

Pillar 3
Disclosures

Q1 2019

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Abbreviations

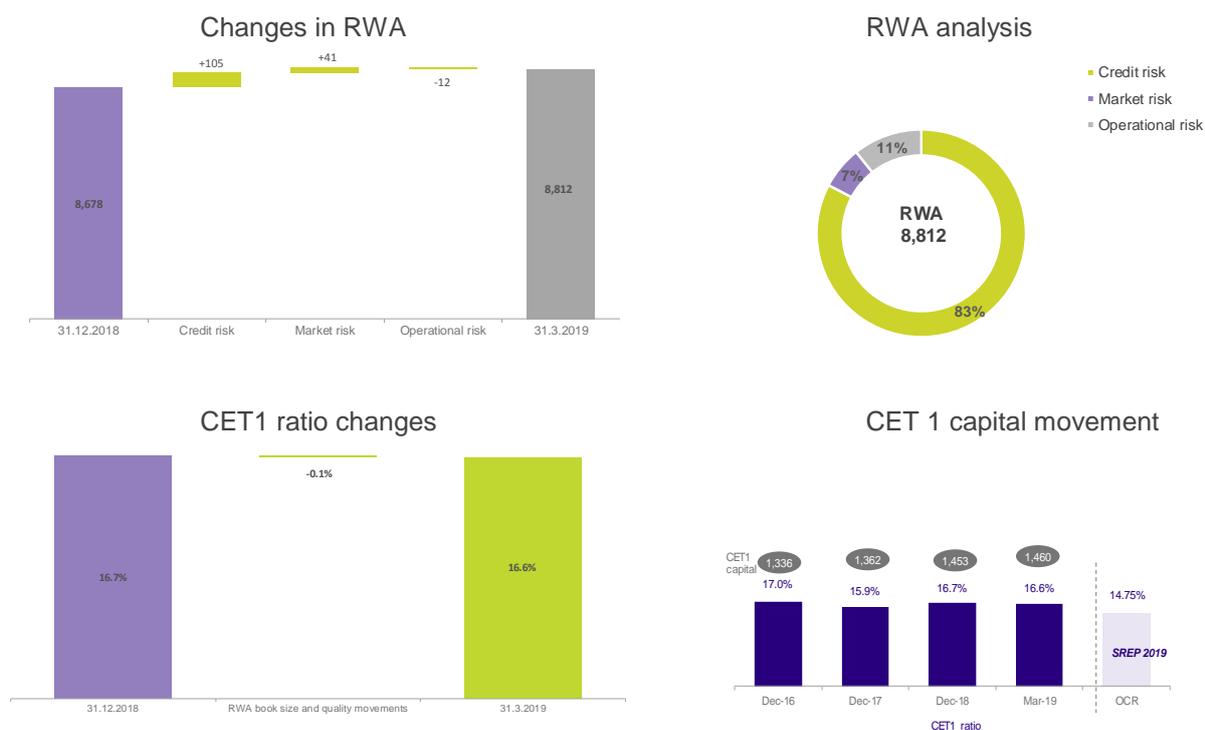
ALCO	Asset and Liability Committee	HQLA	High-quality liquid assets
AT1	Additional Tier 1 capital	LCR	Liquidity coverage ratio
AVA	Additional Valuation Adjustments	MDA	Maximum Distributable Amount
BCBS	Basel Committee on Banking Supervision	OCR	Overall capital requirement
CBR	Combined buffer requirement	O-SII	Other systemically important institutions
CCB	Capital Conservation Buffer	P2G	Pillar 2 Guidance
CCR	Counterparty credit risk	P2R	Pillar 2 Requirement
CET 1	Common equity tier 1 capital	RWA	Risk-weighted assets
CRD	Capital Requirements Directive	SFT	Securities Financing Transactions
CRD IV	Capital Requirements Directive and Regulation	SREP	Supervisory Review and Evaluation Process
CRR	Capital Requirements Regulation	T2	Tier 2 capital
CVA	Credit valuation adjustment	TSCR	Total SREP capital requirement
D-SIB	Domestic systemically important banks	ZBan-2	Banking Act
EBA	European Banking Authority	ZGD-1	Companies Act
EU	European Union	ZNVP-1	Book-Entry Securities Act
FX	Foreign Exchange	ZTFI	Financial Instruments Market Act
G-SIB	Global systemically important banks		

Key highlights

Table 1 – Key metrics

	31.3.2019	31.12.2018
Available capital		
Common equity tier 1 (CET 1)	1,460,078	1,453,402
Tier 1	1,460,078	1,453,402
Total capital	1,460,078	1,453,402
Risk weighted assets		
Total RWA	8,811,559	8,677,624
Capital ratios		
Common equity tier 1 ratio (%)	16.6%	16.7%
Tier 1 ratio (%)	16.6%	16.7%
Total capital ratio (%)	16.6%	16.7%
Additional CET1 buffer requirements as a % of RWA		
Capital conservation buffer requirement	2.5%	1.875%
Countercyclical buffer requirement	0.0%	0.0%
Bank G-SIB and /or D-SIB additional requirements	1.0%	0.0%
Total of bank CET1 specific buffer requirements	3.5%	1.875%
CET1 available after meeting the bank's minimum Pillar 1 capital requirements	12.1%	12.2%
Leverage ratio		
Total leverage ratio exposure measure	14,943,312	14,709,318
Leverage ratio (%)	9.77%	9.88%
Liquidity Coverage Ratio		
Total HQLA	3,303,377	3,150,557
Total net cash outflow	922,533	873,297
LCR ratio	358%	361%

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



1. Introduction

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

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

- Pillar 1 contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk,
- Pillar 2 is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with valuing 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 a minimum on an annual basis. To ensure the effective communication of NLB Group's business and risk profile, NLB Group also pays particular attention to the possible need to provide information more frequently than annually. 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 Q1 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 Q1 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 b, c, and d of CRR)

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

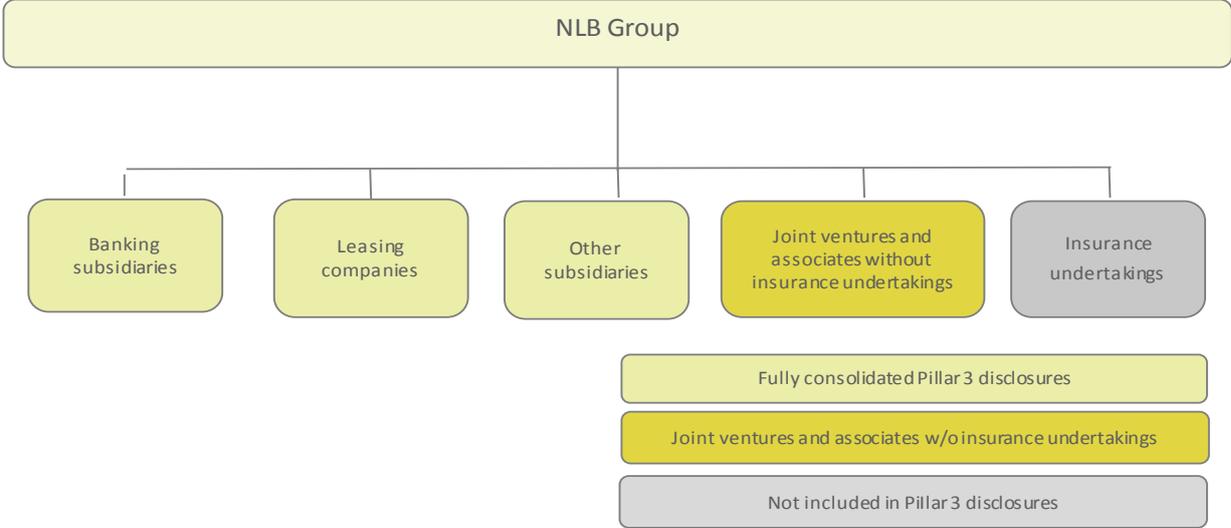


Table 2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the NLB Group Interim Report Q1 2019, and under the scope of regulatory consolidation.

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

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation
31.3.2019		
Cash, cash balances at central banks, and other demand deposits at banks	1,589,039	1,589,039
Financial assets held for trading	38,352	38,352
Non-trading financial assets mandatorily at fair value through profit or loss	29,986	29,986
Financial assets measured at fair value through other comprehensive income	2,084,699	2,084,699
Financial assets measured at amortised cost		
- debt securities	1,475,729	1,475,729
- loans and advances to banks	108,863	108,863
- loans and advances to customers	7,243,540	7,243,540
- other financial assets	61,726	61,726
Fair value changes of the hedged items in portfolio hedge of interest rate risk	5,750	5,750
Investments in associates and joint ventures	42,937	10,759
Tangible assets		
Property and equipment	193,824	193,824
Investment property	58,356	58,356
Intangible assets	33,184	33,184
Current income tax assets	880	880
Deferred income tax assets	20,687	20,687
Other assets	74,277	74,277
Non-current assets and disposal group classified as held for sale	3,951	3,951
Total assets	13,065,780	13,033,602
Trading liabilities	16,649	16,649
Financial liabilities measured at fair value through profit or loss	4,002	4,002
Financial liabilities measured at amortised cost		
- deposits from banks and central banks	24,648	24,648
- borrowings from banks and central banks	256,733	256,733
- due to customers	10,675,801	10,675,801
- borrowings from other customers	60,619	60,619
- subordinated liabilities	15,280	15,280
- other financial liabilities	145,003	145,003
Derivatives - hedge accounting	40,330	40,330
Provisions	81,069	81,069
Current income tax liabilities	2,806	2,806
Deferred income tax liabilities	2,601	2,601
Other liabilities	13,230	13,230
Total liabilities	11,338,771	11,338,771
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	17,537	8,650
Profit reserves	13,522	13,522
Retained earnings	581,386	558,095
	1,683,823	1,651,645
Non-controlling interests	43,186	43,186
Total equity	1,727,009	1,694,831
Total liabilities and equity	13,065,780	13,033,602

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

3. Capital and capital requirements

3.1. Capital adequacy

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

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

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

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

Table 3 – Capital requirements and buffers of NLB Group

		2019	2018
Pillar 1	CET1	4.5%	4.5%
	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)	AT1	9.25%	9.5%
	T2	11.25%	11.5%
Combined Buffer requirement (CBR)			
Conservation buffer	CET1	2.500%	1.875%
O-SII buffer	CET1	1.00%	0.00%
Countercyclical buffer	CET1	0.00%	0.00%
Overall capital requirement (OCR) = MDA threshold	CET1	11.25%	9.875%
	AT1	12.75%	11.375%
	T2	14.75%	13.375%
Pillar 2 Guidance (P2G)	CET1	1.25%	1.5%
OCR + P2G	CET1	12.500%	11.375%

In March 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 has confirmed on 12 April 2019 adjusted Risk Appetite target for NLB Group Overall capital adequacy at 16.25%.

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 Notes were purchased mainly by domestic institutional investors. 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.

NLB is currently performing also discussions with financial institutions for obtaining additional Tier 2 instruments.

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. Annual General Meeting of NLB will be held in Ljubljana on 10 June 2019 and agenda includes also decision on yearly distribution of dividends. The management Board of NLB and Supervisory Board of NLB propose that EUR 142.6 million shall be paid to the shareholders as dividend, which amounts to EUR 7.13 per share.

The capital adequacy of NLB Group and NLB at the end of March 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.

In Q1 2019, the capital of the Bank and the Group consists solely of the components of top quality CET1 capital (no subordinated instruments that would rank in lower capital categories), which is why all three capital ratios are the same.

Table 4 – Capital adequacy of NLB Group:

	31.3.2019	31.12.2018
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings	401,857	293,026
Current result	-	108,829
Accumulated other comprehensive income	8,650	3,598
Other reserves	13,522	13,522
Prudential filters: Additional Valuation Adjustments (AVA)	(2,145)	(1,983)
(-) Goodwill	(3,529)	(3,529)
(-) Other intangible assets	(29,655)	(31,439)
COMMON EQUITY TIER 1 CAPITAL (CET1)	1,460,078	1,453,402
Additional Tier 1 capital	-	-
TIER 1 CAPITAL	1,460,078	1,453,402
Tier 2 capital	-	-
TOTAL CAPITAL	1,460,078	1,453,402
Risk exposure amount for credit risk	7,284,927	7,179,678
Risk exposure amount for market risks	580,550	541,901
Risk exposure amount for CVA	4,488	2,563
Risk exposure amount for operational risk	941,594	953,482
TOTAL RISK EXPOSURE AMOUNT (RWA)	8,811,559	8,677,624
Common Equity Tier 1 Ratio	16.6%	16.7%
Tier 1 Ratio	16.6%	16.7%
Total Capital Ratio	16.6%	16.7%

As at 31 March 2019, the capital ratios for NLB Group stood at 16.6% (or 0.1 percentage points lower than at the end of 2018), and for NLB at 23.9% (or 0.2 percentage point lower than at the end of 2018). The lower capital adequacy derives from higher RWA (EUR 133.9 million for NLB Group). In 2019 the capital increased by EUR 6.7 million, mainly due to higher Other comprehensive income (EUR 5.1 million) and lower Intangible assets (EUR 1.8 million, as deduction item).

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

3.2. Capital requirements

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

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

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

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

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

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

	31.3.2019		31.12.2018	
	RWA	Minimum capital requirement - 8% of RWA	RWA	Minimum capital requirement - 8% of RWA
1 Credit risk (excluding CCR)	7,177,933	574,235	7,071,808	565,745
2 Of which the standardised approach	7,177,933	574,235	7,071,808	565,745
6 CCR	32,867	2,629	26,625	2,130
7 Of which mark to market	28,379	2,270	24,062	1,925
12 Of which CVA	4,488	359	2,563	205
13 Settlement risk	-	-	100	8
19 Market risk	580,550	46,444	541,801	43,344
20 Of which the standardised approach	580,550	46,444	541,801	43,344
23 Operational risk	941,594	75,328	953,482	76,279
24 Of which basic indicator approach	941,594	75,328	953,482	76,279
27 Amounts below the thresholds for deduction (subject to 250% risk weight)	78,615	6,289	83,808	6,705
29 Total	8,811,559	704,925	8,677,624	694,210

The RWA for Credit risk increased by EUR 105.2 million (lines 2, 7, and 27 in Table 5), mainly due to an increase of exposure in the corporate and retail segment as a result of increased lending activities.

The increase in RWA for market risk and CVA (Credit value adjustments) amounted EUR 40.6 million (lines 12, 13 and 20 in Table 5), as a result of structural FX positions arising from operations of NLB Group's non-euro subsidiary banks. These positions are long, non-trading and deliberately taken. On a consolidated level, foreign exchange translation differences from these positions are recognised in the consolidated capital and do not have an impact on the NLB Group's profit and loss.

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

3.3. Capital instruments included in the capital

(Article 437.1 b and c of CRR)

In March 2019, the capital of NLB Group solely consisted of Common Equity Tier 1 capital; the only instruments included in Common Equity Tier 1 capital were the ordinary shares of the parent company NLB.

As of 31 March 2019 NLB Group had no capital instruments issued that would be eligible for inclusion in Additional Tier 1 capital or Tier 2 capital. Two subsidiary banks in NLB Group do have subordinated instruments, which they themselves use as a capital component, but because of the non-comparability of the legislation, these instruments do not meet the conditions for inclusion in the capital of NLB Group. Subordinated liabilities for NLB Group are disclosed in the NLB Group Interim Report Q1 2019- note 5.10 b Subordinated liabilities (page 66).

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

N/A – not relevant for this instrument

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

3.4. Detailed presentation of capital elements

(Article 437 d and e, and 492.3 of CRR)

The table below shows in detail the elements of the calculation of the capital of NLB Group 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 7 – Own funds for NLB Group

	31.3.2019	31.12.2018	
Common equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts of which: ordinary shares	1,071,378 1,071,378	1,071,378 1,071,378
2	Retained earnings - including current result	401,857	401,855
3	Accumulated other comprehensive income (and other reserves)	22,172	17,120
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,495,407	1,490,353
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(2,145)	(1,983)
8	Intangible assets (net of related tax liability) (negative amount)	(33,184)	(34,968)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(35,329)	(36,951)
29	Common Equity Tier 1 (CET1) capital	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)	1,460,078	1,453,402
58	Tier 2 (T2) capital	-	-
59	Total capital (TC = T1 + T2)	1,460,078	1,453,402
60	Total risk weighted assets	8,811,559	8,677,624
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.6%	16.7%
62	Tier 1 (as a percentage of total risk exposure amount)	16.6%	16.7%
63	Total capital (as a percentage of total risk exposure amount)	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%	6.375%
65	of which: capital conservation buffer requirement	2.500%	1.875%
66	of which: countercyclical buffer requirement	0.0%	0.0%
67	of which: systemic risk buffer requirement	1.0%	0.0%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.0%	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	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)	2,746	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)	10,759	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)	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
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	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
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	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
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A	N/A
84	Current cap on T2 instruments subject to phase out arrangements	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 – not relevant

3.5. Reconciliation of items with financial statements (Articles 437 a and f, and 447 e of CRR)

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

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

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

	31.3.2019		31.12.2018	
	Prudential consolidation	Included in capital as reported	Prudential consolidation	Included in capital as reported
Cash, cash balances at central banks and other demand deposits at banks	1,589,039	-	1,588,349	-
Financial assets held for trading	38,352	(38)	63,609	(64)
Non-trading financial assets mandatorily at fair value through profit or loss	29,986	(5)	32,389	(9)
Financial assets measured at fair value through other comprehensive income	2,084,699	(2,085)	1,898,079	(1,898)
Financial assets measured at amortised cost	8,889,858	-	8,747,462	-
Derivatives - hedge accounting	-	-	417	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	5,750	-	2,517	-
Investments in associates and joint ventures	10,759	-	10,652	-
Tangible assets	252,180	-	236,048	-
Intangible assets	33,184	(33,184)	34,968	(34,968)
<i>Goodwill</i>	3,529	(3,529)	3,529	(3,529)
<i>Other intangible assets</i>	29,655	(29,655)	31,439	(31,439)
Current income tax assets	880	-	877	-
Deferred income tax assets	20,687	-	22,847	-
<i>That rely on future profitability and arise from temporary differences</i>	20,687	-	22,847	-
Other assets	74,277	-	70,971	-
Non-current assets classified as held for sale	3,951	-	4,349	-
Total assets	13,033,602	-	12,713,534	-
Trading liabilities	16,649	(17)	12,300	(12)
loss	4,002	-	4,190	-
Financial liabilities measured at amortised cost	11,178,084	-	10,926,996	-
Derivatives - hedge accounting	40,330	-	29,474	-
Provisions	81,069	-	80,134	-
Current income tax liabilities	2,806	-	12,152	-
Deferred income tax liabilities	2,601	-	2,499	-
Other liabilities	13,230	-	14,840	-
Total liabilities	11,338,771	-	11,082,585	-
Share capital	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	8,650	8,650	3,598	3,598
Profit reserves	13,522	13,522	13,522	13,522
Retained earnings	558,095	401,857	501,223	401,855
Non-controlling interests	43,186	-	41,228	-
Total equity	1,694,831	-	1,630,949	-
Total liabilities and equity	13,033,602	-	12,713,534	-
Sum of balance sheet items		1,460,078		1,453,402
Capital		1,460,078		1,453,402

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

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 increased by EUR 64 million to EUR 1,695 million as at 31 March 2019, primarily due to Retained earnings from current year and Accumulated other comprehensive income.

4. Leverage

(Article 451 of CRR)

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

The leverage ratio of NLB Group as at 31 March 2019 amounted to 9.77%, which is well above the 3% threshold defined by the Basel Committee on Banking Supervision. Since the minimum requirement is 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, 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 Group's assets is low.

The leverage ratio as at 31 March 2019 slightly decreased in comparison with the end of the year 2018, by 0.11 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 234 million. The higher amount of total leverage exposure arose from increased on-balance sheet exposures. It refers specifically to the banking book exposures treated as sovereign, and retail and corporate exposures, including exposures secured with residential mortgages. Exposures in derivatives slightly increased in comparison with the end of the year 2018, but are relatively unimportant. The impact of a capital increase on the leverage ratio was EUR 6.7 million.

As at 31 March 2019, the leverage exposure was mainly driven by on-balance sheet exposures (96.3%), and other off-balance sheet exposure (3.5%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures, the most significant were Retail exposures (26%), exposures treated as Sovereigns (26%), exposures to Corporates (16%), and 15% to Other exposures.

Table 10 – Leverage ratio of NLB Group

	<u>31.3.2019</u>	<u>31.12.2018</u>
Tier 1 capital	1,460,079	1,453,402
Total leverage exposures	<u>14,943,312</u>	<u>14,709,318</u>
Leverage ratio	<u>9.77%</u>	<u>9.88%</u>

Table 11 – LRCom - Leverage ratio common disclosure for NLB Group

	31.3.2019	31.12.2018
	CRR leverage ratio exposures	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	14,425,693	14,166,782
2 (Asset amounts deducted in determining Tier 1 capital)	(35,329)	(36,951)
3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	14,390,364	14,129,831
Derivative exposures		
4 Replacement cost associated with <i>all</i> derivatives transactions (ie net of eligible cash variation margin)	19,147	15,329
5 Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	23,661	23,828
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(55)	(459)
8 (Exempted CCP leg of client-cleared trade exposures)	(10,548)	(10,606)
11 Total derivative exposures	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	1,957,858	2,041,327
18 (Adjustments for conversion to credit equivalent amounts)	(1,437,115)	(1,489,933)
19 Other off-balance sheet exposures	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	1,460,079	1,453,402
21 Total leverage ratio exposures	14,943,312	14,709,318
Leverage ratio		
22 Leverage ratio	9.77%	9.88%

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

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

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

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

5. Appendix

List of all disclosures required under Part 8 of CRR

Art.	Requirement	Chapter	Page
436	Scope of application		
	(a) the name of the institution to which the requirements of this Regulation apply;	1	4
	(b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: fully consolidated, proportionally consolidated, deducted from own funds, neither consolidated nor deducted;	/	/
	(c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;	/	/
	(d) the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;	/	/
	(e) if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.	/	/
437	Capital (Own funds)		
	(a) a full reconciliation of CET1 items, AT1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	3.5	11
	(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	10
	(e) a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	3.4	10
	(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	9
	(d) (IRB approach:) for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. The institutions calculating the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2) shall disclose the exposures assigned to each category in Table 1 of Article 153(5), or to each risk weight mentioned in Article 155(2);	/	/
	(e) (market risks:) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3); (1) position risk; (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits; (3) foreign-exchange risk; (4) settlement risk; (5) commodities risk;	3.2	9

	(f) (operational risk:) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	3.2	9
451	Leverage		
	(a) the leverage ratio and how the institution applies Article 499(2) and (3);	4	14
	(b) a breakdown of the total exposure measure, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;	4	14
	(c) where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11);	/	/
	(d) a description of the processes used to manage the risk of excessive leverage;	4	14
	(e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	4	14