposures	627,599	591,103	595,044	622,438	473,566	448,849	459,373	490,532
19	Other cash inflows	23,940	25,638	26,508	24,986	23,940	25,638	26,508	24,986
20	TOTAL CASH INFLOWS	651,539	616,741	621,552	647,424	497,506	474,486	485,881	515,518
EU-20c	<i>Inflows subject to 75% cap</i>	651,539	616,741	621,552	647,424	497,506	474,486	485,881	485,881
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER	-	-	-	-	2,322,374	2,318,111	2,380,347	2,344,910
22	TOTAL NET CASH OUTFLOWS	-	-	-	-	782,524	758,166	726,639	654,877
23	LIQUIDITY COVERAGE RATIO (%)	-	-	-	-	301%	311%	337%	361%

Table 44 – LIQ1 – LCR disclosure table, on quantitative information of LCR which complements Article 435.1 f of CRR of NLB

Quarter ending on	Total unweighted value (average)				Total weighted value (average)				
	31.12.2018	30.9.2018	30.6.2018	31.3.2018	31.12.2018	30.9.2018	30.6.2018	31.3.2018	
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12	
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	2,577,782	2,446,833	2,288,097	2,223,134
2	Retail deposits and deposits from small business customers, of which:	5,407,999	5,259,326	5,106,469	4,958,954	347,130	342,600	337,828	333,462
3	<i>Stable deposits</i>	4,187,402	4,057,750	3,927,738	3,803,989	209,370	202,887	196,387	190,199
4	<i>Less stable deposits</i>	1,220,597	1,201,576	1,178,731	1,154,966	137,760	139,713	141,441	143,263
5	Unsecured wholesale funding	835,997	870,888	900,202	947,113	472,873	502,878	515,469	544,504
7	<i>Non-operational deposits (all counterparties)</i>	835,997	870,888	900,202	923,607	472,873	502,878	515,469	520,998
8	<i>Unsecured debt</i>	-	-	-	23,506	-	-	-	23,506
10	Additional requirements	907,777	897,808	890,749	887,948	87,075	89,227	90,086	90,198
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	10,910	10,523	10,371	10,154	10,910	10,523	10,371	10,154
13	<i>Credit and liquidity facilities</i>	896,868	887,285	880,379	877,795	76,166	78,704	79,716	80,044
14	Other contractual funding obligations	22,072	21,983	23,024	28,804	9,351	9,336	10,342	16,670
15	Other contingent funding obligations	542,459	524,393	508,649	495,944	31,295	29,525	27,980	26,584
16	TOTAL CASH OUTFLOWS					947,725	973,566	981,706	1,011,417
Cash-inflows									
18	Inflows from fully performing exposures	351,172	369,082	382,357	386,722	239,933	252,900	266,669	274,289
19	Other cash inflows	29,275	21,418	21,798	24,619	29,275	21,418	21,798	24,619
20	TOTAL CASH INFLOWS	380,447	390,500	404,155	411,341	269,208	274,318	288,467	298,908
EU-20c	<i>Inflows subject to 75% cap</i>	380,447	390,500	404,155	411,341	269,208	274,318	288,467	298,908
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER	-	-	-	-	2,577,782	2,446,833	2,288,097	2,223,134
22	TOTAL NET CASH OUTFLOWS	-	-	-	-	678,517	699,248	693,238	712,509
23	LIQUIDITY COVERAGE RATIO (%)	-	-	-	-	384%	351%	331%	315%

Quarter ending on	Total unweighted value (average)				Total weighted value (average)			
	31.12.2017	30.9.2017	30.6.2017	31.3.2017	31.12.2017	30.9.2017	30.6.2017	31.3.2017
Number of data points used in the calculation of High-quality liquid assets	12	12	12	12	12	12	12	12
1 Total high-quality liquid assets (HQLA)	-	-	-	-	2,169,728	2,171,685	2,231,134	2,192,072
Cash-outflows								
2 Retail deposits and deposits from small business customers, of which:	4,822,513	4,672,791	4,540,997	4,417,215	326,904	317,711	304,847	290,674
3 <i>Stable deposits</i>	3,704,656	3,605,657	3,558,665	3,533,256	185,233	180,283	177,933	176,663
4 <i>Less stable deposits</i>	1,117,857	1,067,134	982,333	883,959	141,671	137,428	126,914	114,011
5 Unsecured wholesale funding	967,834	929,631	871,668	775,452	539,409	507,311	474,501	415,139
7 <i>Non-operational deposits (all counterparties)</i>	944,328	906,125	848,162	775,452	515,903	483,805	450,995	415,139
8 <i>Unsecured debt</i>	23,506	23,506	23,506	-	23,506	23,506	23,506	-
10 Additional requirements	884,836	896,243	926,822	962,512	89,087	95,847	106,829	122,119
11 <i>Outflows related to derivative exposures and other collateral requirements</i>	9,931	15,060	20,672	27,503	9,931	15,060	20,672	27,503
13 <i>Credit and liquidity facilities</i>	874,904	881,184	906,150	935,008	79,155	80,787	86,157	94,616
14 Other contractual funding obligations	28,549	29,321	33,985	33,987	17,160	17,373	14,284	5,380
15 Other contingent funding obligations	495,159	510,338	535,286	559,938	26,665	28,219	30,101	31,800
16 TOTAL CASH OUTFLOWS					999,223	966,460	930,563	865,112
Cash-inflows								
18 Inflows from fully performing exposures	384,343	359,802	348,054	348,960	274,872	260,122	255,033	260,557
19 Other cash inflows	23,937	25,638	26,508	24,986	23,937	25,638	26,508	24,986
20 TOTAL CASH INFLOWS	408,281	385,440	374,563	373,946	298,810	285,759	281,542	285,544
EU-20c <i>Inflows subject to 75% cap</i>	408,281	385,440	374,563	373,946	298,810	285,759	281,542	285,544
					TOTAL ADJUSTED VALUE			
21 LIQUIDITY BUFFER	-	-	-	-	2,169,728	2,171,685	2,231,134	2,192,072
22 TOTAL NET CASH OUTFLOWS	-	-	-	-	700,414	680,701	649,022	579,569
23 LIQUIDITY COVERAGE RATIO (%)	-	-	-	-	314%	324%	355%	383%

13. Leverage

(Article 451 of CRR)

The leverage ratio is a calculated line with provisions from the CRR and CRD, including the amendments published in Commission Delegated Regulation (EU) No. 2015/62, 2016/200, and 2016/428.

The leverage ratio was introduced into the Basel III framework as a simple, transparent, non-risk based supplementary measure to the risk-based capital requirements. The purpose of the leverage ratio is to limit the size of bank balance sheets, and with a special emphasis on exposures which are not weighted within the framework of the existing capital requirement calculations. Therefore, the leverage calculation uses Tier 1 as the numerator, and the denominator is the total exposure of all active balance sheet and off-balance-sheet items after the adjustments are made, in the context of which the exposures from individual derivatives, exposures from transactions of security funding, and other off-balance sheet items are especially pointed out. From 1 January 2018, the leverage ratio is calculated in accordance with the fully phased definition of the capital measure and has become one of the mandatory minimum capital requirements.

The leverage ratio of NLB Group as at 31 December 2018 amounted to 9.88%, which is well above the 3% threshold defined by the Basel Committee on Banking Supervision. Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not material. NLB Group's business model supports a low leverage risk appetite. In order to assure a limited risk appetite for leverage, NLB Group follows different indicators to identify reasons for past changes and understands potential future threats. The leverage ratio is also included in an early warning system, as a recovery plan indicator where it has set certain limits for a case of any exceeding's of defined triggers and the defined notification system. The leverage ratio is regularly, and quarterly monitored and reported to ALCO, and the Management Board and Supervisory board of NLB. Moreover, the leverage is also integrated in a stress tests framework with the aim to maintain an adequate capital level even in the case of extraordinary circumstances. More specifically, if the leverage ratio also remains stable in such stressed, conditions, the risk of a forced decrease in the Bank's assets is low.

The leverage ratio as at 31 December 2018 slightly decreased in comparison with the previous year, by 0.02 percentage points. The decrease occurred primarily due to the higher value of the total leverage exposure calculated in accordance with Article 111 of the CRR by EUR 664 million. The higher amount of total leverage exposure arose from increased on-balance sheet exposures. It refers specifically to the banking book exposures treated as sovereign and retail exposures, and exposures in covered bonds,

including higher off-balance sheet exposures. Exposures in derivatives increased in comparison with the previous year, but are relatively unimportant. The impact of a capital increase on the leverage ratio was EUR 63 million.

As at 31 December 2018, the leverage exposure was mainly driven by on-balance sheet exposures (96.1%), and other off-balance sheet exposure (3.7%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures, the most significant were Retail exposures (26%), exposures treated as Sovereigns (25%), exposures to Corporates (16%), and 16% to Other exposures.

Table 45 – Leverage ratio of NLB Group

Leverage ratio of NLB Group			
	31.12.2018	30.9.2018	31.12.2017
Tier 1 capital	1,453,402	1,458,318	1,390,579
Total leverage exposures	14,709,318	14,689,801	14,044,985
Leverage ratio	9.88%	9.93%	9.90%

Table 46 – LRCom - Leverage ratio common disclosure for NLB Group

	31.12.2018	30.9.2018	31.12.2017
	CRR leverage ratio exposures	CRR leverage ratio exposures	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)			
1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	14,166,782	14,171,366	13,584,533
2 (Asset amounts deducted in determining Tier 1 capital)	(36,951)	(33,066)	(37,363)
3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	14,129,831	14,138,301	13,547,170
Derivative exposures			
4 Replacement cost associated with <i>all</i> derivatives transactions (ie net of eligible cash variation margin)	15,329	14,177	14,212
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	23,828	23,632	22,719
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(459)	(2,284)	(2,229)
8 (Exempted CCP leg of client-cleared trade exposures)	(10,606)	(10,791)	(11,831)
11 Total derivative exposures	28,092	24,734	22,871
Securities financing transaction exposures			
16 Total securities financing transaction exposures	-	-	-
Other off-balance sheet exposures			
17 Off-balance sheet exposures at gross notional amount	2,041,327	1,975,304	1,890,516
18 (Adjustments for conversion to credit equivalent amounts)	(1,489,933)	(1,448,537)	(1,415,572)
19 Other off-balance sheet exposures	551,395	526,767	474,944
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)			
Capital and total exposures			
20 Tier 1 capital	1,453,402	1,458,318	1,390,579
21 Total leverage ratio exposures	14,709,318	14,689,801	14,044,985
Leverage ratio	9.88%	9.93%	9.90%
22 Leverage ratio	9.88%	9.93%	9.90%

Table 47 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures for NLB Group

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures			
	31.12.2018	30.9.2018	31.12.2017
1 Total assets as per published financial statements	12,740,029	12,783,718	12,237,745
2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(26,495)	(27,193)	(36,806)
4 Adjustments for derivative financial instruments	12,763	10,557	8,659
6 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	551,395	526,767	474,944
7 Other adjustments	1,431,626	1,395,952	1,360,443
8 Leverage ratio total exposure measure	14,709,318	14,689,801	14,044,985

Table 48 – LRSpl – Split-up of on balance sheet exposures for NLB Group

		CRR leverage ratio exposures		
		31.12.2018	30.9.2018	31.12.2017
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	14,166,782	14,171,366	13,584,533
EU-2	Trading book exposures	48,698	32,597	59,164
EU-3	Banking book exposures, of which:	14,118,084	14,138,769	13,525,369
EU-4	Covered bonds	283,980	227,442	89,191
EU-5	Exposures treated as sovereigns	3,579,114	3,528,747	3,060,144
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	325,282	260,769	253,401
EU-7	Institutions	738,940	1,076,520	1,265,587
EU-8	Secured by mortgages of immovable properties	692,217	728,166	697,134
EU-9	Retail exposures	3,737,015	3,656,887	3,410,857
EU-10	Corporate	2,250,563	2,195,030	2,240,627
EU-11	Exposures in default	208,660	227,533	297,000
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2,302,313	2,237,675	2,211,428

14. Operational risk management

(Article 446 of CRR)

14.1. Approaches for the assessment of own funds requirements for operational risk

The capital requirement for operational risk is calculated using the basic indicator approach at the NLB Group level and using the standardised approach at the NLB level.

14.2. Description of other internal approaches and methodologies in the area of operational risk

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. The risk is also gradually decreasing due to reduced complexity of operations in the Group with disinvestment process of non-core activities. NLB Group has set up a system of collecting loss events, identification, assessment, and management of operational risks, all with the aim of ensuring quality management of operational risks. This is particularly valid in strategic banking members.

All NLB Group banking members monitor the upper limit of tolerance to operational risk, defined as the limit amount of net loss that an individual member still allows in its operations. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, takes additional measures for the prevention or mitigation of the same or similar loss events. The critical limit of loss events is also defined, which in the case of exceeding requires an assessment of the possible increase in the capital requirement for operational risk within ICAAP and other possible risk management measures. In addition, the bank does not allow certain risks in its business – for them the so-called zero tolerance was defined. For monitoring, some specific, more important key risk indicators that could show a possible increase of an operational risk, the Bank developed an early warning system. In order to monitor certain important risks that could indicate an increased operational risk as an early warning indicator, the Bank developed a specific methodology. Such risks are periodically monitored in different business areas, and the results are discussed at the Operational Risk Committee. The latter was named as the highest authority in the area of operational risk management. Relevant operational risk committees were also appointed at other NLB Group banks. The management board serves in this role at other subsidiaries. The main task of the aforementioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks including their mitigation within an individual entity. All NLB Group entities, which are included in the consolidation, have adopted relevant documents that are in line with NLB standards. In banking members, these documents are in line with the development of operational risk management and regularly updated. The whole NLB Group uses uniform software support, which is also regularly upgraded.

In NLB Group, the reported incurred net loss arising from loss events in 2018 were approximately at the same level as in the previous year, and represents a relatively small part of the capital requirement for operational risk. In general, considerable attention is paid to reporting loss events, their mitigation measures and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank has introduced an escalation scale for reporting loss events to the top levels of decision-making at NLB and the Supervisory Board of NLB. Additional attention is paid to the reporting of potential loss events in order to improve the internal controls, and thus minimise those and similar events.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and appropriately managed. The major operational risks are actively managed with the measures taken to reduce them. An operational risk profile is prepared once a year on the basis of the operational risk identification. Special emphasis is put on the most topical risks, among which in particular are those with a low probability of occurrence and very high potential financial influence. For this purpose the Bank has developed the methodology of stress testing for operational risk. The methodology is a combination of modelling loss event data and scenario analysis for exceptional, but plausible events. Scenario analysis are made based on experience and knowledge of experts from various critical areas.

15. Remuneration policy

15.1. Information on the decision-making process used for determining the Remuneration Policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders

(Article 450.1 a of CRR)

In compliance with ZBan-2, the Regulation on Internal Management Arrangements, Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks and the Regulation of the Bank of Slovenia on the application of the Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of CRR, the Bank is obliged to enforce the Remuneration Policy for the employees performing special work at the levels of NLB and NLB Group. The Policy of Remuneration for the Employees Performing Special Work (hereinafter: 'the Remuneration Policy') entered into force on 1 January 2012. The Policy is regularly revised and aligned, in compliance with the requirements of the aforementioned regulations, the relevant guidelines, the Slovenian Corporate Governance Code for Joint-Stock Companies and the Corporate Governance Code for Companies with a State Capital Investment.

In 2018 the Remuneration Policy was partially updated based on the resolution on the adaptation to the applicable EBA Guidelines which became a binding legal act that the Bank must comply with especially when setting variable remuneration of the employees whose professional activities have a material impact on the Bank's risk profile.

The Remuneration Policy regulates the remuneration of employees performing special work, i.e. those who can significantly impact the risk profile of the Bank in the scope of their tasks and activities. Through the system of governance and supervision of NLB Group the Remuneration policy, as described in the continuation, is also implemented at the level of all NLB Group members in compliance with the local legislation and other regulation (i.e. restrictions imposed on NLB according to the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities ZPPOGD, described in the continuation under item 15.6.).

Compliance with the rules of the Remuneration Policy, taking into account all the regulations binding on the Bank, ensures that conflicts of interest arising from the payment of variable or fixed remuneration in instruments are identified in advance and managed. The Remuneration Policy further ensures that no potential conflicts of interest arise for employees in control functions. Once a year, the Bank makes a self-assessment of the appropriateness of classification of the employees performing special work on the basis of the qualitative and quantitative criteria from the Delegated Regulation (EU) No 604/2014.

The decision-making process about the formulation, amendments, and supplements to the Remuneration Policy involves the expert services, the Management Board, the Remuneration Committee, and the Supervisory Board of NLB, whereby the latter also approves the Remuneration Policy. In the formulation, preparation, or implementation of the Remuneration Policy the external consultant was engaged, attorney.

The Remuneration Committee of the Supervisory Board of NLB held three meetings in 2018. The members of the Remuneration Committee in 2018 were:

- Vida Šeme Hočevar, Chair
- Simona Kozjek, Deputy Chair
- Primož Karpe, Member
- László Urbán, Member

Pursuant to Article 52 of the ZBan-2 the **Remuneration Committee** discharges the following duties:

- 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 appropriateness of the external consultant 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.

15.2. Information on the link between pay and performance (Article 450.1 b of CRR)

The Remuneration Policy provides clear orientations for prudent remuneration of employees performing special work in accordance with the above regulations, and with the aim of ensuring prudent and efficient risk management.

In defining the employees performing special work, the internal organisation and the nature, scope, and complexity of the Bank's activities are taken into account. The criteria fully take into account the risks that the Bank or the NLB Group is or could be exposed to given its risk profile and risk appetite.

The Remuneration Policy supports the business strategy of the Bank, as well as its goals, organisational culture, and long-term interests. The Remuneration Policy does not stimulate the employees performing special work to assume non-proportionally high risks or risks that exceed the ability of the Bank to assume risks. The Bank ensures pursuing of this goal with an appropriate structure, amount, and method of payment of remuneration.

In terms of payment of the variable part of the salary, the Remuneration Policy takes into account the fulfilment of obligations or achievement of goals referring to capital or liquidity, and helps achieve and maintain a sound capital base. Pursuant to the guideline from Item 6 of the Guidelines of the Bank of Slovenia on the application of the principle of proportionality when implementing income policies, the Bank defined the variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2 by determining the bottom threshold in such a manner that the variable remuneration of an employee that does not exceed EUR 50,000.00 gross in a year is as a rule not considered a variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2. The defined amount per employee, taking into account the principle of proportionality, risk strategy, and risk profile, ensures efficient and prudent risk management.

The Remuneration Policy shall apply to the employees performing special work who are defined as such based on the Bank's self-assessment updated during the year. An employee is considered an employee performing special work subject to the fulfilment of the criteria on the exposure in terms of risk profile and risk appetite, and self-assessment based on the qualitative and quantitative criteria from the Delegated Regulation (EU) No 604/2014 over a period of at least three months.

Certain employees performing special work may be exempted from the application of the Remuneration Policy if the Bank estimates, based on self-assessment, that they do not meet the conditions set out in the Remuneration Policy, namely, performing work that has a significant impact on the Bank's risk profile.

The following financial and non-financial performance criteria are defined every year for assessing the performance of employees performing special work. The financial criteria consist of the goals of NLB that are approved by the Supervisory Board every year and apply to all employees performing special work. The performance criteria for employees performing special work who are included in the 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.

Table 49 shows the variations in the payment of the variable part which depend on the achievement of the goals by the employees performing special work, and the amount of variable part to which employees performing special work are entitled in case the following are achieved:

- goals of NLB (or NLB Group),
- goals of the relevant organisational unit or
- personal goals of the employee performing special work.

Table 49 – Presentation of possible variants for payment of variable part for NLB Group

Performance criterion	Achieved or exceeded goals	Achieved or exceeded goals			
1. Goals of the NLB Group (for the Management Board) and/or NLB	yes	no	yes	no	yes/no
2. OU goals	yes	yes	no	no	yes/no
3. Personal goals	yes	yes	yes	yes	no
Entitlement to the variable part of salary	yes	yes	yes	yes	no
Amount of the variable part of salary arising from:	For the Management Board and the front offices:	For the Management Board and the front offices:	For the Management Board and the front offices:	For the Management Board and the front offices:	
- the goals of the NLB Group/NLB d.d.	up to 2 salaries +	up to 2 salaries +	up to 2 salaries +		No payment of the variable part
- the goals of the OU	up to 2 salaries +	up to 1 salary	up to 1 salary	up to 1 salary	
- personal goals	up to 1 salary		up to 1 salary	up to 1 salary	
	= up to 5 salaries in total	= up to 3 salaries in total	= up to 3 salaries in total	= up to 1 salary in total	
Amount of the variable part of salary arising from:	For other employees:	For other employees:	For other employees:	For other employees:	
- the goals of the NLB Group/NLB d.d.	up to 1 salary +	up to 1 salary +	up to 1 salary +		No payment of the variable part
- the goals of the OU	up to 1 salary +	up to 1 salary	up to 1 salary	up to 1 salary	
- personal goals	up to 1 salary		up to 1 salary	up to 1 salary	
	= up to 3 salaries in total	= up to 2 salaries in total	= up to 2 salaries in total	= up to 1 salary in total	

Table 50 defines the maximum possible remuneration of an employee based on the assessment of achievement of individual goal.

Table 50 – Definition of the amount of remuneration for NLB Group

Assessment of performance	Front office	Other than front office	Front office and other
	Goals of the NLB and goals of the OU	Goals of the NLB and goals of the OU	Personal goals
5 – all goals exceeded	up to 2 salaries	up to 1 salary	up to 1 salary
4 – most of the goals exceeded	up to 1.5 salary	up to 0.75 salary	up to 0.75 salary
3 – goals achieved	up to 1 salary	up to 0.5 salary	up to 0.5 salary
2 – goals partly not achieved	-	-	-
1 – goals not achieved	-	-	-

The Remuneration Policy stipulates that a decision on 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 they are adopted by the Bank's Management Board. An employee is not entitled to the annual variable part of salary if they fail to achieve their personal goals, regardless of whether or not the goals the Bank and the OU have been achieved or not. The employee is not entitled to the annual variable part of the salary if they grossly violate the values of NLB Group defined in the Ethical Code of NLB Group.

When assessing the performance of the Management Board and when determining the scores, the Supervisory Board may take into account the interim situation on the banking and economic market, and assess the Management Board's achievement of goals considering its activities aimed at pursuing the Bank's best interest. The variable part of salary in NLB Group is paid after the confirmation of the performance results of NLB at the General Meeting of NLB d.d.

For 2017, employees performing special work received the annual variable part of the salary, the amount of which depended on their assessed achievement of the financial and non-financial performance criteria and on the duration of the term of office of each employee performing special work. Furthermore, the employees performing special work were also paid out the deferred variable part of the salary for 2014 in 2018 based on the approval of the Supervisory Board on the fulfilment of all the conditions.

15.3. The essential components of the policy of remuneration for employees performing special work

(Article 450.1 c of CRR)

The Remuneration Policy promotes prudent and effective risk management.

The salary of the employees performing special work is composed of:

- a fixed part of the salary, and
- a variable part of the salary which depends on the following:
 - work depending on the performance of NLB Group (for the Management Board) and NLB (for other employees performing special work),
 - work depending on the performance of the organisational unit of the employee performing special work,
 - work depending on individual performance of employee performing special work.

The ratio between the variable and the fixed components of salary differs depending on the business, joint or control/supervisory function performed by an individual.

The level of impact is measured by different criteria, considering the impact on:

- revenues,
- expenses,
- credit risks,
- risk of operations,
- business strategy,
- NLB Group,
- cross functional work,
- number of employees.

The amount of impact is determined on the basis of the number of the above criteria fulfilled:

- two (2) criteria or fewer – small impact,
- three (3) criteria – medium impact,
- at least (4) criteria – great impact.

Performance of employees performing special work is measured using special financial (quantitative) and non-financial (qualitative) performance criteria that must be included in at least one of the aforementioned groups of goals.

The performance criteria for employees performing special work who are included in the supervisory / control function are established on the basis of the goals of their function and powers. They shall receive remuneration depending on the achievement of goals linked to their functions, which should be independent from the performance of the supervised organisational units.

Annual interviews are held with employees performing special work, where the expected results or goals are defined for every employee based on NLB Strategy, the goals of NLB, as well as its development and project goals.

Goals of NLB and NLB Group

The Management Board sets the goals of NLB and NLB Group for each business year and the Supervisory Board approves them. The goals that are set for NLB Group also apply to the Management Board. The goals that are set for NLB also apply to other employees performing special work.

The maximum possible amount of the variable part of the salary, subject to achievement of NLB or NLB Group goals, are two salaries for the Management Board and employees performing special work who are included in the business function, and one salary for other employees performing special work.

The definition of NLB Group goals is based on the financial and non-financial performance indicators. The 2018 indicators were as follows:

- Financial performance indicators (achievement of the planned values):
 - Net profit after tax
 - Return on equity (ROE) after tax
 - Total revenues
 - Total costs
 - Cost/Income Ratio (CIR)
 - Net cost of risk¹
- Non-financial indicators:
 - Achievement of the planned value of the share of non-performing exposures (NPE ratio according to the EBA definition)
 - Reduction in the volume of NPE
 - Fulfilment of the commitments towards the European Commission
 - Achievement of the set goals related to social responsibility
 - Implementation of activities related to privatisation (according to the plan)

Goals of the OU of the employee performing special work

The goals of the OUs, which arise from the goals of NLB Group and/or NLB, are imposed on the employees performing special work by their superior who is a member of the Management Board and are based on both financial and non-financial criteria (mainly in non-front-office OUs). When determining the goals of the OU, the cross-functional goals of different OUs, goals related to the goals of NLB Group by the relevant business line, the inclusion in projects, etc. are considered.

The maximum amount of the variable part of the salary, subject to achievement of OU goals, is two salaries for the Management Board and the employees performing special work who are included in a business function, and one salary for other employees performing special work.

Personal goals of the employee performing special work (development, project, and other goals)

Development and/or personal goals represent non-financial criteria of performance of an employee performing special work and include personal development of the relevant employee that can be measured with the results of the corporate climate and improved competencies, which can be measured using the 360° assessment tool.

The maximum amount of the variable part of the salary shall be one salary for other employees performing special work.

The variable part of the remuneration should not be awarded or paid out when the effect would be that the capital base of the Bank would no longer be sound. If the soundness of the capital base is at risk, the Bank shall take the following measures when allocating and paying the variable remuneration within the required scope:

- reduce the variable bonus pool for the previous business year, even down to zero
- use the necessary measures to adjust the performance, particularly the maluses for the reduction of previously approved deferred variable remuneration
- reduce the previously paid remuneration based on the agreement on the return of variable remuneration
- use the net profit of the institution for that year and potentially for subsequent years to strengthen the capital base.

Deferred payment of the variable part

Based on the EBA guidelines and the Bank of Slovenia guidelines, the variable part of the remuneration for the employees performing special work is paid in cash for a business year in which it does not exceed EUR 50,000.00, based on the following model:

- 50% is payable upon confirmation of business results at the Bank's General Meeting,
- 50% is paid after three years.

For a business year in which it exceeds EUR 50,000.00, the variable part of the remuneration for the employees performing special work is paid based on the following model:

- 50% in cash,

¹ Net cost of risk = net established credit impairments and provisions in a period / average net loans to the non-banking sector

- 50% in financial instruments, in which case the person obtaining the instruments may only transfer them upon the Bank's approval which may only be issued at least two years after the acquisition.

After the period of deferment, the payment is made no later than within three months after the confirmation of the performance results at the Bank's General Meeting.

Prior to the payment of the deferred variable part of the salary, NLB must check if all conditions for the payment of the deferred variable part of the salary have been met. The Supervisory Board of the Bank may adopt a unilateral decision on the amount of the payment of the deferred variable part of the salary, and the Management Board of the Bank may adopt a unilateral decision on the amount of the payment of the deferred variable part of the salary, namely:

- An employee performing special work is paid 100% of the deferred variable part of the salary in the case that there are no negative trends in the Bank's operations during the deferment period that resulted from the decisions made by the employee performing special work, and in the case the employee performing special work did not commit any severe violations of the regulations and the Bank's internal regulations, abuses, or inefficient acts. When assessing these acts NLB will act according to the zero tolerance principle, and will consider as a severe violation of the regulations those acts that show the signs of a criminal offence, violation, breach of obligations arising from employment and/or those acts that constitute a conflict of interests with the Bank's business interests, as well as corruptive acts that constitute or reinforce non-transparency in the adopting of business decisions while performing the functions in the Bank. All acts that are committed intentionally or from gross negligence and cause damage to the Bank are considered as inefficient conduct;
- An employee performing special work is not paid the deferred variable part of the salary in the case that the Bank's performance in the period of deferred payment shows material negative trends that result from the decisions adopted by the employee performing special work.

Amount of payment of the variable part of the remuneration for 2017

Pursuant to Item 7 of Article 170 of the ZBan-2, the Bank's remuneration policy stipulates that at least 50% of the variable part of the remuneration of each employee performing special work should be composed of ordinary or preference shares of the Bank, or of instruments related to shares or equal non-cash instruments when the Bank's shares are not listed on the regulated market, whereby the person obtaining the shares or instruments may only transfer them upon the Bank's approval, which may only be issued after at least two years of the obtaining. Pursuant to the second paragraph of the above Article, the Bank must follow this principle (like other principles of the remuneration policies) in a way and to the extent compliant with its size, internal organisation and nature, as well as the volume and complexity of its activities. As the Bank's shares are not listed on the stock exchange, part of the variable salary should be paid in the aforementioned financial instruments, however, according to the guidelines of the Bank of Slovenia, this rule does not apply when the variable part is less than EUR 50,000 gross.

The Supervisory Board adopted a resolution on the payment of remuneration to the members of the Management Board on 22 June 2018. On 26 June 2018, the Management Board approved the resolution to pay to the employees performing special work the pertaining variable part based on the actual assessments of the entitlement to variable remuneration, namely to pay 50% of the variable part immediately and to defer 50% and pay it after three years. The payment was made on 11 July 2018.

Defining the goals of employees performing special work in 2018

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

In 2018, the goals of NLB were approved by the Supervisory Board, and were included in the forms for monitoring performance of all employees performing special work. *The goals for individual OUs* were defined top-down, which means that each member of the Management Board set goals for their directly subordinate employees performing special work, whereas the latter set goals down the line of management. The goals of the OU can be financial or non-financial and must be defined according to the SMART method, which means that they have to be specific, measurable, challenging, achievable, relevant, and time bound.

When setting goals, the following shall be defined:

- The number of goals – 3 to 5 key goals are set as a rule, depending on the complexity of work, and may be changed during the period;
- Weight – a weight shall be set for each goal, reflecting the importance of the set goal;
- Deadline – the start date and the end date shall be set for the goal;
- Interim goals or main activities for the achievement of the goal;
- Criterion – indicators shall be defined for determining goal attainment;
- Target value – definition of the expected result.

The goals are set by taking into account the adopted risk appetite and risk strategy defining the risk appetite in the framework of KPI & KRI targets.

Personal goals for all employees performing special work were set on an individual basis for each employee, depending on the assessment of the superior director or member of the Management Board for the area where development of the employee performing special work is required and on the assessment based on testing of DNLA, the results of the corporate climate and personal development guidelines.

15.4. The ratio between fixed and variable remuneration (Article 450.1 d of CRR)

The ratio between fixed and variable remuneration depends on the function performed by each individual, namely:

- For employees performing special work who are included in a business function the ratio between the fixed and the variable part of the salary can be 60%:40%;
- For the employees performing special work who are included in a joint (other professional services) and supervisory function the ratio between the fixed and the variable part of the salary can be 80%:20%.

The employment contract can stipulate a predetermined variable part of the salary of an employee performing special work only for the first year of their employment in accordance with the Bank's long-term interests, including the rules regarding the employee's performance and the rules regarding retention, deferral, and repayment of funds.

The Supervisory Board may request from a member of the Management Board, and the Management Board can request from other employees performing special work to return the already paid variable part of the salary or its proportionate part (the third paragraph of Article 270 of the ZGD-1):

- if the nullity of the annual report is established with a binding effect and the grounds for nullity refer to the items or facts based on which the variable part of the salary was defined, or
- based on a special auditor's report establishing that the criteria for defining remuneration were applied incorrectly or that the critical accounting, financial, and other data and indicators were incorrectly established or applied.

The maximum amount of the variable remuneration for the annual distribution of the variable remuneration is defined as follows:

- for employees performing special work who are included in a business function the maximum amount of the variable part of the salary can be five salaries of the employee performing special work;
- for other employees performing special work the maximum amount of the variable part of the salary can be three salaries of the employee performing special work.

	Goals of NLB (or NLB Group for Core Group Steering)	Goals of organisational unit	Development (personal) goals of employee performing special work	Maximum amount of the variable part of salary
Front-office function	up to 2 salaries	up to 2 salaries	up to 1 salary	up to 5 salaries
Other than front-office function	up to 1 salary	up to 1 salary	up to 1 salary	up to 3 salaries

The maximum total remuneration per employee performing special work is limited to 15 times the average salary in the Republic of Slovenia or 10 times the average gross salary in NLB. The maximum amount of

income is limited to the higher of the two indicated amounts. In addition to the other applicable limitations, the variable part of the salary of a member of the Management Board of NLB per year may not exceed 3.6 times their salary for the last month prior to the payment of the variable part of the salary.

15.5. Information on the performance criteria on which the entitlement to shares, options, or variable components of remuneration are based
(Article 450.1 e of CRR)

Pursuant to the guideline from Item 6 of the Guidelines of the Bank of Slovenia on the application of the principle of proportionality when implementing income policies dated 22/06/2016, the Bank defined the variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2 by determining the bottom threshold in such a manner that the variable remuneration of an employee that does not exceed EUR 50,000 gross in a year is as a rule not considered a variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2. An equal amount, taking into account the principle of proportionality, is also set at NLB Group level.

Accordingly, the variable remuneration in 2018 was not paid in ordinary or preference shares of the Bank or instruments related to shares or equal non-cash instruments.

If the Bank is supposed to, pursuant to the applicable regulations, pay the variable part of the remuneration of a specific individual in ordinary or preference shares of the Bank, or instruments related to shares or equal non-cash instruments when the Bank's shares are not listed on the regulated market, the variable remuneration is set according to the criteria whereby the Bank ensures compatibility with a prudent and efficient risk management.

Each year, the Bank's Management Board and Supervisory Board confirm the content of the financial instrument which thus becomes a constituent part of the remuneration policy.

15.6. Main parameters and rationale for any variable component scheme and any other non-cash benefits
(Article 450.1 f of CRR)

The main parameters of variable components are specified in the employment contract according to the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) and the ZBan-2.

The variable pay is limited pursuant to the ZPPOGD. Pursuant to the Bank's Remuneration Policy the amount of the variable pay is limited to five salaries for the Management Board and the front-office staff, and three salaries for the non-front-office staff.

Other rights of the members of the Management Board are determined in the Rules on determining other rights under management employment contracts and other acts of the Bank.

The Rules regulate the list and limitations of any other rights of managers, which can be defined in the employment contract, while in accordance with the provisions of the ZPPOGD such rights are regulated with a special documents or rules of the Bank's Supervisory Board. The list of other rights encompasses:

- company car for both business and private purposes,
- company car with a driver,
- company mobile phone,
- air travel,
- accommodation in Ljubljana,
- family separation allowance,
- housing loans for the staff,
- Eurocard NLB business card,
- entertainment allowance,
- accident insurance,
- health insurance,
- voluntary collective supplementary pension insurance,
- executive health screen,
- education and training,
- membership fees,

- parking space,
- accommodation while on a business trip,
- third-party liability insurance,
- holiday allowance and
- payment of education expenses of minor family members of members of the Management Board.

15.7. Quantitative information on remuneration

(Article 450.1 g and h of CRR)

Table 51 – Accounted remuneration in year, combined by operating segment for NLB Group

2018	MB Supervisory function	MB Management function	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other
Members (Headcount)	24	47	-	-	-	-	-	-
Number of identified staff in FTE	-	-	2.00	41.03	6.92	6.37	22.40	86.05
Number of identified staff in senior management positions	-	-	2	42	7	7	23	87
Total fixed remuneration (in EUR)	318,210	4,194,175	143,452	2,248,637	372,219	451,974	1,087,726	4,575,699
Of which: fixed in cash	318,210	4,194,175	143,452	2,248,637	372,219	451,974	1,087,726	4,575,699
Total variable remuneration (in EUR)	-	1,102,318	66,342	1,039,335	134,521	78,937	235,913	910,660
Of which: variable in cash	-	1,102,318	66,342	1,039,335	134,521	78,937	235,913	910,660
Total amount of variable remuneration awarded in year which has been deferred (in EUR)	-	503,981	26,271	397,155	48,593	36,886	95,451	402,447
Of which: deferred variable in cash in year	-	503,981	26,271	397,155	48,593	36,886	95,451	402,447
Additional information regarding the amount of total variable remuneration								
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in year (in EUR); Art 450 h(iii)CRR;	-	568,980	40,359	670,429	83,642	30,331	139,645	533,778
2017	MB Supervisory function	MB Management function	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other
Members (Headcount)	34	48	-	-	-	-	-	-
Number of identified staff in FTE	-	-	3.00	38.40	7.98	9.27	21.74	91.47
Number of identified staff in senior management positions	-	-	3.00	39.00	8.00	10.00	23.00	92.00
Total fixed remuneration (in EUR)	330,876	4,441,184	195,445	3,135,419	428,966	483,990	1,136,671	5,221,280
Of which: fixed in cash	330,876	4,441,184	195,445	3,135,419	428,966	483,990	1,136,671	5,221,280
Total variable remuneration (in EUR)	-	852,932	55,226	782,747	86,769	117,292	179,498	866,487
Of which: variable in cash	-	852,932	55,226	782,747	86,769	117,292	179,498	866,487
Total amount of variable remuneration awarded in year which has been deferred (in EUR)	-	392,540	26,026	378,345	40,707	52,840	81,336	406,896
Of which: deferred variable in cash in year	-	392,540	26,026	378,345	40,707	52,840	81,336	406,896
Additional information regarding the amount of total variable remuneration								
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in year (in EUR); Art 450 h(iii)CRR;	-	602,867	26,933	558,737	73,809	49,993	112,507	551,066

MB Supervisory function includes the Supervisory Board of NLB and the Supervisory Boards of NLB Group subsidiaries where employees performing special work of NLB are also members. These employees do not receive a compensation for performing a supervisory function. Payments to the individual members of the Management Board of NLB (parent bank), other key management personnel, and members of the Supervisory Board of NLB (parent bank) are disclosed in the Annual Report for NLB Group 2018 in chapter Related-party transactions (page 336).

15.8. The information on individuals being remunerated EUR 1 million or more

(Article 450.1 i and j of CRR)

None of the employees performing special work was paid EUR 1 million or more in 2018. Payments to individual members of the Management Board are disclosed in the Annual Report for NLB Group 2018 in chapter Related-party transactions (page 336).

16. Appendices

16.1. Appendix 1

Information on whether or not the institution has set up a separate risk committee and the number of times the Risk Committee has met
(Article 435.2 d of CRR)

NLB has the Risk Committee as an advisory body of the Supervisory Board. Five meetings of the Risk Committee were held in 2018.

16.2. Appendix 2

Declaration of the Management of the adequacy of liquidity risk arrangements

The Management Board of NLB has a firm position that NLB Group:

- Is in alignment of adequacy of liquidity management arrangements with regard to the Group's Risk Appetite Strategy and
- Has an adequate liquidity risk management system in place with regard to the Group's Risk Appetite Strategy.

Management Board of NLB

16.3. Appendix 3

A liquidity risk statement approved by the Management Board associated with the business strategy

From the point of view of NLB Group Management Board, the Group has a strong liquidity position and robust liquidity risk management in place. According to the Risk Appetite Statement, tolerance for liquidity risk is low, therefore the Group maintains sufficient level of liquidity reserves at any time and well diversified funding sources. Liquidity reserves are presented by high-quality financial assets which can be converted into cash or pledged as collateral for secured funding in normal times and times of stress.

Governance is established in a way that enables a reliable process for identifying, measuring, monitoring, and controlling liquidity risk in the short and long term. Liquidity position and developments are continuously reviewed. NLB Group has implemented different tools for measuring liquidity risk in the form of maturity structures, stress tests, liquidity projections of future cash flows, the scoring model etc.

All core members of NLB Group (banking members) are self-funded. Intragroup funding is provided only to non-core members which are in the process of disinvestment (liquidation).

The limit system is aligned with Risk Appetite and reflects the Group risk tolerance. Limits are set at levels that enable timely identification and mitigation of risk.

Structural liquidity indicators are appropriate and within prescribed limits. The main function of these risk limits/targets is to examine and confirm whether certain activities are leading NLB Group's risk appetite toward the common strategic objectives. All banking members are highly liquid. NLB Group is facing strong liquidity. In such an environment the bank dedicates a lot of attention to the structure and concentration of the liquidity reserves.

Liquidity	NLB Group		NLB	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
LCR	361%	276%	417%	300%
NSFR	159%	149%	156%	144%
LTD net	68.3%	70.8%	63.6%	67.4%
Encumbered liquidity reserves	59,696	68,140	59,696	62,625
Unencumbered liquidity reserves	4,746,706	5,028,186	3,723,286	4,079,316
Unencumbered liquidity reserves in total assets	37%	41%	42%	47%
Share of non-banking sector deposits	82%	81%	80%	78%

*Liquidity reserves do not include obligatory reserves with central banks.

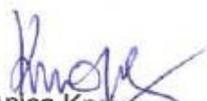
16.4. Appendix 4
Statement regarding internal controls and procedures
(Article 38 of EBA Guidelines)

The undersigned

CERTIFY

that, pursuant to the EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 article 38, disclosures have been prepared in accordance with the Policy of Disclosures on risk and capital management in the NLB Group and in accordance with agreed internal control processes.

Ljubljana, 12 April 2019


Anica Knays
General Manager,
Financial Accounting
and Administration


Igor Zalar
General Manager,
Global Risk


Archibald Kremser
Member of the
Management Board


Andreas Burkhardt
Member of the
Management Board

16.5. Appendix 5
EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) of NLB Group

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation			Description of the entity	
		Full consolidation	Equity method	Proportional consolidation		Neither consolidated nor deducted
NLB Banka a.d., Skopje	Full consolidation	X			Banking	
NLB Banka a.d., Podgorica	Full consolidation	X			Banking	
NLB Banka a.d., Banja Luka	Full consolidation	X			Banking	
NLB Banka sh.a., Priština	Full consolidation	X			Banking	
NLB Banka d.d., Sarajevo	Full consolidation	X			Banking	
NLB banka a.d., Beograd	Full consolidation	X			Banking	
NLB Srbija d.o.o., Beograd	Full consolidation	X			Real estate	
NLB Skladi d.o.o., Ljubljana	Full consolidation	X			Asset management	
NLB Crna gora d.o.o., Podgorica	Full consolidation	X			Real estate	
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Full consolidation	X			Finance	
Optima Leasing d.o.o., Zagreb "u likvidaciji"	Full consolidation	X			Finance	
NLB Leasing Podgorica d.o.o. "u likvidaciji"	Full consolidation	X			Finance	
NLB Leasing d.o.o., Beograd "u likvidaciji"	Full consolidation	X			Finance	
NLB Leasing d.o.o., Sarajevo	Full consolidation	X			Finance	
NLB Lizing d.o.o.e.l., Skopje "vo likvidacija"	Full consolidation	X			Finance	
TARA HOTEL d.o.o., Budva	Full consolidation	X			Real estate	
PRO-REM d.o.o., Ljubljana "v likvidaciji"	Full consolidation	X			Real estate	
OL Nekretnine d.o.o., Zagreb "u likvidaciji"	Full consolidation	X			Real estate	
BH-RE d.o.o., Sarajevo	Full consolidation	X			Real estate	
REAM d.o.o., Beograd	Full consolidation	X			Real estate	
REAM d.o.o., Podgorica	Full consolidation	X			Real estate	
REAM d.o.o., Zagreb	Full consolidation	X			Real estate	
SR-RE d.o.o., Beograd	Full consolidation	X			Real estate	
SPV 2 d.o.o., Beograd	Full consolidation	X			Real estate	
S-REAM d.o.o., Ljubljana	Full consolidation	X			Real estate	
CBS Invest d.o.o., Sarajevo	Full consolidation	X			Real estate	
NLB InterFinanz AG, Zurich "in likvidation"	Full consolidation	X			Finance	
NLB InterFinanz Praha "v likvidaci"	Full consolidation	X			Finance	
NLB InterFinanz Beograd "u likvidaciji"	Full consolidation	X			Finance	
Prospera Plus d.o.o., Ljubljana "v likvidaciji"	Full consolidation	X			Tourist and catering trade	
LHB AG, Frankfurt	Full consolidation	X			Finance	
Prvi Faktor, Beograd "u likvidaciji"	Equity method				X	Finance
Prvi Faktor, Ljubljana "v likvidaciji"	Equity method				X	Finance
Prvi Faktor, Sarajevo "u likvidaciji"	Equity method				X	Finance
Prvi Faktor, Zagreb "u likvidaciji"	Equity method				X	Finance
NLB Vita d.d., Ljubljana	Equity method				X	Insurance
Arg Nepremicnine d.o.o.	Equity method		X			Real estate
Bankart d.o.o., Ljubljana	Equity method		X			Card processing

Entities that are neither consolidated nor deducted are not consolidated:

- in accordance with Article 19 of the CRR (this refers on members of Prvi Faktor Group)
- or because they are insurances (NLB Vita).

16.6. Appendix 6

Material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries; (Article 436 c and d of CRR)

In NLB Group, there are no substantial practical or legal impediments to the prompt transfer of capital or repayment of liabilities between the parent undertaking and its subsidiaries. In the case of a capital transfer provided by NLB, it is necessary to follow the provisions regarding the minimum capital in accordance with CRR and the ZBan-2. For subsidiary banks the provisions regarding liquidity, capital adequacy, and the level of capital to cover all risks are also taken into account, all in accordance with local legislation.

In asset management, company (NLB Skladi) provisions regarding capital adequacy and the level of capital to cover all risks arise from the Law on Investment Funds and Management Companies.

For several non-core companies that are in the liquidation process there is a restriction according to local Companies Law stipulating that during the duration of the liquidation process dividends are not paid out nor are assets disbursed to stakeholders until all claims are paid. The liquidation process can be concluded after all the court disputes are brought to an end and the assets that are to be distributed to stakeholders, but exceed the subscribed share capital of a stakeholder, are considered as a dividend.

There are also contractual restrictions that are to be taken into account and arise from subordinated loans that NLB granted to two of the subsidiary banks, namely NLB Banka a.d., Skopje and NLB Banka a.d. Banja Luka; and one of the company NLB InterFinanz Zürich AG in Liquidation. According to the nature of the subordinated loan it can be repaid after claims arising from all priority obligations are settled and to the extent permitted by the rest of the Bank's assets in the bankruptcy or liquidation procedure.

All subsidiaries of NLB Group not included in the prudential consolidation met the minimum capital requirements as at 31 December 2018.

16.7. Appendix 7

List of all disclosures required under Part 8 of CRR

Art.	Requirement	Chapter	Page
435	Risk management objectives and policies		
1.	Objectives and policies regarding the relevant risks		
	(a) the strategies and processes to manage those risks;	4.1, 7.1, 9.1	24, 58, 67
	(b) the structure and organisation of the relevant risk management function, including information on its authority and statute, or other appropriate arrangements;	4.1, 7.1, 9.1	24, 58, 67
	(c) the scope and nature of risk reporting and measurement systems;	4.1, 7.1, 9.1	24, 58, 67
	(d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;	4.1, 7.1, 9.1	24, 58, 67
	(e) a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy;	4.1	24
	(f) a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.	4.1	24
2.	Information, including regular, at least annual updates, regarding governance arrangements		
	(a) the number of directorships held by members of the management body;	4.2	35
	(b) the recruitment policy for the selection of members of the management body and their actual knowledge, skills, and expertise;	4.3	35
	(c) the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved;	4.4	36
	(d) whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;	16.1	92
	(e) the description of the information flow on risk to the management body.	4.1	24
436	Scope of application		
	(a) the name of the institution to which the requirements of this Regulation apply;	1	9
	(b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: fully consolidated, proportionally consolidated, deducted from own funds, neither consolidated nor deducted;	2, 16.5	10, 93
	(c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;	2, 16.6	10, 94
	(d) the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;	2, 16.6	10, 94
	(e) if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.	/	/
437	Capital (Own funds)		
	(a) a full reconciliation of CET1 items, AT1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	3.7	22
	(b) a description of the main features of the CET1 and AT1 instruments and T2 instruments issued by the institution;	3.4	17

	(c) the full terms and conditions of all CET1, AT1 and Tier 2 instruments;	3.4	17
	(d) separate disclosure of the nature and amounts of the following:		
	(i) each prudential filter applied pursuant to Articles 32 to 35;	3.6	20
	(ii) each deduction made pursuant to Articles 36, 56 and 66;		
	(iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79;		
	(e) a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	3.6	20
	(f) where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	/	/
438	Capital requirements		
	(a) a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities;	3.3	16
	(b) upon demand of the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU;	/	/
	(c) (SA approach:) for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 (= SA categories);	3.2	15
	(d) (IRB approach:) for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. The institutions calculating the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2) shall disclose the exposures assigned to each category in Table 1 of Article 153(5), or to each risk weight mentioned in Article 155(2);	/	/
	(e) (market risks:) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3); (1) position risk; (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits; (3) foreign-exchange risk; (4) settlement risk; (5) commodities risk;	3.2	15
	(f) (operational risk:) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	3.2	15
439	Exposure to counterparty credit risk		
	(a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;	7.3	59
	(b) a discussion of policies for securing collateral and establishing credit reserves;	7.4	59
	(c) a discussion of policies with respect to wrong-way risk exposures;	7.5	59
	(d) a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating;	7.6	60
	(e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;	7.6	60
	(f) measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6, whichever method is applicable;	7.6	60
	(g) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;	/	/
	(h) the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group;	/	/
	(i) the estimate of α if the institution has received the permission of the competent authorities to estimate α .	/	/
	Capital buffers		
440	1. Countercyclical capital buffer:		
	(a) the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer;	3.5	18
	(b) the amount of its institution-specific countercyclical capital buffer.	3.5	18

<u>2. G-SII buffer:</u>		
441	1. Institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article.	/ /
442	Credit risk adjustments	
	(a) the definitions for accounting purposes of 'past due' and 'impaired';	5.7 48
	(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments;	5.7 48
	(c) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;	5.2 41
	(d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;	5.3 42
	(e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate;	5.4 43
	(f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	5.5 44
	(g) by significant industry or counterparty type, the amount of:	
	(i) impaired exposures and past due exposures, provided separately;	5.6 45
	(ii) specific and general credit risk adjustments;	
	(iii) charges for specific and general credit risk adjustments during the reporting period;	
	(h) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area;	5.6 45
	(i) the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise:	
	(i) a description of the type of specific and general credit risk adjustments;	
	(ii) the opening balances;	
	(iii) the amounts taken against the credit risk adjustments during the reporting period;	5.7 48
	(iv) the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments;	
	(v) the closing balances.	
	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.	5.6 45
443	Unencumbered assets	
	EBA has prepared regulatory technical standards for disclosure of unencumbered assets – Regulation (EU) No 2017/2295.	8 63
444	Use of ECAIs	
	(a) the names of the nominated ECAIs and ECAs and the reasons for any changes;	6 54
	(b) the exposure classes for which each ECAI or ECA is used;	6 54
	(c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	6 54
	(d) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA;	6 54
	(e) the exposure values and the exp. values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds.	6, 5.2 54, 41
445	Exposure to market risk	

	Separately for each risk + the own funds requirement for specific IRR of securitisation positions.	9	67
446	Operational risk		
	Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used.	14	Error! Bookmark not defined.
447	Exposures in equities not included in the trading book		
	(a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;	11	72
	(b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;	11	72
	(c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;	11	72
	(d) the cumulative realised gains or losses arising from sales and liquidations in the period; and	11	72
	(e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.	11	72
448	Exposure to interest rate risk on positions not included in the trading book		
	(a) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the IRR;	10.1	71
	(b) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.	10.2	72
449	Exposure to securitisation positions	/	/
450	Remuneration policy		
1	For those categories of staff whose professional activities have a <u>material impact on its risk profile</u> :		
	(a) information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	15.1	83
	(b) information on the link between pay and performance;	15.2	84
	(c) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;	15.3	86
	(d) the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;	15.4	89
	(e) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;	15.5	90
	(f) the main parameters and rationale for any variable com. scheme and any other non-cash benefits;	15.6	90
	(g) aggregate quantitative information on remuneration, broken down by business area;	15.7	91
	(h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:		
	(i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;	15.7	91
	(ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;		
	(iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions;		

	(iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;		
	(v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments;		
	(vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;		
	(i) the number of individuals being remunerated with EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500,000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	15.8	91
	(j) upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.	15.8	91
451	Leverage		
	(a) the leverage ratio and how the institution applies Article 499(2) and (3);	13	80
	(b) a breakdown of the total exposure measure, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;	13	80
	(c) where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11);	/	/
	(d) a description of the processes used to manage the risk of excessive leverage;	13	80
	(e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	13	80
452	Use of the IRB Approach to credit risk	/	/
453	Use of credit risk mitigation techniques	/	/
	(a) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off- balance sheet netting;	/	/
	(b) the policies and processes for collateral valuation and management;	5.8	49
	(c) a description of the main types of collateral taken by the institution;	5.8	49
	(d) the main types of guarantor and credit derivative counterparty and their creditworthiness;	/	/
	(e) information about market or credit risk concentrations within the credit mitigation taken;	5.8	49
	(f) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral;	5.2, 5.8	41, 49
	(g) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155.	5.2, 5.8	41, 49
454	Use of the Advanced Measurement Approaches to operational risk	/	/
455	Use of Internal Market Risk Models	/	/
492	Transitional provisions for disclosure of own funds		
3	During the period from 1 January 2014 to 31 December 2017, institutions shall disclose the following additional information about their own funds:		
	(a) the nature and effect on CET1 capital, AT1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Articles 467 to 470, 474, 476 and 479;		
	(b) the amounts of minority interests and AT1 and Tier 2 instruments, and related retained earnings and share premium accounts, issued by subsidiaries that are included in consolidated CET1 capital, AT 1 capital, Tier 2 capital and own funds in accordance with Section 4 of Chapter 1;	3.6	20
	(c) the effect on CET1 capital, AT1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with		

Article 481;
(d) the nature and number of items that qualify as CET1 items, Tier 1 items and Tier 2 items by virtue of applying the derogations specified in Section 2 of Chapter 2.

4 During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the number of instruments that qualify as CET 1 instruments, AT1 instruments and Tier 2 instruments by virtue of applying Article 484 (capital instruments that are not eligible under new legislation, but can be gradually excluded). / /
