NLB Group

Pillar 3 Disclosures

H1 2019

Abbreviations

ALCO	Asset and Liability Committee
AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
CBR	Combined buffer requirement
CCF	Credit conversion factor
CCP	Central Counterparty
CCR	Counterparty credit risk
CET 1	Common equity tier 1 capital
CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive and Regulation
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
D-SIB	Domestic systemically important banks
EAD	Exposure at default
EBA	European Banking Authority
ECA	External Credit Assessment
ECAI	External Credit Assessment Institutions
EU	European Union
FX	Foreign Exchange
G-SIB	Global systemically important banks
HQLA	High-quality liquid assets
IRB	Internal ratings-based approach
IRR	Interest rate risk
ISIN	International Securities Identification Number
LCR	Liquidity coverage ratio
MDA	Maximum Distributable Amount
MDB	Multilateral Development Bank
MS	Mid swap
NPL	Non Performing Loans
OCI	Other comprehensive income
OCR	Overall capital requirement
O-SII	Other systemically important institutions
P2G	Pillar 2 Guidance
PFE	Potential Future Exposure
PSE	Public sector entity
QCCP	Qualifying Central Counterparty
RWA	Risk-weighted assets
SA	Standardized Approach
SFT	Securities Financing Transactions
SME	Small Medium Enterprise
SREP	Supervisory Review and Evaluation Process
T1	Tier 1 capital
T2	Tier 2 capital
TC	Total Capital
TSCR	Total SREP capital requirement
ZBan-2	Banking Act

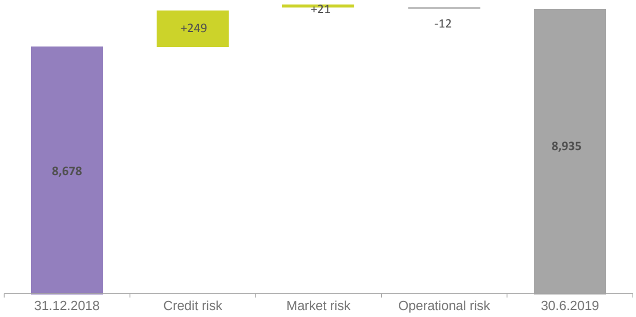
Key highlights

Table 1 – Key metrics

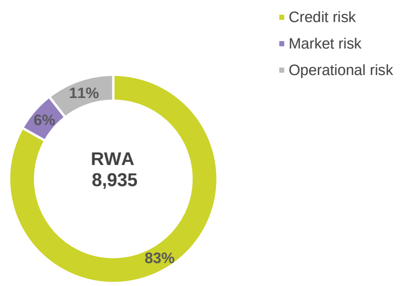
NLB Group	30.6.2019	31.3.2019	31.12.2018
Available capital			
Common equity tier 1 (CET 1)	1,425,298	1,460,078	1,453,402
Tier 1	1,425,298	1,460,078	1,453,402
Tier 2	44,595	0	0
Total capital	1,469,893	1,460,078	1,453,402
Risk weighted assets			
Total RWA	8,935,190	8,811,559	8,677,624
Capital ratios			
Common equity tier 1 ratio (%)	16.0%	16.6%	16.7%
Tier 1 ratio (%)	16.0%	16.6%	16.7%
Total capital ratio (%)	16.5%	16.6%	16.7%
Additional CET1 buffer requirements as a % of RWA			
Capital conservation buffer requirement	2.5%	2.5%	1.875%
Countercyclical buffer requirement	0.0%	0.0%	0.0%
Bank G-SIB and /or D-SIB additional requirements	1.0%	1.0%	0.0%
Total of bank CET1 specific buffer requirements	3.5%	3.5%	1.875%
CET1 available after meeting the bank's minimum Pillar 1 capital requirements	11.5%	12.1%	12.2%
Leverage ratio			
Total leverage ratio exposure measure	15,196,773	14,943,312	14,709,318
Leverage ratio (%)	9.38%	9.77%	9.88%
Liquidity Coverage Ratio			
Total HQLA	3,307,932	3,303,377	3,150,557
Total net cash outflow	962,769	922,533	873,297
LCR ratio	344%	358%	361%
NSFR ratio	155%	157%	159%

Key ratios and figures reflects throughout the Pillar 3 disclosures and a summary reflects in Table 1.

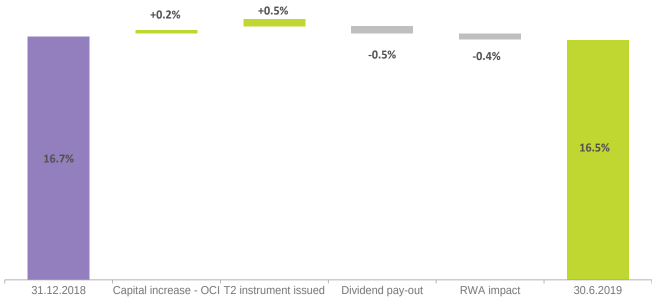
Changes in RWA



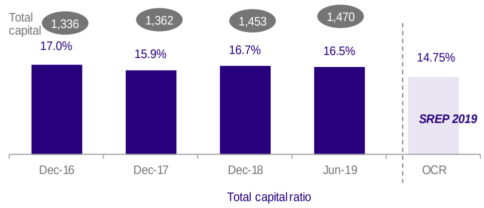
RWA analysis



Total capital ratio changes



Total 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 '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. On 27 June 2019 a change of CRR was published ('Regulation (EU) No. 2019/876 – CRR2), with some of its provisions already valid.

The CRR/CRR2 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 commonly refers 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.

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. Any discrepancies between data disclosed in this document are due to the effect of rounding.

CRD IV and EBA guidelines require NLB Group to disclose information at least 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. A separate Pillar 3 document is also published quarterly on the NLB's website www.nlb.si, following our Interim Report disclosure.

Verifications and source of information

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 interim 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 NLB Group Interim Report H1 2019, 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 NLB Group Interim Report H1 2019. Some details of the key differences between the Group's accounting and regulatory exposures are set out in Table 2.

2. Scope of application

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

In accordance with the capital legislation, NLB d.d. has the position of an “EU parent bank” and so is a parent company of NLB Group. NLB 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 below.

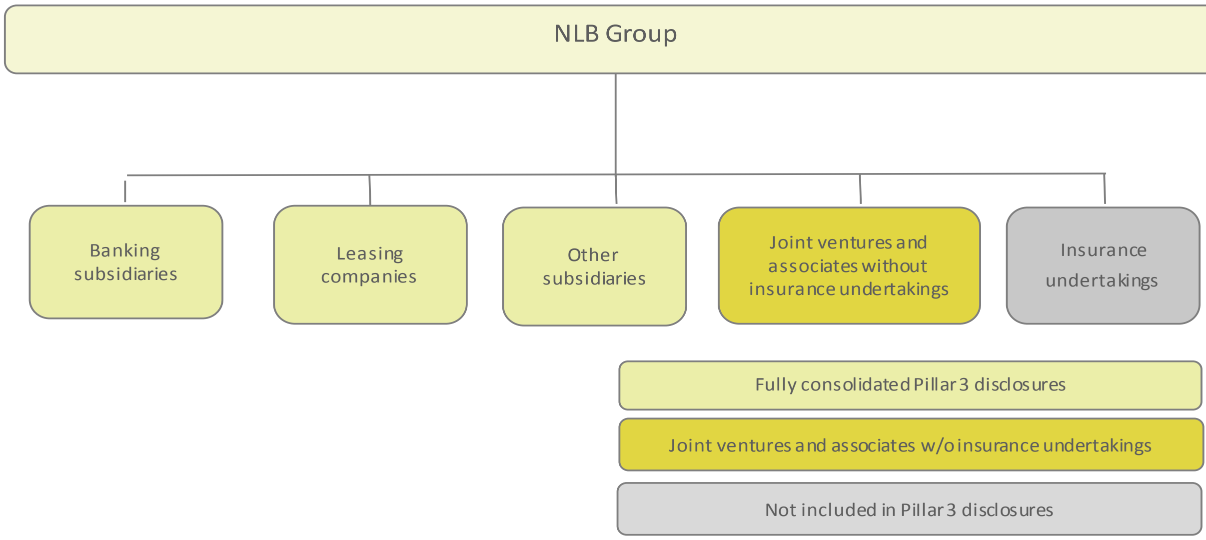


Table 2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the NLB Group Interim Report H1 2019, and under the scope of regulatory consolidation.

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.

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

30.6.2019	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Diferences
Cash, cash balances at central banks, and other demand deposits at banks	1,460,731	1,460,731	-
Financial assets held for trading	116,948	116,948	-
Non-trading financial assets mandatorily at fair value through profit or loss	40,406	40,406	-
Financial assets measured at fair value through other comprehensive income	2,062,896	2,062,896	-
Financial assets measured at amortised cost			-
- debt securities	1,593,376	1,593,376	-
- loans and advances to banks	108,126	108,126	-
- loans and advances to customers	7,254,657	7,254,657	-
- other financial assets	95,045	95,045	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	9,614	9,614	-
Investments in associates and joint ventures	42,318	10,359	31,959
Tangible assets			-
Property and equipment	193,848	193,848	-
Investment property	57,760	57,760	-
Intangible assets	33,474	33,474	-
Current income tax assets	473	473	-
Deferred income tax assets	17,467	17,467	-
Other assets	73,704	73,704	-
Non-current assets and disposal group classified as held for sale	3,567	3,567	-
Total assets	**13,164,410**	**13,132,451**	**31,959**
Trading liabilities	21,270	21,270	-
Financial liabilities measured at fair value through profit or loss	8,516	8,516	-
Financial liabilities measured at amortised cost			-
- deposits from banks and central banks	44,760	44,760	-
- borrowings from banks and central banks	246,776	246,776	-
- due to customers	10,753,544	10,753,544	-
- borrowings from other customers	60,046	60,046	-
- subordinated liabilities	44,861	44,861	-
- other financial liabilities	205,047	205,047	-
Derivatives - hedge accounting	51,876	51,876	-
Provisions	82,949	82,949	-
Current income tax liabilities	1,484	1,484	-
Deferred income tax liabilities	2,326	2,326	-
Other liabilities	13,291	13,291	-
Total liabilities	**11,536,746**	**11,536,746**	**-**
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	27,251	17,585	9,666
Profit reserves	13,522	13,522	-
Retained earnings	475,219	452,926	**22,293**
	1,587,370	**1,555,411**	**31,959**
Non-controlling interests	40,294	40,294	-
Total equity	**1,627,664**	**1,595,705**	**31,959**
Total liabilities and equity	**13,164,410**	**13,132,451**	**31,959**

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 banking 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 Capital Guidance: capital recommendation set by the supervisory institution through the SREP process. It is bank-specific, and is a recommendation and 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 (including preparation of capital restoration plan).

Table 3 – Capital requirements and buffers of NLB Group

		2019	2018
	CET1	4.5%	4.5%
Pillar 1	AT1	1.5%	1.5%
	T2	2.0%	2.0%
Pillar 2 (P2R)	CET1	3.25%	3.5%
	CET1	7.75%	8.0%
Total SREP Capital Requirement (TSCR)	Tier 1	9.25%	9.5%
	Total Capital	11.25%	11.50%
Combined Buffer requirement (CBR)			
Conservation buffer	CET1	2.50%	1.875%
O-SII buffer	CET1	1.00%	0.00%
Countercyclical buffer	CET1	0.00%	0.00%
	CET1	11.25%	9.875%
Overall capital requirement (OCR) = MDA threshold	Tier 1	12.75%	11.375%
	Total Capital	14.75%	13.375%
Pillar 2 Guidance (P2G)	CET1	1.00%	1.5%
OCR + P2G	CET1	12.25%	11.375%

In June 2019, OCR amounted to 14.75% for the Bank on the consolidated level, consisting of:

- 11.25% TSCR (8% Pillar 1 Requirement and 3.25% Pillar 2 requirement); and
- 3.5% CBR (2.5% Capital conservation buffer, 1% O-SII buffer and 0% Countercyclical buffer).

The applicable OCR requirement for 2019 has been raised to 14.75%, due to the gradual phase-in of the capital conservation buffer as prescribed by law and introduction of O-SII buffer. On the other hand, Pillar 2 Requirement decreased by 0.25 p.p. to 3.25%, as a result of better overall SREP assessment. Based on that Supervisory Board of NLB on 12 April 2019 confirmed adjusted Risk Appetite target for NLB Group Overall capital adequacy at 16.25%. Target total capital ratio is regularly revised by the competent bodies to reflect each time the applicable capital requirements.

The Bank's dividend policy envisages yearly distribution of dividends, considering maintaining risk appetite targets in the approximate amount of around 70% of the Group's profit.

The capital adequacy of NLB Group and NLB at the end of June 2019 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.

Table 4 – Capital adequacy of NLB Group:

	30.6.2019	31.3.2019	31.12.2018
Paid up capital instruments	200,000	200,000	200,000
Share premium	871,378	871,378	871,378
Retained earnings	358,629	401,857	293,026
Current result	-	-	108,829
Accumulated other comprehensive income	17,585	8,650	3,598
Other reserves	13,522	13,522	13,522
Prudential filters: Additional Valuation Adjustments (AVA)	(2,215)	(2,145)	(1,983)
(-) Goodwill	(3,529)	(3,529)	(3,529)
(-) Other intangible assets	(29,945)	(29,655)	(31,439)
(-) Deduction item related to credit impairments and provisions not included in capital	(127)	-	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,425,298**	**1,460,078**	**1,453,402**
Additional Tier 1 capital	-	-	-
TIER 1 CAPITAL	**1,425,298**	**1,460,078**	**1,453,402**
Tier 2 capital	44,595	-	-
TOTAL CAPITAL	**1,469,893**	**1,460,078**	**1,453,402**
Risk exposure amount for credit risk	7,428,245	7,284,927	7,179,678
Risk exposure amount for market risks	559,326	580,550	541,901
Risk exposure amount for CVA	6,025	4,488	2,563
Risk exposure amount for operational risk	941,594	941,594	953,482
TOTAL RISK EXPOSURE AMOUNT (RWA)	**8,935,190**	**8,811,559**	**8,677,624**
Common Equity Tier 1 Ratio	16.0%	16.6%	16.7%
Tier 1 Ratio	16.0%	16.6%	16.7%
Total Capital Ratio	16.5%	16.6%	16.7%

As at 30 June 2019, the Total capital ratio for NLB Group stood at 16.5% (or 0.2 percentage points lower than at the end of 2018), and for NLB at 22.7% (or 1.4 percentage point lower than at the end of 2018). The Tier 1 ratio and Common equity Tier 1 ratio (16.0% or 0.7 percentage points lower than at the end of 2018) differ from Total capital ratio due to Tier 2 instrument issued. The lower capital adequacy derives from higher RWA (EUR 257.6 million for NLB Group).

The drivers behind the differences between the RWAs as at 30 June 2019 and 31 December 2018 are explained in chapter 3.2 Capital requirements in the Table 5 – EU OV1 – Overview of RWAs.

In June 2019, NLB paid out dividends in total amount of EUR 142.6 million, which represents EUR 7.13 gross per share. This decreased capital for EUR -43.2 million, nevertheless, the Total capital in 2019 increased by EUR 16.5 million, mainly due to issuance of Tier 2 instrument (EUR 44.6 million), higher other comprehensive income (EUR 13.8 million) and lower deduction for intangible assets (EUR 1.5 million).

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 5 shows the detailed composition of the capital requirements of NLB Group at the end of June 2019, at the end of March 2019 and at the end of 2018.

Table 5 – EU OV1 – Overview of RWAs of NLB Group

		30.6.2019		31.3.2019		31.12.2018	
		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)**	**7,268,060**	**581,445**	**7,177,933**	**574,235**	**7,071,808**	**565,745**
2	Of which the standardised approach	7,268,060	581,445	7,177,933	574,235	7,071,808	565,745
6	**CCR**	**39,527**	**3,162**	**32,867**	**2,629**	**26,625**	**2,130**
7	Of which mark to market	33,502	2,680	28,379	2,270	24,062	1,925
12	Of which CVA	6,025	482	4,488	359	2,563	205
13	**Settlement risk**	**-**	**-**	**-**	**-**	**100**	**8**
19	**Market risk**	**559,326**	**44,746**	**580,550**	**46,444**	**541,801**	**43,344**
20	Of which the standardised approach	559,326	44,746	580,550	46,444	541,801	43,344
23	**Operational risk**	**941,594**	**75,328**	**941,594**	**75,328**	**953,482**	**76,279**
24	Of which basic indicator approach	941,594	75,328	941,594	75,328	953,482	76,279
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**126,683**	**10,135**	**78,615**	**6,289**	**83,808**	**6,705**
29	**Total**	**8,935,190**	**714,815**	**8,811,559**	**704,925**	**8,677,624**	**694,210**

In 2019 the RWA for Credit risk increased by EUR 248.6 million (lines 2, 7, and 27 in Table 5), mainly due to an increase of exposure in the corporate and retail segment because of increased lending activities (EUR 158.8 million). RWA increase was also affected by surplus liquidity placed to the non-EU governments debt securities (EUR 49.5 million).

The increase in RWA for market risk and CVA (Credit value adjustments) amounted to EUR 20.9 million (lines 12, 13 and 20 in Table 5), because 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 investments in foreign subsidiary companies are recognised in the consolidated capital and do not have an impact on the NLB Group's profit and loss.

The decrease in the RWA for operational risks (EUR 11.9 million) arises from the lower three-year average of relevant income, as defined in Article 316 of CRR, which represents the basis for the calculation.

3.3. Capital instruments included in the capital

(Articles 437.1 b and c, and 73 of CRR)

In June 2019, the capital of NLB Group consisted of Common Equity Tier 1 capital and Tier 2 capital. The only instruments included in Common Equity Tier 1 capital were the ordinary shares of the parent company NLB. The only instruments included in Tier 2 capital were the subordinated Tier 2 notes issued in May 2019.

On 6 May 2019 the Bank (the Issuer), issued 10NC5 subordinated Tier 2 notes in the aggregate amount of EUR 45 million. The fixed coupon of the notes during the first five years is 4.2% p.a.; thereafter it will be reset to the sum of the then applicable 5Y MS and the fixed margin as defined at the issuance of the notes (i.e. 4.159%). The notes with ticker NLB27 and ISIN code SI0022103855 were as of 8 May 2019 admitted to trading on the regulated market of the Ljubljana Stock Exchange, bond segment. The domestic as well as foreign institutional investors supported the transaction. The Issuer's obligations arising from the Notes have the characteristics of subordinated debt for inclusion in Tier 2 capital according to Article 63 of the CRR Regulation, where the Issuer has also the option of early repayment or call of the Notes.

Subordinated liabilities for NLB Group are disclosed in the Interim Report for NLB Group H1 2019 - note 5.10 a Subordinated liabilities (page 72).

Table 6 – 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)	SI0021117344
3	Governing law(s) of the instrument	Slovenian law
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.

Table 7 – The main characteristics of the subordinated Tier 2 bonds issued by NLB:

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	SI0022103855
3	Governing law(s) of the instrument	Slovenian law
	Regulatory treatment	
4	Transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
5	Post-transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Notes have the characteristics of subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	EUR 44,595,000
9	Nominal amount of instrument	EUR 45,000,000
9a	Issue price	99.1%
9b	Redemption price	100%
10	Accounting classification	Debt
11	Original date of issuance	6.5.2019
12	Perpetual or dated	Dated
13	Original maturity date	6.5.2029
14	Issuer call subject to prior supervisory approval	The principal of the Notes cannot be prepaid upon demand of a Noteholder. No liability of the Issuer arising out of the Notes can be paid before the maturity of such liability, determined in accordance of Terms and Conditions of the Notes, except in the case of the Issuer's compulsory liquidation or bankruptcy or any other proceedings, the aim of which is compulsory winding-up of the Issuer. Provided that it obtains a permission of the competent authority referred to in Article 77. of the CRR Regulation for conducting redemption, repurchase, repayment or payment of the Notes, the Issuer may pay the principal of all the Notes (but not only some) together with the interest calculated until the date of redemption, in the following cases: (a) if the Issuer fails to obtain the approval of the European Central Bank for inclusion of the amount received by the Issuer as the paid-up amount or proceeds of the initial sale of the Notes (the Paid-Up Amount) in the calculation of its Tier 2 capital on or before 6 August 2019; (b) if the Notes are redeemed on the Fifth Anniversary; or (c) if, as a result of any change in, or amendment to, the laws or regulations or any change in the application or official interpretation of such laws or regulations which becomes effective after the Issue Date, there is a change in the tax treatment of the Notes due to which: (i) the Issuer becomes (or it becomes certain that on the next Interest Payment Date the Issuer will become) required to pay additional amounts as provided or referred to in Condition 6; or (ii) the Issuer ceases to be (or it becomes certain that on the next Interest Payment Date the Issuer will cease to be) entitled to treat the interest on the Notes as a tax deductible expense, either entirely or in a material part; or (iii) for other reasons the tax treatment of the Notes becomes more burdensome for the Issuer than on the Issue Date; or (d) if, due to a change in the conditions for inclusion of the Notes in the Tier 2 capital of the Issuer on individual and consolidated level, it becomes likely that the Paid-Up Amount, in whole or in part, will no longer qualify as Tier 2 capital of the Issuer on individual and consolidated level or will be re-classified as a lower quality form of capital.
15	Optional call date, contingent call dates and redemption amount	6.5.2024
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed (see line 18 for further details)
18	Coupon rate and any related index	Interest rate means annual interest rate, which amounts to: (i) before the Fifth Anniversary (however excluding the Fifth Anniversary), 4.2%; (ii) from and including the Fifth Anniversary, the sum of Reference Interest Rate, applicable on Interest Rate Determination Date, and Margin (4.159%)
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	Non-convertible
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)	Additional Tier 1 instruments
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

3.4. Detailed presentation of capital elements

(Article 437 d and e of CRR)

The table below shows in detail the elements of the calculation of the capital of NLB Group at the end of June 2019, at the end of March 2019 and at the end of 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 8 – Own funds for NLB Group

		30.6.2019	31.3.2019	31.12.2018
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	358,629	401,857	401,855
3	Accumulated other comprehensive income (and other reserves)	31,107	22,172	17,120
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,461,114**	**1,495,407**	**1,490,353**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(2,215)	(2,145)	(1,983)
8	Intangible assets (net of related tax liability) (negative amount)	(33,474)	(33,184)	(34,968)
27a	Deduction item related to credit imapirments and provisions not included in capital (as a part of the interim result), but are lowering the exposure in RWA calculation (BoS requirement based on EBA Q&A 2014_1087)	(127)	-	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(35,816)**	**(35,329)**	**(36,951)**
29	**Common Equity Tier 1 (CET1) capital**	**1,425,298**	**1,460,078**	**1,453,402**
43	**Total regulatory adjustments to Additional Tier 1 (AT1)**	**-**	**-**	**-**
44	**Additional Tier 1 (AT1) capital**	**-**	**-**	**-**
45	**Tier 1 capital (T1= CET1 + AT1)**	**1,425,298**	**1,460,078**	**1,453,402**
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	44,595	-	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**44,595**	**-**	**-**
58	**Tier 2 (T2) capital**	**44,595**	**-**	**-**
59	**Total capital (TC = T1 + T2)**	**1,469,893**	**1,460,078**	**1,453,402**
60	**Total risk weighted assets**	**8,935,190**	**8,811,559**	**8,677,624**
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.0%	16.6%	16.7%
62	Tier 1 (as a percentage of total risk exposure amount)	16.0%	16.6%	16.7%
63	Total capital (as a percentage of total risk exposure amount)	16.5%	16.6%	16.7%
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)	8.000%	8.000%	6.375%
65	of which: capital conservation buffer requirement	2.500%	2.500%	1.875%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.0%	1.0%	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	8.0%	8.6%	8.7%
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)	2,966	2,746	2,359
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)	10,359	10,759	10,652
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)	17,467	20,687	22,847
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

3.5. Reconciliation of items with financial statements

(Articles 437 a 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 9 – Mapping of the balance sheet items (statement of financial position items) and capital for the purpose of capital adequacy of NLB Group

	30.6.2019		31.3.2019		31.12.2018	
	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	1,460,731	-	1,589,039	-	1,588,349	-
Financial assets held for trading	116,948	(117)	38,352	(38)	63,609	(64)
Non-trading financial assets mandatorily at fair value through profit or loss	40,406	(14)	29,986	(5)	32,389	(9)
Financial assets measured at fair value through other comprehensive income	2,062,896	(2,063)	2,084,699	(2,085)	1,898,079	(1,898)
Financial assets measured at amortised cost	9,051,204	-	8,889,858	-	8,747,462	-
Derivatives - hedge accounting	-	-	-	-	417	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	9,614	-	5,750	-	2,517	-
Investments in associates and joint ventures	10,359	-	10,759	-	10,652	-
Tangible assets	251,608	-	252,180	-	236,048	-
Intangible assets	33,474	(33,474)	33,184	(33,184)	34,968	(34,968)
Goodwill	3,529	(3,529)	3,529	(3,529)	3,529	(3,529)
Other intangible assets	29,945	(29,945)	29,655	(29,655)	31,439	(31,439)
Current income tax assets	473	-	880	-	877	-
Deferred income tax assets	17,467	-	20,687	-	22,847	-
That rely on future profitability and arise from temporary differences	17,467	-	20,687	-	22,847	-
Other assets	73,704	-	74,277	-	70,971	-
Non-current assets classified as held for sale	3,567	-	3,951	-	4,349	-
Total assets	**13,132,451**	-	**13,033,602**	-	**12,713,534**	-
Trading liabilities	21,270	(21)	16,649	(17)	12,300	(12)
Financial liabilities measured at fair value through profit or loss	8,516	-	4,002	-	4,190	-
Financial liabilities measured at amortised cost	11,355,034	44,595	11,178,084	-	10,926,996	-
Derivatives - hedge accounting	51,876	-	40,330	-	29,474	-
Provisions	82,949	-	81,069	-	80,134	-
Current income tax liabilities	1,484	-	2,806	-	12,152	-
Deferred income tax liabilities	2,326	-	2,601	-	2,499	-
Other liabilities	13,291	-	13,230	-	14,840	-
Total liabilities	**11,536,746**	-	**11,338,771**	-	**11,082,585**	-
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	17,585	17,585	8,650	8,650	3,598	3,598
Profit reserves	13,522	13,522	13,522	13,522	13,522	13,522
Retained earnings	452,926	358,629	558,095	401,857	501,223	401,855
Non-controlling interests	40,294	-	43,186	-	41,228	-
Total equity	**1,595,705**	**-**	**1,694,831**	**-**	**1,630,949**	**-**
Total liabilities and equity	**13,132,451**	**-**	**13,033,602**	**-**	**12,713,534**	**-**
Sum of balance sheet items		**1,470,020**		**1,460,078**		**1,453,402**
Deduction item: Exclusion of the effect of credit impairments and provisions, when they are not included in capital (as a part of the interim result), but are lowering the exposure in RWA calculation (BoS requirement based on EBA Q&A 2014_1087)		(127)		-		-
Capital		**1,469,893**		**1,460,078**		**1,453,402**

Table 10 – Reconciliation of the accounting capital to the regulatory capital for the calculation of capital adequacy of NLB Group

30.6.2019	Equity - Prudential consolidation	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	**17,585**	-	-		**17,585**	Accumulated other comprehensive income
Profit reserves	**13,522**	-	-	-	**13,522**	Other reserves
Retained earnings - from previous years	**358,629**	-	-	-	**358,629**	Retained earnings - from previous years
Retained earnings - current results	**94,297**	(94,297)	-	-	**-**	Current results
Minority interest	**40,294**	-	(40,294)	-	**-**	Minority interest
				(2,215)	**(2,215)**	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
				(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
				(29,945)	**(29,945)**	Deduction item: Other intangible assets (Article 36.b)
				(127)	**(127)**	Deduction item: Exclusion of the effect of credit impairments and provisions, when they are not included in capital (as a part of the interim result), but are lowering the exposure in RWA calculation (BoS requirement based on EBA Q&A 2014_1087)
Total equity	**1,595,705**	**(94,297)**	**(40,294)**	**(35,689)**	**1,425,298**	**Common Equity Tier 1 (CET1) capital**
					-	Additional Tier 1 capital
					1,425,298	**Tier 1 capital**
					44,595	Tier 2 capital
					1,469,893	**Total capital**

31.3.2019	Equity - Prudential consolidation	Retained earnings not included in the regulatory equity	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	**8,650**	-	-	-		**8,650**	Accumulated other comprehensive income
Profit reserves	**13,522**	-	-	-	-	**13,522**	Other reserves
Retained earnings - from previous years	**501,225**	(99,368)	-	-	-	**401,857**	Retained earnings - from previous years
Retained earnings - current results	**56,870**	-	(56,870)	-	-	**-**	Current results
Minority interest	**43,186**	-	-	(43,186)	-	**-**	Minority interest
					(2,145)	**(2,145)**	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
					(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
					(29,655)	**(29,655)**	Deduction item: Other intangible assets (Article 36.b)
Total equity	**1,694,831**	**(99,368)**	**(56,870)**	**(43,186)**	**(35,329)**	**1,460,078**	**Common Equity Tier 1 (CET1) capital**
						-	Additional Tier 1 capital
						1,460,078	**Tier 1 capital**
						-	Tier 2 capital
						1,460,078	**Total capital**

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**

During 2019 total accounting equity decreased by EUR 35 million to EUR 1,596 million as at 30 June 2019, primarily due to dividend pay-out and therefore lower Retained earnings.

4. Credit risk and general information on CRM

4.1. Credit quality of exposures by exposure class and instrument types

(Article 442 g and h of CRR)

Table 11 – EU CR1-A – Credit quality of exposures by exposure class and instrument types of NLB Group

		Gross carrying values of						
	30.6.2019	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the period**	**Net values**
16	Central governments or central banks	-	3,687,747	-	7,160	-	957	3,680,586
17	Regional governments or local authorities	-	135,825	-	2,945	-	431	132,879
18	Public sector entities	-	120,241	-	1,334	-	(203)	118,907
19	Multilateral development banks	-	91,373	-	27	-	(1)	91,346
20	International organisations	-	30,445	-	20	-	(1)	30,425
21	Institutions	-	815,893	-	770	1	(22)	815,123
22	Corporates	473	3,430,769	222	43,008	-	(256)	3,388,012
23	*Of which: SMEs*	473	1,226,699	222	26,127	-	5,915	1,200,822
24	Retail	-	4,731,948	-	42,801	167	(3,238)	4,689,147
25	*Of which: SMEs*	-	980,453	-	12,182	2	(1,104)	968,271
26	Secured by mortgages on immovable property	-	748,361	-	1,906	-	434	746,455
27	*Of which: SMEs*	-	127,636	-	1,329	-	529	126,308
28	Exposures in default	489,662	-	295,994	-	28,144	3,370	193,668
29	Items associated with particularly high risk	115,000	100,734	89,559	2,896	1,465	(1,176)	123,279
30	Covered bonds	-	349,640	-	416	-	87	349,224
32	Collective investments undertakings	34	48,873	-	0	-	-	48,907
33	Equity exposures	10,138	14,383	-	-	-	-	24,521
34	Other exposures	200	647,824	27	144	-	340	647,853
35	***Total standardised approach***	**615,507**	**14,954,055**	**385,802**	**103,427**	**29,777**	**721**	**15,080,332**
36	***Total***	**615,507**	**14,954,055**	**385,802**	**103,427**	**29,777**	**721**	**15,080,332**
37	Of which: Loans	540,180	8,538,505	354,578	82,273	29,777	(2,466)	8,641,834
38	Of which: Debt securities	798	3,600,971	798	7,837	-	1,267	3,593,134
39	Of which: Off- balance-sheet exposures	64,021	2,103,604	30,426	13,315	-	1,920	2,123,884

	31.12.2018	Gross carrying values of: Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the 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

In first half of 2019, gross exposure increased by EUR 414 million, mostly in the Retail segment, Central government and central banks and Corporate segment. 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 credit risk adjustment was reduced by EUR 27 million, mostly due to default exposure reduction.

Table 12 – EU CR1-B – Credit quality of exposures by industry or counterparty types of NLB Group

30.6.2019	Gross carrying values of: Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Agriculture, forestry and fishing	9,922	127,555	6,962	1,352	132	4	129,163
Mining and quarrying	4,330	15,604	3,780	182		(212)	15,973
Manufacturing	71,905	1,153,490	45,027	16,357	3,077	194	1,164,011
Electricity, gas, steam and air conditioning supply	3,909	176,830	1,833	1,712	1	162	177,194
Water supply	129	49,730	52	508	42	(8)	49,299
Construction	100,074	426,088	64,740	6,436	10,163	(549)	454,985
Wholesale and retail trade	174,891	989,638	118,378	13,909	3,681	(3,675)	1,032,243
Transport and storage	34,824	733,229	20,376	3,911	73	1,799	743,766
Accommodation and food service activities	25,716	80,505	4,057	1,119	178	502	101,044
Information and communication	2,297	236,043	1,773	2,739	1	(128)	233,827
Real estate activities	27,620	204,383	20,574	4,428	6,092	889	207,002
Professional, scientific and technical activities	37,861	198,281	27,719	1,842	4	1,808	206,580
Administrative and support service activities	4,398	182,189	2,943	1,812	87	10	181,831
Public administration and defence, compulsory social security	347	172,845	344	3,534	0	(730)	169,314
Education	89	14,691	20	533	0	85	14,228
Human health services and social work activities	5,009	26,846	2,207	519	1	43	29,128
Arts, entertainment and recreation	3,443	27,048	2,288	764	0	39	27,438
Other services	108,740	10,139,061	62,727	41,769	6,245	489	10,143,306
Total	**615,507**	**14,954,055**	**385,802**	**103,427**	**29,777**	**721**	**15,080,332**

31.12.2018	Gross carrying values of: Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
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**

Manufacturing and Wholesale and retail trade remain the strongest industries in first half of 2019, each representing around 8% of total gross exposure. Non-defaulted exposures increased most in the Wholesale and Retail trade segments, Real estate activities 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 13 – EU CR1-C – Credit quality of exposures by geography of NLB Group

30.6.2019	Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Slovenia	219,722	7,530,739	97,512	32,880	9,123	(297)	7,620,069
North Macedonia	59,428	1,440,333	42,223	25,838	1,156	(4,550)	1,431,700
Bosnia and Herzegovina	71,178	1,332,366	59,702	14,768	4,320	(6,562)	1,329,074
Kosovo	15,454	763,075	14,081	18,079	136	1,483	746,370
Serbia	57,602	714,684	34,959	4,227	12,430	7,698	733,100
Montenegro	121,316	566,189	78,086	4,612	845	4,027	604,808
Other countries	70,806	2,606,667	59,240	3,022	1,767	(1,079)	2,615,211
Total	**615,507**	**14,954,055**	**385,802**	**103,427**	**29,777**	**721**	**15,080,332**

31.12.2018	Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Slovenia	249,456	7,534,151	101,978	32,254	37,044	(12,777)	7,649,375
North 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
Serbia	72,657	618,267	48,353	4,057	13,835	559	638,513
Montenegro	123,527	540,204	79,157	4,711	14,908	288	579,863
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**

Slovenia is the biggest market for NLB Group with 50% of gross exposure in the first half of 2019, followed by North 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 14 – EU CR1-D – Ageing of past-due exposures of NLB Group

30.6.2019	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	619,527	69,337	42,043	14,615	22,892	301,393
Debt securities	7,871	-	-	-	-	-
Total exposures	**627,398**	**69,337**	**42,043**	**14,615**	**22,892**	**301,393**

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**

The value of exposure in delays increased in first half of 2019 by EUR 165 million (or 18%), which is to be attributed to increase of delays up to 30 days in Retail and Corporate segment. In first half of 2019, past-due exposures represent 7% of the total gross exposure.

4.2. Non-performing and forborne exposures
(Article 442 g and i of CRR)

Table 15 – EU CR1-E – Non-performing and forborne exposures of NLB Group

30.6.2019	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	
				Of which non-performing				On performing exposures		On non-performing exposures			
	Total	Of which performing but past due 30 to 90 days	Of which performing forborne	Total	Of which defaulted	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne	On non-performing exposures	Of which forborne exposures
Debt securities	3,617,346	-	-	798	798	798	-	7,838	-	798	-	-	-
Loans and advances	9,079,111	84,512	70,102	540,562	540,562	540,562	286,162	82,275	5,227	354,574	180,010	165,007	161,603
Off-balance-sheet exposures	2,119,865	5,918	2,230	64,229	64,229	64,229	984	13,314	60	27,692	924	14,521	1,268

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	
				Of which non-performing				On performing exposures		On non-performing exposures			
	Total	Of which performing but past due 30 to 90 days	Of which performing forborne	Total	Of which defaulted	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne	On non-performing exposures	Of which forborne exposures
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

Table 16 – EU CR2-A – Changes in the stock of general and specific credit risk adjustments of NLB Group

		H1 2019		2018	
		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance**	(419,580)	(96,865)	(530,972)	(88,002)
2	Increases due to amounts set aside for estimated loan losses during the period	(10,342)	(28,206)	(23,649)	(61,686)
3	Decreases due to amounts reversed for estimated loan losses during the period	11,514	21,616	36,488	52,637
4	Decreases due to amounts taken against accumulated credit risk adjustments	29,729	48	98,451	100
5	Transfers between credit risk adjustments	-	-	-	-
8	Other adjustments	2,877	(19)	102	86
9	**Closing balance**	(385,802)	(103,426)	(419,580)	(96,865)
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	4,697	-	26,402	11
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-	-	-

In first half of 2019 the impairments and provisions for credit risk were net established in the amount of EUR 0.7 million, while in 2018 released, as a result of some successful collections, resolution of non-performing receivables and improvement in the quality of the credit portfolio's structure. Favorable macroeconomic environment across the region resulted in first half of 2019 in relatively low cost of risk (close to 0), while in 2018 was negative (-43 basis points).

Table 17 – EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities of NLB Group

	H1 2019	2018
	Gross carrying value defaulted exposures	Gross carrying value defaulted exposures
Opening balance	**614,278**	**855,630**
Loans and debt securities that have defaulted or impaired since the last reporting period	29,355	60,468
Returned to non-defaulted status	(18,601)	(50,144)
Amounts written off	(29,777)	(98,551)
Other changes	(54,277)	(153,124)
Closing balance	**540,977**	**614,278**

In first half of 2019 based on the NPL Strategy, there was a material decrease of default exposures that amounted to EUR 103 million or 17% of the initial default exposure volume. The measures that let to such 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 5% of the portfolio in first half of 2019.

4.3. Use of credit risk mitigation techniques
(Article 453 f and g of CRR)

Table 18 – EU CR3 – CRM techniques – Overview of NLB Group

30.6.2019	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	8,022,984	618,850	580,733	531,083	-
Total debt securities	3,458,963	134,171	134,138	134,138	-
Total exposures	**11,481,947**	**753,021**	**714,870**	**665,221**	**-**
Of which defaulted	4,640	16,355	553	65	-
31.12.2018	**Exposures unsecured – Carrying amount**	**Exposures secured – Carrying amount**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
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	-

In first half of 2019, the secured part of the portfolio represents 6.2% of the total portfolio. However, it has to be considered that such low share is due to strict rules applied to the eligible collateral in the standardised approach. The values of secured exposure decreased in first half of 2019, primarily due to repayment of exposure with state guarantees.

Table 19 – EU CR4 – Standardised approach – Credit risk exposure and CRM effects of NLB Group

	30.6.2019	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
1	Central governments or central banks	3,677,102	3,485	4,391,957	14,406	1,151,281	26%
2	Regional government or local authorities	129,413	3,467	129,413	693	53,280	41%
3	Public sector entities	100,338	18,568	95,057	3,728	70,401	71%
4	Multilateral development banks	91,346	-	91,346	-	-	-
5	International organisations	30,425	-	30,425	-	-	-
6	Institutions	734,840	80,284	672,095	21,883	244,727	35%
7	Corporates	2,260,050	1,127,962	1,656,943	349,687	1,953,740	97%
8	Retail	3,852,177	836,970	3,814,098	190,730	2,869,547	72%
9	Secured by mortgages on immovable property	738,556	7,899	738,556	2,772	281,240	38%
10	Exposures in default	160,073	33,595	159,539	8,367	202,504	121%
11	Exposures associated with particularly high risk	111,627	11,651	106,518	2,545	163,595	150%
12	Covered bonds	349,224	-	349,224	-	38,238	11%
14	Collective investment undertakings	48,907	-	48,907	-	10,376	21%
15	Equity	24,521	-	24,521	-	40,060	163%
16	Other items	647,849	4	647,849	1	349,257	54%
17	**Total**	**12,956,448**	**2,123,884**	**12,956,448**	**594,812**	**7,428,244**	**54.8%**

31.12.2018	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
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**	**54.5%**

The table 19 shows exposures before CRM and CCF, exposure post CCF and post CRM and RWA for all customer segments. In first half of 2019, 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 risk weight increased from 54.5 % in 2018 to 54.8 % in first half of 2019.

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

(Article 444 e of CRR)

Table 20 – EU CR5 – Standardised approach of NLB Group

	30.6.2019	Risk weight																	Of which
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted	Total	unrated
1	Central governments or central banks	3,163,057	-	-	-	75,357	-	115,722	-	-	1,034,761	0	17,467	-	-	-	-	4,406,364	4,406,364
2	Regional government or local authorities	22,939	-	-	-	67,359	-	-	-	-	39,808	-	-	-	-	-	-	130,106	130,106
3	Public sector entities	14,326	-	-	-	90	-	27,973	-	-	56,397	-	-	-	-	-	-	98,785	98,785
4	Multilateral development banks	91,346	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	91,346	91,346
5	International organisations	30,425	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,425	30,425
6	Institutions	-	-	-	-	363,222	-	317,346	-	-	13,410	-	-	-	-	-	-	693,977	72,186
7	Corporates	-	-	-	-	-	-	-	-	-	2,006,630	-	-	-	-	-	-	2,006,630	2,006,630
8	Retail	-	-	-	-	-	-	-	-	4,004,828	-	-	-	-	-	-	-	4,004,828	4,004,828
9	Secured by mortgages on immovable property	-	-	-	-	-	555,989	185,340	-	-	-	-	-	-	-	-	-	741,328	741,328
10	Exposures in default	-	-	-	-	-	-	-	-	-	98,709	69,196	-	-	-	-	-	167,906	167,906
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	109,063	-	-	-	-	-	109,063	109,063
12	Covered bonds	-	-	-	316,074	33,151	-	-	-	-	-	-	-	-	-	-	-	349,224	110,947
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	4,103	-	-	-	-	44,804	-	48,907	48,907
15	Equity	-	-	-	-	-	-	-	-	-	14,161	-	10,359	-	-	-	-	24,521	24,521
16	Other items	282,577	-	-	-	20,019	-	-	-	-	345,253	-	-	-	-	-	-	647,850	628,706
17	**Total**	**3,604,670**	**-**	**-**	**316,074**	**559,198**	**555,989**	**646,380**	**-**	**4,004,828**	**3,613,231**	**178,260**	**27,827**	**-**	**-**	**44,804**	**-**	**13,551,260**	**12,672,049**

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

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 first half of 2019, the highest increase was noticed on the 75% weight, due to the increase of exposure in Retail segment, while the highest decrease appeared under 0% weight in the Other items segment (cash in hand).

6. Exposure to counterparty credit risk

6.1. Downgrading impacts on collaterisation
(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 collaterisation are not material.

Table 21 – EU CCR1 – Analysis of CCR exposure by approach for NLB Group

30.6.2019	Notional	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
1 Mark to market	-	24,313	13,527	37,840	33,502
11 Total	**-**	**-**	**-**	**-**	**33,502**

	a	b	c	f	g
31.12.2018	**Notional**	**Replacement cost/current market value**	**Potential future credit exposure**	**EAD post CRM**	**RWAs**
1 Mark to market	-	15,386	12,705	28,092	24,062
11 Total	**-**	**-**	**-**	**-**	**24,062**

Table 22 - EU CCR2 – CVA capital charge for NLB Group

	30.6.2019		31.12.2018	
	Exposure value	RWAs	Exposure value	RWAs
4 All portfolios subject to the standardised method	7,925	6,025	5,890	2,563
EU4 Based on the original exposure method	-	-	-	-
5 Total subject to the CVA capital charge	**7,925**	**6,025**	**5,890**	**2,563**

Table 23 – EU CCR8 – Exposures to CCPs of NLB Group

	30.6.2019		31.12.2018	
	EAD post CRM	RWAs	EAD post CRM	RWAs
1 Exposures to QCCPs (total)	**-**	**10,128**	**-**	**11,065**
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	10,128	10,128	11,065	11,065
3 OTC derivatives	10,128	10,128	11,065	11,065
7 Segregated initial margin	18,436	-	19,154	-
11 Exposures to non-QCCPs (total)	-	**-**	**-**	**-**
20 Unfunded default fund contributions	-	-	-	-

Table 24 – EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk of NLB Group

	30.6.2019	Risk weight												Of which
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total**	**unrated**
1	Central governments or central banks	3,163,057	-	-	-	75,357	115,722	-	-	1,035,950	0	16,463	4,406,548	4,406,548
2	Regional government or local authorities	22,939	-	-	-	67,359	-	-	-	39,808	-	-	130,106	130,106
3	Public sector entities	14,326	-	-	-	90	27,973	-	-	58,483	0	-	100,871	100,871
4	Multilateral development banks	91,346	-	-	-	-	-	-	-	-	-	-	91,346	91,346
5	International organisations	30,425	-	-	-	-	-	-	-	-	-	-	30,425	30,425
6	Institutions	-	-	-	316,074	396,373	317,346	-	-	13,449	6	322	1,043,569	183,501
7	Corporates	-	-	-	-	-	70,876	-	-	1,175,113	40,218	3,430	1,289,637	1,289,637
8	Retail	-	-	-	-	-	114,464	-	4,004,828	953,108	138,035	608,405	5,818,840	5,818,840
10	Other items	282,577	-	-	-	20,019	-	-	-	337,321	-	-	639,917	620,774
11	**Total**	**3,604,670**	**-**	**-**	**316,074**	**559,198**	**646,380**	**-**	**4,004,828**	**3,613,231**	**178,260**	**628,619**	**13,551,260**	**12,672,049**

	31.12.2018	Risk weight												Of which
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total**	**unrated**
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**

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 first half 2019, the highest increase was noticed on the 75% weight, due to the increase of exposure in the Retail segment, while the highest decrease appeared under 0% weight in the Other items segment (cash in hand).

Table 25 – EU CCR5-A – Impact of netting and collateral held on exposure values for NLB Group

30.6.2019	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	23,843	2,677	21,166	3,934	17,232
4 Total	**23,843**	**2,677**	**21,166**	**3,934**	**17,232**

31.12.2018	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	15,666	3,845	11,821	1,028	10,793
4 Total	**15,666**	**3,845**	**11,821**	**1,028**	**10,793**

Table 26 – 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	
30.6.2019	Segregated	Unsegregated	Segregated	Unsegregated
Cash	3,934	-	86,135	-
Total	**3,934**	**-**	**86,135**	**-**

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

7. 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 27 – EU MR1 – Market risk under the standardised approach of NLB Group

	30.6.2019		31.12.2018	
	RWAs	Capital requirements	RWAs	Capital requirements
Outright products				
1 Interest rate risk (general and specific)	8,538	683	7,213	577
3 Foreign exchange risk	550,788	44,063	534,588	42,767
9 Total	**559,326**	**44,746**	**541,801**	**43,344**

8. Leverage

(Article 451 a, b, d and e of CRR)

The leverage ratio is a calculated in 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 30 June 2019 amounted to 9.38%, 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 considered as 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 30 June 2019 slightly decreased in comparison with the end of March 2019, by 0.39 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 253 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 retail and other exposures, including exposures in institutions. Exposures in derivatives slightly increased in comparison with the end of March 2019, but are relatively unimportant. The impact of a capital decrease on the leverage ratio was EUR 34.7 million.

As at 30 June 2019, 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 (26.5%), exposures treated as Sovereigns (25.3%), exposures to Corporates (15.5%), and 16.7% to Other exposures.

Table 28 – Leverage ratio of NLB Group

	30.6.2019	31.3.2019	31.12.2018
Tier 1 capital	1,425,298	1,460,079	1,453,402
Total leverage exposures	15,196,773	14,943,312	14,709,318
Leverage ratio	**9.38%**	**9.77%**	**9.88%**

Table 29 – LRCom - Leverage ratio common disclosure for NLB Group

		30.6.2019 CRR leverage ratio exposures	31.3.2019 CRR leverage ratio exposures	31.12.2018 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)	14,635,003	14,425,693	14,166,782
2	(Asset amounts deducted in determining Tier 1 capital)	(35,689)	(35,329)	(36,951)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**14,599,314**	**14,390,364**	**14,129,831**
Derivative exposures				
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	23,757	19,147	15,329
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	24,211	23,661	23,828
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(67)	(55)	(459)
8	(Exempted CCP leg of client-cleared trade exposures)	(10,061)	(10,548)	(10,606)
11	**Total derivative exposures**	**37,840**	**32,205**	**28,092**
Securities financing transaction exposures				
16	**Total securities financing transaction exposures**	**-**	**-**	**-**
Other off-balance sheet exposures				
17	Off-balance sheet exposures at gross notional amount	2,116,924	1,957,858	2,041,327
18	(Adjustments for conversion to credit equivalent amounts)	(1,557,305)	(1,437,115)	(1,489,933)
19	**Other off-balance sheet exposures**	**559,619**	**520,743**	**551,395**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)				
Capital and total exposures				
20	Tier 1 capital	1,425,298	1,460,078	1,453,402
21	**Total leverage ratio exposures**	**15,196,773**	**14,943,312**	**14,709,318**
Leverage ratio				
22	**Leverage ratio**	**9.38%**	**9.77%**	**9.88%**

Table 30 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures for NLB Group

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		**30.6.2019**	**31.3.2019**	**31.12.2018**
1	**Total assets as per published financial statements**	**13,164,410**	**13,065,780**	**12,740,029**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(31,959)	(32,178)	(26,495)
4	Adjustments for derivative financial instruments	14,083	13,058	12,763
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	559,619	520,743	551,395
7	Other adjustments	1,490,620	1,375,909	1,431,626
8	**Leverage ratio total exposure measure**	**15,196,773**	**14,943,312**	**14,709,318**

Table 31 – LRSpl – Split-up of on balance sheet exposures for NLB Group

		CRR leverage ratio exposures		
		30.6.2019	**31.3.2019**	**31.12.2018**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**14,635,003**	**14,425,693**	**14,166,782**
EU-2	Trading book exposures	93,189	19,205	48,698
EU-3	Banking book exposures, of which:	14,541,814	14,406,488	14,118,084
EU-4	Covered bonds	348,944	312,404	283,980
EU-5	Exposures treated as sovereigns	3,673,536	3,818,638	3,579,114
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	320,750	310,834	325,282
EU-7	Institutions	764,847	742,315	738,940
EU-8	Secured by mortgages of immovable properties	738,556	736,201	692,217
EU-9	Retail exposures	3,852,177	3,775,407	3,737,015
EU-10	Corporate	2,260,046	2,308,559	2,250,563
EU-11	Exposures in default	159,275	186,126	208,660
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2,423,683	2,216,004	2,302,313

9. 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;	2	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
	(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
	(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
	(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	13
	(b) a description of the main features of the CET1 and AT1 instruments and T2 instruments issued by the institution;	3.3	9
	(c) the full terms and conditions of all CET1, AT1 and Tier 2 instruments;	3.3	9
	(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	12
	(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	12
	(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;	/	/
	(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
	(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-	3.2	8

	exchange risk; (4) settlement risk; (5) commodities risk;		
	(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
439	**Exposure to counterparty credit risk**		
	(a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;	/	/
	(b) a discussion of policies for securing collateral and establishing credit reserves;	/	/
	(c) a discussion of policies with respect to wrong-way risk exposures;	/	/
	(d) a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating;	6.1	22
	(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;	6.1	22
	(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;	6.1	22
	(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.	/	/
442	**Credit risk adjustments**		
	(a) the definitions for accounting purposes of 'past due' and 'impaired';	/	/
	(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments;	/	/
	(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;	/	/
	(d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;	/	/
	(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;	/	/
	(f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	/	/
	(g) by significant industry or counterparty type, the amount of: (i) impaired exposures and past due exposures, provided separately; (ii) specific and general credit risk adjustments; (iii) charges for specific and general credit risk adjustments during the reporting period;	4.1, 4.2	15, 18
	(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;	4.1	15
	(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; (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.	4.2	18
	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.	/	/

444	**Use of ECAIs**		
	(a) the names of the nominated ECAIs and ECAs and the reasons for any changes;	/	/
	(b) the exposure classes for which each ECAI or ECA is used;	/	/
	(c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	/	/
	(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;	/	/
	(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.	5	20
445	**Exposure to market risk**		
	Separately for each risk + the own funds requirement for specific IRR of securitisation positions.	7	24
451	**Leverage**		
	(a) the leverage ratio and how the institution applies Article 499(2) and (3);	8	24
	(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;	8	24
	(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;	8	24
	(e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	8	24
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;	/	/
	(c) a description of the main types of collateral taken by the institution;	/	/
	(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;	/	/
	(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;	4.3	19
	(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.	4.3	19
492	**Transitional provisions for disclosure of own funds**		
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).	3.4	12