

## Unaudited Report on Operations of Nova KBM d.d. in the Period from January to September 2008

### 1. Key operating data of Nova KBM d.d.

- In the first nine months of 2008 Nova KBM d.d. generated **total profit before tax** of €35.4 million, 65% of the targeted profit for the year 2008.
- This result was mainly achieved in core banking operations in which the Bank succeeded to increase the income when compared to the same period of last year – net interest income went up by 14 per cent, net fee and commission income by 5 per cent. Other financial income decreased when compared to the same period of last year, particularly due to drop in prices of securities which the Bank holds in its trading portfolio.
- **Total assets** of the Bank amounted to €4,556.9 million as of 30 September 2008, €338.1 million or 8 per cent over the 2007 year-end figure.
- The Bank increases, in particular, its core banking operations. Total loans and receivables to the non-banking sector amounted to €3,215.5 million as of the end of September 2008, 93 per cent of the projected growth for the year 2008. Total deposits by the non-banking sector reached €2,629.2 million as of 30 September 2008, 25 per cent over the projected growth for the year 2008.
- The Bank's **operating costs** to average total assets went down by 0.19 percentage points in the one-year period.
- As of 30 September 2008, the Bank's **capital adequacy ratio** stood at 8.30 per cent. The Bank estimates that after the capital increase being concluded and amendments to the regulation on the calculation of regulatory capital will be applied the capital adequacy ratio will reach 10.76 per cent by the end of October.
- In the period from January to September 2008 the Bank increased or retained its **market shares** in all key operating segments, namely:
  - the market share in loans to non-bank customers stood at 9.8 per cent,
  - the market share in total assets was 9.7 per cent,
  - the market share in deposits by households amounted to 14.6 per cent.

The following table shows key operating data of Nova KBM d.d. as of 30 September 2008 and for the period from 1 January to 30 September 2008 respectively. It also provides a reference analysis for the same accounting period of the previous financial year.

	in €000		
	30 September 2008	30 September 2007	INDEX
Total assets	4,556,934	3,905,449	116.68
Total loans and receivables to non-banking sector	3,215,505	2,592,336	124.04
Total deposits by non-banking sector	2,629,165	2,395,266	109.77
Total equity	295,404	298,748	98.88
Interest income	192,991	145,422	132.71
Interest expense	113,072	75,305	150.15
Other financial and operating income or expenses	24,421	59,355	41.14
Profit from continuing operations	35,428	55,366	63.99
Net profit for the period	26,896	41,349	65.05
Share book value <sup>1</sup> in €	12.65	12.8	98.83
Net profit per share <sup>2</sup> in €	1.15	1.77	64.97
ROAA before tax	1.09	1.97	
ROAE before tax	16.07	26.69	
Operating costs / Average total assets	1.90	2.09	
Capital adequacy ratio	8.30	9.03	

## 2. Financial position of Nova KBM and notes to the operations in view of the adopted plan

Recent events on global financial markets we have been witness to affect also Slovene banking environment.

The financial crisis which enhanced uncertainty on financial markets and caused the trust between banks to diminish will, directly or indirectly, affect the operations of Nova KBM d.d.. The Bank faces unfavourable conditions for raising long-term funds in foreign markets and therefore a lower growth rate of borrowings from foreign banks is expected. Despite such fierce financial market conditions, the Bank's operations remain stable.

Nova KBM d.d. fulfils internal and regulatory liquidity ratios and has sufficient operational and secondary liquidity reserve in order to be considered as a **liquid bank** under all performance criteria. Safety of deposits is guaranteed by well dispersed and conservative portfolio structure. We are of the opinion that:

- establishing an unlimited state guarantee for deposits of private individuals, sole proprietors and micro- and small enterprises and
- a possibility of assigning state guarantees in the amount of up to €8 billion to banks for refinancing their operations in foreign interbank markets until the end of 2009

<sup>1</sup> Share book value on the last day of the accounting period is calculated as the ratio between the Bank's total equity and the number of shares on the last day of the accounting period.

<sup>2</sup> Net profit per share is calculated as the ratio between net profit generated in the first nine months of the financial year and the number of the Bank's shares on the last day of the accounting period.

considerably contributes to a more competitive position of Slovene banks in comparison with neighbouring countries and enhances confidence in Slovene financial system in international money market.

In the first nine months of 2008 the Bank generated **profit from continuing operations** in the amount of €35,428 thousand, 65 per cent of the targeted 2008 profit. In core banking operations it generated €79,919 thousand of **net interest income**, thus achieving 73 per cent of the targeted amount for the year. In addition to net interest income, it generated **net fee and commission income** of €29,140 thousand, 74 per cent of the targeted amount for the year.

Within **interest income** amounting to €192,991 thousand, the largest share, i.e. €163,388 thousand or 84.7 per cent of interest income, pertains to granted loans and deposits. Within **interest expenses**, practically the whole amount pertains to interest on financial liabilities measured at amortised cost, namely €113,006 thousand.

The profit of the Bank was cut down by net losses on financial assets and liabilities held for trading which were due to drop in prices of securities held in the trading portfolio. From marking the prices of securities to the market, the Bank generated a loss of €15,951 thousand in the first nine months of 2008. Of this amount, the loss of investment companies Infond ID and ID1 was €9,742 thousand. Due to limited liquidity in capital markets, the Bank did not sell the quoted securities. On 25 September and 10 October respectively, Infond ID and Infond ID1 were transformed into mutual funds Infond Global and Infond Dynamic. Since their transformation, the Bank has recorded the shares of stated mutual funds within the portfolio of available-for-sale securities and measures them through equity.

Within its portfolio, the Bank also holds a debt instrument issued by Lehman Brothers. Until the day the bankruptcy was declared the Bank measured this instrument through equity, and after the critical event – the bankruptcy it disclosed loss in the income statement, in accordance with International Financial Reporting Standards. The amount of loss from impairment of Lehman Brothers debt instrument reached €2,993 thousand until 30 September 2008. Due to similar events related to the financial crisis, total loss amounted to €4,749 thousand.

In the first nine months of 2008 the Bank generated an **interest margin** calculated on average total assets of 2.47 per cent. **The margin of financial intermediation** calculated as the sum of net interest and non-interest-income to average total assets was 3.22 per cent.

**Return on average equity before tax** was 16.07 per cent, 1.09 percentage points over the plan for 2008 and 2.25 percentage points over the banking system average.

**Return on average assets before tax** was 1.09 per cent, 0.14 percentage points below the plan for 2008.

Along with the increase in volume of operations, the Bank improved the ratio **operating costs to average total assets** from 2.09 per cent to 1.90 per cent, compared to the same period of last year.

In the first nine months of the year, **total assets** of the Bank increased by 8 per cent or €338,142 thousand. As of 30 September 2008 total assets amounted to €4,556,934 thousand and reached 96 per cent of the targeted 2008 year-end figure.

The amount of **loans and receivables to the non-banking sector** went up by €455,092 thousand and amounted to €3,215,505 thousand as of 30 September 2008. The growth achieved in this period represents 93.0 per cent of the projected 2008 growth.

In June 2008 the Bank raised a three-year syndicated term loan facility in the amount of €250 million. This facility together with growth in deposits will cover the planned operations by the end of 2008. Up to now the Bank has not tightened the conditions for retail loans; however it has made conditions for corporate loans stricter by requiring additional collateral.

**Deposits by the non-banking sector** went up by 6 per cent in the period from January to September 2008. The increase in deposits of the non-banking sector of €139,128 thousand is 25 per cent over the projected growth for the year.

The share of non-performing claims (credit rating D and E) in the gross loan portfolio went down from 2.53 per cent to 2.15 per cent in the period from June to September. The coverage of non-performing loans with total impairment charges and provisions was 190.48 per cent as of 30 September 2008, 26.44

percentage points over the June-end figure when the coverage of non-performing claims was 164.04 per cent.

### **3. Changes to the Bank's Management and Supervisory Board**

At the Shareholders' Meeting held on 8 July 2008 the incumbent Supervisory Board of the Bank was dismissed, and a new one appointed which consists of the following members: mag. Franc Škufca (Chairman), Andrej Svetina (Vice Chairman), dr. Anton Jurgetz, Anton Guzej, Ivan Vizjak, dr. Aleš Valentinčič, dr. Egon Žižmond, Boštjan Kramberger and mag. Danijel Blejc.

The resolution on dismissing and appointing members of the Supervisory Board became legally binding on the date of entering the amendments, i.e. 14 July 2008.

### **4. Significant events after the end of the accounting period**

In October Nova KBM raised additional capital. In accordance with the Offering Memorandum for the public offering of shares dated 22 September 2008, the subscription of newly issued shares was carried out from 24 September until 8 October 2008, both dates inclusive.

In total, 2,723,995 newly issued shares were allocated totalling €53,117,902.50. All allocated shares had been subscribed and paid for within the deadline.

Nova KBM submitted a proposal at the companies register of the Maribor District Court for the entry of increased share capital and the increased number of issued Nova KBM shares. After receiving corresponding court decision regarding the registration of amendments, Nova KBM will submit an application to KDD (Central Securities Clearing Corporation of Ljubljana) for the issue of new shares which will be entered to the accounts of book-entry securities in the central book-entry securities registry of existing shareholders and investors to whom the shares will be allocated. The trading in newly issued shares is expected to start immediately after the shares will be registered with KDD.

Funds raised through the capital increase will be used by Nova KBM for financing organic growth, for accomplishing development objectives as determined in the adopted strategic guidelines, and for regularly business conduct.

### **5. Ownership structure of Nova KBM d.d.**

As of 30 September 2008 the share capital of Nova KBM d.d. consisted of 23,357,984 ordinary registered shares.

Within five years from 14 July 2008, with the consent of the Supervisory Board and without additional resolution of the Shareholders' Meeting, the Management Board is authorised to increase once or more than once the Bank's share capital by an amount of up to €5,946,419.61 through issuing new shares.

The Bank has not adopted a resolution on conditional increase of capital.

In the period from January to September 2008 the Bank did not acquire or sell its own shares. As of 30 September 2008 Nova KBM d.d. did not hold its own shares.

As of 30 September 2008 the ownership structure of the Bank was as follows: the Republic of Slovenia held a 41.50 per cent stake, the stake of Kapitalska družba d.d. and Slovenska odškodninska družba d.d. stood at 4.79 per cent, the stake owned by households was 24.94 per cent, other financial institutions held 12.92 per cent, foreign persons had a 6.13 per cent stake, non-financial companies a 3.99 per cent and other banks a 0.89 per cent stake.

## 10 largest shareholders as of 30 September 2008

Number of shares	% of ownership <sup>3</sup>	Shareholder
9,692,443	41.50	REPUBLIC OF SLOVENIA
1,120,000	4.79	KAPITALSKA DRUŽBA, d.d.
1,120,000	4.79	SLOVENSKA ODŠKODNINSKA DRUŽBA, d.d.
485,946	2.08	KD GALILEO, <i>Mutual fund</i>
439,581	1.88	POM-INVEST, d.d.
299,367	1.28	TRIGLAV STEBER I, <i>Mutual fund</i>
263,573	1.13	JULIUS BAER INTERNATIONAL EQUITY FUND
250,404	1.07	EAST CAPITAL BALKAN FUND
231,949	0.99	KD RASTKO, <i>Equity mutual fund</i>
217,400	0.93	EVEREST CAPITAL EMERGING MARKETS FUND

## Number of Nova KBM shares held by the members of the Management and Supervisory Board as of 30 September 2008

Name and surname of the shareholder	Number of shares held	% of ownership
Matjaž Kovačič	1,820	0.00779
Manja Skernišak	260	0.00111
Franc Škufca	10	0.00004
Andrej Svetina	27	0.00012
Daniel Blejč	260	0.00111
Ivan Vizjak	5,002	0.02141
Aljoša Valentinčič	234	0.00100
Anton Jurgetz	502	0.00215
Anton Guzej	140	0.00060
Boštjan Kramberger	68	0.00029

## 6. Nova KBM d.d. operations forecast for the year 2008

The Bank carefully follows the situation in international money market in which a severe tightening of conditions for raising funds has emerged. In line with this situation, the Bank adapted its credit activity and conditions for granting loans, notably loans to corporate customers.

Until the 2008 year-end the Bank plans to **increase its total assets** by 6.8 per cent compared to the 2007 year-end figure. Operating costs (administrative expenses and depreciation) are expected to increase by 5.5 per cent in the same period. Therefore, operating costs in total assets are to drop to 2.11 per cent by the end of 2008 (2007: 2.25 per cent). **Deposits by non-bank customers** should amount to €2,700.4 million at the end of 2008, 8.4 per cent over the previous year-end figure. **Loans to non-bank customers** are expected to amount to €3,261.6 million at the end of 2008, 18.2 per cent above the 2007 year-end figure.

<sup>3</sup> same percentage of voting rights

The Bank's **2008 profit from continuing operations** is estimated at €40.6 million or €31.2 million after taxes.

Due to the current market conditions, the Bank's projections for the rate of growth for the year 2009 will be set lower as it was in 2007 and 2008.

The Bank will continue to position itself as a strong and reliable Bank whose highly skilled and professional staff can provide a whole range of high-quality products and services. The Bank will expand its business into new markets.

In 2008 the Bank has been carrying out a number of internal development projects and tasks which will enhance its performance and customer service. The primary development tasks are the following:

- Introduction of the new capital accord (Basel II),
- Full installation and functioning of the Single Euro Payments Area – SEPA,
- Continuation of SISBON (Slovenian Credit Scoring Information System) activities,
- Upgrade of electronic banking,
- Development of an automated reporting system within the Group.

## **7. Comment on future uncertainty**

The turmoil in the financial markets caused by the events in the sub-prime mortgage market in the United States of America had a negative impact on interbank markets. Banks are facing new challenges and financial markets are pervaded with mistrust and insecurity. The main additional risk is the uncertainty as regards the dimension the financial crisis might have on the economy. Conditions for borrowing long-term funds from foreign banks are becoming quite unfavourable and current market conditions demonstrate that raising funds in international market will become more difficult as it was in the past. Higher risk premiums make funding more costly and this will result in higher interest expenses. The Bank will adapt its credit and liquidity policy in line with market situation and will assess its lending limits in an even more conservative way.

Management Board of Nova KBM d.d.

# FINANCIAL STATEMENTS OF Nova KBM d.d.

## INCOME STATEMENT of Nova KBM d.d. for the period from 1 January to 30 September

		in €000	
No.	ITEM DESCRIPTION	From 1 January to 30 September 2008	From 1 January to 30 September 2007
1	Interest income and similar income	192,991	145,422
2	Interest expenses and similar expenses	(113,072)	(75,305)
<b>3</b>	<b>Net interest income</b>	<b>79,919</b>	<b>70,117</b>
4	<b>Dividend income</b>	<b>6,712</b>	<b>6,458</b>
5	Fee and commission income	34,180	30,878
6	Fee and commission expenses	(5,040)	(3,129)
<b>7</b>	<b>Net fee and commission income</b>	<b>29,140</b>	<b>27,749</b>
8	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	3,025	175
9	Gains/losses on financial assets and liabilities held for trading	(15,951)	25,634
10	Gains/losses on financial assets and liabilities recognised at fair value through profit or loss	0	0
11	Fair value adjustments in hedge accounting	(1,748)	186
12	Net exchange differences	2,839	(405)
13	Gains on derecognition of assets excluding non-current assets held for sale	107	48
14	Other operating net income/loss	297	(490)
15	Administration costs	(53,546)	(51,775)
16	Depreciation	(8,030)	(6,863)
17	Provisions	4,929	1,095
18	Impairment charges	(12,265)	(16,721)
19	Negative goodwill	0	0
20	Share of profit or loss of associates and joint ventures accounted for using the equity method	0	0
21	Total profit from non-current assets and disposal groups classified as held for sale	0	158
<b>22</b>	<b>TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>35,428</b>	<b>55,366</b>
23	Tax expense related to profit or loss from continuing operations	(8,532)	(14,017)
<b>24</b>	<b>TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>26,896</b>	<b>41,349</b>
25	Net profit/loss after tax from discontinued operations	0	0
<b>26</b>	<b>NET PROFIT FOR THE PERIOD</b>	<b>26,896</b>	<b>41,349</b>
27	Basic earnings per share	0.0012	0.0018
28	Diluted earnings per share	0.0012	0.0018

**BALANCE SHEET of NOVA KBM d.d.**

	in €000	
ITEM DESCRIPTION	30 September 2008	31 December 2007
Cash and cash balances with central banks	100,702	93,891
Financial assets held for trading	72,258	116,772
Available-for-sale financial assets	747,888	799,683
Derivatives-hedge accounting	49	329
Loans and receivables	3,414,935	3,043,901
- loans and receivables to banks	199,430	283,488
- loans and receivables to non-bank customers	3,215,505	2,760,413
Held-to-maturity investments	9,040	9,352
Accrued interest income on financial assets	4	2
Property, plant and equipment	57,616	55,995
Investment property	512	512
Intangible assets	24,677	23,440
Investments in subsidiaries, associates and joint ventures	51,705	49,870
Tax assets	18,401	5,262
- current tax assets	7,222	6
- deferred tax assets	11,179	5,256
Other assets	59,147	19,783
<b>TOTAL ASSETS</b>	<b>4,556,934</b>	<b>4,218,792</b>
Deposits from central banks	16	8
Financial liabilities held for trading	78	12
Derivatives-hedge accounting	756	89
Financial liabilities measured at amortised cost	4,057,230	3,832,024
- deposits from banks	42,205	34,327
- deposits from non-bank customers	2,624,715	2,484,399
- loans and advances from banks	1,094,725	988,108
- loans and advances from non-bank customers	4,450	5,638
- debt instruments	83,302	87,000
- subordinated liabilities	207,833	232,552
Financial liabilities associated to transferred assets	21,634	0
Accrued interest expenses on financial liabilities	28,400	20,944
Provisions	23,177	28,317
Tax liabilities	11,115	4,478
- current tax liabilities	8,149	1,432
- deferred tax liabilities	2,966	3,046
Other liabilities	119,124	36,894
<b>TOTAL LIABILITIES</b>	<b>4,261,530</b>	<b>3,922,766</b>
Basic equity	24,368	24,366
Share premium	28,847	28,847
Fair value reserves	(30,590)	(7,876)
Reserves from profit (including retained earnings)	245,883	240,619
Income from current year	26,896	10,070
<b>TOTAL EQUITY</b>	<b>295,404</b>	<b>296,026</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>4,556,934</b>	<b>4,218,792</b>