

Disclosures of NLB Group for the year 2010

in accordance with the Regulation on disclosures by banks and savings banks



NLB d.d.
Financial Management Centre
Controlling Department

Ljubljana, April 2011

European capital legislation based on Basel II principles among other introduced the requirements on transparency of banks' operations. European banks are obliged to disclose certain information with the aim to inform potential investors on the assumed risks.

In Slovenian legislation, the mandatory disclosures are determined by Regulation on disclosures by banks and savings banks. NLB published part of disclosures in line with this regulation for the first time in 2007. For the year 2010, the list of disclosures was extended for information regarding liquidity risk and hybrid capital instruments.

According to the capital legislation, NLB d.d. being »EU parent bank« is obliged to publish disclosures on the consolidated level. Disclosures can be published as a part of annual report or separately on the bank's website. NLB d.d. decided for the second option.

Article	Regulation on disclosures by banks and savings banks	
10.	Risk management objectives and policies	
	a) The strategies and processes for managing risks	Disclosure 1
	b) The structure and organisation of the relevant risk management function or other appropriate arrangements	Disclosure 2
	c) The scope and nature of internal risk reporting and risk measurement systems	Disclosure 3
	d) The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigations	Disclosure 4
11.	Information on entities included in disclosures	
	a) The name of the bank obliged to make disclosures pursuant to this regulation	Disclosure 5
	b) An outline of the differences in the basis of consolidation for accounting and prudential purposes (consolidation for supervision on a consolidated basis), with a brief description of entities: - that are fully consolidated - that are proportionally consolidated - in which the bank holds investments deducted from own funds - that are neither consolidated nor deducted from capital.	Disclosure 5
	c) Any current or foreseen practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	Disclosure 6
	d) The aggregate amount by which the own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name(s) of these subsidiaries	Disclosure 7
12.	Own funds	
	a) Key information on the main features of all own funds items and components thereof, including separate disclosure of: - hybrid instruments in original own funds specified in Article 16 of Regulation on the Calculation of Own Funds of Banks and Savings Banks (own funds regulation) - financial instruments with the incentives to redeem specified in own funds regulation - financial instruments specified in 4 th paragraph of Article 34 of the own funds regulation	Disclosure 8
	b) The amount of the original own funds (Tier I), with separate disclosure of: - all positive items and deduction components of Tier I - total amount of hybrid instruments in original own funds, of which separately disclosed financial instruments specified in 4 th paragraph of Article 34 of the own funds regulation - total amount of hybrid instruments in original own funds with the incentives to redeem, of which separately disclosed financial instruments specified in 4 th paragraph of Article 34 of the own funds regulation	Disclosure 9
	c) Total amount of additional and ancillary own funds (Tier II and Tier III) as can be taken into consideration in the calculation of the bank's own funds in accordance with the own funds regulation	Disclosure 9
	d) Deductions from original and additional own funds with separate disclosure of items specified in point (f) of the Article 30 of the own funds regulation	Disclosure 9
	e) Total amount of the own funds	Disclosure 9

13.	Minimum capital requirements and process of estimating necessary internal capital	
	a) A summary of the bank's approach to assessing the adequacy of its internal capital to support current and planned activities	Disclosure 3
	b) The amount of the capital requirement for credit risk under the standardized approach (SA) for all categories of exposure as defined in Article 4 of the Regulation on the Calculation of Capital Requirements for Credit Risk Under the SA	Disclosure 9
	c) The amount of the capital requirement for credit risk under the internal ratings-based approach (IRB)	Not applicable
	d) The capital requirements for market risks	Disclosure 9
	e) The capital requirements on operational risk	Disclosure 9
14.	Counterparty credit risk (CCR)	
	a) A description of the methodology used to assign internal capital and credit limits for counterparty credit exposures	Disclosure 10
	b) A description of policies for securing collaterals	Disclosure 11
	c) A description of policies with respect to wrong-way risk exposures	Disclosure 12
	d) A description of the effects of a downgrade in the bank's credit assessment in increasing the amount of collateral to be secured by the bank	Disclosure 11
	e) Gross positive fair values of contracts, netting benefits, netted current credit exposures, collateral at the bank's disposal, and net credit exposure from derivatives	Disclosure 13
	f) A description of the method used for calculating the exposure value for derivatives, swaps, securities or commodities lending or borrowing transactions, margin lending transactions, and long settlement transactions defined in Articles 48 to 68 of the market risk regulations	Disclosure 10
	g) The nominal value of credit derivatives used for hedging, and the distribution of current credit exposure by types of credit exposure	Disclosure 14
	h) The nominal value of credit derivatives transactions (the value of these instruments for the bank's own portfolio and the values for clients being illustrated separately, and an indication of the types of credit derivatives further broken down as bought and sold)	Not applicable
	i) An estimate of α if the bank holds the Bank of Slovenia authorisation to use its own estimate of α	Disclosure 15
15.	Credit risk and dilution risk	
	a) A definition of past due and impaired items for accounting purposes	Disclosure 16
	b) A description of the methodology for making value adjustments to items and provisions	Disclosed in Annual report
	c) The total amount of exposures, minus impairments and provisions, without taking the effects of credit protection into consideration, and the average exposure amount (from quarterly data) in the reporting period, by category of exposure	Disclosure 17
	d) The geographic distribution of exposures, broken down by material categories of exposure, and further detailed if appropriate	Disclosure 18
	e) The distribution of exposures by institutional sector or counterparty type, broken down by category of exposure, and further detailed if appropriate	Disclosure 19
	f) A breakdown of all categories of exposure into residual maturities of up to one year and more than one year, and further detailed if appropriate	Disclosure 20
	g) The following items for significant institutional sectors or counterparty types as at the end of the reporting period: - the amount of past due exposures, and within this the amount of impaired exposure - the amount of value adjustments due to impairments and provisions, - the amount of net eliminated/formed value adjustments due to impairments and provisions during the reporting period	Disclosure 21
	h) For significant geographical areas the amount of past due exposures as at the end of the reporting period, and within this the amount of impaired exposures, including, if possible, the amounts of impairments and of provisions related to each geographical area	Disclosure 21
	i) For impaired exposures an illustration of the changes in value adjustments and an illustration of the changes in provisions, these comprising: - a description of the value adjustments and provisions by type of asset, - the opening balance of the value adjustments and provisions as at the beginning of the reporting period, - the increase in the reporting period, - the decrease in the reporting period, - the closing balance of the value adjustments and provisions as at the end of the reporting period	Immaterial

16.	Additional disclosures by bank using standardised approach	
	a) The business names of the nominated external credit assessment institutions (hereinafter: ECAIs) or export credit agencies (hereinafter: ECAs), and the reasons for any replacements	Disclosure 22
	b) An indication of the ECAI or ECA whose credit assessments are used for a particular category of exposure	Disclosure 22
	c) A general description of the process for determining the risk weights for individual exposures on the basis of the credit assessments available for the obligor and its financial instruments	Disclosure 22
	d) An indication of the mapping of the credit assessments of a particular nominated ECAI or ECA to the credit quality steps specified in the standardised approach regulation, if it is a mapping not published by the Bank of Slovenia	Disclosure 22
	e) The exposure values and the exposure values taking into account the effects of credit collaterals, broken down by credit quality step in accordance with the standardised approach regulation and the Regulation on Credit Protection and the values of capital deduction items	Disclosure 17
17.	Additional disclosures by bank using IRB approach	Not applicable
18.	Breakdown of market risk capital requirements	Disclosure 9
19.	Additional disclosures by bank using internal models to calculate market risk capital requirements	Not applicable
20.	Operational risk	
	a) The approach used to calculate operational risk capital requirements	Disclosure 23
	b) A description of the advanced measurement approach methodology, if used	Not applicable
21.	Investments in equity securities not included in trading book	
	a) The purpose of the investments including attitude to capital gains and strategic reasons, used accounting techniques and valuation methods and any changes in accounting practices	Disclosure 24
	b) The balance sheet value and the fair value of investments, and, for exchange-traded securities, a comparison with the market price where it is materially different from the fair value	Disclosure 24
	c) The types, nature and amounts of exposures from exchange-traded securities, exposures from private equity if sufficiently diversified, and other exposures	Disclosure 24
	d) The cumulative realised gains and losses from the sale of investments in equities in the reporting period	Disclosure 24
	e) The total amount of unrealised gains and losses, and any of these amounts that the bank includes in original own funds (Tier I) and additional own funds I (Tier II)	Disclosure 24
22.	Interest-rate risk from items not included in trading book	
	a) The nature of the interest-rate risk and the key assumptions (including assumptions about the early repayment of loans and the movement of sight deposits), and the frequency of the measurement of interest-rate risk	Disclosure 25
	b) The effect on earnings or any other value measure used in the management of interest-rate risk in the event of upward or downward shocks in interest rates on major currencies	Disclosure 26
23.	Securitisation	Not applicable
23a	Liquidity risk	
	a) The methodology of liquidity risk management , including: - distribution of costs, benefits and risks in providing liquidity - detection, measurement, control and monitoring of liquidity, including information regarding off-balance liabilities (especially the ones that exceed the contractual levels - "implicit support")	Disclosure 27
	b) Liquidity risk mitigation including: - system of limits to restrict the liquidity risk exposure - liquidity reserves - distribution of sources of liquidity	Disclosure 27
	c) Measures to prevent and eliminate the causes for liquidity deficit, including: - stress scenarios - contingency plans	Disclosure 27
24.	IRB approach	Not applicable

25.	Credit protection	
	a) The policies and processes for using balance-sheet netting, and the extent of use of this type of protection	Disclosure 28
	b) The policies and processes for collateral valuation and management	Disclosure 29
	c) A description of the main types of collateral taken by the credit institution	Disclosure 30
	d) The major types of personal guarantor and counterparties in credit derivatives transactions, and their creditworthiness	Not applicable
	e) Information about market or credit risk concentrations within the credit protection taken	Disclosure 31
	f) For a bank that uses the standardised approach or an IRB approach to calculating credit risk capital requirements without its own estimates of LGDs (and CFs), the total exposure value (after balance sheet netting, if used) that is covered by collateral, after the application of volatility adjustments, for each category of exposure	Disclosure 17
	g) The total exposure value (after balance sheet netting, if used) that is covered by personal guarantees or credit derivatives for each category of exposure. For the category of exposures from equity instruments, this requirement shall apply to each of the approaches set out in Articles 133, 134 and 138 of the IRB approach regulation	Disclosure 17
26.	Operational risk – advanced measurement approach	Not applicable

Disclosure 1 The strategies and processes for managing risks

(Article 10.a of the Regulation on disclosures by banks and savings banks)

According to its strategy, NLB is a universal bank, which is present through NLB Group in South-Eastern and Western Europe and to a lesser extent in certain countries of the former Soviet Union. The offer of NLB Group banking members consists of traditional banking products as well as treasury services and investment banking. Specialised members of the NLB Group offer services of leasing, factoring, pension insurance, bankassurance products and asset management.

To achieve strategic objectives, special attention is given to all types of credit, non-credit (currency, interest rate, liquidity and market) and operational risks. The framework strategy and internal policies of the bank, approved and regularly amended by the management boards and discussed by the supervisory bodies of the members, specify in details the approaches and methodologies for monitoring, measuring and managing all types of risk, with the aim of:

- maintaining the quality of credit portfolio and minimizing the credit-risk related losses,
- providing adequate level of liquidity,
- minimizing negative market-risk related income effects,
- preventing the future loss events resulting from operational risks.

Management policies for individual risk types must be in line with the minimum standards for risk management in NLB Group and with the

guidelines adopted by Management Board of NLB d.d.

In accordance with the "Decision on Risk Management and the Implementation of the Process of Assessing the Adequate Level of Internal Capital of Banks and Savings Banks", special attention is given to strategic risk, reputation risk, capital risk and profitability risk.

The approach to risk management which includes a clear organisational set-up, efficient risk management process and effective internal controls system, aims at minimisation of deviations in implementation of net interest and non-interest income of the NLB Group, minimization of loss events resulting from operational risks and optimisation of the use of regulatory and internal capital. The amount of capital, target performance of the bank and the amount of established impairments (provisions) are the factors forming the framework of risk appetite.

Monitoring deviations from the set framework of the strategy and individual policies in risk management is provided through a system of reporting on realization (violations) of guidelines in individual policies and through a system of limits and specified framework ratios (foremost in non-credit risks) discussed by expert committees and management board. Management board and committees who are also given the power to adopt decisions take the appropriate corrective action.

Disclosure 2 The structure and organisation of the relevant risk management function

(Article 10.b of the Regulation on disclosures by banks and savings banks)

Management of risks assumed by each member of the NLB Group in its operations is foremost the responsibility of the member's management board, which must follow the business objectives and NLB Group's strategy regarding the risk-assuming and risk-management and must accordingly adopt the appropriate risk management policies.

Supervisory body of each group-member gives approval to objectives and policies and within its competence monitors their implementation as well as assesses their effectiveness.

The member's management board and its committees may in accordance with their authorisations transfer certain, operational responsibilities in risk management in particular, to lower management levels.

In the banking members of the NLB Group, risk monitoring is centralized in separate organisational unit (recommended also to other financial organisations). Centralised risk monitoring enables the standardised and systemic approach to risk management and consequently comprehensive aspect on developments in balance sheets of NLB Group and individual members. In accordance with the »Minimum standards for risk management in the NLB Group«, organisational structure of each group member should provide, that the risk monitoring function is separated from the risk management and business activities, which is important to obtain the objectivity needed in evaluation of business decisions.

Organisational unit of the bank/member, responsible for the risks, monitors the risk exposure in line with the adopted policies and checks the possible overdrafts of the limits set in advance in coordination with business units. Limits are normally confirmed by the management, except for limits on »large exposure« to individual client (10% of bank's capital or more), which are confirmed by supervisory body of the bank. Management of exposure is in the competence of business units.

Organisational unit responsible for the risks is directly subordinated to the Management Board and its committees (Credit committee, Assets and liabilities committee, Operational risk committee, Trading and market risk committee), which are responsible to supervisory body (Risk committee of the Supervisory Board or Supervisory Board).

All of the NLB Group members subject to consolidation report their risk exposure to NLB d.d. – Risk management department. All the relevant risks are reported further to Assets and liabilities committee of the NLB Group, which adopts appropriate measures and decisions when needed. Risk management department is also responsible for preparation of guidelines, which enables the harmonisation of policies for management of credit, market and operational risks in individual NLB Group members and monitoring of their implementation.

Disclosure 3 The scope and nature of internal risk reporting and risk measurement systems, a summary of the bank's approach to assessing the adequacy of its internal capital to support current and planned activities

(Articles 10.c and 13.a of the Regulation on disclosures by banks and savings banks)

Organisation and delimitation of competences in risk management are designed to prevent the conflict of interest and to ensure a transparent and documented decision-making process including the appropriate flow of information bottom-up and top-down.

The reporting in NLB Group follows the internal guidelines, taking into the account not only the internal requirements but also the local legislation and demands of Bank of Slovenia (regarding the content and the frequency of reports). Reports are in standardised forms, which enable appropriate harmonisation of risk management policies together with the methodologies for measurement and management of risk exposures, as well as establishment of relevant database on the group level.

Risk measurement systems are an integral part of risk management policies. For the purpose of supervision on a consolidated basis they are compliant with the regulatory requirements of the Bank of Slovenia, which are in line with European Directives 2006/48/EC and 2006/49/EC on the capital adequacy of banks (using standardized approach for credit and market risk and basic indicator approach for operational risk, except for NLB d.d, using a standardized approach for operational risk).

For internal use, next to regulatory methodologies, NLB d.d. uses also internal

methodologies for measuring exposure to credit, market, interest rate and operational risk, consistent with the Basel guidelines and generally accepted in the banking practice.

In the process of providing adequate level of internal capital, which represents more accurate measure of capital needs in relation to assumed risks, NLB Group pursues safe and stable operations in the long run. For the purposes of calculating the needed internal capital, at least annually and in case of significant changes risk exposures, the exposure of business segments to each risk type is assessed for the NLB Group as a whole. Nine types of risk are considered: credit risk, market risk, interest rate risk, liquidity risk and operational risk - based on expert assessments, and strategic risk, reputation risk, capital risk and profitability risk - based on specific questionnaires.

For the risks that are assessed as material, capital requirement is calculated. Calculations of the credit and market risk are based on a standardized approach, of operational risk on a basic indicator approach. For the calculation of interest rate risk in the banking book, the BPV methodology is used (in accordance with the provisions of the Regulation of the Bank of Slovenia on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks - Basel principles, pillar 2)

Disclosure 4 The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigations

(Article 10.d of the Regulation on disclosures by banks and savings banks)

On the level of the NLB Group, the most important documents regarding risk mitigation are the following:

- Corporate Governance Policy of the NLB Group,
- Risk Management in the NLB and the NLB Group,
- Minimum Standards and the Development Programme in the Area of Risk Management in the NLB Group,
- Liquidity Risk Management Strategy of the NLB Group,
- Capital Management Policy of the NLB Group,
- Loan Collateral Policy in the NLB and the NLB Group,
- Capital Risk Management Policy,
- Profitability Risk Management Policy,
- Strategic Risk Management Policy,
- Minimum Standards – Financial Markets,
- Strategy for Trading in Financial Instruments in the NLB Group.

For the major categories of risk, members of the NLB Group adopted their own policies, which are consistent with the requirements of minimum standards for risk management in the NLB Group. Guidelines, which are part of the minimum standards, are mostly based on internal policies of NLB d.d.:

- Currency Risk Management Policy,
- Interest Rate Risk Management Policy,
- Liquidity Management Policy (operational and structural),
- Operational Risk Management Policy of the NLB,
- Policies for managing securities.

Short summaries of policies are an integral part of business and financial annual report of the NLB Group.

Disclosure 5 The name of the bank obliged to make disclosures pursuant to this regulation; An outline of the differences in the basis of consolidation for accounting and prudential purposes (consolidation for supervision on a consolidated basis), with a brief description of entities

(Articles 11.a and 11.b of the Regulation on disclosures by banks and savings banks)

The bank obliged to make disclosures for the NLB Group is Nova Ljubljanska banka d.d., Ljubljana.

Subsidiary undertakings, in which the NLB Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over operations, have been fully consolidated in accordance with the International Financial Reporting Standards (IFRS). Investments in associates, in which the NLB Group directly or indirectly holds between 20% and 50% of voting rights, and over which the Group exercises significant influence but does not control, are in the consolidated financial statements accounted for using the equity method of accounting. Joint ventures are included in the consolidated financial statements using the equity method of accounting.

Detailed disclosure of the listed companies is available in annual report.

Consolidation for the purpose of the supervision on a consolidated basis pursuant to the Regulation on the supervision of banks and savings banks on a consolidated basis does not include the life- and pension-insurance companies. Furthermore, joint ventures are accounted for using proportional method of consolidation.

The following companies are not included in the consolidation for the purpose of the supervision on a consolidated basis (but are included in IFRS consolidation):

1. NLB Nov Penziski fond a.d., Skopje

Management board:

Davor Vukadinović, president

Maksimilijan Žvegljč, member

Peter Velkavrh, member

Activity: pension insurance

Share capital: EUR 2,000,000.00

Status: NLB Group subsidiary

NLB Group ownership interest: 100 %

2. NLB Nova Penzija a.d., Beograd – in liquidation

Liquidation manager: Zvonko Cvek

Activity: pension insurance

Share capital: EUR 3,220,000.00

Status: NLB Group subsidiary

NLB Group ownership interest: 85.7 %

Liquidation was concluded on 28 February 2011.

3. Skupna pokojninska družba d.d., Ljubljana

Management Board:

Aljoša Uršič, president of the

Management Board

Peter Krassnig, member of the

Management Board

Activity: supplementary voluntary pension insurance

Share capital: EUR 6,750,763.80

Status: NLB Group associate

NLB Group ownership interest: 28.13 %

4. NLB Vita d.d., Ljubljana

Management Board:

Barbara Smolnikar, president of the
Management Board,

Irena Prelog, member of the Management
Board.

Activity: life insurance

Share capital: EUR 6,860,290.44

Status: NLB Group joint venture

NLB Group ownership interest: 50 %

Disclosure 6 Any current or foreseen practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries

(Article 11.c of the Regulation on disclosures by banks and savings banks)

There is no significant current or foreseen practical or legal impediment to the prompt transfer of capital or repayment of liabilities among the parent and daughter companies in the NLB Group. Possible legal impediments to

the transfer of capital derive from provisions regarding the minimum amount of capital in accordance with the local legislation relevant for individual group members.

Disclosure 7 The aggregate amount by which the own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name(s) of these subsidiaries

(Article 11.d of the Regulation on disclosures by banks and savings banks)

All of the NLB Group subsidiaries that are not included in the consolidation under the Decision on the Supervision on a consolidated

basis as at 31 December 2010 fulfilled the required minimum capital. The total amount of capital deficit is 0.

Disclosure 8 Key information on the main features of all own funds items and components

(Article 12.a of the Regulation on disclosures by banks and savings banks)

Banks' capital (own funds) consists of three categories (tiers), according to characteristics and conditions prescribed by the Regulation on the calculation of the capital of banks and savings banks (Official Gazette 85/10 and 97/10) (hereinafter Regulation on capital): Tier I capital (original own funds), Tier II capital (additional own funds) and Tier III capital (ancillary own funds).

Tier I capital is the highest-quality element of the capital and is mostly composed of the elements of the balance-sheet equity (share capital and related capital reserves) and to a limited extent also of certain high-quality hybrid instruments. Main features of Tier I capital components are: permanency (without maturity or with very long maturities, limited possibility of exercising call options), flexibility in terms of disbursements (payments of returns are not cumulative) and full availability to cover losses (subordination to all of the other banks' obligations). The required characteristics are detailed in the Article 10 (shares) and Article 16 (hybrids) of the Regulation on capital.

During the transitional period it is permitted to include in Tier I capital to a limited amount also hybrid instruments, which are not compliant with the Article 16 of the of the Regulation on capital, but were qualified as Tier I eligible instruments under the previous legislation up to 31 December 2010.

Tier I capital of the NLB Group therefore consists of ordinary shares and related

reserves and of hybrid instrument, which does not comply with all the conditions of Article 16 of the Regulation on capital, but qualifies under fourth paragraph of Article 34 and is therefore classified in the subcategory of "hybrid instruments in the transition period with the incentives to redeem." Key features of this instrument are presented in the table below.

Tier II capital is composed of hybrid instruments, subordinated debt instruments and part of revaluation reserves. Tier II hybrid instruments have no maturity; the call is only possible after five years. Subordinated debt instruments can have maturity, but it must be longer than five years. Subordinated debt instruments are gradually excluded from Tier II capital in the last five years before their maturity (cumulative annual 20 percent discount). The required features of the instruments are detailed in the Article 25 (hybrids) and Article 28 (subordinated debt) of the Regulation on capital.

NLB Group includes several hybrid instruments and subordinated debt instruments in Tier II capital, their key characteristics are shown in the table below.

Tier III capital consists of subordinated debt instruments, which are subordinated only to ordinary banks' obligations, but not to the above listed capital instruments of higher quality. NLB Group currently holds no such instrument.

Capital instrument	Type	Maturity	Incentive to redeem	Interest rate	Nominal value	in 000 € Included in calculation of capital
Hybrid instruments from Article 16 of Regulation on capital	-	-	-	-	0	0
Hybrid instruments from 4th paragraph of Article 34 of Regul. on cap debt security	-	-	YES	6M Euribor+1.68% To 15.7.2015, thereafter 6M Euribor+2.68%	130,000	129,999
Hybrid financial instruments in Tier I capital						129,999
Hybrid instrument	debt security	-	YES	3M EURIBOR+1.6% to 17.12.2014, thereafter 3M EURIBOR +3.1%	100,000	100,000
Hybrid instrument	loan	-	YES	3M EURIBOR + 1.5% to 7.9.2011, thereafter 3M EURIBOR + 2.25%	100,000	100,000
Hybrid instrument	loan	-	YES	3M EURIBOR + 0.95% to 24.7.2012, thereafter 3M EURIBOR + 1.7%	120,000	120,000
Hybrid financial instruments in Tier II capital						320,000
Subordinated debt	loan	14.6.2016	YES	EURIBOR + 0.45% to 14.6.2011, thereafter EURIBOR + 1.1%	75,000	75,000
Subordinated debt	loan	2.6.2017	YES	3M EURIBOR + 0.48% to 27.6.2012, thereafter 3M EURIBOR + 1.98	190,000	190,000
Subordinated debt	loan	30.12.2014	YES	6M EURIBOR + 5.1% to 22.03.2014, thereafter 6M EURIBOR + 8.5)	4,500	2,700
Subordinated debt	loan	30.6.2018	YES	6M EURIBOR + 4.2% to 22.9.2013, thereafter 6M EURIBOR + 6.3%	12,104	12,104
Subordinated debt	loan	30.6.2020	YES	6M EURIBOR + 5.7% to 30.6.2015, thereafter 6M EURIBOR + 7.7%	5,000	5,000
Subordinated debt	debt security	24.3.2011	NO	EURIBOR + 1.85%	19,000	0
Subordinated debt	debt security	9.6.2013	NO	7.0%	48,963	19,493
Subordinated debt	debt security	25.2.2013	NO	6M EURIBOR+1.4%	12,500	5,000
Subordinated debt	debt security	10.2.2011	NO	4.5%	5,000	0
Subordinated debt	debt security	10.4.2012	NO	EURIBOR + 1.5% p.a.	10,450	2,090
Subordinated debt	debt security	24.5.2017	NO	6.25%	61,419	60,848
Subordinated debt in Tier II capital						372,235
Total						893,936
						822,234

Disclosure 9 Capital and capital requirements - the amounts of individual components of capital adequacy calculation

(Articles 12.b, 12.c, 12.d, 12.e, 13.b, 13.d, 13.e and 18 of the Regulation on disclosures by banks and savings banks)

	in 000 €	
	31.12.2010	31.12.2009
TOTAL REGULATORY CAPITAL	1,595,342	1,735,400
TIER I CAPITAL	994,904	1,176,617
Paid up share capital	74,328	74,328
Own shares	-4,635	-7,049
Capital reserves (share premium)	495,595	495,595
Reserves and retained profit or loss	430,525	644,205
Minority interest	20,299	24,590
Valuation differences - prudential filters	-1,687	-13,062
Hybrid instruments in Tier I	129,999	129,999
<i>Of which hybrid instruments in transition period (4th paragraph of Article 34)</i>	<i>129,999</i>	<i>129,999</i>
<i>Of which hybrid instruments with incentives to redeem</i>	<i>129,999</i>	<i>129,999</i>
Other deductions	-149,520	-171,989
<i>Intangible assets</i>	<i>-146,491</i>	<i>-167,758</i>
<i>Other</i>	<i>-3,029</i>	<i>-4,231</i>
TIER II CAPITAL	704,543	662,974
Hybrid instruments	320,000	320,000
Subordinated debt	372,235	326,098
Other	12,308	16,876
DEDUCTIONS FROM TIER I AND TIER II CAPITAL	-104,105	-104,191
<i>Of which shortfall of impairments and provisions under IRB approach (Article 30.f)</i>	<i>0</i>	<i>0</i>
TIER III CAPITAL (to cover market risks)	0	0
CAPITAL REQUIREMENTS	1,250,658	1,299,750
TOTAL CAPITAL REQUIREMENTS FOR CREDIT RISK (standardised approach)	1,101,382	1,156,497
<i>Central governments or central banks</i>	<i>53,743</i>	<i>40,367</i>
<i>Regional governments or local authorities</i>	<i>6,367</i>	<i>4,927</i>
<i>Public sector entities</i>	<i>3,800</i>	<i>1,580</i>
<i>Multilateral development banks</i>	<i>525</i>	<i>39</i>
<i>International organisations</i>	<i>0</i>	<i>0</i>
<i>Institutions</i>	<i>43,540</i>	<i>58,463</i>
<i>Corporates</i>	<i>515,505</i>	<i>561,645</i>
<i>Retail</i>	<i>247,289</i>	<i>251,613</i>
<i>Secured by real estate property</i>	<i>0</i>	<i>0</i>
<i>Past due items</i>	<i>71,448</i>	<i>93,066</i>
<i>Items belonging to regulatory high-risk categories</i>	<i>99,057</i>	<i>79,125</i>
<i>Covered bonds</i>	<i>0</i>	<i>0</i>
<i>Short-term claims on institutions and corporate</i>	<i>0</i>	<i>0</i>
<i>Collective investments undertakings</i>	<i>0</i>	<i>5</i>
<i>Other items</i>	<i>60,108</i>	<i>65,667</i>
TOTAL CAPITAL REQUIREMENTS FOR MARKET RISKS	48,243	46,276
<i>Settlement / delivery risk</i>	<i>12,726</i>	<i>1,307</i>
<i>Traded debt instruments</i>	<i>3,889</i>	<i>5,446</i>
<i>Equity instruments</i>	<i>14,399</i>	<i>24,701</i>
<i>Foreign exchange</i>	<i>17,229</i>	<i>14,778</i>
<i>Commodities</i>	<i>0</i>	<i>44</i>
CAPITAL REQUIREMENT FOR OPERATIONAL RISKS	101,033	96,977
CAPITAL ADEQUACY RATIO	10.20%	10.68%

Disclosure 10 A description of the methodology used to assign internal capital and credit limits for counterparty credit exposures; A description of the method used for calculating the exposure value for derivatives, swaps, securities or commodities lending or borrowing transactions, margin lending transactions, and long settlement transactions

(Articles 14.a and 14.f of the Regulation on disclosures by banks and savings banks)

NLB Group monitors the exposure to counterparty credit risk using the mark-to-market method in accordance with the provisions of the Regulation on the calculation of capital requirements for market risk for banks and savings banks. Value of exposure equals the sum of current replacement cost and potential future credit exposure. In case of repo transactions, the exposure equals the current value of exposure of the placement (which includes the nominal value and accrued interest) less the current value of the collateral (the market price of the security). Here, the current value of exposure cannot exceed the

agreed amount, which is not transmitted within the "margin call.

Monitoring of exposure takes place within the debt ceiling for individual customers. Determination of the debt ceilings is conducted in accordance with the criteria and procedures for approving investments and with the relevant regulations of the Bank of Slovenia.

Calculation of internal capital requirements for the above mentioned financial instruments is in analogy with calculation for the other types of investments under the Standardised Approach for credit risk.

Disclosure 11 A description of policies for securing collaterals; A description of the effects of a downgrade in the bank's credit assessment in increasing the amount of collateral to be secured by the bank

(Articles 14.b and 14.d of the Regulation on disclosures by banks and savings banks)

In business policies the minimum credit rating of the counterparty is determined, under which the bank does not enter into transactions with derivatives, buy sell / sell buy transactions and long settlement transactions without adequate first-quality collateral.

If the rating criteria for the counterparty are not met, the exposure must be completely covered by the first-quality collateral. Conclusion of derivatives in the NLB Group is specified in the document Strategy for Trading in Financial Instruments in the NLB Group.

Disclosure 12 A description of policies with respect to wrong-way risk exposures
(Article 14.c of the Regulation on disclosures by banks and savings banks)

If the counterparty is called upon to provide the necessary additional first-quality collateral as a consequence of unfavourable movements on financial markets and if the counterparty fails to

do so, the bank can close an existing position and gather the repayment with the realisation of the existing collateral.

Disclosure 13 Gross positive fair values of contracts, netting benefits, netted current credit exposures, collateral at the bank's disposal, and net credit exposure from derivatives

(Article 14.e of the Regulation on disclosures by banks and savings banks)

NLB Group applies contractual netting (such as CSA Agreement, Margin call) in a very small scale and only for internal purposes of monitoring the exposures. For regulatory

reporting (calculation of exposure and capital requirements for credit risk), the NLB Group does not use a contractual netting.

Disclosure 14 The nominal value of credit derivatives used for hedging, and the distribution of current credit exposure by types of credit exposure
(Article 14.g of the Regulation on disclosures by banks and savings banks)

NLB Group does not undertake credit derivatives transactions.

Disclosure 15 An estimate of α if the bank holds the Bank of Slovenia authorisation to use its own estimate of α

(Article 14.i of the Regulation on disclosures by banks and savings banks)

NLB Group has not obtained the authorization from the Bank of Slovenia for the use of own estimate of α .

Disclosure 16 A definition of past due and impaired items for accounting purposes
(Article 15.a of the Regulation on disclosures by banks and savings banks)

in 000 €

Type of the exposure	Value of exposures not being past due	Value of total exposures of past due transactions	The past due amount of transaction	Impairments of exposures not being past due	Impairments of past due exposures
Balance sheet assets	17,353,650	1,514,428	1,415,700	570,056	759,472
Off-balance sheet liabilities	3,106,825	149	149	56,864	3
TOTAL	20,460,475	1,514,577	1,415,849	626,920	759,475

(past due = in delay over 90 days)

Disclosure 17 Breakdown of exposures and credit protection by category of exposure

(Articles 15.c, 16.e and 25.f of the Regulation on disclosures by banks and savings banks)

in 000 €

CATEGORY OF EXPOSURE	ORIGINAL EXPOSURE PRE CONVERSION FACTOR	Share of each category	NET VALUE OF EXPOSURE	Credit risk mitigation techniques (CRM)				Value of CRM / Net exposure	NET EXPOSURE AFTER CRM SUBSTITUTION EFFECTS PRE CONVERSION FACTORS	EXPOSURE VALUE	RISK WEIGHTED EXPOSURE AMOUNT	CAPITAL REQUIREMENT	Share of capital requirement
				UNFUNDED CREDIT PROTECTION: ADJUSTED VALUES (GA)		FUNDED CREDIT PROTECTION							
				GUARANTEES	CREDIT DERIVATIVES	FINANCIAL COLLATERAL: SIMPLE METHOD	OTHER FUNDED CREDIT PROTECTION						
	1	2=1/sum(1)	3	4	5	6	7	8=(4+5+6+7)/3	9	10	11	12	13=12/sum(12)
Exposures to central governments and central banks	2,929,705	13.33%	2,928,466	0	0	0	0	0.00%	4,162,751	4,148,425	671,791	53,743	4.88%
Exposures to regional governments or local authorities	113,771	0.52%	112,103	0	0	49	0	0.04%	112,054	111,585	79,593	6,367	0.58%
Exposures to public sector entities	158,165	0.72%	157,127	103,894	0	96,868	0	127.77%	83,339	71,925	47,506	3,800	0.35%
Exposures to multilateral development banks	13,117	0.06%	13,117	0	0	0	0	0.00%	13,117	13,117	6,558	525	0.05%
Exposures to institutions	1,664,732	7.58%	1,660,838	1,385,077	0	132,226	0	91.36%	1,417,093	1,328,462	544,255	43,540	3.95%
Exposures to corporates	8,196,834	37.29%	7,975,108	1,414,212	0	77,757	0	18.71%	7,149,452	6,443,800	6,443,800	515,505	46.80%
Retail exposures	4,903,635	22.31%	4,766,048	33,756	0	68,976	0	2.16%	4,707,342	4,121,485	3,091,114	247,289	22.45%
Past due items	1,260,968	5.74%	697,905	5,929	0	7,496	0	1.92%	692,624	691,135	893,101	71,448	6.49%
Items belonging to regulatory high-risk categories	1,511,019	6.88%	1,061,410	58,976	0	17,013	0	7.16%	1,034,350	932,906	1,238,216	99,057	8.99%
Other items	1,223,106	5.57%	1,216,534	0	0	0	0	0.00%	1,216,534	1,216,137	751,345	60,108	5.46%
TOTAL	21,975,052	100.00%	20,588,656	3,001,844	0	400,385	0	16.52%	20,588,656	19,078,977	13,767,279	1,101,382	100.00%

Disclosure 18 The geographic distribution of exposures, broken down by material categories of exposure

(Article 15.d of the Regulation on disclosures by banks and savings banks)

v 000 €

Country	Category of exposure					
	Exposures to central governments and central banks	Exposures to institutions	Exposures to corporates	Retail exposures	Past due items	Other
SLOVENIA	942,536	410,972	5,511,152	3,389,333	532,170	2,190,237
MACEDONIA	276,946	25,125	401,520	402,262	43,696	177,479
BOSNIA AND HERZEGOVINA	124,618	10,220	357,630	432,380	95,107	205,445
SERBIA	174,731	30,069	410,155	178,209	231,976	120,423
MONTENEGRO	45,038	0	366,990	260,262	88,296	71,145
CROATIA	1,329	51,790	381,886	35,727	105,506	75,352
GERMANY	120,419	276,496	124,714	7,530	9,648	28,512
AUSTRIA	167,425	236,618	10,924	645	3,275	254
FRANCE	316,429	34,151	5,035	775	5	27
BELGIUM	272,346	66,289	8,095	1,266	0	611
NETHERLANDS	204,401	44,309	46,581	230	0	23,761
CZECH REPUBLIC	2,340	7,645	154,998	4,803	10,260	60,225
BULGARIA	3,235	20,503	66,757	16,761	51,777	3,418
GREAT BRITAIN	0	104,382	11,498	1,573	1	1,192
LUXEMBURG	5,308	51,181	28,795	0	2,517	12,848
SWITZERLAND	7	46,279	40,606	93	2,305	582
RUSSIAN FEDERATION	0	48,890	22,644	51	1,152	1,369
UCRAINE	0	8,222	0	63	31,497	5
Other countries	272,597	191,591	246,854	171,672	51,780	46,293
Total	2,929,705	1,664,732	8,196,834	4,903,635	1,260,968	3,019,178

Disclosure 19 The distribution of exposures by institutional sector or counterparty type, broken down by category of exposure

(Article 15.e of the Regulation on disclosures by banks and savings banks)

In 000 €

Category of exposure	CD	FO	IN	IS	JS	PO	RB	RD	Other
Exposures to central governments and central banks	2,929,705	0	0	0	0	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0	0	0	0	113,771	0
Exposures to public sector entities	0	0	0	0	158,165	0	0	0	0
Exposures to multilateral development banks	0	0	0	0	0	0	13,117	0	0
Exposures to institutions	0	0	1,664,732	0	0	0	0	0	0
Exposures to corporates	0	0	0	0	0	8,196,834	0	0	0
Retail exposures	0	3,402,662	0	0	0	1,500,973	0	0	0
Past due items	2,345	140,034	28,848	0	104	1,086,466	0	3,171	0
Items belonging to regulatory high-risk categories	0	5,677	8,391	0	0	1,496,849	0	102	0
Other items	323,515	37,992	11,070	0	27	273,325	0	7	577,170
Total	3,255,565	3,586,365	1,713,041	0	158,296	12,554,447	13,117	117,051	577,170

Legend:

- CD – central governments
- FO – retail customers
- IN – institutions
- IS – investment funds
- JS – public sector
- PO – corporate customers
- RB – multilateral development banks
- RD – regional governments

Disclosure 20 A breakdown of all categories of exposure into residual maturities of up to one year and more than one year

(Article 15.f of the Regulation on disclosures by banks and savings banks)

in 000 €

Category of exposure	Remaining maturity	Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions
Exposures to central governments and central banks	long-term	1,101,388	0	169
	short-term	1,828,317	0	1,070
Exposures to regional governments or local authorities	long-term	68,546	0	612
	short-term	45,225	0	1,057
Exposures to public sector entities	long-term	29,168	0	600
	short-term	128,997	0	439
Exposures to multilateral development banks	long-term	5,187	0	0
	short-term	7,930	0	0
Exposures to institutions	long-term	700,717	0	1,227
	short-term	964,015	1	2,666
Exposures to corporates	long-term	3,154,196	1	90,368
	short-term	5,042,638	3	131,355
Retail exposures	long-term	1,681,666	175	38,230
	short-term	3,221,969	374	99,357
Past due items	long-term	426,481	305,309	207,038
	short-term	834,487	521,343	356,025
Items belonging to regulatory high-risk categories	long-term	747,100	320,637	247,678
	short-term	763,919	262,197	201,931
Other items	long-term	1,475	181	33
	short-term	1,221,631	5,628	6,540
Total		21,975,052	1,415,849	1,386,395

Disclosure 21 Past due exposures for significant institutional sectors or counterparty types, for significant geographical areas and an illustration of the changes in value adjustments and provisions

(Articles 15.g, 15.h and 15.i of the Regulation on disclosures by banks and savings banks)

in 000 €

Country	Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions
SLOVENIA	12,976,400	800,229	759,094
MACEDONIA	1,327,028	55,549	95,548
BOSNIA AND HERZEGOVINA	1,225,400	65,317	96,815
SERBIA	1,145,563	158,933	131,234
MONTENEGRO	831,731	30,517	65,874
CROATIA	651,590	120,462	68,606
GERMANY	567,319	8,927	8,373
AUSTRIA	419,141	2,927	9,325
FRANCE	356,422	59	29
BELGIUM	348,607	9	730
NETHERLANDS	319,282	0	11,475
CZECH REPUBLIC	240,271	47,926	22,763
BULGARIA	162,451	48,295	42,487
GREAT BRITAIN	118,646	650	794
LUXEMBURG	100,649	108	739
SWITZERLAND	89,872	2,305	2,655
RUSSIAN FEDERATION	74,106	2,779	2,656
UCRAINE	39,787	18,877	14,563
Other countries	980,787	51,980	52,635
Total	21,975,052	1,415,849	1,386,395

Disclosure is prepared for significant geographical areas, exposures are allocated to the countries of the client's headquarters.

Data on past due exposures for significant industries and on changes in value adjustments and provisions are shown in disclosures in the annual report.

Disclosure 22 The business names of the nominated external credit assessment institutions (ECAI); An indication of the ECAI whose credit assessments are used for a particular category of exposure; A general description of the process for determining the risk weights for individual exposures on the basis of the credit assessments available for the obligor and its financial instruments; An indication of the mapping of the credit assessments to the credit quality steps specified in the standardised approach regulation

(Articles 16.a, 16.b, 16.c and 16.d of the Regulation on disclosures by banks and savings

For the purpose of calculating capital requirements for credit risk of both NLB d.d. and NLB Group, credit institution Fitch Ratings was nominated. Bank of Slovenia listed Fitch Ratings agency among the eligible external credit assessment institutions and published the rules for mapping its credit assessments (ratings) to credit quality steps specified in the regulation. The credit assessments of this agency are used for the following categories of exposure:

- to central governments and central banks and
- to institutions, including exposure to institutions with short-term credit assessment.

The process of determining the risk weights for each category of exposure is conducted in accordance with the Decision on capital adequacy for credit risk under the standardized approach, following the directives 2006/48/EC and 2006/49/EC on the capital adequacy of banks.

For those categories of exposure, for which the eligible external credit assessment institution (ECAI) was nominated, the risk weights are determined according to credit assessment of the financial instrument (exposure). In case that credit assessment is not available, the higher weighting: of the one corresponding to the long-term credit rating of the debtor, to the rating of other financial instruments of the same debtor's credit rating or to the credit rating of the debtor's country. In assigning risk weights to unrated financial instruments, prescribed weight increases must be applied, related to the weight of other short-term instruments of the same debtor.

For categories of exposure, for which ECAI has not been nominated, risk weight is assigned in accordance with prescribed regulation, which means they are assigned on a basis of rating of the debtor's country and according to specific rules for each category of exposure.

Disclosure 23 The approach used to calculate operational risk capital requirements (Article 20.a of the Regulation on disclosures by banks and savings banks)

Operational risk is the risk of loss arising from deficiencies or errors in operations of internal processes, systems and people or due to external events. This definition includes legal risk but not strategic risk and reputational risk.

When calculating regulatory capital requirements for operational risk at the consolidated level of the NLB Group, basic indicator approach is used, while at the individual level of NLB d.d., somewhat more sophisticated standardized approach is applied.

In accordance with the guidelines imposed by legislation, but also on the basis of best practices by banks, NLB Group established monthly reporting of all identified loss events. At the level of Operational Risk Committee, as well as at the level of business-line management in NLB d.d. and in group members, analysis of loss events is one of the bases for making decisions to reduce operational risks. As a preventive step in

control of the group's operational risks, the identification and evaluation of operational risks in all processes is performed, allowing adoption of preventive measures to control all material risks.

Operational Risk Management Policy of the NLB is a cover document that provides guidance on operational risk management in NLB d.d. and partly in other members of the NLB Group. There is a number of other subordinated documents that prescribe methodologies for risk management and provide practical guidelines for risk control in specific areas such as information technology, money laundering, protection of persons, business information and property, business continuity plans and the like. Based on this policy, members of the Group adopted their own documents regarding the operational risk management, applying the unified methodology, partially adapted to the size of members and complexity of the services they provide.

Disclosure 24 Investments in equity securities not included in trading book

(Articles 21.a, 21.b, 21.c, 21.d and 21.e of the Regulation on disclosures by banks and savings banks)

Total amount of investments in equity securities not included in the trading book amounted to EUR 192,954 thousand at the end of 2010, which represents approximately one percentage of NLB Group's total assets. Even 98% of this amount relates to banking book portfolio of the NLB d.d. (EUR 188,479 thousand).

Majority of equities in banking book of NLB d.d. are investments held for strategic reasons, with the intention to remain in bank's portfolio for an indefinite period of time. In 2010, NLB recognized EUR 46,682 million of impairments on the account of equities received in 2009 with the realization of loan collaterals, and their effect was transferred from equity to income statement. To avoid additional impairment, the bank intends to sell these securities in 2011.

Other group members contributed only EUR 4,475 thousand to the total amount of investment in banking book equities of NLB Group. In accordance with internal regulations, other group members are strictly limited in trading with equity securities (no new transactions are allowed, gradual disposal of the existing equity portfolio). Therefore, most of their equity portfolio was gathered from strategic reasons and part of it due to requirements of local legislation.

In terms of accounting treatment, a major part of the portfolio is classified as financial assets available for sale (EUR 167,280 thousand), which are, in accordance with the NLB Group policy, valued at fair value through equity. In case of the impairment, negative effects are transferred from equity to income statement. Only a minor part of the equity shares are treated as instruments at fair value through profit or loss. In this category, investments in venture capital funds are included, where the NLB Group acts as a temporary investor with an exit strategy and predetermined return. The maturity of these investments is generally between 3 and 5 years. Next to venture capital funds, investments monitored and managed on the fair value basis are classified in this

category, if this approach is adequately documented. Total value of such investments of the NLB Group was EUR 25,674 thousand.

In accordance with applicable accounting policies of the NLB Group, the book value always equals to the fair value of these investments. In case of stock-exchange listed papers, the fair value equals the market price. If paper is not quoted on the stock exchange, the fair value is determined on the basis of generally accepted valuation models based on market assumptions. A good third of group's equity securities and equity shares is stock-exchange listed, amounting to EUR 180,230 thousand.

There was no change in accounting policies regarding equity securities treatment in 2010. NLB d.d. realized EUR 1,010 thousand of net losses from equity securities (acquisition of LHB Finance, acquired shares of Thermana d.d.). Other members gained a net profit of EUR 1,107 thousand from the sale of all kinds of banking book securities.

NLB Group recorded EUR 11,672 thousand of net unrealised gains from equity securities in banking book, shown as equity revaluation adjustment at the end of the year. In 2010, the group recognized impairment of EUR 46,682 thousand in its profit and loss from the equity securities revaluation. Impairment derives from the fall in market prices of securities in 2010.

In accordance with the legislation, total negative effect of the revaluation of equity securities in the banking book is included in Tier I capital (original own funds). Due to inclusion of unrealized losses from these securities, Tier I capital of the NLB Group was EUR 1,687 thousand lower. On the other hand, 80% of positive revaluation effect was included in Tier II capital (additional own funds), which means that unrealized gains on equity securities in the banking book contributed EUR 10,688 thousand of the Tier II capital of the NLB Group..

Disclosure 25 The nature of the interest-rate risk and the key assumptions (including assumptions about the early repayment of loans and the movement of sight deposits), and the frequency of the measurement of interest-rate risk

(Article 22.a of the Regulation on disclosures by banks and savings banks)

Monitoring of interest rate risks exposure and interest risk management are not centralised at the NLB Group level, however the exposure of individual members is regularly reported to Assets and liabilities committee of the NLB Group (NLB Group ALCO). Members of the NLB Group monitor the exposure to interest rate risks mostly due to structural movements and macroeconomic conditions, in accordance with the guidelines on risk management in the NLB Group. Exposure to interest rate risk is monitored using the interest rate gaps methodology and related limits, separately for banking members of the group and for financial organisations (leasing and factoring companies) in the NLB Group.

Exposure to interest rate risk is monitored and managed by using the interest rate gaps methodology. The reports include interest rate sensitivity analysis by individual time intervals, sensitivity analysis and stress scenarios are also applied in determination of the exposure. Interest rate risk exposure arises at most from first-class debt securities (mostly ECB eligible assets), which in the current circumstances on financial markets represent a significant source of secondary liquidity reserves, while the exposure from traditional credit-deposit banking transactions is relatively low.

Disclosure 26 The effect on earnings or any other value measure used in the management of interest-rate risk in the event of upward or downward shocks in interest rates on major currencies

(Article 22.b of the Regulation on disclosures by banks and savings banks)

Using the Basis point value method (BPV), the change in market value of trading book positions as a result of a parallel shift of the yield curve is estimated. BPV method measures the sensitivity of the value of financial instruments to market interest rates,

i.e. to change in expected return on the market. Value of BPV assuming parallel shift of the yield curve by 50 basis points amounted to EUR 33.3 million as at 31 December 2010 (EUR 32.1 million as at end of 2009).

Disclosure 27 Liquidity risk

(Articles 23a.a, 23a.b and 23a.c of the Regulation on disclosures by banks and savings banks)

Liquidity risk is monitored and managed in the NLB Group in accordance with the relevant policies and strategies, which set out rules and a hierarchy of responsibility. Standard liquidity risk monitoring and management guidelines were implemented at NLB Group companies in accordance with the NLB Group Liquidity Risk Management Strategy. Liquidity risk management is decentralized, with each company ensuring its own liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. A standardized current reporting system functions within the Group, and ensures adequate control over the provision of operational and structural liquidity at all NLB Group companies.

NLB Group fulfils the requirements regarding liquidity management in line with the local legislation relevant for each group member and with internal documents of the NLB Group.

- Liquidity Risk Management Policy,
- Plan for Liquidity Management of the Bank in Exceptional Circumstances,
- Policy for Managing Debt Securities in the Banking Book,
- Liquidity Risk Management Strategy of the NLB Group.

The objectives of liquidity risk monitoring and management in the NLB Group are as follows:

- fulfilment of legislative requirements regarding liquidity,
- ensuring a sufficient level of liquid assets to settle all due liabilities,
- correct planning of the less predictable future and off-balance-sheet liabilities,
- optimizing the balance of liquidity reserves and the balance between safety and profitability,
- avoiding the situation when the bank is forced to provide the necessary liquid assets at prices which are significantly higher than those on the market.

The NLB Group in its operations accepts liquidity risk within the limits acceptable in line with its business strategy and available capital. The ability to assume liquidity risk is regularly monitored and checked, same as are assessed and checked methodologies, criteria and elements of the liquidity risk management system.

Liquidity is managed at three levels in the NLB Group:

- operational level
- structural level and
- exceptional circumstances.

a. Operational level

Liquidity management at the operational level means managing liquidity for a period of several days or weeks, based on the planning and monitoring of cash flows. The NLB Group carries out the following activities at the operational level:

- planning and monitoring cash flows on its account in the Target2 system and on nostro accounts abroad;
- complying with regulations regarding liquidity;
- authorizing payments;
- adopting business decisions;
- creating and managing a portfolio of secondary liquidity reserves;
- issuing orders to conclude transactions;
- concluding transactions with the central bank; and
- monitoring and taking into account the liquidity needs of all NLB Group members.

The objective of the liquidity risk management at the operational level is to provide smooth operation of payment services for clients and settling all due liabilities of the bank. At the same time, NLB Group must fulfil the regulatory requirements of local central banks.

b. Structural level

Liquidity management at the structural level means managing liquidity over a longer time frame, and includes the following activities:

- defining structural liquidity indicators, and the regular calculation and monitoring thereof,
- defining optimal values or thresholds for individual selected structural liquidity indicators,
- monitoring trends in the selected structural liquidity ratios and
- preparing analyses and proposals for changes in the structure of the balance sheet that affect the liquidity position and liquidity risk.

The objective of the liquidity management at the structural level is to achieve a balance sheet structure at the Group that ensure the NLB Group's long-term liquidity based on the

criteria of maturity matching, the forms and concentration of sources of funding, and the realization and rating of investments.

Cash flow plans for liquidity management are drafted at three levels:

- daily for the next 30 days;
- monthly for the next six to twelve months;
- for all cash flows by residual maturity for the purpose of calculating liquidity gaps.

Liquidity risk can be precisely defined from the gaps between cash inflows and outflows. This approach enables the banks to control and measure their liquidity risk and gives them the insight into future needs for financial sources and therefore to predict the future potential liquidity risk. With the use of the cash-flow projections NLB Group can detect critical points in expected liquidity situations.

c. Exceptional circumstances and stress testing

An exceptional liquidity situation typically arises rapidly and unexpectedly (its occurrence has a significant impact on the Bank's operations, but is highly unlikely). Due to this characteristic, it is difficult to perceive the signs that warn of its occurrence. In some cases, there are no warning signs at all. In this respect, it is very important to clearly define the roles and responsibilities of those involved and the method of communication and reporting, such that the likelihood of surviving in exceptional circumstances are greatly increased.

To prepare for such exceptional circumstances, NLB Group adopted two documents:

- Plan for Liquidity Management of the Bank in Exceptional Circumstances (hereafter: Plan),
- Methodology of Scenarios Used for Plan for Liquidity Management in Exceptional Circumstances.

The Plan consists of guidelines and activity plans with the aim to detect the troubles, find the solutions, to set the procedures in exceptional circumstances, to establish the system of liquidity management that maintains the liquidity and protection of the business interests of the clients and the owners of the NLB Group.

Triggers for the activation of the Plan are business circumstances that according to

different criteria can no longer be treated as normal. The most possible reasons for the increase of liquidity risk are internal or external.

Internal factors:

- decrease in international credit rating,
- operational and strategic risk,
- decrease in quality of credit portfolio,
- gossips resulting in decrease in public trust in institution and consequently outflow of deposits from non-banking sector,
- decrease in debt ceilings of counterparties.

External factors:

- exceptional conditions on international markets important for NLB Group,
- closure of key financial markets,
- publication of negative economic indicators.

In addition to the Bank's document Contingent Liquidity Management Plan, there are liquidity management stress tests that have been drafted in accordance with the recommendation set out in the document Liquidity Buffers and Survival Periods published by the Committee of European Banking Supervisors (CEBS). The Group has drafted three types of stress tests, broken down into three levels (shown in a table below):

1. specific for the NLB Group, that can be caused by internal factors,
2. market specific, that can be caused by external factors,
3. combination of both.

The impact on cash flows of all three stress test levels is monitored over a period of one year, broken down by month. The exception is the first month, when the impact is monitored weekly and daily (up to three days, up to seven days, up to two weeks, up to three weeks, up to one month).

The results of regular monthly implementation of stress scenarios are used as a basis for:

- establishment of adequate amount of high liquid secondary liquidity reserves,
- liquidity management related decisions adopted by Assets and Liabilities Committee,
- further development of the Plan for Liquidity Management of the NLB Group in Exceptional Circumstances.

	STRESS SCENARIO		
STRESS LEVELS	1. NLB SPECIFIC	2. MARKET SPECIFIC	3. COMBINATION
1. stress level	severe stress with the important influence on liquidity in a short period of time (in the first month)		
2. stress level	medium-strong stress that lasts for a longer period of time (up to six months) with stronger cumulative effect on negative cashflows		
3. stress level	combination: severe stress at the beginning, gradually turns into less severe stress and lasts for a very long time (up to one year)		

Primary and secondary liquidity reserves

The NLB Group holds primary and secondary liquidity reserves to cover outstanding obligations. *Primary liquidity reserves* should be available within a very short period of time after the occurrence of stress situations (immediately, up to one week). It is a short-term ability to generate and acquire highly liquid assets. The largest part of primary liquidity reserves represent money (cash), followed by funds in the settlement account with the central banks and sight deposits and short-term sources from other banks. These are assets that are highly liquid and provide a pre-known, predictable value. *Secondary liquidity reserves* consist of government and corporate bonds, other debt securities and bank loans that meet strict criteria for collaterals set by Eurosystem. At the same time they can be sold or pledged on the interbank market.

Debt securities are classified into the trading or banking book depending on the purpose of their acquisition and on the intended manner of disposal. If the NLB Group has the intention and the ability to hold them until their maturity, they are classified as banking book securities. The purpose of trading book debt securities portfolio is providing secondary liquidity, stabilizing interest margins and managing the interest rate risk of the NLB Group. When managing the portfolio, conservative principles of operations are used, particularly with respect to the structure of the portfolio in terms of issuers' credit ratings and the maturity of portfolio. The framework for banking book securities management is the Policy for Managing Debt Securities in the Banking Book, which clearly defines the objectives and

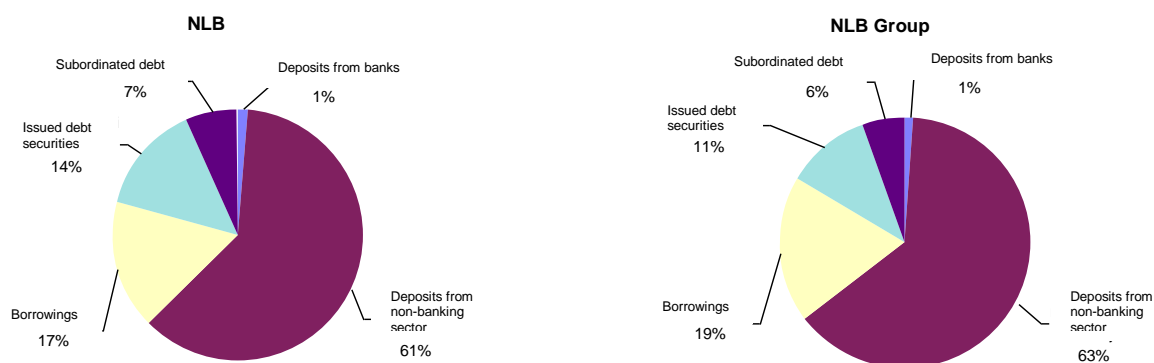
characteristics of the portfolio of debt securities in banking book. The majority of the portfolio represents first-rate securities. As at 31 December 2010, 80.4% of this portfolio was in government securities, 12.6% in bank bonds with government guarantee, 0.7% in bonds of multilateral institutions and 6.3% in bank and corporate securities. Most of them were investments in Slovenian government securities (31.2%), followed by French (11.8%), Belgium (10.3%), Dutch (10.3%), Austrian (6.2%), German (3.8%) government securities and non-government securities guaranteed by the Republic of Slovenia (10.8%).

Liquidity reserves of the NLB Group as of 31 December 2010 amounted EUR 4,143,409 thousand.

Structure of funding sources

The largest share in NLB Group's sources of funding as at 31 December 2010 represented the deposits from non-banking sector, reaching 63.1%. Compared to 2009, the share of deposits increased by 3.5 percentage points in the year 2010, while the share of borrowings declined to 19.1% at the end of 2010 and recorded the decrease of 4.7 percentage points. Dynamics of the two categories (non-banking sector deposits and borrowings) in the structure of funding sources indicates a stronger orientation towards collecting deposits from non-banking sector. Shares of own issued non-subordinated and subordinated debt securities at the Group level were 11.0% and 5.5% at the end of the year 2010, while share of deposits from banks amounted to 1.4%.

The Structure of funding sources of NLB d.d. and members of the NLB Group as at 31 December 2010



Obligations coverage plan

NLB Group regularly monitors the maturity of financial liabilities and, accordingly, carries out the activities to obtain funding sources. The form of borrowing depends at most on market conditions and investors' interest for individual instruments.

The liabilities deriving from the borrowings from banks, financial institutions and multilateral financial institutions are expected to be refinanced in the year 2011 in a similar way as in the past, at most with foreign

sources. The NLB Group will continue to pursue the goal of providing optimal conditions of funds-raising for each member of the NLB Group. Here, the principle of diversification of sources will be followed, which means that the NLB Group will seek to maintain a presence in various segments of the financial market, as it allows the use of different funding instruments and expands the range of investors. Such a concept demands the maintaining and development of good business relationships with key partners, something the NLB Group has been working for many years.

Disclosure 28 The policies and processes for using balance-sheet netting, and the extent of use of this type of protection

(Article 25.a of the Regulation on disclosures by banks and savings banks)

NLB Group uses no balance-sheet netting as a credit protection.

Disclosure 29 The policies and processes for collateral valuation and management (Article 25.b of the Regulation on disclosures by banks and savings banks)

Loan Collateral Policy

Cover document that governs area of credit risk protection of investments is the Loan collateral policy in NLB d.d. and NLB Group. Policy determines the basic guidelines that must be taken into account by bank employees when accepting collaterals in order to reduce credit risk. The leasing as well as factoring and forfeiting companies in the NLB Group apply appropriately adapted policies.

Loan collateral policy recapitulates the requirements of European capital directive, which implemented the Basel II principles in the capital and risks management areas. NLB d.d. and NLB Group promote the use of Basel II eligible collaterals with the aim to improve the credit risk management and consequently to achieve more rational use of capital.

The primary source of repayment of investments remains the financial solvency of the debtor, while the accepted collaterals represent a secondary source of debt repayment if the debtor no longer pays the contractual obligations.

Processes for collateral valuation

In accordance with the legal requirements, NLB d.d. established a system of monitoring and reporting the collaterals at fair value. Collateral valuation is carried out prior to approval of the investment. NLB d.d. regularly monitors the value of accepted collaterals, at least in the legally prescribed intervals.

For monitoring the value of the properties, the Bank uses an internal methodology for making own assessment of property values in the Republic of Slovenia, based on public data and property values indexes of the Ministry of Environment and Spatial Planning. Revaluation of property is made in case of major changes in market prices of real estate. As regards the financial collaterals, the valuation of marketable securities is carried out on a daily basis, while the evaluation of non-marketable securities is carried-out at least once a year.

When accepting loan collaterals, bank follows the internal rules which determine the minimum safety or pledge quotients. NLB d.d. tends to conclude collateralized transactions in a way that the value of the collateral is higher than the collateralized exposure, to prevent the possible negative consequences in case of major fluctuations in market prices of the pledged assets. Any deviations from the safety or pledge quotients must be approved by the Management Board or its authorised body (credit committee).

Over the entire loan repayment period, the bank regularly monitors the value of collateral and the coverage of the exposure by the collateral. In case that the value of collateral decreases, the bank requires that the customer provide additional collateral if needed.

Disclosure 30 A description of the main types of collateral taken by the credit institution

(Article 25.c of the Regulation on disclosures by banks and savings banks)

NLB d.d. accepts different types of funded and unfunded collaterals to mitigate credit risk.

Funded credit protection is a type of credit risk mitigation, where in case of failing to fulfil the contractual obligations, the bank holds the right to sell certain assets to repay their claims, to retain certain non-monetary or monetary assets or to reduce/offset the amount of counterparty claim against the bank.

The Bank accepts the following funded credit protection:

- Property collaterals:
 - o commercial and residential real-estate property
 - o physical collateral
 - o cash receivables
 - o financial collateral (bank deposits or cash assimilated instruments, debt securities of various issuers, units of investment funds, equities and convertible bonds)
- Other funded credit protection instruments (life insurance policies pledged to the bank).

Unfunded credit protection is a type of credit risk mitigation, where a third person has committed to pay the amount due in case of default by the original debtor (borrower).

The Bank accepts the following unfunded credit protection: joint and several guarantees of natural and legal persons, bank guarantees, guarantees of the Republic of Slovenia, insurance company guarantees... The decision regarding the type and value of credit protection depends on an analysis of customer

data (credit rating of the debtor) and maturity of the loan, and varies depending on whether the investment is approved to natural or legal person.

Long-term loans in particular are collateralized, primarily with proper real estate collateral. Thus, real estate collateral is the most common form of credit protection for the retail and corporate exposures. In corporate segment, it is followed by the government guarantees and guarantees of legal persons. In retail operations, the second most common collateral is of insurance company.

NLB d.d. revaluates the pledged assets at market value, except for those commercial real-estate properties that are Basel II eligible and are therefore additionally evaluated by the mortgage lending value. Revaluation of commercial property and those of residential property that are used as collateral for larger investments is performed by the professional service of the bank with employed appraisers with the license of the Ministry of Justice for legal appraisals or the license of the Slovenian Institute of Auditors. Residential real estate serving as collateral for lower-value investments are revaluated by contractual partners of the bank.

When using the real estate collateral, the bank's lien is preferably entered with a better ranking. Exceptionally, in the case of a sufficiently large value of the pledged property, the lien may be entered in a less favourable order.

Disclosure 31 Information about market or credit risk concentrations within the credit protection taken

(Article 25.e of the Regulation on disclosures by banks and savings banks)

In granting loans, counterparty risk is the most important, and therefore, detailed analysis of the customers' creditworthiness is prepared. Collaterals are secondary source of repayment and their quality should not be the deciding factor in granting loans. However, collaterals are important in case of deterioration of client's creditworthiness. To avoid the impact of risks arising from various forms of collaterals, the bank prescribes minimum pledge quotients (ratios between the value of collateral and exposure), which reflect the risk of each type of collateral and are determined on the basis of bank's experience and regulatory guidelines. Quotients are prescribed in the Loan Collateral Manual.

For example, when using securities as collateral, the bank faces market risk, specifically the risk of change in the price of securities on capital markets. In order to limit the size of such risks or possibility that the value of the pledged instruments fell below the value of exposure, the Loan Collateral Manual prescribes for such collaterals the minimum ratio between the amount of exposure and the value of the security. Derogation from the prescribed quotients is only possible with the approval of the Credit Committee or the Management Board. The ratio between the value of exposure and the value of securities depends on the liquidity of the securities, their maturity, degree of correlation with movements

of market indexes, i.e. the key features that reflect the degree of market-value fluctuation of securities and the possibility to sell them at their market price. Furthermore, for certain types of securities, the ratio is also influenced by the rating of the issuer, which reflects the credit risk of a pledged security. In case of unfavourable developments in capital markets, the ratio between the value of collateral and exposure might fall below the prescribed limit, then the debtor is required to provide additional securities or other types of collateral.

When using guarantees as collateral, credit risk of guarantor appears. Therefore, the amount of accepted guarantee is included in the limit (debt ceiling) of its provider. The creditworthiness of the customer is impacted also by the potential credit risk related to the realization of collateral.

Loan collateral manual also defines the process of acquiring collaterals, their realization and the characteristics required for each collateral to meet the bank's internal rules, with the aim to eliminate the operational and legal risk.

The volume of collaterals that carry market or credit risk is therefore not limited, but is regularly monitored (by the volume and the value).