

Nova Ljubljanska banka d.d., Ljubljana

Pillar 3 Disclosures for NLB Group Q1 2018

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Abbreviations

ALCO	Asset and Liability Committee	HQLA	High-quality liquid assets
AT1	Additional Tier 1 capital	ICAAP	Internal Capital Adequacy Assessment Process
BCBS	Basel Committee on Banking Supervision	IFRS	International Financial Reporting Standards
CBR	Combined buffer requirement	IRB	Internal ratings-based approach
CCB	Capital Conservation Buffer	LCR	Liquidity coverage ratio
CET 1	Common equity tier 1 capital	OCR	Overall capital requirement
CRD	Capital Requirements Directive	O-SII	Other systemically important institutions
CRD IV	Capital Requirements Directive & Regulation	OTC	Over-the-counter
CRR	Capital Requirements Regulation	P2R	Pillar 2 Requirement
CVA	Credit valuation adjustment	RWA	Risk-weighted assets
EBA	European Banking Authority	SA	Standardized Approach
ECB	European Central Bank	SREP	Supervisory Review and Evaluation Process
EHQLA	Extremely High-quality Liquid Assets	T2	Tier 2 capital
EU	European Union	TSCR	Total SREP capital requirement
G-SIB	Global systemically important banks	ZBan-2	Banking Act

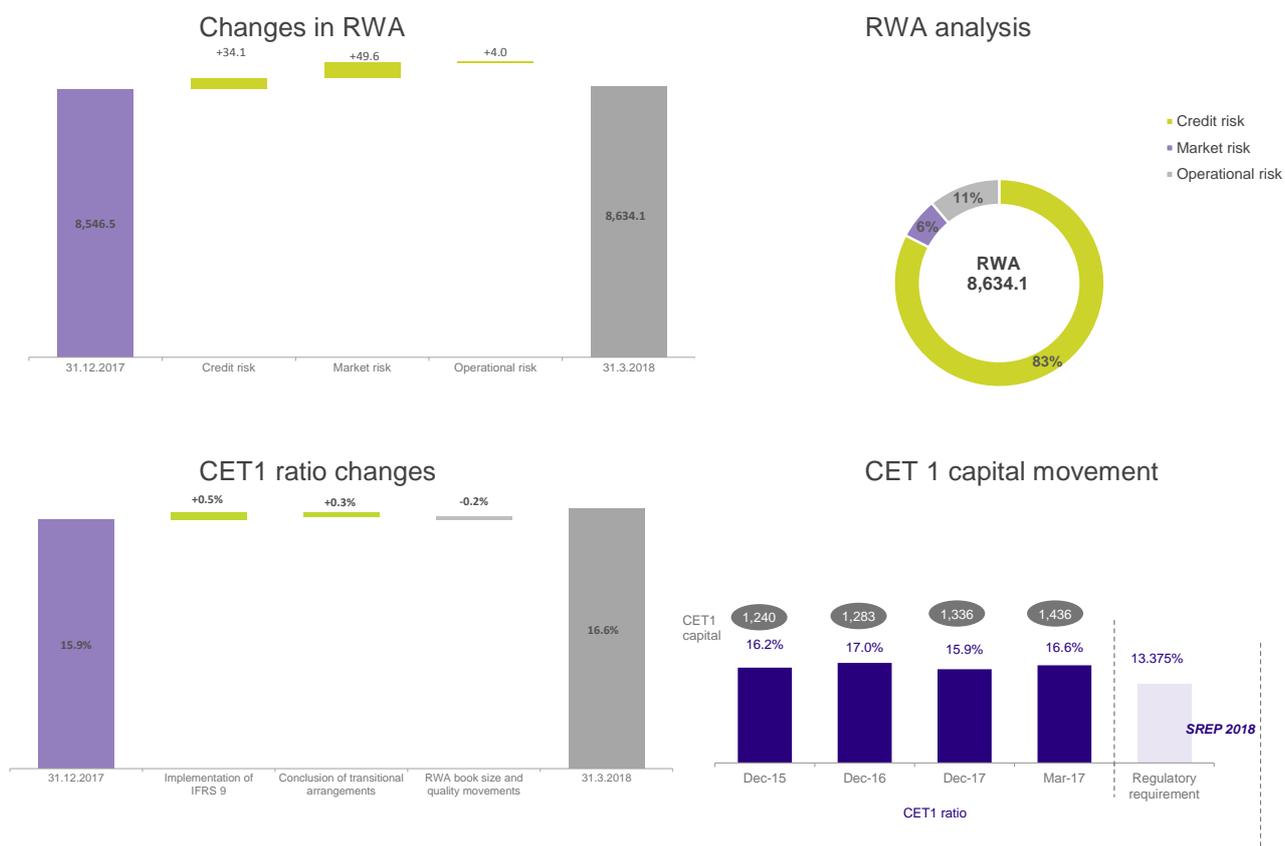
Key highlights

Table 1 – Key metrics

NLB Group	31.3.2018	31.12.2017
Available capital		
Common equity tier 1 (CET 1)	1,435,710	1,362,140
Tier 1	1,435,710	1,362,140
Total capital	1,435,710	1,362,140
Risk weighted assets		
Total RWA	8,634,129	8,546,482
Capital ratios		
Common equity tier 1 ratio (%)	16.6%	15.9%
Tier 1 ratio (%)	16.6%	15.9%
Total capital ratio (%)	16.6%	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%
Capital ratio available after meeting the bank's minimum TCR	3.2%	3.2%
Leverage ratio		
Total leverage ratio exposure measure	14,161,288	14,044,985
Leverage ratio (%)*	10.14%	9.90%
Liquidity Coverage Ratio		
Total HQLA	2,624,289	2,466,737
Total net cash outflow	832,524	893,680
LCR ratio	315%	276%

*fully loaded

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



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 first quarter 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, following the release of the Interim report for NLB Group March 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 March 2018 and under the scope of regulatory consolidation.

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

31.3.2018	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Differences
Cash, cash balances at central banks and other demand deposits at banks	1,341,425	1,341,425	-
Financial assets held for trading	47,903	47,903	-
Non-trading financial assets mandatorily at fair value through profit or loss	26,983	26,983	-
Financial assets measured at fair value through other comprehensive income	1,794,699	1,794,699	-
Financial assets measured at amortised cost			-
- debt securities	1,222,230	1,222,230	-
- loans and advances to banks	553,169	553,169	-
- loans and advances to customers	6,913,797	6,913,797	-
- other financial assets	84,661	84,661	-
Derivatives - hedge accounting	1,994	1,994	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	573	573	-
Investments in associates and joint ventures	43,473	12,616	30,857
Pledged assets	-	-	-
Tangible assets			-
Property and equipment	186,399	186,399	-
Investment property	52,805	52,805	-
Intangible assets	33,574	33,574	-
Current income tax assets	676	676	-
Deferred income tax assets	20,727	20,727	-
Other assets	95,403	95,403	-
Non-current assets classified as held for sale	4,085	4,085	-
Total assets	12,424,576	12,393,719	30,857
Trading liabilities	9,446	9,446	-
Financial liabilities measured at fair value through profit or loss	5,174	5,174	-
Financial liabilities measured at amortised cost			-
- deposits from banks and central banks	36,371	36,371	-
- borrowings from banks and central banks	277,523	277,523	-
- due to customers	9,938,270	9,938,270	-
- borrowings from other customers	92,689	92,689	-
- debt securities in issue	-	-	-
- other financial liabilities	139,341	139,341	-
Derivatives - hedge accounting	24,608	24,608	-
Financial liabilities associated to transferred assets	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Liabilities of disposal group classified as held for sale	-	-	-
Provisions	91,170	91,170	-
Current income tax liabilities	3,002	3,002	-
Deferred income tax liabilities	2,569	2,569	-
Other liabilities	12,107	12,107	-
Total liabilities	10,632,270	10,632,270	-
Equity and reserves attributable to owners of the parent			-
Share capital	200,000	200,000	-
Share premium	871,378	871,378	-
Other equity instruments	-	-	-
Accumulated other comprehensive income	22,468	14,297	8,171
Profit reserves	13,522	13,522	-
Retained earnings	645,437	622,751	22,686
	1,752,805	1,721,948	30,857
Non-controlling interests	39,501	39,501	-
Total equity	1,792,306	1,761,449	30,857
Total liabilities and equity	12,424,576	12,393,719	30,857

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

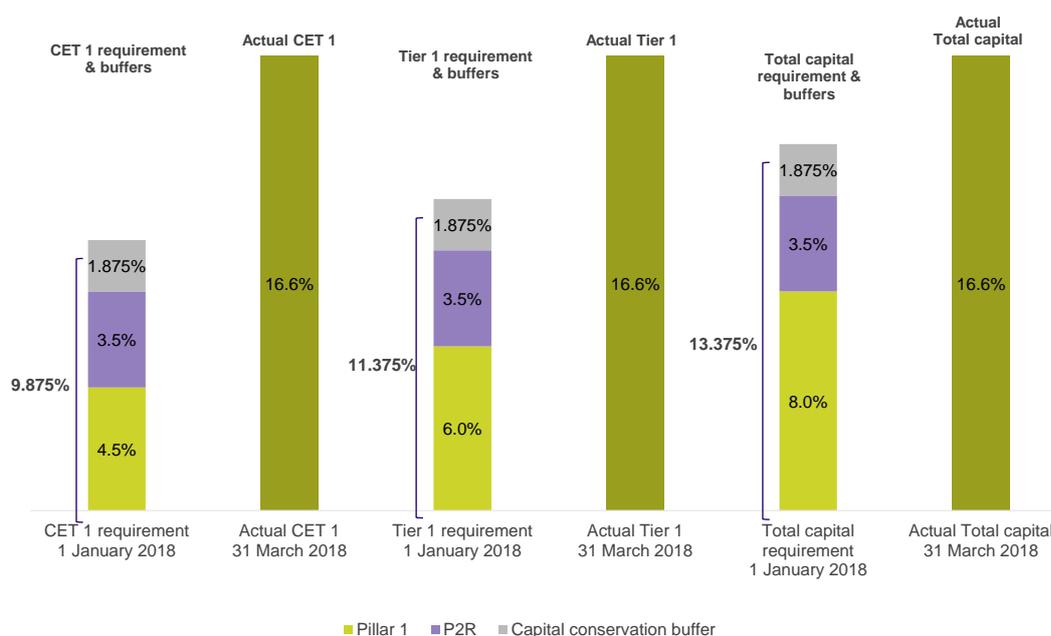
European bank capital legislation - CRD IV, is based on the Basel III guidelines. The legislation defines three capital ratios reflecting a different quality of capital:

- 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:

	31.3.2018	31.12.2017
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings - from previous years	371,970	296,773
Current result	-	29,280
Accumulated other comprehensive income	14,297	(11,450)
Other reserves	13,522	13,522
Prudential filters: Additional Valuation Adjustments (AVA)	(1,883)	(2,389)
(-) Goodwill	(3,529)	(3,529)
(-) Other intangible assets	(30,045)	(31,445)
COMMON EQUITY TIER 1 CAPITAL (CET1)	1,435,710	1,362,140
Additional Tier 1 capital	-	-
TIER 1 CAPITAL	1,435,710	1,362,140
Tier 2 capital	-	-
TOTAL CAPITAL	1,435,710	1,362,140
Risk exposure amount for credit risk	7,130,484	7,096,413
Risk exposure amount for market risks	549,213	499,726
Risk exposure amount for CVA	950	850
Risk exposure amount for operational risk	953,482	949,493
TOTAL RISK EXPOSURE AMOUNT (RWA)	8,634,129	8,546,482
Common Equity Tier 1 Ratio	16.6%	15.9%
Tier 1 Ratio	16.6%	15.9%
Total Capital Ratio	16.6%	15.9%

The capital adequacy of NLB Group in March 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 Q1 2018, the capital ratios for the Group stood at 16.6% (or 0.7 p.p. higher than at the end of 2017) and for the Bank at 22.8% (or 1.0 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 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. The drivers behind the differences between the RWAs as of 31 March 2018 and 31 December 2017 are explained in chapter 3.2 Capital requirements in the Table 5 – EU OV1 – Overview of RWAs.

In March 2018, NLB received a letter from the ECB on the ECB's intention to adopt the decision to restrict distributions by NLB to its shareholders and to require a Contingent Capital Plan. On 5 April 2018, NLB received the final decision on this matter, making any distributions of dividends by NLB to its shareholders subject to ECB's consent.

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 below shows the detailed composition of the capital requirements of NLB Group as at 31 March 2018 and 31 December 2017.

Table 5 – EU OV1 – Overview of RWAs

		31.3.2018		31.12.2017	
		RWA	Minimum capital requirement - 8% of RWA	RWA	Minimum capital requirement - 8% of RWA
1	Credit risk (excluding CCR)	7,025,551	562,044	6,993,567	559,485
2	Of which the standardised approach	7,025,551	562,044	6,993,567	559,485
6	CCR	22,525	1,802	20,983	1,679
7	Of which mark to market	21,575	1,726	20,133	1,611
12	Of which CVA	950	76	850	68
13	Settlement risk	-	-	-	-
19	Market risk	549,213	43,937	499,726	39,978
20	Of which the standardised approach	549,213	43,937	499,726	39,978
22	Large exposures	-	-	-	-
23	Operational risk	953,482	76,279	949,493	75,959
24	Of which basic indicator approach	953,482	76,279	949,493	75,959
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	83,358	6,669	82,713	6,617
28	Floor adjustment	-	-	-	-
29	Total	8,634,129	690,730	8,546,482	683,719

The RWA for credit risk increased (EUR 34.1 million YtD) mainly due to lower coverage by impairments and provisions resulting from transition to IFRS 9 (mainly for corporate and retail exposures). However, another reason for higher RWA on the retail segment (EUR 49.8 million) is consumer and housing loans growth, while regular repayments on corporate segment in Q1 2018 contributed to the RWA reduction (EUR -42.5 million). The increase in RWA for market risks and credit value adjustments (CVA) (EUR 49.6 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 first quarter 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 March 2018- note 5.14 a Subordinated liabilities (page 76).

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)
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: 1,071,378
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
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.

3.4. 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 as at 31 March 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.

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

		31.3.2018
Common equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	1,071,378
	of which: ordinary shares	1,071,378
2	Retained earnings	371,970
3	Accumulated other comprehensive income (and other reserves)	27,819
3a	Funds for general banking risk	-
5	Minority interest (amount allowed in consolidated CET1)	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,471,167
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(1,883)
8	Intangible assets (net of related tax liability) (negative amount)	(33,574)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(35,457)
29	Common Equity Tier 1 (CET1) capital	1,435,710
Additional Tier 1 (AT1) capital: instruments		
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-
Additional Tier 1 (AT1) capital: regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 (AT1)	-
44	Additional Tier 1 (AT1) capital	-
45	Tier 1 capital (T1= CET1 + AT1)	1,435,710
58	Tier 2 (T2) capital	-
59	Total capital (TC = T1 + T2)	1,435,710
60	Total risk weighted assets	8,634,129
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.6%
62	Tier 1 (as a percentage of total risk exposure amount)	16.6%
63	Total capital (as a percentage of total risk exposure amount)	16.6%
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%
65	of which: capital conservation buffer requirement	1.875%
66	of which: countercyclical buffer requirement	0.0%
67	of which: systemic risk buffer requirement	0.0%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	8.6%
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)	1,686
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)	12,616
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)	20,727
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)	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	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)	-
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	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
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

N/A - not relevant

3.5. 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 8 – Mapping of the balance sheet items (statement of financial position items) and capital for the purpose of capital adequacy of NLB Group

	31.3.2018	
	Prudential consolidation	Included in capital as reported
Cash, cash balances at central banks and other demand deposits at banks	1,341,425	-
Financial assets held for trading	47,903	(48)
Non-trading financial assets mandatorily at fair value through profit or loss	26,983	(5)
Financial assets measured at fair value through other comprehensive income	1,794,699	(1,795)
Financial assets measured at amortised cost	8,773,857	-
Derivatives - hedge accounting	1,994	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	573	-
Investments in associates and joint ventures	12,616	-
Tangible assets	239,204	-
Intangible assets	33,574	-
<i>Goodwill</i>	3,529	(3,529)
<i>Other intangible assets</i>	30,045	(30,045)
Current income tax assets	676	-
Deferred income tax assets	20,727	-
<i>That rely on future profitability and arise from temporary differences</i>	20,727	-
Other assets	95,403	-
Non-current assets classified as held for sale	4,085	-
Total assets	12,393,719	-
Trading liabilities	9,446	(9)
loss	5,174	(1)
Financial liabilities measured at amortised cost	10,484,194	-
Derivatives - hedge accounting	24,608	(25)
Provisions	91,170	-
Current income tax liabilities	3,002	-
Deferred income tax liabilities	2,569	-
Other liabilities	12,107	-
Total liabilities	10,632,270	-
Share capital	200,000	200,000
Share premium	871,378	871,378
Accumulated other comprehensive income	14,297	14,297
Profit reserves	13,522	13,522
Retained earnings	622,751	371,970
Treasury shares	-	-
Non-controlling interests	39,501	-
Total equity	1,761,449	-
Total liabilities and equity	12,393,719	-
Sum of balance sheet items		1,435,710
Capital		1,435,710

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

31.3.2018	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	14,297	-	-	-	-	14,297 Accumulated other comprehensive income
Profit reserves	13,522	-	-	-	-	13,522 Other reserves
Retained earnings - from previous years	561,064	(189,094)	-	-	-	371,970 Retained earnings - from previous years
Retained earnings - current results	61,687	-	(61,687)	-	-	- Current results
Minority interest	39,501	-	-	(39,501)	-	- Minority interest
					(1,883)	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
					(3,529)	Deduction item: Goodwill (Article 36.b)
					(30,045)	Deduction item: Other intangible assets (Article 36.b)
Total equity	1,761,449	(189,094)	(61,687)	(39,501)	(35,457)	1,435,710 Common Equity Tier 1 (CET1) capital
						- Additional Tier 1 capital
						1,435,710 Tier 1 capital
						- Tier 2 capital
						1,435,710 Total capital

During Q1 2018 total accounting equity increased by EUR 110.1 million to EUR 1,761 million as at 31 March 2018, primarily due to net profit of current year (EUR 61.7 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 10.14% 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 31 March 2018 amounted to 10.14%, and slightly increased by 0.24 percentage points compared to the end of previous year. The increase occurred primarily due to the higher value of the total leverage exposure calculated in accordance with Article 111 of the Regulation (EU) No 575/2013 by EUR 116 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 derivative slightly rose while off-balance sheet exposures were decreasing in comparison with end of previous year. The impact of capital increase on the leverage ratio was (EUR 45 million) mainly due to transition to IFRS 9 (considering fully loaded capital as of 31 December 2017).

As of 31 March 2018, the leverage exposure was mainly driven by on-balance sheet exposures (96.6%), and other off-balance sheet exposure (3.2%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures the most significant were Retail exposures (25%), exposures treated as sovereigns (23%), exposures to corporates (16%) and 15.8% to other exposures.

Table 10 – Leverage ratio of NLB Group

	31.3.2018	31.12.2017
Tier 1 capital	1,435,710	1,390,579
Total leverage exposures	14,161,288	14,044,985
Leverage ratio	10.14%	9.90%

*31 December 2017 fully loaded capital

Table 11 – LRCom - Leverage ratio common disclosure

	31.3.2018	31.12.2017
	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)	13,714,445	13,584,533
2 (Asset amounts deducted in determining Tier 1 capital)	(35,457)	(37,363)
3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	13,678,988	13,547,170
Derivative exposures		
4 Replacement cost associated with <i>all</i> derivatives transactions (ie net of eligible cash variation margin)	14,781	14,212
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	23,975	22,719
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(3,128)	(2,229)
8 (Exempted CCP leg of client-cleared trade exposures)	(10,942)	(11,831)
11 Total derivative exposures	24,686	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	1,812,638	1,890,516
18 (Adjustments for conversion to credit equivalent amounts)	(1,355,024)	(1,415,572)
19 Other off-balance sheet exposures	457,614	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	1,435,710	1,390,579
21 Total leverage ratio exposures	14,161,288	14,044,985
Leverage ratio		
22 Leverage ratio	10.14%	9.90%

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

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		31.3.2018	31.12.2017
1 Total assets as per published financial statements		12,424,576	12,237,745
2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation		(30,857)	(36,806)
4 Adjustments for derivative financial instruments		9,905	8,659
6 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)		457,614	474,944
7 Other adjustments		1,300,050	1,360,443
8 Leverage ratio total exposure measure		14,161,288	14,044,985

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

	CRR leverage ratio exposures	
	31.3.2018	31.12.2017
EU-1 Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	13,714,445	13,584,533
EU-2 Trading book exposures	35,139	59,164
EU-3 Banking book exposures, of which:	13,679,306	13,525,369
EU-4 Covered bonds	170,819	89,191
EU-5 Exposures treated as sovereigns	3,165,840	3,060,144
EU-6 Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	250,906	253,401
EU-7 Institutions	1,270,552	1,265,587
EU-8 Secured by mortgages of immovable properties	710,477	697,134
EU-9 Retail exposures	3,481,307	3,410,857
EU-10 Corporate	2,179,732	2,240,627
EU-11 Exposures in default	282,261	297,000
EU-12 Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2,167,412	2,211,428

5. Appendix

List of all disclosures required under Part 8 of CRR

Art.	Requirement	Chapter	Page
436	Scope of application		
	(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;	/	/
	(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;	/	/
	(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;	/	/
	(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;	3.5	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
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;	/	/
	(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
451	Leverage		
	(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