

Nova Ljubljanska banka d.d., Ljubljana

**Pillar 3 Disclosures  
for NLB Group  
Q3 2018**

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## Abbreviations

<b>ALCO</b>	Asset and Liability Committee	<b>ICAAP</b>	Internal Capital Adequacy Assessment Process
<b>AT1</b>	Additional Tier 1 capital	<b>IFRS</b>	International Financial Reporting Standards
<b>AVA</b>	Additional valuation adjustment	<b>IRB</b>	Internal ratings-based approach
<b>BCBS</b>	Basel Committee on Banking Supervision	<b>LCR</b>	Liquidity coverage ratio
<b>CBR</b>	Combined buffer requirement	<b>NPL</b>	Non performing loans
<b>CCB</b>	Capital Conservation Buffer	<b>OCR</b>	Overall capital requirement
<b>CCR</b>	Counterparty credit risk	<b>O-SII</b>	Other systemically important institutions
<b>CET 1</b>	Common equity tier 1 capital	<b>P2R</b>	Pillar 2 Requirement
<b>CRD</b>	Capital Requirements Directive	<b>RWA</b>	Risk-weighted assets
<b>CRD IV</b>	Capital Requirements Directive & Regulation	<b>SA</b>	Standardized approach
<b>CRR</b>	Capital Requirements Regulation	<b>SREP</b>	Supervisory Review and Evaluation Process
<b>CVA</b>	Credit valuation adjustment	<b>T1</b>	Tier 1 capital
<b>D-SIB</b>	Domestic systemically important banks	<b>T2</b>	Tier 2 capital
<b>EBA</b>	European Banking Authority	<b>TCR</b>	Total capital requirement
<b>ECB</b>	European Central Bank	<b>TSCR</b>	Total SREP capital requirement
<b>EU</b>	European Union	<b>ZBan-2</b>	Banking Act
<b>EUR</b>	Euro	<b>ZGD</b>	Companies Act
<b>G-SIB</b>	Global systemically important banks	<b>YtD</b>	Year to Date
<b>HQLA</b>	High-quality liquid assets		

## Key highlights

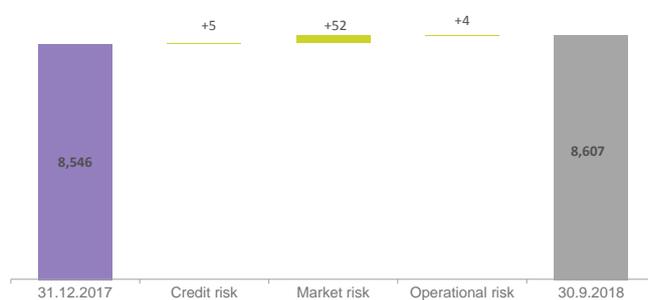
Table 1 – Key metrics

NLB Group	30.9.2018	30.6.2018	31.12.2017
<b>Available capital</b>			
Common equity tier 1 (CET 1)	1,458,318	1,623,126	1,362,140
Tier 1	1,458,318	1,623,126	1,362,140
Total capital	1,458,318	1,623,126	1,362,140
<b>Risk weighted assets</b>			
Total RWA	8,607,420	8,692,764	8,546,482
<b>Capital ratios</b>			
Common equity tier 1 ratio (%)	16.9%	18.7%	15.9%
Tier 1 ratio (%)	16.9%	18.7%	15.9%
Total capital ratio (%)	16.9%	18.7%	15.9%
<b>Additional CET1 buffer requirements as a % of RWA</b>			
Capital conservation buffer requirement	1.875%	1.875%	1.25%
Countercyclical buffer requirement	0.0%	0.0%	0.0%
Bank G-SIB and /or D-SIB additional requirements	0.0%	0.0%	0.0%
Total of bank CET1 specific buffer requirements	1.875%	1.875%	1.25%
Capital ratio available after meeting the bank's minimum TCR	3.6%	5.3%	3.2%
<b>Leverage ratio</b>			
Total leverage ratio exposure measure	14,689,801	14,355,961	14,044,985
Leverage ratio (%)*	9.9%	11.3%	9.9%
<b>Liquidity Coverage Ratio</b>			
Total HQLA	2,972,199	2,675,052	2,466,737
Total net cash outflow	830,404	880,960	893,680
LCR ratio	358%	304%	276%

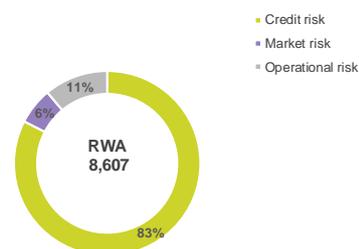
\*fully loaded capital

Key ratios and figures are reflected throughout the Pillar 3 disclosures for 2018 and a summary is presented in Table 1.

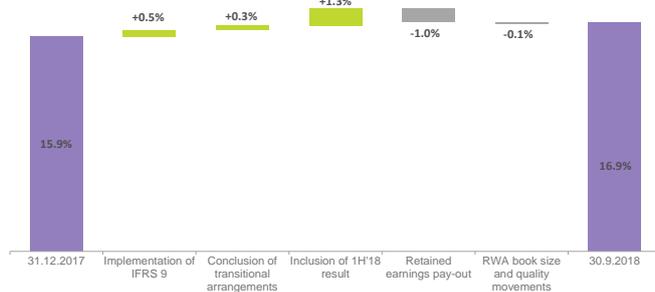
Changes in RWA



RWA analysis



CET1 ratio changes



CET 1 capital movement



## 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 the '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.

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 the Group's disclosures have been prepared in accordance with these guidelines.

This Pillar 3 report contains quarterly required disclosures as defined by CRD IV and EBA guidelines. In nine months ended 30 September of 2018 there were no material changes in risk profile and scale of business operations in NLB Group that would require additional disclosures than already included in this report. This report should be read in conjunction with the Pillar 3 for NLB Group 2017, which has been prepared in accordance with CRD IV and EBA guidance.

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

We publish Pillar 3 disclosures on the NLB's website [www.nlb.si](http://www.nlb.si), following the release of the Interim report for NLB Group September 2018.

## 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 in annual Pillar 3 disclosures for year ended 2017 (Pillar 3 for NLB Group 2017, page 9).

Table 2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the Interim Report for NLB Group September 2018 and under the scope of regulatory consolidation.

Table 2 – Differences between accounting and regulatory scopes of consolidation of NLB Group

<b>30.9.2018</b>	<b>Carrying values as reported in published financial statements</b>	<b>Carrying values under scope of regulatory consolidation</b>	<b>Differences</b>
Cash, cash balances at central banks and other demand deposits at banks	1,557,372	1,557,372	-
Financial assets held for trading	45,244	45,244	-
Non-trading financial assets mandatorily at fair value through profit or loss	26,536	26,536	-
Financial assets measured at fair value through other comprehensive income	1,889,384	1,889,384	-
Financial assets measured at amortised cost			-
- debt securities	1,337,165	1,337,165	-
- loans and advances to banks	402,034	402,034	-
- loans and advances to customers	7,059,217	7,059,217	-
- other financial assets	51,979	51,979	-
Derivatives - hedge accounting	1,530	1,530	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	748	748	-
Investments in associates and joint ventures	37,754	10,561	27,193
Tangible assets			-
Property and equipment	182,842	182,842	-
Investment property	51,199	51,199	-
Intangible assets	31,093	31,093	-
Current income tax assets	921	921	-
Deferred income tax assets	22,105	22,105	-
Other assets	82,214	82,214	-
Non-current assets classified as held for sale	4,381	4,381	-
<b>Total assets</b>	<b>12,783,718</b>	<b>12,756,525</b>	<b>27,193</b>
Trading liabilities	9,987	9,987	-
Financial liabilities measured at fair value through profit or loss	9,631	9,631	-
Financial liabilities measured at amortised cost			-
- deposits from banks and central banks	43,274	43,274	-
- borrowings from banks and central banks	267,138	267,138	-
- due to customers	10,246,679	10,246,679	-
- borrowings from other customers	62,463	62,463	-
- subordinated liabilities	15,292	15,292	-
- debt securities in issue	-	-	-
- other financial liabilities	111,793	111,793	-
Derivatives - hedge accounting	22,747	22,747	-
Provisions	86,010	86,010	-
Current income tax liabilities	10,276	10,276	-
Deferred income tax liabilities	2,533	2,533	-
Other liabilities	11,340	11,340	-
<b>Total liabilities</b>	<b>10,899,163</b>	<b>10,899,163</b>	<b>-</b>
<b>Equity and reserves attributable to owners of the parent</b>			<b>-</b>
Share capital	200,000	200,000	-
Share premium	871,378	871,378	-
Accumulated other comprehensive income	12,307	6,129	6,178
Profit reserves	13,522	13,522	-
Retained earnings	747,271	726,256	21,015
Treasury shares	-	-	-
	<b>1,844,478</b>	<b>1,817,285</b>	<b>27,193</b>
Non-controlling interests	40,077	40,077	-
<b>Total equity</b>	<b>1,884,555</b>	<b>1,857,362</b>	<b>27,193</b>
<b>Total liabilities and equity</b>	<b>12,783,718</b>	<b>12,756,525</b>	<b>27,193</b>

Difference between accounting consolidation and regulatory consolidation represents the book value of equity method for companies that are operating in the area of insurance and are not included in regulatory consolidation in accordance with Article 4 of CRR.

### 3. Capital and capital requirements

#### 3.1. Capital adequacy

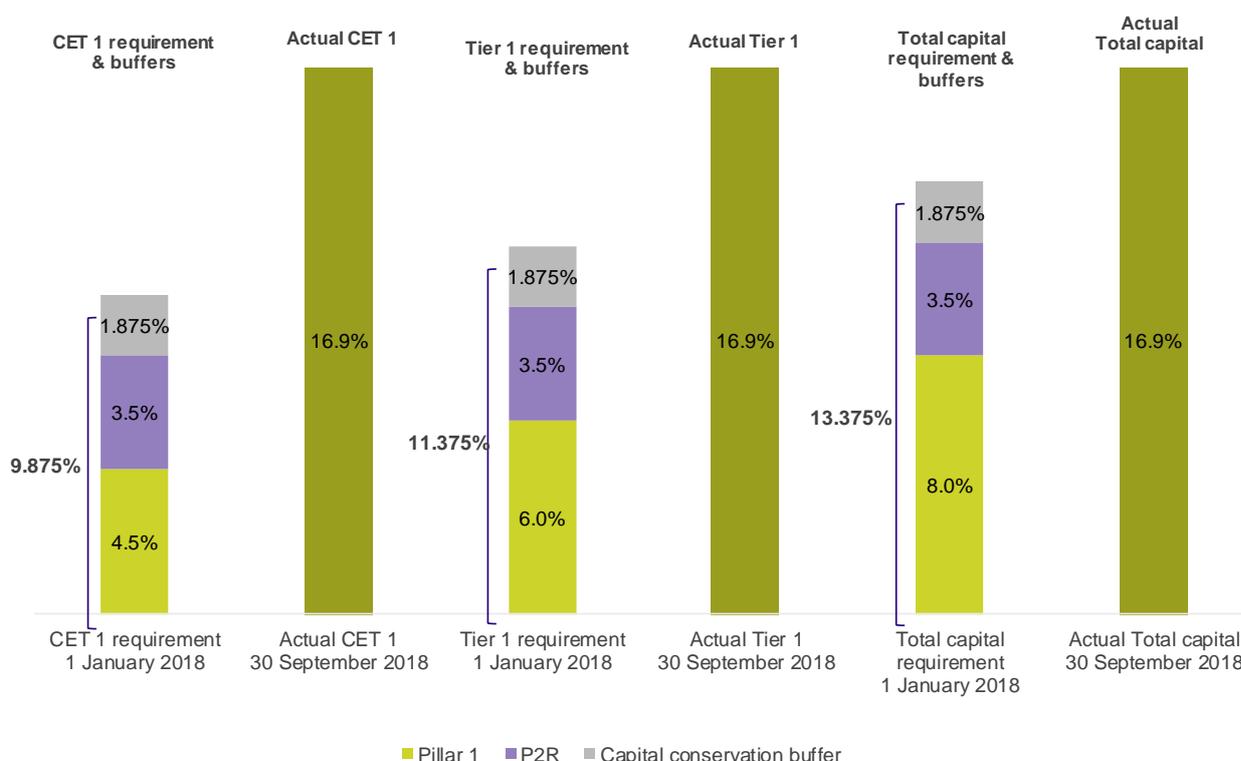
European bank capital legislation - CRD IV, is based on the Basel III guidelines. The legislation defines three capital ratios reflecting a different quality of capital:

- 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 – breach 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 over and above the OCR, 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 imposition of measures to re-establish a prudent level of capital.

Table 3 – Capital requirements and buffers



All capital ratios are inclusive of 3.5% Pillar 2 Requirement (P2R) and 1.875% Capital Conservation Buffer (CCB). As prescribed by CRD IV and the ZBan-2, CCB is increasing linearly and will reach 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.

The applicable OCR requirement for 2018 has increased from 12.75% in 2017 to 13.375% (due solely to the gradual phase-in of the capital conservation buffer as prescribed by law).

Table 4 – Capital adequacy of NLB Group:

	30.9.2018	30.6.2018	31.12.2017
Paid up capital instruments	200,000	200,000	200,000
Share premium	871,378	871,378	871,378
Retained earnings - from previous years	291,525	561,110	296,773
Current result	108,829	-	29,280
Accumulated other comprehensive income	6,129	11,776	(11,450)
Other reserves	13,522	13,522	13,522
Prudential filters: Additional Valuation Adjustments (AVA)	(1,972)	(1,986)	(2,389)
(-) Goodwill	(3,529)	(3,529)	(3,529)
(-) Other intangible assets	(27,564)	(29,145)	(31,445)
<b>COMMON EQUITY TIER 1 CAPITAL (CET1)</b>	<b>1,458,318</b>	<b>1,623,126</b>	<b>1,362,140</b>
Additional Tier 1 capital	-	-	-
<b>TIER 1 CAPITAL</b>	<b>1,458,318</b>	<b>1,623,126</b>	<b>1,362,140</b>
Tier 2 capital	-	-	-
<b>TOTAL CAPITAL</b>	<b>1,458,318</b>	<b>1,623,126</b>	<b>1,362,140</b>
Risk exposure amount for credit risk	7,101,587	7,209,882	7,096,413
Risk exposure amount for market risks	551,113	527,300	499,726
Risk exposure amount for CVA	1,238	2,100	850
Risk exposure amount for operational risk	953,482	953,482	949,493
<b>TOTAL RISK EXPOSURE AMOUNT (RWA)</b>	<b>8,607,420</b>	<b>8,692,764</b>	<b>8,546,482</b>
Common Equity Tier 1 Ratio	16.9%	18.7%	15.9%
Tier 1 Ratio	16.9%	18.7%	15.9%
Total Capital Ratio	16.9%	18.7%	15.9%

The capital adequacy of NLB Group in September 2018 remains strong, 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. Moreover, it is within the stated risk appetite limit and above the EU average as published by the EBA.

In 2018, the capital of 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.

At the end of September 2018, the capital ratios for the Group stood at 16.9% (or 1.0 p.p. higher than at the end of 2017) and for the Bank at 23.9% (or 2.1 percentage point higher than at the end of 2017). The improvement of capital adequacy derives from higher capital, mainly due to the inclusion of the first six months of 2018 result (EUR 108.8 million for NLB Group), lower retained earnings (EUR -81.5 million) as part of 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 conclusion of transitional arrangements relevant until the end of 2017. The drivers behind the differences between the RWAs in year 2018 are explained in chapter 3.2 Capital requirements in the Table 5 – EU OV1 – Overview of RWAs.

In September 2018 NLB applied for formal approval with ECB to pay-out the dividends in the total amount of EUR 270.6 million which consists of: EUR 189.1 million of profit for fiscal year 2017 and EUR 81.5 million of retained profit from previous years. Pursuant to ECB's permission for distribution of the dividends, the General Assembly of NLB's Shareholders approved the distribution and NLB paid dividends in the amount of EUR 270.6 million to the registered shareholders of NLB on 22 October 2018.

### 3.2. Capital requirements

(Article 438 c, e and f 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 below shows the detailed composition of the capital requirements of NLB Group as at 30 September 2018, 30 June 2018 and 31 December 2017.

Table 5 – EU OV1 – Overview of RWAs

	30.9.2018		30.6.2018		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 <b>Credit risk (excluding CCR)</b>	<b>6,999,528</b>	<b>559,962</b>	<b>7,103,241</b>	<b>568,259</b>	<b>6,993,567</b>	<b>559,485</b>
2 Of which the standardised approach	6,999,528	559,962	7,103,241	568,259	6,993,567	559,485
6 <b>CCR</b>	<b>21,632</b>	<b>1,731</b>	<b>25,286</b>	<b>2,023</b>	<b>20,983</b>	<b>1,679</b>
7 Of which mark to market	20,394	1,632	23,186	1,855	20,133	1,611
12 Of which CVA	1,238	99	2,100	168	850	68
19 <b>Market risk</b>	<b>551,113</b>	<b>44,089</b>	<b>527,300</b>	<b>42,184</b>	<b>499,726</b>	<b>39,978</b>
20 Of which the standardised approach	551,113	44,089	527,300	42,184	499,726	39,978
23 <b>Operational risk</b>	<b>953,482</b>	<b>76,279</b>	<b>953,482</b>	<b>76,279</b>	<b>949,493</b>	<b>75,959</b>
24 Of which basic indicator approach	953,482	76,279	953,482	76,279	949,493	75,959
27 <b>Amounts below the thresholds for deduction (subject to 250% risk weight)</b>	<b>81,665</b>	<b>6,533</b>	<b>83,455</b>	<b>6,676</b>	<b>82,713</b>	<b>6,617</b>
28 <b>Floor adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
29 <b>Total</b>	<b>8,607,420</b>	<b>688,594</b>	<b>8,692,764</b>	<b>695,421</b>	<b>8,546,482</b>	<b>683,719</b>

Despite the higher RWA for credit risk at the beginning of 2018 resulting from transition to IFRS9, it remained almost at previous end of year level. Besides that, higher RWA on the retail segment by EUR 183.1 million for consumer and housing loans and higher RWA for corporates by EUR 44 million, mainly in subsidiary banks, are a consequence of increased business activities. The RWA for exposures to institutions decreased by EUR -177.4 million, while on the other hand RWA for covered bonds increased by EUR +21.5 million as the consequence of liquidity management. Furthermore, as result of active management of NPLs RWA for defaulted exposures decreased by EUR -75.0 million mainly due to cured clients, repayments and sold receivables.

The increase in RWA for market risks and credit value adjustments (CVA) by EUR 51.8 million is mainly the result of more open positions in domestic currencies of non-euro subsidiary banks. 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. Capital instruments included in the capital

(Article 437.1 b and c of CRR)

In nine months ended 30 September 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 d.d.

NLB Group has 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 Interim Report for NLB Group September 2018 - note 5.14 b Subordinated liabilities (page 84).

Table 6 – The main characteristics of the ordinary shares of NLB d.d.:

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	SI0021117344
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 (ZNVP-1)
<b>Regulatory treatment</b>		
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: 1,071,378
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
<b>Coupons / dividends</b>		
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.

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

Table 7 shows in detail the elements of the calculation of the capital of NLB Group at 30 September 2018, 30 June 2018 and 31 December 2017 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 7 – Own funds for NLB Group

	30.9.2018	30.6.2018	31.12.2017	
<b>Common equity Tier 1 (CET1) capital: instruments and reserves</b>				
1	Capital instruments and the related share premium accounts of which: ordinary shares	1,071,378	1,071,378	1,071,378
2	Retained earnings	400,354	561,110	296,773
3	Accumulated other comprehensive income (and other reserves)	19,651	25,298	30,511
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-	29,280
<b>6</b>	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>1,491,383</b>	<b>1,657,786</b>	<b>1,427,942</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>				
7	Additional value adjustments (negative amount)	(1,972)	(1,986)	(2,389)
8	Intangible assets (net of related tax liability) (negative amount)	(31,093)	(32,674)	(34,974)
26a	Regulatory adjustments related to unrealised gains and losses pursuant to Articles 467 and 468 of which: filter for unrealised loss - exposures to central governments	N/A	N/A	(28,439)
	of which: filter for unrealised loss - other exposures	N/A	N/A	126
	of which: filter for unrealised gains - exposures to central governments	N/A	N/A	4,325
	of which: filter for unrealised gains - other exposures	N/A	N/A	(31,302)
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional of which: intangible assets (including goodwill)	N/A	N/A	(1,588)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	N/A	N/A	6,995
<b>28</b>	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(33,065)</b>	<b>(34,660)</b>	<b>(65,802)</b>
<b>29</b>	<b>Common Equity Tier 1 (CET1) capital</b>	<b>1,458,318</b>	<b>1,623,126</b>	<b>1,362,140</b>
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)
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 (AT1)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>44</b>	<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>45</b>	<b>Tier 1 capital (T1= CET1 + AT1)</b>	<b>1,458,318</b>	<b>1,623,126</b>	<b>1,362,140</b>
<b>58</b>	<b>Tier 2 (T2) capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>59</b>	<b>Total capital (TC = T1 + T2)</b>	<b>1,458,318</b>	<b>1,623,126</b>	<b>1,362,140</b>
<b>60</b>	<b>Total risk weighted assets</b>	<b>8,607,420</b>	<b>8,692,764</b>	<b>8,634,129</b>
<b>Capital ratios and buffers</b>				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.9%	18.7%	15.8%
62	Tier 1 (as a percentage of total risk exposure amount)	16.9%	18.7%	15.8%
63	Total capital (as a percentage of total risk exposure amount)	16.9%	18.7%	15.8%
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%	6.375%
65	of which: capital conservation buffer requirement	1.875%	1.875%	1.875%
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)	8.9%	10.7%	7.8%
<b>Amounts below the threshold for deduction (before risk weighting)</b>				
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)	2,595	2,289	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)	10,561	12,236	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)	22,105	21,146	18,603
<b>Applicable caps on the inclusion of provisions in Tier 2</b>				
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
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)</b>				
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

### 3.5. Reconciliation of items with financial statements (Articles 437 a and f 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 8 – Mapping of the balance sheet items (statement of financial position items) and capital for the purpose of capital adequacy of NLB Group

	30.9.2018		30.6.2018	
	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	1,557,372	-	1,298,731	-
Financial assets held for trading	45,244	(45)	67,458	(67)
Non-trading financial assets mandatorily at fair value through profit or loss	26,536	(5)	25,752	(5)
Financial assets measured at fair value through other comprehensive income	1,889,384	(1,889)	1,876,219	(1,876)
Financial assets measured at amortised cost	8,850,395	-	8,820,186	-
Derivatives - hedge accounting	1,530	-	695	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	748	-	1,669	-
Investments in associates and joint ventures	10,561	-	12,236	-
Tangible assets	234,041	-	235,773	-
Intangible assets	31,093	-	32,674	-
Goodwill	3,529	(3,529)	3,529	(3,529)
Other intangible assets	27,564	(27,564)	29,145	(29,145)
Current income tax assets	921	-	711	-
Deferred income tax assets	22,105	-	21,146	-
That rely on future profitability and arise from temporary differences	22,105	-	21,146	-
Other assets	82,214	-	88,614	-
Non-current assets classified as held for sale	4,381	-	4,227	-
<b>Total assets</b>	<b>12,756,525</b>	<b>-</b>	<b>12,486,091</b>	<b>-</b>
Trading liabilities	9,987	(10)	11,509	(12)
loss	9,631	-	9,264	-
Financial liabilities measured at amortised cost	10,746,639	-	10,525,173	-
Derivatives - hedge accounting	22,747	(23)	26,132	(26)
Provisions	86,010	-	87,187	-
Current income tax liabilities	10,276	-	7,257	-
Deferred income tax liabilities	2,533	-	2,746	-
Other liabilities	11,340	-	12,337	-
<b>Total liabilities</b>	<b>10,899,163</b>	<b>-</b>	<b>10,681,605</b>	<b>-</b>
Share capital	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	6,129	6,129	11,776	11,776
Profit reserves	13,522	13,522	13,522	13,522
Retained earnings	726,256	400,354	669,939	561,110
Non-controlling interests	40,077	-	37,871	-
<b>Total equity</b>	<b>1,857,362</b>	<b>-</b>	<b>1,804,486</b>	<b>-</b>
<b>Total liabilities and equity</b>	<b>12,756,525</b>	<b>-</b>	<b>12,486,091</b>	<b>-</b>
<b>Sum of balance sheet items</b>		<b>1,458,318</b>		<b>1,623,126</b>
<b>Capital</b>		<b>1,458,318</b>		<b>1,623,126</b>

Table 9 – Reconciliation of the accounting capital to the regulatory capital for the calculation of capital adequacy of NLB Group

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)	
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
							Prudential filter: Additional valuation adjustment (AVA) (Article 34)
					(1,972)	(1,972)	
					(3,529)	(3,529)	Deduction item: Goodwill (Article 36.b)
							Deduction item: Other intangible assets (Article 36.b)
					(27,564)	(27,564)	
<b>Total equity</b>	<b>1,857,362</b>	<b>(270,600)</b>	<b>(55,302)</b>	<b>(40,077)</b>	<b>(33,065)</b>	<b>1,458,318</b>	<b>Common Equity Tier 1 (CET1) capital</b>
							- Additional Tier 1 capital
						<b>1,458,318</b>	<b>Tier 1 capital</b>
							- Tier 2 capital
						<b>1,458,318</b>	<b>Total capital</b>

In nine months ended 30 September 2018 total accounting equity increased by EUR 206.0 million to EUR 1,857 million as at 30 September 2018, primarily due to net profit of current year (EUR 164.1 million) and transitional effects of IFRS 9 implementation as of 1 January 2018 (EUR 43.8 million).

## 4. Leverage

(Article 451 of CRR)

The leverage ratio is calculated after January 2014 in line with the enforcement of provisions from the Regulation (EU) No 575/2013 and Directive 2013/36/EU, or as of January 2015 pursuant to the amendments in relation to the calculation published in Commission Delegated Regulation (EU) 2015/62. As of 1 January 2015, the additional requirement to disclose information concerning the leverage is in force. In February 2016 Regulation (EU) 2016/200 was adopted, laying down implementing technical guidance with regard to disclosure of the leverage ratio. In March 2016 the Implementing Regulation (EU) 2016/428 was adopted, setting out guidelines for supervisory reporting of the leverage ratio.

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. Purpose of the leverage ratio is to limit the size of bank balance sheets with a special emphasis on exposures which are not weighted within the framework of the existing capital requirement calculations. So 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.

The leverage ratio of NLB Group, amounted to 9.93% and is well above the 3% threshold defined by the Basel Committee on Banking Supervision (BCBS). As of 1 January 2018, the leverage ratio became one of the binding minimum capital requirements.

Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not material. Leverage risk is assessed and monitored quarterly as part of the internal assessment of capital requirements process (ICAAP) and monitored in the context of the system of early warning regarding risk indicators defined in Risk Appetite. In this monitoring system, the leverage ratio has set certain limits, or as well in the case of any exceeding of defined triggers and defined notification system. The leverage ratio is regularly, quarterly monitored and reported to ALCO, Management Board and Supervisory board of NLB Group. The monitoring of excess leverage is also included in stress tests and recovery plan measures if and whenever a bank would be required to maintain an adequate capital level. The testing for any case of extraordinary circumstances is especially important as it is future-oriented: if the leverage ratio also remains stable in extraordinary, stress conditions, the risk of a forced decrease in the Bank's assets is low.

Leverage ratio calculated as at 30 September 2018 amounted to 9.93%, and decreased by 1.4 p.p. compared to the end of half year 2018. The decrease occurred due to the capital decrease by EUR 165 million mainly due to dividend payments in amount of EUR 270.6 million and inclusion of six months profit of 2018 in amount of EUR 108.8 million. Total leverage exposure amount calculated in accordance with Article 111 of the Regulation (EU) No 575/2013 rose by EUR 334 million. Higher amount of total leverage exposure arose from increased on-balance sheet exposures especially banking book exposures such as sovereign exposures and retail exposures. Amounts of derivatives slightly rose and so the off-balance sheet exposures increased in comparison with end of half year 2018.

As of 30 September 2018, the leverage exposure was mainly driven by on-balance sheet exposures (96.2%), and other off-balance sheet exposures (3.6%), the rest was exposure from derivatives which is not significant (0.2%). Among on-balance sheet exposures the most significant were Retail exposures (25.9%), exposures treated as sovereigns (25%), exposures to corporates (15.5%) and 15.8% to other exposures.

Table 10 – Leverage ratio of NLB Group

	<u>30.9.2018</u>	<u>30.6.2018</u>	<u>31.12.2017</u>
Tier 1 capital*	1,458,318	1,623,126	1,390,579
Total leverage exposures	<u>14,689,801</u>	<u>14,355,961</u>	<u>14,044,985</u>
<b>Leverage ratio</b>	<b><u>9.93%</u></b>	<b><u>11.31%</u></b>	<b><u>9.90%</u></b>

\* 31 December 2017 fully loaded capital

Table 11 – LRCom - Leverage ratio common disclosure

	<b>30.9.2018</b>	<b>30.6.2018</b>	<b>31.12.2017</b>
	<b>CRR leverage ratio exposures</b>	<b>CRR leverage ratio exposures</b>	<b>CRR leverage ratio exposures</b>
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>			
1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	14,171,366	13,841,291	13,584,533
2 (Asset amounts deducted in determining Tier 1 capital)	(33,066)	(34,660)	(37,363)
<b>3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)</b>	<b>14,138,301</b>	<b>13,806,631</b>	<b>13,547,170</b>
<b>Derivative exposures</b>			
4 Replacement cost associated with <i>all</i> derivatives transactions (ie net of eligible cash variation margin)	14,177	15,344	14,212
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	23,632	24,504	22,719
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(2,284)	(847)	(2,229)
8 (Exempted CCP leg of client-cleared trade exposures)	(10,791)	(10,986)	(11,831)
<b>11 Total derivative exposures</b>	<b>24,734</b>	<b>28,016</b>	<b>22,871</b>
<b>Securities financing transaction exposures</b>			
<b>16 Total securities financing transaction exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>			
17 Off-balance sheet exposures at gross notional amount	1,975,304	1,913,546	1,890,516
18 (Adjustments for conversion to credit equivalent amounts)	(1,448,537)	(1,392,232)	(1,415,572)
<b>19 Other off-balance sheet exposures</b>	<b>526,767</b>	<b>521,314</b>	<b>474,944</b>
<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)</b>			
<b>Capital and total exposures</b>			
20 Tier 1 capital	1,458,318	1,623,126	1,390,579
<b>21 Total leverage ratio exposures</b>	<b>14,689,801</b>	<b>14,355,961</b>	<b>14,044,985</b>
<b>Leverage ratio</b>			
<b>22 Leverage ratio</b>	<b>9.93%</b>	<b>11.31%</b>	<b>9.90%</b>

Table 12 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures

<b>LRSum: Summary reconciliation of accounting assets and leverage ratio exposures</b>	<b>30.9.2018</b>	<b>30.6.2018</b>	<b>31.12.2017</b>
<b>1 Total assets as per published financial statements</b>	<b>12,783,718</b>	<b>12,516,186</b>	<b>12,237,745</b>
2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(27,193)	(30,095)	(36,806)
4 Adjustments for derivative financial instruments	10,557	12,672	8,659
6 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	526,767	521,314	474,944
7 Other adjustments	1,395,952	1,335,884	1,360,443
<b>8 Leverage ratio total exposure measure</b>	<b>14,689,801</b>	<b>14,355,961</b>	<b>14,044,985</b>

Table 13 – LRSpl – Split-up of on balance sheet exposures

	<b>CRR leverage ratio exposures</b>		
	<b>30.9.2018</b>	<b>30.6.2018</b>	<b>31.12.2017</b>
<b>EU-1 Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	<b>14,171,366</b>	<b>13,841,291</b>	<b>13,584,533</b>
EU-2 Trading book exposures	32,597	52,810	59,164
EU-3 Banking book exposures, of which:	14,138,769	13,788,481	13,525,369
EU-4 Covered bonds	227,442	194,089	89,191
EU-5 Exposures treated as sovereigns	3,528,747	3,149,086	3,060,144
EU-6 Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	260,769	249,383	253,401
EU-7 Institutions	1,076,520	1,212,606	1,265,587
EU-8 Secured by mortgages of immovable properties	728,166	714,231	697,134
EU-9 Retail exposures	3,656,887	3,585,729	3,410,857
EU-10 Corporate	2,195,030	2,235,796	2,240,627
EU-11 Exposures in default	227,533	248,393	297,000
EU-12 Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2,237,675	2,199,168	2,211,428

## 5. Appendix

### List of all disclosures required under Part 8 of CRR

Art.	Requirement	Chapter	Page
<b>436</b>	<b>Scope of application</b>		
	(a) the name of the institution to which the requirements of this Regulation apply;	1	5
	(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	5-6
	(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	5-6
	(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	5-6
	(e) if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.	/	/
<b>437</b>	<b>Capital (Own funds)</b>		
	(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;	3.5	12-13
	(b) a description of the main features of the CET1 and AT1 instruments and T2 instruments issued by the institution;	3.3	9-10
	(c) the full terms and conditions of all CET1, AT1 and Tier 2 instruments;	3.3	9-10
	(d) separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35; (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;	3.4	10-11
	(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;	3.4	10-11
	(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.	3.5	12-13
<b>438</b>	<b>Capital requirements</b>		
	(a) a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities;	/	/
	(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	8-9
	(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	8-9

	(f) (operational risk:) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	3.2	8-9
<b>451</b>	<b>Leverage</b>		
	(a) the leverage ratio and how the institution applies Article 499(2) and (3);	4	14-15
	(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;	4	14-15
	(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;	4	14-15
	(e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	4	14-15