ANNUAL REPORT 2013

POŠTNA BANKA SLOVENIJE, d.d.
Bančna skupina Nove Kreditne banke Maribor d.d.

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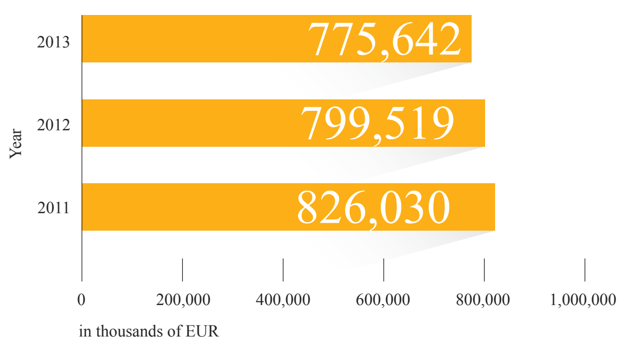
KEY PERFORMANCE INDICATORS

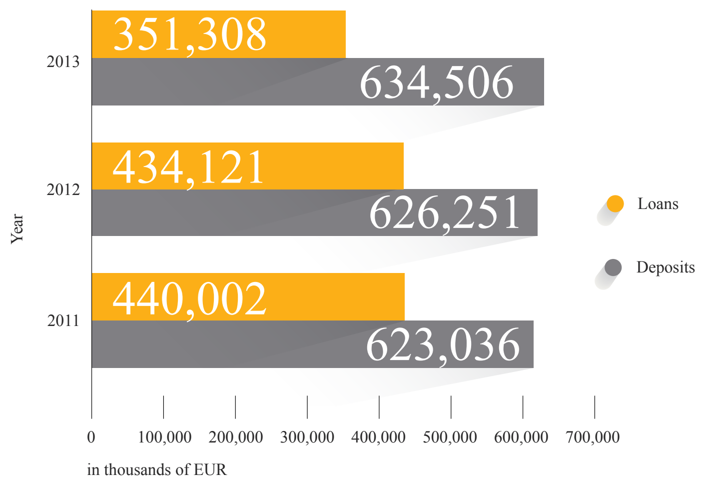
Key performance indicators

	2013	2012	2011
Total assets (in thousands of EUR)	775,642	799,519	826,030
Total equity (in thousands of EUR)	42,877	47,441	45,386
Net profit/loss (in thousands of EUR)	-57,164	332	2,484
Book value per share (in EUR)	1.36	107.50	102.85
Return on equity			
a. before tax (in %)	-141.89	0.84	6.99
b. after tax (in %)	-142.20	0.71	5.55
Return on assets before tax (in %)	-7.03	0.05	0.38
Operating expenses to average assets (in %)	2.21	2.18	2.12
Capital adequacy (in %)	10.01	11.43	10.93
Loans/deposits (non-bank clients) (in %)	55.37	69.32	70.62
Operating expenses/income (in %)	74.71	57.70	55.92

Graph 1:
Total assets



Graph 2:
Loans/deposits (non-bank clients)



STATEMENT BY THE MANAGEMENT BOARD

Viktor Lenče
Member of the Management Board

Robert Senica
President of the Management Board

Elica Vogrinc
Member of the Management Board

Dear business partners, shareholders, and associates,

Poštna banka Slovenije, d.d. – Nova Kreditna banka Maribor d.d. Banking Group (hereinafter referred to as: Poštna banka Slovenije or the Bank) was facing numerous challenges in 2013, and this year could really be considered one of more complex years for the Bank, its shareholders and employees. On the path of seeking and implementing appropriate solutions, there occurred numerous obstacles that required effective business decisions and continuous adjusting to changing circumstances.

The Slovenian economic area did not show any obvious signs of recovery in 2013, as its economic growth dropped significantly again. The excessively indebted and under-capitalised companies in non-financial sector, uncompetitive Slovenian business environment, declining consumption in households, which are still present, together with absence of structural reforms, were combined by low capital adequacy of the banking system and stringent circumstances on international financial markets.
Consequently, the entire banking system experienced a drop in interest income and additional impairments of the credit portfolio, and Poštna banka Slovenije was not able to avoid this impact. The strategic orientation of Poštna banka Slovenije in conser-

vative corporate policies and its focus on core areas of operations and client segments further deepened in 2013. Consequences of further deterioration of circumstances in the business sector and worsening quality of the credit portfolio, which required high additional provisions and impairments, led to negative business results and the need to recapitalise the Bank. The Bank was recapitalised by both owners, which resulted in a changed ownership structure. Nova Kreditna banka Maribor d.d. (hereinafter referred to as: Nova KBM) has become a 99.12-percent owner, and Pošta Slovenije d.o.o. (hereinafter referred to as: Pošta Slovenije) a 0.88-percent owner of Poštna banka Slovenije. Despite this change, both owners remain important strategic business partners of the Bank. Through recapitalisation, the owners significantly contributed to further existence and development of the Bank.

In difficult circumstances during the 2013 business year, the Bank tried to take advantage of those business opportunities, which existed even when the environment was not particularly favourable. The Bank thus continued its efforts to develop its operations through introduction of new services and sales channels and through activities for attracting new clients.

In the retail field, the Bank organised again a motivation event for the staff of Pošta Slovenije and thus continued its sales promotion actions in the field of personal accounts and savings products of the Bank. In cooperation with Pošta Slovenije, the Bank continued provision of workshops based on which postmen were involved in the sale of services.
The Bank enabled its users of the electronic banking PBS.net to carry out banking services also by mobile phones or tablet PCs with the Android operating system or as an online version. The service was named mPBS.net.
The Bank also introduced sending of monthly electronic promotional messages to a certain group of clients.
The Bank completed a complex, three-year project introducing a new application support for retail banking segment. It is a modern solution enabling the Bank to have significantly larger control over performance of the application.
In spite of the challenging circumstances and worsening of its operating results, the Bank has sought opportunities for introduction of new services. The Bank received in 2013 an authorisation of the Bank of Slovenia to carry out agent services in the sale of insurance products according to the law governing the insurance industry.

In the corporate banking sector, activities were mainly focused on cleaning of the loan portfolio, since the payment discipline and liquidity of companies have deteriorated. Main efforts were invested in active solving of problems where debtors found themselves in insolvency proceedings, and it was necessary to find optimum solutions to overcome their difficulties or to make compulsory settlement by financial means obtained as collateral for credit arrangements. The Bank transferred a part of its bad debts to Nova KBM and they were further transferred to Družba za upravljanje terjatev bank d.o.o. (the Bank Assets Management Company).

At the same time, however, the Bank took the opportunity to expand its operations with good clients and establish cooperation with new ones. The latter were acquired in 2013 in the segment of small and medium-sized enterprises, sole traders and private undertakings. When approving new loans, the Bank carefully assessed capacities related to discharging of clients' obligations to the Bank, and obtained adequate collateral as any secondary source of repayment.

In the area of payment transactions, the Bank received an award in Eurogiro in the category of providing stable and excellent quality of payments processing during the last five years. The Bank processed 100 percent of cash payments.

The volume of operations of Poštna banka Slovenije in 2013 measured by its total assets amounted to EUR 775.6 million. The Bank achieved in 2013 a profit of EUR 6.1 million before provisions and impairments. On account of increased volume of operations, worsening financial position of companies and, in individual cases, decreases in the estimated value of assets acquired as collateral for loans, the Bank recognised net additional provisions and impairments of EUR 63.1 million in 2013, which consequently resulted in a loss of EUR 57.2 million. At the end of 2013, the Bank's capital adequacy reached 10.01 percent. The Bank's market share rose from 1.73 percent to 1.92 percent.

The Management Board expects that 2014 will be also a demanding year, since the economy has shown no signs of recovery yet, and further economic trends are highly uncertain. Therefore, the Bank does not plan any significant growth in its volume of operations. It foresees a slight growth in non-banking sector's deposits, while further strengthening the share of retail deposits, a slight growth of loans to non-banking sector, and a slightly higher profitability as compared to 2013.

In 2014, Poštna banka Slovenije will continue its sales promotion in bank services at post office counters, which will be based on training courses for post officers, their stimulation for additional services carried out, and on relevant marketing support. The Bank will continue with the development of additional services and improvement of existing ones. Thus, the Bank foresees for 2014 introduction of a mobile bank for the iOS operating system, and an improved version of electronic banking, which will be based on an updated platform and will enable additional functionalities.

In corporate banking sector, the Bank will optimise its scope of cooperation with existing clients and acquire new ones. Significant emphasis will be placed on the quality of investment, while taking into account concentration of the portfolio in individual activities and management of all types of risks to which the Bank is exposed.

The Bank will continue coordination of its activities within the Nova KBM Banking Group, and take necessary steps, in partnership with Pošta Slovenije, to achieve optimum results, streamline its costs and simplify its resources where possible. It will seek and implement potential synergy effects of joint operations on the market, and the resulting value added for all three participants. The Bank will intensify its efforts for effective implementation of the measures under the „RaSt" programme aimed at streamlining operating costs, which is implemented by all members of the Nova KBM Banking Group. An important contribution under this programme in 2014 will include a change in the Bank's internal organisation by introducing a leaner organisational structure of the Bank. Through optimisation of business processes, setting up of additional checkpoints and control, and emphasising responsible behaviour in all employees, Poštna banka Slovenije will develop into a fast, efficient and objective-oriented bank aiming at achieving expected business results. Within these tasks, a greater emphasis will be given also to seeking joint positive effects in cooperation with the parent bank, and looking for common paths in selling banking services in the business network of post offices.

Dear colleagues, thank you especially for all your efforts, diligence, professionalism, ambitions and loyalty to the Bank. We believe that with joint efforts, we will keep Poštna banka Slovenije a bank with above-average liquidity and a demonstrated above-average confidence of its savers, and justify the recapitalisation made by its owners through positive operations and development of the Bank's potential also in the future.

We would like to thank the Bank's owners for their trust and the recapitalisation carried out, by which they ensured further existence and development of the Bank. We will do our best to justify this trust.

Special thanks also to you, the clients and business partners of Poštna banka Slovenije. Your loyalty has strengthened the Bank in its permanent efforts to successfully overcome all obstacles, and contributed substantially to its stable operations. Good business relationships that we have built together bring us optimism, and we wish we took part in attaining of your goals and expectations in the future.

Maribor, March 2014

Elica Vogrinc Member of the Management Board	Viktor Lenče Member of the Management Board	Robert Senica President of the Management Board

REPORT OF THE SUPERVISORY BOARD

Boris Novak, M. Sc.
Chairman of the Supervisory Board

The current crisis and continued recession in the business sector reflected in 2013 as a mirror image in operations of banks in the Slovenian banking area. As a result, red numbers were shown in balance sheets of a majority of the Slovenian banking system, including Poštna banka Slovenije. In carrying out the control function of managing the Bank's transactions in 2013, the Supervisory Board considered particularly awareness of the importance of maintaining confidence in the Bank in such changed circumstances, and of moderate and prudent risk-taking.

Composition of the Supervisory Board of Poštna banka Slovenije remained the same in 2013.

In the Supervisory Board the following persons were involved: Boris Novak, M.Sc., Chairman, Aleš Hauc, Deputy Chairman, Vinko Filipič, Member, Miha Šlamberger, Member, and Igor Žibrik, Member.
The Supervisory Board acted in 2013 in line with its powers conferred by applicable law, other regulations and internal rules of the Bank. The Supervisory Board performed its work in line with the Rules of Procedure of the Supervisory Board, and observed in carrying out the function effective control over management of the Bank's transactions also provisions of the Corporate Governance Code for Joint Stock Companies.

The Supervisory Board estimates that in 2013 its operations were performed in the manner and scope that provided for responsible monitoring of the Bank's operations and implementation of the adopted financial plan, functioning of the internal audit, and control of decision-making under the system of internal controls, which ensures diligent and secure operations of the Bank. All members of the Supervisory Board are properly qualified for their work in the Supervisory Board and have sufficient experience, knowledge and skills to perform this function and to act in accordance with the objectives, strategies and policies in the best interest of the Bank. The Supervisory Board complied in its work with relevant standards of professional diligence and corporate integrity and acted in accordance with the highest ethical standards.
The Supervisory Board has discovered neither conflict of interest that could affect assessment of any member of the Supervisory Board nor other reasons, which could prevent any member to perform their function, and took all necessary steps to prevent the above.
The Chairman of the Supervisory Board performed the tasks resulting from this function in a diligent manner and in line with the powers and the Rules of Procedure of the Supervisory Board. The Chairman worked actively with the Management Board of the Bank, also outside

the Supervisory Board meetings, and took care for accurate compliance with the procedures in preparing and conducting the Supervisory Board meetings. The Chairman of the Supervisory Board encouraged members of the Supervisory Board to participate in constructive discussions, where they were able to express independently their views, initiatives and suggestions, and thus contributed significantly to responsible adoption of individual decisions. The Chairman of the Supervisory Board was also responsible for communication with the public.
The Management Board of the Bank provided the Supervisory Board at its meetings with materials and proposals in writing, which were professionally prepared and duly justified. In responses to questions from members of the Supervisory Board, the Management Board provided additional and detailed explanations to the submitted materials. The Management Board and the Supervisory Board have conducted open communication, which was sufficiently in-depth in key issues, so that there was no misunderstanding with regard to the matters, suggested orientations and decisions taken.
Members of the Supervisory Board attended the Supervisory Board meetings regularly, and thus in addition to their professional qualifications, knowledge, skills and experience, confirmed also their availability for performance of this function. Members of the Supervisory Board examined materials for each meeting, and properly prepared themselves for their meetings. All members of the Supervisory Board were actively involved in discussions and effectively complemented each other in individual subjects, which significantly contributed to efficient work of the Supervisory Board in all key areas of its operations.
The Supervisory Board believes that members of the Supervisory Board carried out their function in 2013 in a responsible manner, always in the spirit of a diligent manager and in the best interest of the Bank.

Examination of the Bank's operations and addressing the most important issues of the Bank's operations

were carried out at regular and correspondence meetings of the Supervisory Board. In 2013, the Supervisory Board held 12 regular meetings and two correspondence meetings. In addition to reviewing current operations of the Bank, the Supervisory Board in 2013 continued monitoring of non-performing loans movement in the Bank's portfolio. In-depth discussion was carried out about quarterly reports on the Bank's operations and the reports on risk exposure and management. Following the effect of additional impairments and provisions on the result, the Supervisory Board intensified requirements for submission of additional materials and reports, including projections of the Bank's operations until the end of the year and assessment of the Bank's capital adequacy. The Supervisory Board also requested additional measures aimed at improvement of the Bank's operations, in this context particularly cost-effectiveness and reduction of labour costs. The Supervisory Board was regularly informed about the Bank's activities associated with non-performing loans and urged the Management Board to reduce the exposure.
The powers of the Management Board and the Supervisory Board in this context were discussed at least at two meetings of the Supervisory Board in 2013. At its first meeting in January, the Supervisory Board established that the Bank of Slovenia granted an authorisation to perform the function to Robert Senica, who was appointed a new President of the Management Board by the Supervisory Board in mid-November 2012. Consequently, at its first meeting in January, the Supervisory Board adopted a decision concerning conclusion of the contract with Robert Senica and commencement of his terms of office as the President of the Management Board with effect from 15 January 2013 for a period of five years. At a meeting in early October 2013, the Supervisory Board decided on enlargement of the Bank's Management Board. Ms. Elica Vogrinc was appointed a third member of the Management Board; however she had to obtain an authorisation by the Bank of Slovenia to start performing the function. The Supervisory Board adopted at its meeting in December 2013 a declaratory decision on obtaining an authorisation and commencement of the five-year term of office by Elica Vogrinc as a member of the Management Board with effect from 6 January 2014.
In March, the Supervisory Board supported the Management Board's efforts for more intensive arrangements with clients that found themselves in trouble and thereby substantially affected deterioration of the quality of the Bank's loan portfolio. It agreed with the change in the internal organisation of the Bank, which resulted in establishment of the Restructuring of High-Risk Investments and Recovery Coordination Department. At its me-

eting in March, the Supervisory Board approved the Business Goals and the Financial Plan of the Bank for 2013, which was prepared by the Management Board, and acknowledged the projections until 2016. At its meeting in mid-April, the Supervisory Board approved the 2012 Annual Report of the Bank and adopted and approved other proposals and materials to be submitted by the Management Board for adoption by the General Meeting of Shareholders.

In the context of quarterly reports on the work of the Internal Audit Department, the Supervisory Board received information on the reviewed areas of operations in relation to their risk profile and the Department's annual plan. The Supervisory Board specifically discussed also a comprehensive report on management of the Bank's portfolio audit. According to the findings of the Internal Audit concerning system deficiencies and other inconsistencies in operations, and following the discussions on this report and submitted additional materials on this subject, the Supervisory Board agreed with carrying out external legal reviews of the Bank's transactions with certain clients. The review is ongoing, and at its meeting in December 2013, the Supervisory Board was only acquainted with a summary of preliminary reports for the first set of revised transactions. The Supervisory Board points out the credibility of the overall performance of the Bank as a key factor to maintain a high level of trust in the Bank, and will continue careful monitoring of the activities related to the external legal review.

During the period from September to the end of 2013, the work of the Supervisory Board, in addition to supervision of regular Bank's operations, strongly focused in particular on monitoring the activities and participating in the process of recapitalisation of the Bank, insofar as it was within its powers.

In 2013, the Supervisory Board discussed the following key contents and important issues related to the operations of the Bank:

- **In January**, the Supervisory Board adopted a declaratory decision on fulfilment of the suspensory condition concerning performance of the function of a Management Board Member for Robert Senica, and discussed the two management contracts for the President and the Member of the Management Board; it acknowledged the Bank's risk profile for the year 2012, the first non-audited operating results of the Bank for the year 2012, and approved the allocation of a part of the net profit for 2012 to other reserves from profit; it approved the work plan of the Internal Audit Department for 2013 and the work plan of the Supervisory Board Audit Committee for 2013, the Rules of Procedure of the Management Board, and internal acts covering the area of compliance of operations;
- **In March**, the Supervisory Board approved the change in internal organisation of the Bank, acknowledged and approved the proposed Business Goals and the Financial Plan for 2013, including projections until 2016, and was informed about compliance with the minimum capital requirements pursuant to Basel II for individual types of risks;
- **In April**, the Supervisory Board approved the 2012 Annual Report of the Bank, adopted the Supervisory Board's opinion on the Annual Report on Internal Audit in 2012, and approved other proposals to be submitted for adoption by the General Meeting of Shareholders of the Bank; the Supervisory Board also prepared a proposal for appointment of an auditor for 2013, and among other major issues, it also adopted reports on the work of the Supervisory Board's committees in 2012, and discussed the first information about the Bank's operations during the period of January–March 2013;
- **In June**, the Supervisory Board was informed about the auditor's letter to the Management Board concerning the conclusions of the audit of the financial statements for the year ended on 31 December 2012, about the Report on the work of the Internal Audit Department during the period of January–March 2013; it also discussed a comprehensive report on audit of the Bank's portfolio management and a comprehensive report on audit of the project on renovation of the software support for retail operations, and adopted a statement of resignation by a member of the Supervisory Board's Audit Committee;
- **In July**, the Supervisory Board continued its discussion on audit of the Bank's portfolio management and audit of the project on renovation of retail operations;
- **In September**, the Supervisory Board was informed about all consents issued with regard to a high exposure of the Bank to its clients in accordance with provisions of the Banking Act

(ZBan-1) and confirmed the existing high exposures; with a view to previous discussions at its meetings in June and July and planned additional impairments by the end of 2013, the Supervisory Board approved the proposal on carrying out an urgent external assessment of adequacy of lending to companies included in the lists proposed by the Management Board and the criteria for this review; it adopted the report on the work of the Internal Audit Department for the second quarter of 2013, acknowledged the report on the Bank's operations during the period of January–June 2013, the report on the exposure and risk management for that period, an estimate of the Bank's operations by the end of 2013, and the assessment of capital by the end of 2013, a projection on capital requirements between 2013 and 2017, and approved the internal act on Policy of ensuring the integrity;

- **In October**, the Supervisory Board adopted a decision on appointing Ms. Elica Vogrinc a Member of the Management Board of the Bank;
- **In November**, the Supervisory Board approved the proposal on increase the share capital and ensure capital adequacy of the Bank, and agreed with the proposal of amendments to the Articles of Association of the Bank, which the Bank's Management Board then submitted for approval to the General Meeting of Shareholders; the Supervisory Board acknowledged the internal act on the Communication Strategy relating to expected negative public response to a foreseen result of the Bank's operations at the end of 2013; it approved entering into the transaction, which led to a high exposure of the Bank to the client in accordance with provisions of the ZBan-1; the Supervisory Board also reviewed the report on achieved and planned effects resulting from the project on cost streamlining, it was informed about the functioning of the Bank's information system; it also discussed the report on the work of the Internal Audit Department during the third quarter of 2013, and approved the strategy and policy of investment in securities;
- **In December**, the Supervisory Board acknowledged the Bank of Slovenia's Decree on additional measures to increase the Bank's share capital, and agreed with the Management Board about increasing the share capital from the authorised capital, about exclusion of pre-emption rights of the existing shareholders and about the proposal for amendments to the Articles of Association of the Bank; it also approved the transfer of receivables to the Bank Assets Management Company and the Business Goals and the Financial Plan of the Bank for 2014; the Supervisory Board was informed about the summary findings from preliminary reports on the external legal review for the first set of examined transactions; in December, the Supervisory Board also appointed a new member of the Audit Committee, Ms. Jožica Germ, and acknowledged the authorisation by the Bank of Slovenia for Ms. Elica Vogrinc for the performance of her function of a member – it authorised the Chairman of the Supervisory Board to sign a contract with the new Member of the Management Board who started her five-year term of office in this function on 6 January 2014.

Based on the above, the Supervisory Board estimates that in 2013, it monitored management of the Bank's operations and performance of the Internal Audit Department in a diligent and continuous manner, and notes that it acted under its powers in the scope and contents in accordance with the provisions of Articles 272 and 281 of the Companies Act (ZGD-1). In its work, the Supervisory Board also followed the efforts of the European Banking Authority in the field of corporate governance, which in its new regulations required more efficient management of bank risks and pointed out the necessity of setting up appropriate structures and processes for more efficient control and management of banks.

According to the Companies ACT (ZGD-1) and the Banking ACT (ZBan-1), three committees of the Supervisory Board operated in 2013 as a professional support to the Supervisory Board: Audit Committee, Human Resources Committee, and Committee for Fostering Cooperation in the Financial (Banking) Group or between Nova KBM, Pošta Slovenije and Poštna banka Slovenije. The committees carried out their work pursuant to the applicable laws and under their competences and in the manner determined by their Rules of Procedure. Membership of the committees com-

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prises of members of the Supervisory Board and external experts from various fields of expertise. Functioning of the committees in such capacity has provided substantive expert examination of the matters and drafting of opinions for the Supervisory Board, by which the committees significantly contributed to more effective implementation of the control function.

Review and approval of the 2013 Annual Report

The Management Board of the Bank submitted the audited 2013 Annual Report of Poštna banka Slovenije, together with the auditor's report, to the Supervisory Board by the legally prescribed deadline. The Supervisory Board was also provided with the Reports on the work of the Internal Audit Department in 2013. The Supervisory Board discussed the audited Annual Report of Poštna banka Slovenije and concluded that it provided a comprehensive insight into the content of the Bank's operations.

The Supervisory Board also acknowledged the opinion of the appointed audit company Deloitte Revizija d.o.o., Ljubljana, according to which the financial statements of the Bank, in all material respects, are a fair presentation of the Bank's financial position as at 31 December 2013, the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and in line with the requirements of the Companies Act applicable to compiling of financial statements. The auditor's opinion also confirms that the business report comply, in terms of substance, with the financial statements.

The Supervisory Board provided the Management Board with an approval relating to covering the net loss for 2013, which shall be covered by reserves from profit and capital reserves already established, in total amount of EUR 55,674,979.60. The residue loss in the amount of EUR 1,489,487.65 shall remain uncovered and be recorded as a retained loss of 2013.

Boris Novak, M.Sc.
Chairman of the Supervisory Board

BUSINESS REPORT

1 FINANCIAL HIGHLIGHTS

CONTENTS[1]	31 December 2013	31 December 2012	31 December 2011	Index
1	2	3	4	5=2/3
Statement of financial position (in thousands of EUR)				
Total assets	775,642	799,519	826,030	97
Total deposits of the non-banking sector	634,506	626,251	623,036	101
- corporate clients and other	79,536	95,604	100,861	83
- retail	554,970	530,647	522,175	105
Total loans to the non-banking sector[2]	351,308	434,121	440,002	81
- corporate clients and other	260,739	342,872	348,141	76
- retail	90,569	91,249	91,861	99
Total equity	42,877	47,441	45,386	90
Impairments of financial assets measured at amortised cost and provisions	117,550	71,875	64,309	164
Off-balance sheet items[3]	72,045	73,213	70,886	98
Income statement (in thousands of EUR)	**1-12/2013**	**1-12/2012**	**1-12/2011**	**Index**
Net interest income	16,932	22,518	24,948	75
Net non-interest income	7,052	8,522	7,406	83
Staff expenses, general and administrative expenses	16,111	16,254	16,012	99
Amortisation	1,808	1,655	1,503	109
Impairments and provisions	63,102	12,735	11,710	496
Profit or loss from continuing and discontinued operations before tax	-57,037	396	3,129	-
Net profit	-57,164	332	2,484	-
Income tax on profit from continuing and discontinued operations	127	64	645	198
Statement of comprehensive income (in thousands of EUR)	**1-12/2013**	**1-12/2012**	**1-12/2011**	**Index**
Other comprehensive income before taxation	1,806	2,108	-1,313	86
Income tax relating to components of other comprehensive income	-289	-386	263	75
Employees	**31 December 2013**	**31 December 2012**	**31 December 2011**	
Number of employees	239	236	234	101
Shares				
Number of shareholders	2	2	2	100
Number of shares	31,508,159	441,300	441,300	7140
Nominal value per share – (in EUR)	1,3134	16,6917	16,6917	8
Book value per share – (in EUR)	1,36	107,50	102,85	1
INDICATORS				
Capital for the purpose of capital adequacy (in thousands of EUR)	44,856	61,437	59,533	73
Capital requirements (in thousands of EUR)	35,845	43,008	43,565	83
Capital adequacy (in %)	10.01	11.43	10.93	
Quality of assets (in %)				
Impairments of financial assets measured at amortised cost and provisions for commitments/classified on-balance sheet and off-balance sheet assets	16.71	9.39	8.42	
Profitability (in %)				
Interest margin	2.09	2.74	3.02	
Financial intermediation margin	2.96	3.78	3.92	
Return on assets before taxation	-7.03	0.05	0.38	
Return on assets after tax	-7.05	0.04	0.30	
Return on equity before taxation	-141.89	0.84	6.99	
Return on equity after tax	-142.20	0.71	5.55	
Operating expenses (in %)				
Operating expenses / average assets	2.21	2.18	2.12	
Liquidity (in %)				
Liquid assets / short-term deposits of the non-banking sector	44.21	38.56	35.75	
Liquid assets / average assets	27.71	24.03	22.76	

[1] Based on the methodology of the Bank of Slovenia.
[2] Loans to non-banking sector include also receivables arising from guarantees.
[3] Off-balance sheet records do not include debtors under letters of credit covered by unused overdrafts and loans.

2 THE BANK AND ITS ENVIRONMENT

2.1 Presentation of the bank

Poštna banka Slovenije started its operations in the Slovenian banking market on 1 July 1992. Almost a year before the start of its operations, the Bank was established by the former Slovenian PTT organisation as a public limited company for the provision of banking and other financial services in accordance with the Banking Act and the Companies Act. Following the collapse of Yugoslavia and closing the branch of Poštna hranilnica in Slovenia, the Bank took over its business.

The Bank has operated from the very beginning through the largest and most evenly distributed network of post office outlets. In cooperation with Pošta Slovenije, the Bank also set up its independent units, namely commercial centres in Ljubljana and Maribor, providing services mainly to retail clients. In Murska Sobota, Celje, Kranj and Koper, however, the Bank has its branch offices primarily focused on corporate clients.

Initially providing only a few traditional banking services, the Bank now offers a whole range of banking and financial services. It continually increases the volumes of business, extends its range of products and puts emphasis on its service quality, which is reflected in the range of services and relationship with its clients. Along with the increase in business volume and development of business functions, the Bank has also strengthened its support functions, primarily by introducing the information system in the form of new integrated application support tools for mass banking transactions. Simultaneously, the Bank puts significant emphasis on management of all types of risks to which the Bank is exposed while operating.

In 2004, Poštna banka Slovenije became a member of the Nova KBM Banking Group, and consequently, a member of the wider Nova KBM Financial Group, providing a whole range of financial services through various companies. Integration into the banking group opened a new chapter for Poštna banka Slovenije in its further development.

In 2013, Nova KBM and Pošta Slovenije carried out further recapitalisation of the Bank, which led to a change in the ownership structure.

Ownership structure

The Bank is owned by Nova KBM, which holds a 99.12-percent stake, and Pošta Slovenije with a 0.88-percent stake.

Activity of the Bank

The Bank provides financial services, including banking services, mutually recognised financial services, additional financial services and other financial and ancillary services, all of them complying with the Banking Act.

Banking services include accepting deposits from the public and lending for own account.

The Bank provides only such services according to the Banking Act, for which it has received a licence by the Bank of Slovenia, namely:
- Accepting deposits;
- Granting loans, including:
  – Consumer loans,
  – Mortgage loans,
  – Factoring with or without recourse,
  – Financing of commercial transactions, including export financing on the basis of discount purchase and without recourse of long-term outstanding receivables secured with a financial instrument (forfeiting);

- Payment transaction services;
- Issuance and management of payment instruments (e.g. travellers cheques and bank bills) in the part where this service is not covered by the services under the previous item;
- Issuing of guarantees and other insurance instruments;
- Provision of additional financial service of agents in the sale of insurance policies, according to the law governing the insurance industry;
- Trading for own account or for clients' account:
  – In foreign means of payment, including foreign exchange transactions;
- Trading for own account:
  – In money market instruments,
  – In transferable securities.

Bank bodies:

- General Meeting of Shareholders,
- Supervisory Board of the Bank,
- Management Board of the Bank.

The General Meeting of Shareholders is the Bank's highest body at which the two shareholders exercise their rights. The Supervisory Board comprises of five members appointed and discharged by the Bank's General Meeting of Shareholders. The Management Board has two members, i.e. the President and the Member of the Board, appointed and discharged by the Bank's Supervisory Board.

2.2 Bank profile

Company name: Poštna banka Slovenije, d.d. – bančna skupina Nove Kreditne banke Maribor d.d.
Short name: PB Slovenije, d.d. – bančna skupina Nove KBM d.d.
Registered office: Ulica Vita Kraigherja 5, 2000 Maribor
Phone: +386 2 228 82 00
Fax: +386 2 228 82 10
Website: www.pbs.si
E-mail: info@pbs.si
Date of establishment: 1 August 1991
Start of operation: 1 July 1992
Reg. No. at the District Court of Maribor: 1/10463/00
Company registration No: 5620112
Tax number: 24009725
VAT Identification No: SI24009725
Code of Activity: 64.190
Share capital: EUR 41,381,959.24
Account number: 01000-0009000034
IBAN: SI56 0100 0000 9000 034
SWIFT/BIC Code: PBSLSI22

President of the Management Board: Robert Senica
Chairman of the Supervisory Board: Boris Novak, M.Sc.

2.3 Branch network

In 2013, the Bank's network comprised of 556 post office outlets of various organisational forms, providing retail and specific corporate banking services. The advantages of performing services through the post office network lie mainly in the fact that post offices are evenly distributed across the country, the opening hours are convenient, and they are open also on Saturdays. Exchange services were provided by 378 post offices. In 2012, the Bank started operations with three contracted post offices, and in 2013, it extended operations to 33 contracted post offices in total.

The Bank also provided retail and corporate banking services in its own units, namely in four branch offices (Celje, Koper, Kranj and Murska Sobota), two commercial centres (Ljubljana and Maribor) and directly at commercial departments in Ljubljana and Maribor.

In 2013, the Bank kept in its network 12 mobile bankers, which were available to clients across Slovenia. Mobile bankers are trained for individual advice and sales at home, in offices or any other place suitable for bank's clients.

In 2013, the Bank had 23 own ATMs connected to the ATM network throughout Slovenia. For cash withdrawal purposes the Bank's clients can use, free of charge, the Bank's own ATMs and ATMs of Nova KBM – in total 281 ATMs.

In addition to the solid branch network of various organisational forms the clients can also use efficient and stable electronic banking services for retail and corporate clients.

COMMERCIAL CENTRES

Ljubljana Commercial Centre
Slovenska cesta 32, 1101 Ljubljana
Phone: +386 1 243 1970
Fax: +386 1 243 1975

Nove Fužine, 1117 Ljubljana
Phone: +386 1 547 3206
Fax: +386 1 547 3207

Maribor Commercial Centre
Ulica Vita Kraigherja 5, 2000 Maribor
Phone: +386 2 228 8247
Fax: +386 2 228 8259

BRANCH OFFICES

Kranj Branch Office
Dražgoška 8, 4000 Kranj
Phone: +386 4 201 8550
Fax: +386 4 201 8553

Koper Branch Office
Kolodvorska cesta 9, 6104 Koper
Phone: +386 5 662 1848
Fax: +386 5 662 1849

Celje Branch Office
Krekov trg 9, 3000 Celje
Phone: +386 3 424 3980
Fax: +386 3 424 3985

Murska Sobota Branch Office
Trg zmage 6, 9000 Murska Sobota
Phone: +386 2 537 9790
Fax: +386 2 537 9792

2.4 Internal organisation

The Bank's organisational structure is based upon its role, namely:
- Covering the entire Slovenian territory,
- Provision of mass banking services at all post offices in the country.

At the end of 2013, the Bank's organisational structure was the following:

Management Board and its support services:
- Executive Associates of the Management Board,
- Adviser to the Management Board,
- Executive Associate – Coordinator for the area of risk management,
- Executive Associate for money laundering and terrorism financing prevention and compliance of operations,
- Internal Audit Department,
- Credit Rating and Risk Management Department,
- Restructuring of High-Risk Investments and Recovery Coordination Department,
- IT security engineer,
- Secretariat of the Bank.

Commercial Divisions:
- Retail Banking Division,
- Corporate Banking Division Maribor,
- Corporate Banking Division Ljubljana,
- Treasury Division,
- Payment Transactions and Electronic Banking Division,
- Marketing and Public Relations Division.

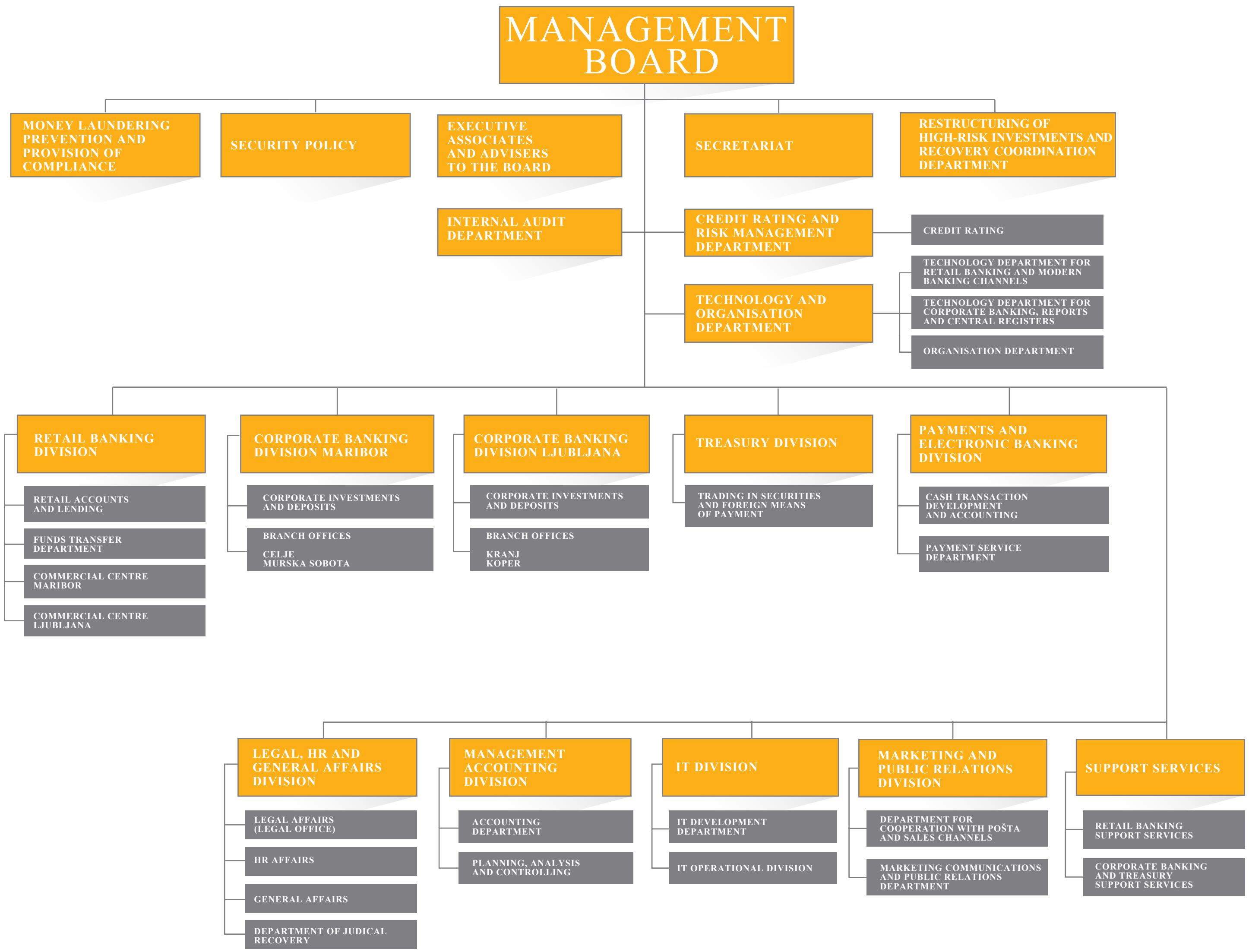
Support Divisions:
- Management Accounting Division,
- IT Division,
- Legal, HR and General Affairs Division,
- Technology Department,
- Organisation Department,
- Support Services.

Maribor and Ljubljana Corporate Banking Divisions have branch offices in Koper, Kranj, Celje and Murska Sobota; and the Retail Banking Division encompasses two commercial centres in Maribor and Ljubljana.

What is unique about the operations of Poštna banka Slovenije is that its services are also provided at post offices in the country. The post office clerks providing services for the Bank are employed by Pošta Slovenije.

In 2013, a new Restructuring of High-Risk Investments and Recovery Coordination Department was established.

2.5 Organisational chart



3 BUSINESS AND DEVELOPMENT ORIENTATIONS

In its operations, Poštna banka Slovenije pursuits its mission, vision and values. As a member of the Nova KBM Financial Group, the Bank follows policies in the operations that apply to the entire Nova KBM Group.

Mission

Poštna banka Slovenije is a pan-Slovenian bank providing services through an extensive network of post office outlets in urban and rural areas.

Vision

- All financial services will be provided to our clients at post office counters through the Pošta Slovenije network in cooperation with the Nova KBM Group (bank assurance, funds, etc.).
- We will increase the number of transaction accounts by 5 percent annually.
- We will justify capital investments made by our shareholders – by attaining yield at the level of banking sector average or higher.

Values

Expedience, availability, safety and efficiency.

Key policy orientations under the Nova KBM Group

As a majority owner of the Bank, Nova KBM developed a restructuring plan for the Nova KBM Group, where Poštna banka Slovenije is positioned as an important part of the Nova KBM Group that applies the following policy orientations in operations:

- The focus will be on retail banking and small and medium-sized enterprises,
- Control of risks shall have a priority over the growth,
- Keeping capital adequacy in line with regulations (presentation of all capital needs),
- „RaST“ Programme (streamlining of costs),
- Capital adequacy ratio shall be at 12.14 percent, and the Core Tier 1 at minimum 9.47 percent by 2019,
- Active management of the loan – deposit ratio with the indicator target value of 110,
- Keeping the market share in the banking sector in Slovenia,
- Maximum exposure of 10 percent of the risk-weighted assets,
- Return on equity (ROE) of 10 percent in new businesses.

When preparing planned objectives for 2014, the Bank took into account the autumn macroeconomic forecasts of UMAR and policies of the Banking Group.

Important Bank's objectives for 2014:

- To keep the volume of operations (total assets) at the end of 2013 level,
- 1-percent growth in deposits of non-bank clients,
- 25-percent reduction in debts to banks,
- Zero growth in net lending to non-bank clients; the Bank will focus primarily on retail lending and lending to small and medium-sized enterprises,
- Keeping the leading role in the area of payment transactions for natural persons,
- Growth in the number of transaction accounts and electronic banking users:
  – In retail sector:
  1-percent net growth in the number of transaction accounts,
  12-percent growth in the number of electronic banking users.
  – Corporate sector:
  3-percent net growth in the number of transaction accounts,
  4-percent growth in the number of electronic banking users.
- To realise a 2.41-percent interest margin, 1.0-percent non-interest margin, and a 3.42-percent financial intermediation margin,
- Reduction of administrative cost by 10 percent or EUR 1,615 thousand,
- Reduction in the number of employees by 5 percent,
- To attain a net profit of EUR 500 thousand, and
- To reach the market share measured by the Bank's total assets above 1.6 percent.

The Bank plans in 2014 the investments of EUR 1,374 thousand in tangible fixed assets and intangible assets. The Bank will invest in tangible fixed assets EUR 685 thousand, with the amount of EUR 618 thousand to be invested in computer equipment, while investment in other equipment will amount to EUR 67 thousand. Investment in intangible assets is foreseen in the amount of EUR 689 thousand.

Goals of the Bank for the period of 2015-2016 are the following:

- The bank plans to reduce its liabilities to the central bank by EUR 45 million in 2015. In January 2015 is due a long-term source taken in the central bank, which the Bank will not renew;
- From 2016 onwards, the Bank plans a 2-percent annual growth;
- In order to ensure its sources, the Bank will keep focusing all its activities on acquisition of mainly primary sources in the retail sector, from corporate clients and other persons. During 2015 and 2016, the Bank plans a 3-percent and 2-percent annual growth, respectively;
- Due to capital restrictions, the volumes of net lending to non-banking clients will not grow in the coming years. Gross loans will grow only to the extent of impairments or repayments. The Bank will pay special attention to attracting new clients in small business;
- The Bank plans a net profit of EUR 1,500 thousand in 2015, and EUR 3,500 thousand in 2016;
- Interest margin will range from 2.5 percent in 2015 to 2.68 percent in 2016;
- Cost-effectiveness indicator will be improved; it is planned to amount to 60.7 percent in 2015, and to 58.00 percent in 2016;
- The share of capital in total assets will grow slowly, namely from 5.62 percent in 2015 to 5.96 percent in 2016;
- The Bank plans to increase its return on equity; in 2015 it is expected to reach a return on equity before taxation of 3.6 percent, and 8.3 percent in 2016.

Activities of the Bank aimed at attaining the goals in 2014

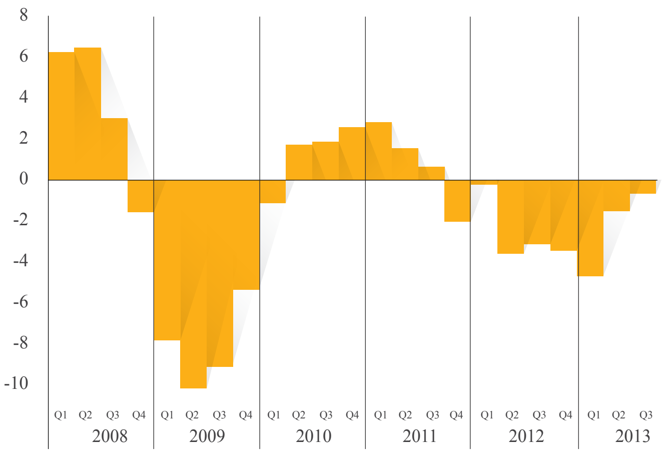
The Bank plans for 2014 to focus its attention mainly on appropriate management of non-performing loans, active attracting of new clients, natural persons and small and medium-sized enterprises, on growth of deposits, reduction of operating costs and increase in cost-efficiency, and on keeping capital adequacy in line with the laws. In addition, attaining of the goals will be ensured also through implementation of the following activities:

- Marketing of cash and bank services in cooperation with Nova KBM as the parent bank in the Banking Group and Pošta Slovenije as the strategic business partner, aimed at achieving maximum synergy on the market, increasing the income and reducing the cost per service unit;
- Continued promotion of the sale of services at post office counters based on:
  – Training of post officers directly involved in the sales of financial services, particularly through mobile bankers,
  – Marketing support;
- Selection of most suitable and efficient distribution channels for different types of clients and product groups;
- Upgrading existing services with the aim of ensuring maximum satisfaction in all clients of the Bank;
- Exploiting the Bank's advantage in its relation to clients, reflected mainly in its territorial and time accessibility resulting from wide network of post offices;
- Timely management of receivables of the clients failing to meet contractual obligations (intensive collecting of all overdue receivables for corporate and retail clients);
- Active management of high-risk investments where such investments can be quickly collected or their collateral cashed;
- Implementation of activities aimed at implementing development projects of the Bank and all joint projects within the Nova KBM Banking Group;
- Optimisation and harmonisation of the Bank's resources within the Nova KBM Banking Group aiming at achieving synergy effects;
- Providing such assets and liabilities management that the Bank will comply with all regulators' requirements and ensure optimum ratio between security and profitability;
- Further introduction of security policy according to standards; and
- Maintaining and improving the image and reputation of the Bank, operating in the interest of its clients, shareholders and employees and to their satisfaction.

4 BANK'S PERFORMANCE ANALYSIS FOR 2013

4.1 Economic and banking environment

Graph 3:
Gross domestic product (GDP) growth rates, on a quarterly basis as a percentage compared to the same quarter of the previous year
Dimensions: A quarter of a year
Source: Statistical Office of the Republic of Slovenia (SURS)



While a vast majority of the world's economies have already recovered in 2013 and recorded a positive growth in gross domestic product, Slovenia is still in decline; however, the trend has slowed down and, according to the most recent data, during the fourth quarter even reversed.

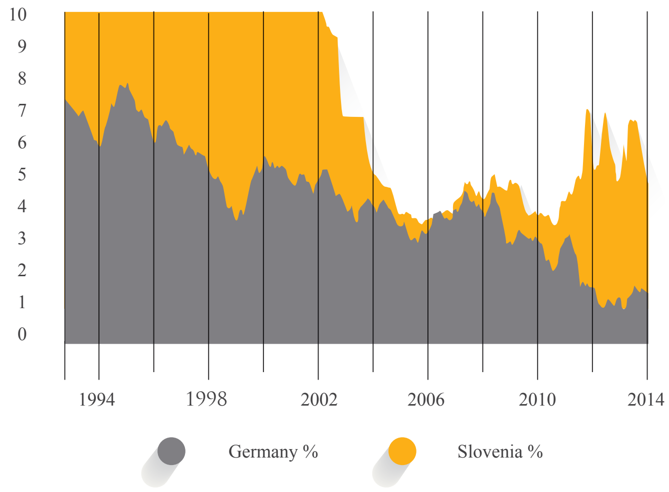
The first half of 2013 was relatively quiet and passed with the preparation of measures, which included also establishment of the Bank Assets Management Company, while the second half was much busier and had a greater impact on operations of the Bank.

As a result of national measures, the pressure on the yield of Slovenian bonds gradually increased in 2013, and in a given time exceeded the psychological limit of 7 percent. Significant part of this pressure was associated with speculations about a possible need and request of Slovenia for international assistance, but finally, it did not happen.

The second half of the year was marked by measures taken by the Bank of Slovenia: first, the implementation of stress tests in 10 Slovenian banks, which was followed by adoption of emergency measures for two smaller banks, Probanka and Factor banka, and finally, a large recapitalisation as a result of stress tests and review of the quality of bank assets. At the end of the year, three banks showed possible capital requirement in the amount of EUR 3 billion and were recapitalised by this amount. At the end of the year, additional capital was received by NLB in the amount of EUR 1.5 billion, Nova KBM in the amount of EUR 870 million, and Abanka Vipa in the amount of EUR 591 million. After a few complications, the transfer of non-performing loans to the Bank Assets Management Company began, and the later started operating more intensively in the last quarter.

Graph 4:
Comparison of the yield of a 10-year bond of the Republic of Slovenia (in yellow) and Germany (in gray) in %

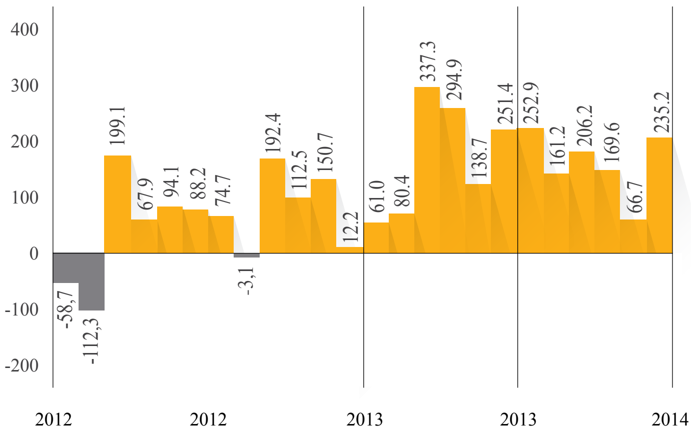
Source: European Central Bank (ECB)



The above measures resulted in a release of pressure on the yields of government securities of the Republic of Slovenia, as shown in the figure above. Starting from the required yields of about 7 percent for a ten-year bond, at the end of the year yields started falling and fluctuate now around 4.5 percent. The gap to the best countries has remained at 300 basis points, which has a direct impact on competitiveness of our economy. Government measures and actions by the corporate sector should gradually reduce this gap and consequently improve competitiveness of Slovenia in the euro area, in Europe, and in the world.

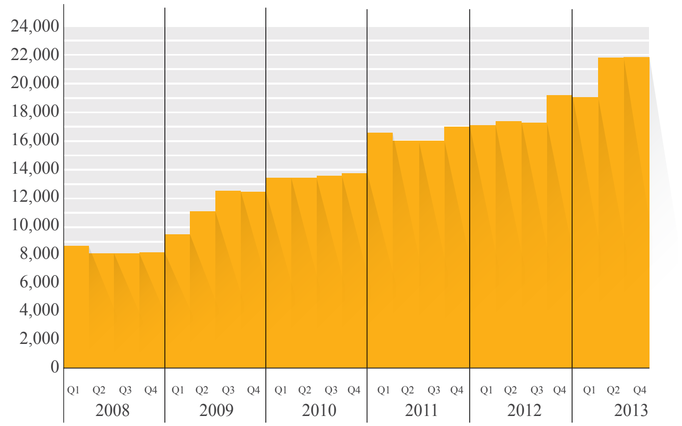
Graph 5:
Balance of the current account of the balance of payments in million of EUR

Source: www.tradingeconomics.com



The next set of positive developments in the Slovenian economy is a sustainable surplus in the current account, which means that Slovenia exports more than imports. Compared to previous years, when Slovenia, in addition to a decline in its exports resulting from global recession, had to repay also foreign sources, which were mainly in the form of syndicated loans (approximately EUR 6 billion), the current picture suggests a more sustainable position in a long-term that allows banks a primary accumulation of deposits from entrepreneurs as natural persons. A trend of slow growth in deposits of natural persons is perceived also by Poštna banka Slovenije, where it is currently, due to circumstances, impossible to finally assess precisely whether this increase results from lower demand for investment goods, or actually overall final consumption is decreasing.

Graph 6:
Debt of the Republic of Slovenia in million of EUR
Dimensions: A quarter of a year
Source: Statistical Office of the Republic of Slovenia (SURS)



In contrast to positive trends in the financial market, Slovenia has not followed these movements in the area of fiscal consolidation and privatisation. The national budget showed in 2013 a primary deficit of 3.8 percent of GDP, and by recapitalisation of the banks, this deficit has further increased. The main problem remains a relatively rigid public spending, the share of salaries and inability to increase productivity of the public sector. Envisaged measures and reduced investment demand of the state indicate that in the coming years, the engine of growth will be mainly the export sector, and partly also service activities. Investment demand from the state, and construction, former drivers of growth, however, will not be generators of growth and development for some more time.

In 2013, unemployment further increased, and the unemployment rate according to recorded data amounted to 13.5 percent. Considering still relatively unfavourable trends, no major structural shifts can be expected in the coming years. To some extent, youth unemployment is an urgent problem, which is a sign of low creation of new jobs and lower flexibility in general, both in employers and job seekers. Since 2010, when the number of unemployed exceeded 100,000, and until the end of 2013, the number of unemployed increased to 124,000, as a result of bankruptcies, lost jobs and moving of production facilities into areas with lower labour costs. A majority of this reduction was experienced in non-public sector, which means that the burden of financing public sector has increased continuously. Without major changes in the method of distributing burdens and in the method of financing the public sector, economic activity and its growth will be limited and will find it difficult to follow more developed countries of the European Union.

Slovenian banking sector

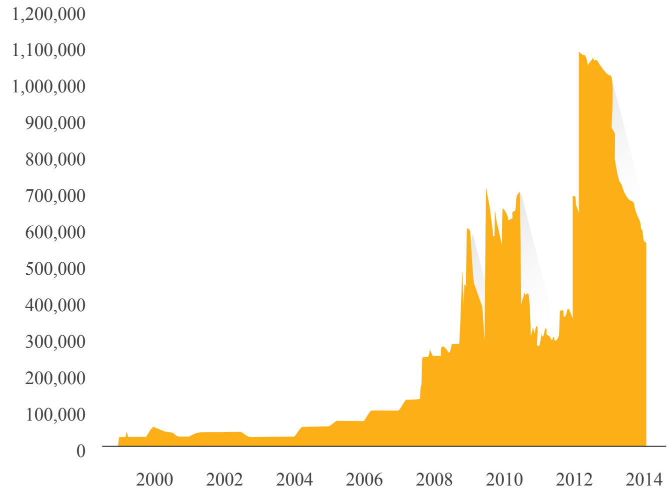
Slovenian banking sector more or less reflects circumstances in the economy and the country. Additional risks in companies and in the retail sector still occur, and banks manage them in more or less successful way. In addition to internal factors, which are part of the national economy, external factors are occurring increasingly, including a growing role of regulators. Through introducing new or revised directives, a central control system has been gradually developed under the EBA - European Banking Authority and the European banking regulator, while central banks of individual countries further increase obligatory reporting and a degree of regulation.

Despite the fact that quite a few years have passed since the crisis begun and the Lehman Brothers collapsed, the inter-bank market in Europe, and also globally, probably will never be established at the level it was before the crisis. A growing number of external reviews, increased number of bank recapitalisations, including recapitalisations by governments, have resulted in an extra level of precaution on the inter-bank market, and reduced the number, type and volume of transactions between banks. At certain point, this information asymmetry had to be filled up also by central banks. In 2013, the volume of borrowing from the European Central Bank declined, partly also in Slovenian banks.

Graph 7:

Indebtedness of banks at ECB through instruments of regular refinancing in EUR million

Source: European Central Bank (ECB)



The volume of refinancing in the European Central Bank has been gradually decreasing also in Slovenia, where the decline partly results from recapitalisations, and partly also from declining total loan portfolio of banks.

Due to increased risks and increased pressure on banks, the volume of lending is still declining. In 2013, it decreased by 11.1 percent or EUR 5.1 billion, where a part of this reduction results from the transfer of assets to the Bank Assets Management Company.

As mentioned above, the Slovenian banking system in 2013 experienced several emergency measures. Thus, winding-up of Probanka and Factor banka in September meant determination of the Bank of Slovenia to accelerate consolidation and reduce the pressure on deposit interest rates, which some banks kept higher due to a tightened liquidity situation.

The second set of emergency measures includes stress tests and reviews of the quality of assets, recapitalisation, and final establishment of operations in the Bank Assets Management Company. All this is a part of a coordinated government and central bank's instruments aiming at establishing normal conditions on financial markets, and increasing trust in banks and between banks.

Strengthening of capital in banks and re-functioning of financial markets are only two necessary, but not sufficient conditions for improvement of bank operations. In addition to cost-effectiveness, the biggest problem is insufficient level of capital in companies and absence of a clear strategy; and all these increase the risk of default to banks and other creditors. Consequently, the focus shall remain on small and medium-sized enterprises and retail sector where the risk is more distributed and even smaller in terms of individual exposures. In larger companies, attention shall be focused on additional risk monitoring and maintaining the margin as a long-term source for repayment of obligations.

4.2 Major events in 2013

January
- Robert Senica commenced his five-year terms of office as a President of the Management Board.

March
- The Bank organised a motivation event for the staff of Pošta Slovenije and continued its sales promotion action in the field of personal accounts and retail loans.
- The Bank carried out a campaign to acquire new e-banking users of PBS.net.
- The Bank started marketing the redesigned benefit package New Start for all new personal account holders.
- The Bank started marketing the redesigned benefit package for all new corporate account holders.
- Restructuring of High-Risk Investments and Recovery Coordination Department was established in the Bank.
- At its meeting on 25 March, the Supervisory Board approved the Business Goals and Financial Plan of Poštna banka Slovenije and acknowledged the projections of operations until 2016.
- The Bank has actively started the „RaSt" programme aimed at streamlining of operating costs, which is implemented by all members of the Nova KBM Banking Group.

May
- The Bank started marketing a favourable range of retail loans.
- The Bank received an award under Eurogiro in the category of providing stable and excellent quality of payments processing during the last five years. The bank processed 100 percent of cash payments.

October
- The Supervisory Board appointed Ms. Elica Vogrinc a member of the Management Board of Poštna banka Slovenije.

November
- The Bank enabled users of the electronic banking PBS.net to carry out banking services also by mobile phones or a tablet PC. The service was named mPBS.net.
- The bank redesigned the information system for its retail operations. The new bank application jOmega holds in its name the mark of a globally used JAVA technology and ranks among state-of-the-art banking applications on the market.

December
- Nova KBM and Pošta Slovenije recapitalised the Bank.
- The Bank received an authorisation of the Bank of Slovenia to carry out agent services in the sale of insurance products according to the law governing the insurance industry.

4.3 Performance of the bank

4.3.1 Financial result

The Bank achieved in 2013 a profit of EUR 6,065 thousand before provisions and impairments. If impairments and provisions in the amount of EUR 63,102 thousand and the adverse effect of deferred taxes are taken into account, the Bank closed the year with a loss of EUR 57,164 thousand. Total comprehensive result, which includes also the effects of revaluation recognised in equity, was negative, in the amount of EUR 55,647 thousand.

in thousands of EUR

Revenue and expenses	2013	%	2012	%	Ind 13/12
Net interest income	16,932	70.6	22,518	72.5	75
Net fee and commission income	9,547	39.8	8,639	27.8	111
Net gains/losses on financial assets and liabilities held for trading	181	0.8	111	0.4	163
Other net gains/losses	-2,676	-11.2	-228	-0.7	
Financial and operating revenue and expenses	**23,984**	**100.0**	**31,040**	**100.0**	**77**
Staff expenses	-9,576	53.4	-9,657	53.9	99
Costs of material and services	-6,535	36.5	-6,597	36.8	99
Amortisation	-1,808	10.1	-1,655	9.2	109
Total operating expenses	**-17,919**	**100.0**	**-17,909**	**100.0**	**100**
Profit before provisions and impairments	**6,065**		**13,131**		**46**
Provisions and impairments	-63,102		-12,735		496
Profit for the business year	**-57,037**	**100.0**	**396**	**100.0**	
Income tax	-127	-0.2	-64	16.2	198
Net profit for the business year	**-57,164**	**100.2**	**332**	**83.8**	
Net gains recognised in revaluation surplus	1,517		1,722		
Comprehensive income	**-55,647**		**2,054**		

Net interest income

In 2013, the Bank recorded *net interest* in the amount of EUR 16,932 thousand, which were lower by 25 percent or EUR 5,586 thousand compared to the previous year. Net interest with their share of 70.6 percent accounted for the majority of total income. Reduction in net interest amount in 2013 resulted mainly from 18 percent lower interest income.

Decrease in *interest income* in 2013 resulted mostly from high impairment of interest, which the Bank recorded in 2013 in the amount of EUR 5,697 thousand, and in 2012, only of EUR 1,683 thousand. This decrease resulted also from a decrease in the level of interest-bearing assets, changing the structure of interest-bearing assets (moving from higher to lower interest-bearing assets), lower stock of net loans (by EUR 82,813 thousand or 19 percent). The largest part of the decrease in interest income related to lower interest income from loans (by EUR 7.510 thousand, or 30 percent), while the interest income from securities increased (by EUR 1,346 thousand, or 15 percent). The increase in interest income from securities resulted primarily from higher average available-for-sale financial assets.

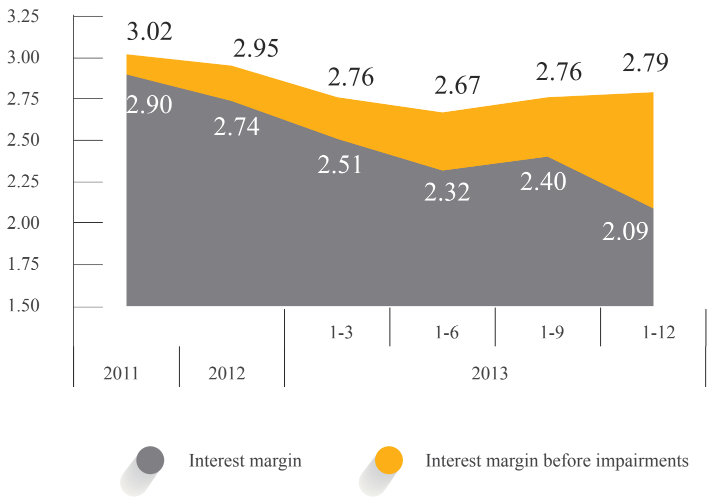
The major portion of interest income, accounting for EUR 28,756 thousand, is interest income from loans granted and deposits, namely EUR 17,749 thousand, which accounted for 61.7 percent of total interest income (in 2012, the share accounted for 72.1 percent). Interest income from securities amounted to EUR 10,401 thousand and their share accounted for 36.2 percent (25.9 percent in 2012).

Interest expenses are recorded in the amount of EUR 11,824 thousand, which is by 5 percent or EUR 683 thousand lower than in 2012. The largest portion of all interest expenses, namely 97.9 percent, is accounted for by interest expenses for financial liabilities at amortised cost, and within these, the highest expenses, in 64.1-percent share, are accounted from retail deposits.

Due to a significantly higher reduction in net interest income (decreased by 25 percent) that exceeded a decrease in average total assets (by 1.2 percent), the *interest margin* in 2013 decreased by 0.65 percent points, to 2.09 percent. If impairments of interest were excluded, the margin of 2.79 percent would be recorded.

Graph 8:

Interest margin movement (in percent)



Net non-interest income

Compared to 2012, net non-interest income decreased by EUR 1,470 thousand, or 17 percent (in 2013, it amounted to EUR 7,052 thousand, and in 2012 to EUR 8,422 thousand). The decrease in non-interest income was mainly due to loss from operations with financial assets not measured at fair value through profit and loss account (amounting to EUR 1,129 thousand, where the largest portion, EUR 1,000 thousand was the loss from subordinated bonds of NLB) and expenses from accrued commissions related to approval of corporate loans in the amount of EUR 535 thousand, which will be included in income in accordance with maturity of credit contracts.

Key performance indicators
Statement by the management board
Report of the supervisory board

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Operating expenses

Operating expenses (administrative cost and amortisation) equalled EUR 17,919 thousand in 2013 and remained at the 2012 level.

Staff expenses, the share of which was 53.4 percent, equalled EUR 9,576 thousand and decreased compared 2012 by one percent or EUR 81 thousand. The decrease results from lower annual leave allowance paid.

Costs of material and services also decreased by one percent and equalled EUR 6,535 thousand, their share in operating expenses was 36.5 percent. The highest reductions were recorded in material consumption (-11 percent), entertainment allowance, education (-57 per cent) and the cost of advertising.

Amortisation and depreciation costs, the share of which equalled 10.1 percent, amounted to EUR 1,808 thousand and exceeded the cost in previous year by 9 percent, or EUR 153 thousand.

The *CIR indicator*, at unchanged operating expenses and lower income, has increased in 2013 from 57.7 percent (at the end of 2012) to 74.71 percent (at the end of 2013), which represents a deterioration of 17.02-percent points.

Net provisions and impairments

In 2013 especially, the result achieved by the Bank was affected by a decrease in the quality of the loan portfolio resulting from the crisis and worsened economic situation. The Bank recognised net impairments and provisions of EUR 63,102 thousand, which was 5 times more than in the previous year.

Income tax from continuing operations

Income tax amounted in 2013 to EUR 127 thousand. This amount is a difference between revenues and expenses from deferred taxes. Due to a tax loss amounting to EUR 57,263 thousand, the Bank records no tax liabilities for income tax from ordinary activity in 2013.

Comprehensive income

Total comprehensive income after tax, including valuation of available-for-sale securities, is negative, equalling EUR 55,647 thousand (in 2012, it was positive and amounted to EUR 2,054 thousand). The net loss for the year (EUR 57,164 thousand) is reduced by the profit related to available-for-sale financial assets (EUR 1,812 thousand), a majority of which (99.7 percent) is revaluation surplus. Income tax of other comprehensive income amounted in 2013 to EUR 289 thousand.

4.3.2 Financial position

Total assets of the Bank amounted at the end of 2013 to EUR 775,642 thousand. Compared by 2012, it dropped by EUR 23,877 thousand or 3 percent. The Bank's market share, measured by total assets, rose compared by the previous year from 1.73 percent to 1.92 percent.

On the *liabilities side*, the change in total assets was influenced in 2013 mostly by reduced liabilities from liabilities to banks, namely by EUR 17,940 thousand, and subordinated debt, by EUR 11,465 thousand. In 2013, the Bank reduced its debt in long-term inter-bank sources, and records at the end of 2013 liabilities for long-term funding raised from domestic banks in the amount of EUR 30,313 thousand. Based on the decisions adopted by the General Meeting of Shareholders of the Bank on 20 December 2013, existing subordinated liabilities of additional capital were converted to the Bank's share capital in the amount of EUR 20,204 thousand (the principal of EUR 19,589 thousand and the interest of EUR 615 thousand). In December 2013, the Bank issued subordinated liabilities of additional original own funds amounting to EUR 9,000 thousand, which were paid by Nova KBM.

Amounts due to non-bank clients totalling EUR 634,506 thousand comprise of sight deposits of EUR 331,894 thousand, which increased in 2013 by EUR 7,362 thousand, short-term deposits of EUR 158,086 thousand, having decreased by EUR 12,819 thousand, and long-term deposits of EUR 144,526 thousand, which increased by EUR 13,712 thousand. Retail deposits accounted for 87.5 percent of total liabilities to non-banking clients, having grown by 2.7 percentage points since 2012.

Subordinated debt in the amount of EUR 9,020 comprises of deposits paid by Nova KBM.

Changes in equity of the Bank are described in detail in the financial part of the Report, in the notes to Item 2.5.1.6.

in thousands of EUR

Bank's sources	31 December 2013	%	31 December 2012	%	Change	Index
	1	2	3	4	5=1-3	6=1:3
Financial liabilities to the Central Bank	45,668	5.9	45,416	5.7	252	101
Financial liabilities at amortised cost	679,933	87.7	701,972	87.8	-22,039	97
- liabilities to banks	*30,313*	*3.9*	*48,253*	*6.0*	*-17,940*	*63*
- liabilities to non-bank clients	*634,506*	*81.8*	*626,251*	*78.3*	*8,255*	*101*
- subordinated debt	*9,020*	*1.2*	*20,485*	*2.6*	*-11,465*	*44*
- other financial liabilities	*6,094*	*0.8*	*6,983*	*0.9*	*-889*	*87*
Provisions	5,449	0.7	3,869	0.5	1,580	141
Other liabilities, incl. tax	1,715	0.2	821	0.1	894	209
Equity	42,877	5.5	47,441	5.9	-4,564	90
Total	**775,642**	**100.0**	**799,519**	**100.0**	**-23,877**	**97**

in thousands of EUR

Bank's assets	31 December 2013	%	31 December 2012	%	Change	Index
	1	2	3	4	5=1-3	6=1:3
Cash and cash balances with the Central Bank	59,882	7.7	43,686	5.5	16,196	137
Financial assets (securities)	283,231	36.5	229,149	28.7	54,082	124
Loans	411,966	53.1	505,756	63.3	-93,790	81
- loans to banks	60,658	7.8	71,635	9.0	-10,977	85
- loans to non-bank clients	351,308	45.3	434,121	54.3	-82,813	81
Other financial assets	5,845	0.8	5,812	0.7	33	101
Property, plant and equipment and intangible assets	12,464	1.6	12,581	1.6	-117	99
Other assets, incl. tax	2,254	0.3	2,535	0.3	-281	89
Total	**775,642**	**100.0**	**799,519**	**100.0**	**-23,877**	**97.0**

The Bank invested a majority of its assets in loans to non-bank clients, equalling 45.3 per cent (33.6 per cent to corporate borrowers and 11.7 percent to retail clients), which is followed by investments in securities, accounting for 36.5 per cent (available-for-sale account for 25.2 percent, and held-to-maturity equalled 11.3 percent), loans to banks, totalling 7.8 percent, and others, equalling 10.4 percent (fixed assets, cash in hand and balances in banks).

The most liquid assets of the Bank increased in 2013 by 37 percent or by EUR 16,196 thousand. The cash balance increased by 63 percent or EUR 9,122 thousand, to EUR 23,678 thousand, while deposits with the Central Bank increased by EUR 7,074 thousand to EUR 36,204 thousand, comprising of mandatory deposits, overnight deposits, and other short-term deposits with the Central Bank.

Investments in financial assets increased in 2013 by EUR 54,082 thousand or 24 percent, and amounted at the end of the year to EUR 283,231 thousand. The increase in the volume of operations in financial assets results from a changed investment policy, recapitalisation, which was partially carried out by a equity investment in the form of bonds (EUR 15,879 thousand) and repayment of receivables transferred to the Bank Assets Management Company in the form of bonds (EUR 7,432 thousand).

The balance of net *loans to non-bank clients* amounted at the end of 2013 to EUR 351.308 thousand, which falls below the figure for 2012 by 19 percent. Decline in net loans results from a decrease in gross loans by 7.8 percent, additional value adjustments of EUR 61,447 thousand, and the transfer of certain receivables to the Bank Assets Management Company (net EUR 7,432 thousand). In the structure of loans to non-bank clients, short-term loans account for 39.4 percent, and long-term loans for 60.6 percent.

4.3.3 Cash flow statement

in thousands of EUR

	2013	2012
Cash and cash equivalents at the beginning of the period	**68,680**	**52,249**
Net cash flows from operating activities	-33,625	9,085
Net cash flows from investing activities	15,438	8,161
Net cash flows from financing activities	23,983	-815
Effects of changes in exchange rates on cash and cash equivalents	-139	0
Net increase/decrease in cash and cash equivalents	**5,657**	**16,431**
Cash and cash equivalents at the end of period	**74,337**	**68,680**

Cash and cash equivalents increased in 2013 by EUR 5,657 thousand to EUR 74,337 thousand. This increase was influenced by positive net cash flows from investing activities (+EUR 15,438 thousand, an impact of the reduction of the securities to maturity) and financing (+EUR 23,983 thousand, the impact of recapitalisation and payment of an additional hybrid deposit), while negative impact resulted from flows from operating activities (-EUR 33,625 thousand, the impact of loss and reduction in the volume of loans).

4.4 Operations of specific areas

4.4.1 Retail banking

Implementation of marketing activities aimed at increasing volumes in all areas of retail banking (attracting new clients, raising retail deposits and retail lending) marked also the year 2013. The Bank has implemented various marketing activities aimed at attracting new clients, while at the same time increasing the volume of operations also with existing clients through sales promotion of additional services.

In 2013, the *number of personal accounts* in the Bank decreased by slightly more than 2,700 (consequently, there were slightly more than 123,000 personal accounts open in the Bank at the end of 2013). Reduction in the number of personal accounts was due to commencement of closing accounts with no transactions. However, the Bank increased the number of personal accounts with a card as an instrument of transactions by slightly less than 1,500, while the number of personal accounts with savings book decreased by slightly less than 4,200. The share of accounts with the card in total number of personal accounts grew to nearly 55 percent.

In 2013, the Bank continued attracting new e-banking users. Consequently, over 10,700 Bank's clients used e-banking at the end of 2013. The Bank enabled its clients in November 2013 to carry out transactions and monitoring of banking on mobiles phones and tablets. The service was named mPBS.net.

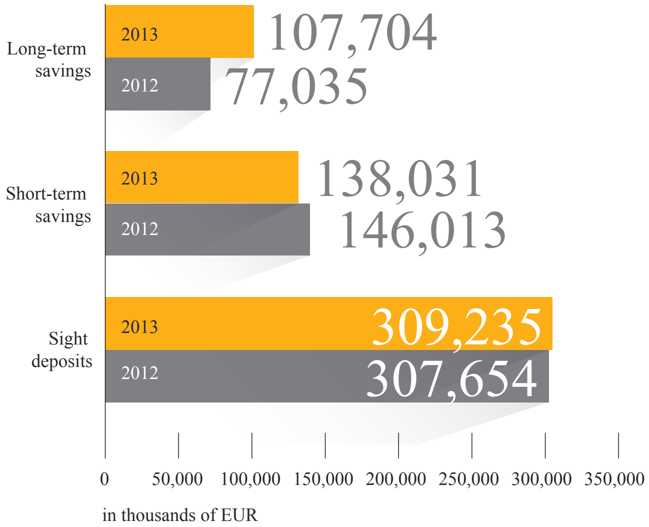
The Bank offers a wide range of card products in the area of cashless operations. It issues payment cards in cooperation with the Activa system and the international MasterCard and Visa systems. The cards are distinguished for their great visibility and usefulness in Slovenia and abroad. They can be used at numerous points of sales, POS terminals, banks, post offices, ATMs and on the Internet. All personal account holders (other than those using savings books) receive an Activa/Maestro card (transactions immediately charged to accounts) and may also choose among the cards with deferred payment: Activa, Activa/MasterCard and Activa/Visa. In the area of deposit taking, the Bank recorded in 2013 a growth of retail deposits by 4.6 percent, whereby sight deposits increased by 0.5 percent, the volume of short-term savings decreased by 5.4 percent, while the volume of long-term savings grew by 39.8 percent. Consequently, all retail funds increased in 2013 from slightly less than EUR 531 million to almost EUR 555 million.

According to the amended decision of the Bank of Slovenia on books, the Bank in 2013 appropriately adjusted comparative information about long-term savings for 2012.

Retail deposits by maturity

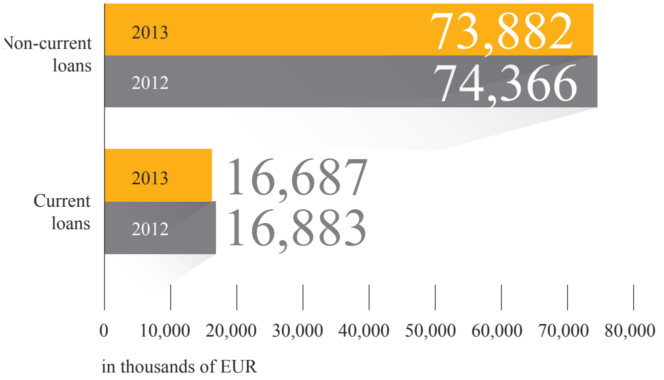
In 2013, the Bank slightly decreased the volume of *retail loans*, namely by 0.7 percent. A slight decline was observed in long-term loans (by 0.6 percent) and in short-term loans (by 1.1 percent), while the level of overdrafts (permitted overdrafts) on personal accounts remained the same. The volume of retail loans totalled slightly over EUR 90.5 million.

Graph 9:
Retail deposits by maturity



Volume of retail loans by maturity

Graph 10:
Volume of retail loans by maturity



In the area of retail banking, the Bank successfully introduced a new application support in November 2013, and thus successfully completed a very comprehensive, three-year project on redesigning retail information support. The Bank acquired a modern solution that enables a significantly larger control over performance of the application.

Consequences of the financial crisis were observed also in 2013, as the operation volume growth rates are lower than in the years before the crisis had occurred.
Savers mostly left their savings in the Bank, and additionally transferred them from some other banks, while in the area of lending, a slight decline is still observed. Risks related to job loss are still present, therefore, the Bank is taking a more cautious approach to loan approval.

4.4.2 Corporate banking

In 2013, the area of corporate banking was substantially affected by financial and economic crisis. The payment discipline and liquidity of most legal entities were further worsened, and the risk of refinancing short-term loans to other banks has also increased.
Under such circumstances, the Bank pursued the goal of clearing the existing loan portfolio, which is reflected also in the results achieved in 2013, showing a decline in corporate loans.

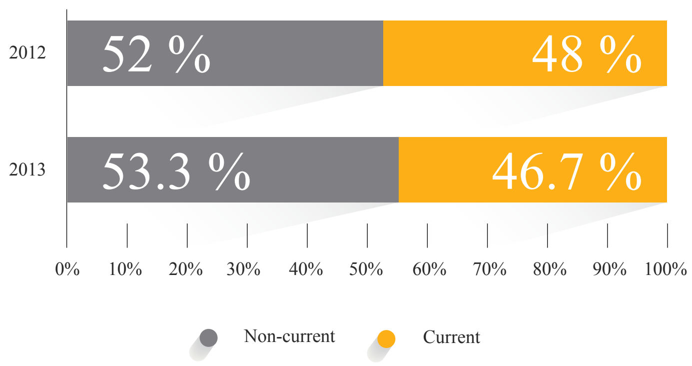
The Bank established in March 2013 the Restructuring of High-Risk Investments and Recovery Coordination Department, which started its operations in May. The Department was established with a purpose of professional and systematic treatment of legal entities that generate cash flow from operations, but face difficulties in payment liabilities to the Bank. The Department was involved in restructuring of legal entities in order to maintain their healthy cores, and if restructuring was no longer possible, the Department called insurance and transferred receivables to the Judicial Recovery Department.
The Bank paid special attention to intensive collection of overdue receivables from legal entities in all its organisational units. In order to enable effective monitoring of collection, the Bank established the Collection Committee for corporate clients' collection.
The Bank transferred in December a part of its receivables from legal entities in trouble to Nova KBM, which further transferred them to the Bank Assets Management Company.

Through clearing of its loan portfolio, the Bank was striving to maintain and broaden the scope of business with existing good clients, and to acquire new ones, with a focus on quality investments. New clients were acquired particularly in the segment of small and medium-sized enterprises, sole traders and private undertakings.
When approving new loans, the Bank carefully assessed the risks related to discharging of clients' obligations to the Bank, and paid special attention to obtaining adequate collateral as a secondary source of repayment.

As at 31 December 2014, the balance of loans equalled EUR 260,187 thousand, which was by EUR 81,890 thousand or 23.94 percent less than as at 31 December 2012. Decline in the volume of loans resulted from active cleaning of the loan portfolio, an increase in impairments, the transfer of a portion of receivables on the Bank Assets Management Company, and a lower lending activity due to general economic conditions.

The structure of loans by maturity reveals in 2013 compared to 2012 a further slight increase in the share of long-term loans, as it accounts for 53.3 percent of total loans. As at 31 December 2013, long-term loans stood at EUR 138,626 thousand.

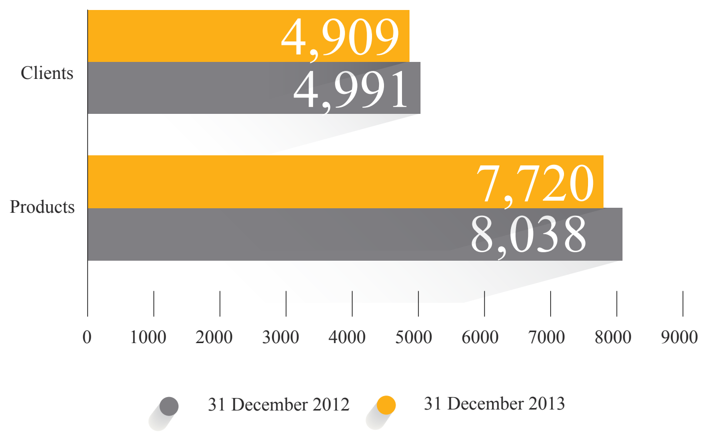
Graph 11:
Structure of corporate loans (in %)



Total volume of issued guarantees increased in 2013 (following a drop in 2012) by EUR 2013 thousand to EUR 35,968 thousand. The Bank marketed in corporate banking the products of active (loans, guarantees), passive (deposits) and neutral transactions (payment services). Marketing was implemented mainly through individual offers and personal presentations made by the Bank's marketing staff, marketing through the network of Pošta Slovenije outlets, special actions by using direct mail for specific segments, and lending based on special arrangements with subsidised loans.

The Bank serviced 4,909 clients as at 31 December 2013 (82 clients less than as at 31 December 2012), which used 7,720 products (318 less than as at 31 December 2012). In the area of investments (loans, guarantees, factoring, business cards), the Bank serviced 1,328 clients as at 31 December 2013, which means 5 clients more than as at 31 December 2012.

Graph 12:
Number of clients and products



4.4.3 Execution of payment transactions

Payment systems

At the end of 2013, Poštna banka Slovenije participated for the purpose of conducting payment transactions on behalf of its clients and for its own account in the following systems:

- **TARGET 2**
  (payment system for processing high-value and urgent payments),
- **SEPA ICP**
  (payment system for SEPA internal credit payments),
- **SEPA ECP**
  (system for SEPA external credit payments),
- **SEPA EDD Core**
  (payment system for SEPA external direct debits),
- **SEPA IDD Core**
  (system for SEPA internal direct debits).

In addition to transactions in payment systems, the Bank also recorded transactions among clients at the Bank (internal payment transactions).

Volume of credit transactions – in terms of value (in EUR billion)

	2013	2012	Index
TARGET 2	7.1	12.5	57
SEPA ICP	3.3	3.1	106
SEPA ECP	0.06	0.02	300
internal	0.7	0.9	78

Volume of credit payments – number of orders

	2013	2012	Index
TARGET 2	15,403	16,243	95
SEPA ICP	25,811,769	28,983,886	89
SEPA ECP	27,225	16,960	161
internal	862,743	786,829	110

In 2013, the Bank recorded by one third smaller value of payments within the Republic of Slovenia as in the previous year (TARGET 2 in SEPA ICP). The volume of payments in TARGET 2 payment system has slightly decreased. The Bank records a decline also in processing of domestic SEPA credit transfers, mainly due to decline in one-off payment transactions at post offices. The Bank noted a growth in SEPA external payments, as an increasing number of European banks participate in this system, and an additional reason was a change in the rules regulating guidance of payment orders in the Bank.

Transaction accounts of corporate clients

The Bank provided payment services to corporate clients through own commercial centre, post office outlets and electronic banking. The Bank offers its clients a multi-currency transaction account enabling simple performance of services in most commonly used currencies. The target group includes smaller enterprises, sole traders and societies. The number of transaction accounts in the Bank decreased in 2013 by 2 percent compared to the previous year, as more transaction accounts of corporate clients were closed (732) than opened (638) by the Bank in 2013. The reasons for closing accounts included: cessation of operations, transaction accounts do not show ordinary course of business, longer outstanding liabilities to the Bank. Most new accounts were opened by the Bank on behalf of sole traders and societies.

Electronic banking

Electronic banking is used by 2,641 clients, of which 1,170 are corporate clients, 926 sole traders and 545 societies. The majority of the clients that opened a transaction account with the Bank in 2013 will perform payment transaction services through electronic banking. The number of clients using electronic banking decreased by 6 percent compared to the previous year, particularly due to closed accounts of companies that performed their transactions in electronic way.

In 2013, the Bank provided its clients with e-banking operations, where clients could choose between e-banking offered by Com-Trade and Halcom.

Number of open accounts of corporate clients as at:

Type of corporate clients	31 December 2013	31 December 2012	Index
Companies	1,344	1,384	97
Sole traders	1,497	1,556	96
Societies, groups of persons, parish offices	1,628	1,623	100
Total	**4,469**	**4,563**	**98**

Payment transactions at post office counters

The Bank preserved an important role in receiving and processing retail payment orders paid in cash.

Volume of transactions at post office counters

	Quantity 2013	Quantity 2012	Index	Value in EUR million 2013	Value in EUR million 2012	Index
UPNs with OCR and declaration	15,968,520	18,394,483	87	654.5	752.0	87
Other UPN payment orders	6,628,157	8,091,465	82	1,012.5	1,080.5	94
Cash pension payments	433,898	501,470	87	170.3	196.7	87
Deposits and withdrawals for NKBM*	560,553	631,460	89	186.7	203.6	92
Postal money orders	480,623	476,033	101	23.0	24.2	95

* NKBM = Nova KBM

The Bank has recorded decreases in the volume and value of processed payment orders paid in cash at post office counters, for several years. In 2013, there was a 15-percent drop recorded in the volume and 9-percent drop in the value of one-off payment transactions. The Bank attributed the reason for the decrease mainly to a strong competition in the area and to e-banking.

The volume of operations with the contractual provider Petrol receiving payments up to EUR 1,000, amounted in 2013 to EUR 25.8 million. There were 426,071 payment orders processed, which exceeded the respective number for 2012 by 57 percent.

The Bank provides payment to and from retail transaction accounts of clients of Nova KBM. Compared to the previous year, the volume of these services in 2013 dropped by 11 percent. For a longer time, the Bank has observed a trend of decreased pension payments in cash; in 2013, this payment instrument was used for payment of as much as 13 percent less pensions.

International payment transactions

In 2013, the Bank focused on maintaining the existing volume of business outside of the Republic of Slovenia. The Bank provides domestic-currency and foreign-currency payment services to corporate clients and sole traders through a single transaction account, and to retail clients through a multi-currency personal account. The Bank processes international payment transactions through Nova KBM.

The volume of international payment transactions in 2013 was higher than in the respective period of the past year, resulting particularly from larger volume of inflows. Most international payments are processed by the Bank in EUR, HRK and USD.

Volume of foreign-currency payment transactions:

in EUR million

Payments	2013	2012	Index
Inflows	62.1	47.0	132
Outflows	53.9	44.9	120
Total	**116.0**	**91.9**	**126**

International postal money orders

The Bank provides for Pošta Slovenije the account of international payments for retail clients by means of international postal money orders. It enables receiving and sending money by international postal money orders from/to 15 countries. Payments are still executed by mail with one postal administration and through the Eurogiro electronic system with the others.

In 2013, the Bank recorded a declined volume of transactions in purchased and cashed international postal orders; however the value of transactions has not changed significantly compared to the previous year.

	Quantity	Quantity	Index	Value in EUR million	Value in EUR million	Index
	2013	**2012**		**2013**	**2012**	
Cashed international postal money orders	5,136	5,107	100	1.420	1.102	129
Purchased international postal money orders	1,028	1,191	86	0.151	0.212	71
Total	**6,164**	**6,298**	**98**	**1.571**	**1.314**	**119**

4.4.4 Treasury operations

The Bank's principal function in the area of treasury in 2013 was liquidity management in line with its liquidity management policy. The implementation of this policy is monitored on a daily basis by the Liquidity Committee. The Bank managed its liquidity under market possibilities by placing deposits on the inter-bank monetary market, where the Bank is mostly a net creditor. The Bank concluded its financial year 2013 by placing EUR 58.2 million in inter-bank deposits – of which EUR 12.0 million are short-term investments and EUR 46.2 million are long-term investments.

As necessary, for the purpose of intraday cash flow management in line with the best practice rules in the provision of payment services, the Bank took out intraday loans from the Bank of Slovenia. The Bank repaid all loans the same day it raised them. The Bank did not use any marginal lending facilities in 2013.

At the end of 2013, the Bank's fixed deposits from legal entities, municipalities, societies and sole traders totalled EUR 56.9 million. In addition to the above amount, the Bank includes EUR 9 million hybrid deposit paid by the parent bank, which the Bank can take into account in the components of the original own funds.

Similarly as the year before, the year 2013 was marked by the financial crisis, which was still reflected in the Slovenian banking system by difficult obtaining of long-term inter-bank sources. Consequently, the Bank in 2013 did not disburse new long-term inter-bank sources, but used its own sources for the purpose of lending.

The Treasury Division also managed extensive investments in securities. In these activities, the Bank pursued the goals of safety, liquidity and adequate return on securities. The Bank acquired a part of the banking book portfolio in 2013 from the recapitalisation by a non-cash contribution of the parent bank, namely the Republic of Slovenia bonds in the amount of EUR 14.85 million. In addition, the Bank's portfolio as at the last day of 2013 included also the Bank Assets Management Company's bonds in the amount of EUR 7.4 million, which the Bank obtained by transferring receivables through the parent bank to the bad bank. The Bank allocated the majority of securities to banking items, of which 31.07 percent were classified as held to maturity and 68.84 percent as available for sale, as at 31 December 2013.

The Bank has a small portion of securities classified as held for trading, representing trading book items. As at 31 December 2013, these securities accounted for 0.09 percent of the overall securities portfolio, or EUR 0.24 million.

In line with the established strategy and investment policy, the Bank maintains a high level of investments in first-class securities eligible for the Eurosystem collateral framework. Thus it can participate in auctions of monetary instruments of the European Central Bank. The share of the said securities in the Bank's securities portfolio accounted for 86 percent at the end of 2013, while total securities in the Bank's assets represented 36.52 percent.

In line with its investment policy, the Bank has no foreign equity investments and suffered no losses due to the collapse of some financial institutions during the financial crisis.

In 2013, the Bank did not issue any bonds, and consequently, the Bank has no securities issued to be listed on a regulated market.

Investments in securities as at 31 December 2013 and 2012:

in thousands of EUR

Type	2013	2012	Index
Securities of the Republic of Slovenia and securities with the guarantee of the Republic of Slovenia	227,222	179,311	127
Shares of issuers established in the Republic of Slovenia	1,159	1,196	97
Bonds of other issuers in the Republic of Slovenia	8,926	11,083	81
Debt securities of foreign issuers	30,778	31,789	97
Other securities of issuers established in the Republic of Slovenia	7,956	0	-
Total	**276,041**	**223,378**	**124**

Note: Data is exclusive of interest.

4.4.5 Information technology development

In 2013, the Bank continued upgrading and adjusting information technology with its business needs and IT developments. In managing, developing and upgrading information technology, the Bank complies with:

- Business strategy of Poštna banka Slovenije 2008-2013,
- IT strategy for the period 2010-2015,
- Programme of projects and duties for 2013,
- The Bank's operational streamlining programme for 2013,
- Security policy strategy,
- Information technology development.

In cooperation with the external provider, the Bank completed in 2013 a renovation of the key application software for retail banking. Stress testing, data migration, and transfer of the software package into the production environment have been successfully implemented in due time.

In 2013, the Bank was focused on the implementation and testing of interfaces under the PROB Project aimed at integration of the renewed application support for retail banking. Implementation of interfaces allows further planning and renewal of own applications in Java EE environment.

The Bank implemented several stress tests on non-supplied and supplied data. Based on measurements and analyses of the results, the Bank removed bottlenecks by implementation of changes in the application software or by changes in settings of the system environment. This has enabled the required responsiveness and operation of the application software and system environment to support retail banking.

The Bank successfully completed the development of application programme support for recording of suspicious transactions and reporting to the Office for Money Laundering Prevention in accordance with the requirements of the Prevention of Money Laundering and Terrorist Financing Act. The software package has been developed in Java EE technology, with a web user interface.

In accordance with its business requirements and amended laws and other banking regulations, the Bank implemented in 2013 necessary supplements and adjustments to its own application support developed by the Bank.

In order to redesign the software support for retail operations and reporting system, the Bank completed the support for the Bank's central data, analytical accounts, and payment services of the Bank. It also completed automatic support for invoicing to budgetary users. The Bank developed the support for involvement of companies to SEPA direct debit system. At post office counters, it introduced a service of buying back mobile phones with payment of the purchase price in cash. A new support was designed for sending extracts from repayment of the income tax to the Tax Office of the Republic of Slovenia.

In support for corporate loans, the Bank completed in cooperation with the external supplier the following tasks:
- Programmes aimed at monitoring various insurances (update with new types of insurance, marking of insurances by the post office and region, preparation of amortisation plans for receivables transferred to the Bank Assets Management Company...),
- Numerous extracts for the needs of the Credit Committee, the needs of Nova KBM and audits,
- Monitoring of corporate delays according to the criteria of the Bank of Slovenia, keeping the list of classifications by clients.

In support for the reporting system, the Bank followed requirements of the laws and the regulator. The Bank prepared and completed all required reports (JAM by a gross principle, liquidity ratio, financial leverage ratios, etc.).
The Bank redesigned the local network by replacing backbone switches, increased the number of connections and the transfer speed between the primary and the backup location. By these actions, the Bank achieved the goals set up in planning a new backbone network, ensured higher bandwidths and equal or better availability and responsiveness compared to the obsolete equipment.
In the implementation of a new architecture of high-availability server clusters, the Bank took into account the risks of downtime and provided redundant systems. It implemented highly available clusters of servers in the primary and backup locations.
In 2013, the Bank continued server virtualisation, introduction of high-availability clusters for critical servers and virtualisation of work stations. Introduction of virtualisation enables the Bank to make better use of hardware and provide centralised management of virtual servers, work stations and applications.

4.4.6 Staff and training

Careful recruitment, good working conditions and the possibility of training and education are the guidelines that the Human Resources Department adheres to. Efficient, motivated and committed employees are the key for attainment of the Bank's strategic and business goals, keeping of competitiveness and improvements in all areas of work.

The Bank stimulates the employees through a system of rewarding, promotion and performance appraisal.

As at 31 December 2013, the Bank employed 239 people, of whom 72 are men and 167 are women, five workers were employed on fixed-term, and 234 for an indefinite period.
Employee fluctuation in 2013 was 4.7 percent. The average number of employees in 2013 was 242. The Bank employed 16 new employees, 12 employees left the Bank.

Education structure of employees as at 31 December 2013:

Level of education	Number of employees	%
Level V or lower	86	36
Level VI	40	17
Level VII or higher	113	47
Total	**239**	**100**

Education and training

The Bank continued in 2013 the implementation of its active and rational policy of employee education and training.
All employees involved in management were trained in improvement of managerial skills, and most of staff were trained in the field of improvement in mutual communication. Various courses tailored to the Bank's needs were implemented.
All employees are periodically involved also in required training courses in the field of safety at work and fire safety.
The Bank takes care of employee development by different tools, including yearly interviews, since 2011.
The fact that the Bank pays high attention to knowledge is proven also by the share of employees with professional college, university and master's degree (47 percent of all employees) and 17 agreements on education concluded with its employees.

4.5 Risk management

The Bank's goal is to have in place a sound and reliable risk management system comprising of a clear organisational structure and efficient procedures for identification, measurement or assessment, management and monitoring of risks, together with an adequate system of limits and internal control.

The risk management procedure in the Bank comprises of definition of all risks arising in operations of the Bank, establishment of risk monitoring methodologies, setting exposure limits for individual types of risk, constant monitoring of exposure to risks, and compliance with the set restrictions. At the same time, the Bank is adjusting to the changing business environment, which encompasses re-assessment of limits and methodologies when conditions change.

The Bank achieves a high quality assessment of all types of risk and a timely response and mitigation of risk exposure by developing various internal documents – policies, methodologies and guidelines concerning risk bearing and management. When developing them, the Bank complies with applicable legislation, internal acts of the Banking Group, and internal rules based on own experience. Persons responsible are assigned to ensure individual policies' compliance with other policies, conformity with the applicable legislation and good banking practice. In particular, the Bank monitors and manages:

- Credit risk,
- Operational risk,
- Interest rate risk,
- Liquidity risk,
- Capital risk,
- Market risk,
- Profitability risk,
- Strategic risk,
- Reputation risk.

Through the development of internal reporting system and dealing with and taking decisions by respective Bank's bodies, the Bank's Management Board and all senior managers are actively involved in risk management processes. Through a sound risk management system, the Bank responds quickly and effectively to external changes in order to meet the needs of its clients and ensure long-term financial stability.

The Bank pays significant attention to credit risk, which represents one of the most important banking risks. The Bank has developed a methodology on client's credit rating and a methodology on credit risk loss assessment, which is harmonised with the Banking Group, with a purpose of credit risk identification and measuring. The Bank calculates the upper limit of client's indebtedness according to the methodology of the Banking Group, and has also established exposure limits by industry. The Bank keeps assessing the debtor's risk throughout the presence of credit exposure, monitors critical events and impairs an individual client, if necessary. The Bank calculates the capital requirement for credit risk according to the standardised approach.

The Bank monitors the interest rate risk, meaning the risk of loss occurrence resulting from unfavourable changes in interest rates, by the type and time structure of interest rates. It regularly monitors the impact of actual changes in interest rates during the last two-year period on the Bank's capital, and performs tests on the risk shift in the yield curve, and impact on the profit and loss account and economic value of capital. The Bank mitigates the interest rate risk by limiting the exposure to interest rate risk at time gaps, which is monitored by the Asset and Liability Management Committee.

The Bank monitors liquidity risk at the Liquidity Committee on daily basis. For this monitoring, it set up the methodology on measuring liquidity risk exposure, the methodology for calculation of necessary internal capital for liquidity risk, and established a system of limits. The Bank monitors the liquidity risk also by stress tests for exposure to liquidity risk. The Bank prepares daily, monthly and annual liquidity plans.
The Bank regularly monitors capital levels and capital requirements, and plans the trends for the next three-year period. For

the next three years, it foresees capital self-supply by distributing planned net profits to reserves, which was agreed also by both owners when adopting the Bank's long-term strategy. A stable ownership structure of the Bank significantly helps the Bank with easier capital risk management.

In order to manage the operational risk, the Bank established the Operational Risk Committee, which monitors the risks and suggests necessary measures. The Bank regularly monitors loss events by use of the application support with encrypted types of loss events developed by the Banking Group. The methodology was upgraded by collecting data about loss events so as to include loss events of undeterminable value. Significant losses from operational risks are daily reported to the Management Board and the Operational Risk Committee. The Bank also collects income from loss events and establishes net loss from operational risks.

In the field of prevention of money laundering and terrorism financing, knowing the clients the Bank deals with is a permanent task and the basic objective of performance. Under the framework of compliance of operations, the Bank implemented in 2013 independent tasks aimed at reduction or prevention of financial loss and reputation of the Bank due to operations, which might not be in line with applicable regulations and best practice standards. The Bank set up a reporting point for suspicions prohibited practices, and the process of their investigation.

The Bank continuously harmonises and checks the implementation of the security policy documents for its IT system. The documents are harmonised based on legal changes, in case of infrastructure changes in the Bank's IT system, and in line with international standards and recommendations. Special attention is paid to safety upgrades of the IT infrastructure and business continuity. Therefore, the Bank has developed business continuity plans that are periodically checked and updated.

Credit risk, interest risk, capital risk and liquidity risk are presented in more detail in the financial part of the Report, under the Chapter *Exposure to different types of risk*.

4.6 Internal audit

The Internal Audit Department is an independent organisational unit, reporting directly to the Management Board of the Bank. It performs its work in line with International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors and the Code of Internal Audit Principles.

The Internal Audit Department conducts audit according to the Annual Audit Plan approved by the Management Board of the Bank in agreement with the Supervisory Board. The Annual Internal Audit plan is based on the Bank's risk profile, taking into account requirements of Nova KBM and the regulator concerning periodic auditing of specific areas of the Bank's operations. The Department also conducts audits at Pošta Slovenije, which provides payment and other services on behalf and for the account of the Bank.

Basic internal audit goals as determined in the internal Audit Plan for 2013, were attained through implemented audits. In 2013, the emphasis was given to credit risk management. At the beginning of the year, the department completed an audit of portfolio management, which was launched in 2012 and covered management of market risk and portfolio of securities, management of credit risk and corporate loan portfolio, and management of credit risk and retail loan portfolio. In the area of credit risk management, the audit of powers for investment approval and the audit of the Credit Risk Management Department were carried out. In the area of risk management, the audit of risk management relating to external providers was also carried out. The audits also included: the audit of security policies, the audit of access policy implementation, and the audit of policies that covered verification of compliance of policies with the policies of Nova KBM. Based on the requirements of the Management Board and the Bank of Slovenia, there were three extraordinary audits carried out. Based on their findings, recommendations were provided for establishment of more effective systems of internal control and more efficient risk management in the audited areas.

In auditing, the Internal Audit Department pays special attention to checking management of all banking risks, existence and functioning of control mechanisms embedded in business processes, the integrity and adequacy of work instructions, their implementation, and compliance with the legislation and authorisations.

Important activities of the Internal Audit Department include also consulting, coordination of external auditing and inspections by the Bank of Slovenia, and monitoring the implementation of provided recommendations.

The Department reported about the conducted audits to the Management Board. The Internal Audit Department prepared quarterly reports on its work and implementation of recommendations, and its Annual Report for the Management Board and the Supervisory Board. Quarterly reports and the Annual Report on the Internal Audit Department's work were discussed by the Supervisory Board's Audit Committee prior to being put on the agenda of the Supervisory Board meeting.

There was an external assessment of internal audit carried out in 2013. Based on the overall assessment of the internal audit, it is concluded that compliance with the standards is generally achieved. Partial derogation was established in the 1100 Standard – Independence and Impartiality. In order to ensure greater independence, it is necessary to update the competence of the Audit Committee and supervisory bodies, respectively.

Internal auditing tasks are performed by the head of the Department and two auditors, of whom, as a rule, one performs IT audits. The head of Department holds a professional title of auditor. Employees of the Department of Internal Audit are regularly trained.

4.7 Social responsibility

In 2013, the Bank has continued its policy and allocated a part of its income to cultural, sports, humanitarian and environmental activities. It also donated funds for research and development, took care of its employees, established, nurtured and preserved relations with its business partners, the media and both shareholders.

Community involvement

Sponsorship

In 2013, the Bank was – this is almost traditional – among the sponsors of the Lent Festival and the „Vurberk 2013“ Folk Music Festival. For several consecutive years, the Bank has been a sponsor of the Maribor Puppet Theatre and the Mini Theatre, being well aware of the significance of investing in youth and their development. The Bank also continued its cooperation with Branik Ski Club in the Golden Fox World Cup, and supported also the women's Maribor Branik Volleyball Club and Maribor Branik Handball Club. In 2013, the Bank supported top clubs and athletes in such sports as skiing, kayaking, volley-ball, soccer and motocross, whose dedication, perseverance and excellence helped them to achieve outstanding results at national and international levels.

Humanitarian activities

The Bank donated funds in 2013 to numerous humanitarian and health care projects aimed at improving the lives of children, pupils and persons in need of medical care and other assistance.

Care for the natural environment

The Bank continued carrying out activities and seeking new ways aimed at attaining environmental protection goals and thus contributed to the improved quality of life in the society in 2013. By introducing electronic banking in various areas of its business operations, the Bank is replacing paper transactions. Since 2011, the Bank has issued its annual report only in electronic form. In its business premises in Ljubljana and Maribor, the Bank is involved in separate waste collection systems for all types of waste. By separate collection of empty original cartridges and toners, the Bank contributes to raising environmental awareness of its employees and the Bank as a whole, thereby reducing pollution of the earth with solid, harmful and not readily degradable wastes. The Bank also continued involving its employees in use of multifunctional devices (printers, scanners) in order to reduce consumption of paper and toners.

Care for employees

The Bank also deals with the social aspect and social security of its employees. It wishes to provide its employees with a long-term social security and better standard of living after their retirement through payment of supplementary pension insurance premiums.
The Bank also continues the tradition of socialising of colleagues. Therefore, the Bank organised a meeting with its employees also in 2013.
The Bank also nurtures relations with its pensioners and invites them to staff gatherings on a regular basis.
The Bank has set up its own Poštna banka Slovenije Sports Society organising recreational activities and participation in various bank and post office competitions.
The Bank is aware of the importance of social partnership, therefore, it paid special attention to cooperation with Poštna banka Slovenije Trade Union, likewise as in all previous years.

Communication

Communication with employees

For twelve years the Bank has been publishing an internal newsletter for its current and retired employees, and its contents are regularly upgraded. The purpose of the newsletter remained the same, namely, to inform its employees about performance of the Bank, management's decisions, activities in various areas of operation, the latest events in the Bank, and about other professional and some popular news.
The Bank also actively upgrades the contents of its internal web portal, providing the Bank's employees with access to as much information as possible, which they need in their jobs. Furthermore, it regularly informs its employees of topical and urgent information through e-mail. In 2013, the Bank upgraded the information activity and introduced circulars for employees sent monthly by electronic means.
The Bank also publishes at its internal web portal daily clippings on appearances of the Bank in media, and on developments in the banking sector, thus enabling employees to be informed with topical themes.

Communication with investors

In 2013, the Bank regularly (and uniformly) reported and informed the public of its financial and legal position and its performance through SEOnet, the Ljubljana Stock Exchange electronic information system, on the Bank's web pages and through media.
The Bank published convocations and resolutions of the Bank's General Meeting of Shareholder and the decisions adopted by the Supervisory Board.

Communication with media

The Bank maintained traditionally well-established relations with media and built new ones with a high level of correctness and professionalism, as good relationships with the media contribute to preserving a positive public image of the Bank.
The Bank answered in an active and timely manner to all questions raised by journalists. The Bank informed them on major events through press releases and assisted them with finding the information that is not directly related to the Bank.
Journalists and editors of all media can access all publications of the Bank also in the press room on the Bank's website.

Communication with clients

In 2013, the Bank communicated with its present and potential clients. It was focused on attaining business, communication and media goals, such as increasing the visibility of the Bank and its service range, attracting new and keeping existing clients, raising interest in the Bank's services and boosting sales. As the Bank operates in branch offices across the country, marketing communication campaigns were designed so as to cover the entire Slovenian territory, mostly by information for retail clients. Throughout 2013, the Bank ran a special campaign targeted at winning new holders of personal accounts, offering a special benefit package, under the name of *New Start*. In order to promote itself and its services, the Bank was presented to young people at Students' Arena. In spring, the Bank prepared a special offer and carried out an advertising campaign for retail loans, under the name of *I can*.
The Bank got closer to its users of the electronic banking PBS.net by introducing a possibility to carry out banking services by smart mobile phones or tablets with the Android operating system or as an online version. Services of the mobile bank were named mPBS.net.
In order to present the service for young people, the *Driving Licence Saving Scheme*, the Bank continued marketing communication of this service under the slogan *Driving Licence with no Detours*.
For new born children, the Bank continued cooperation with some Slovenian municipalities and Pošta Slovenije in the scope of the children savings programme involving an adorable hamster.
The Bank informed its clients regularly through monthly statements on transactions on personal accounts, which enabled it for better communication of its new offers to its clients. The Bank also introduced sending of monthly electronic promotional messages to its clients through electronic messaging. Moreover, the Bank informed its clients on a regular basis through other direct mail, press releases and news on the Bank's web pages www.pbs.si and the electronic bank PBS.net. The Bank regularly answered clients' questions submitted through e-mail at info@pbs.si and by phone at a toll-free number 080 80 58.

5 BANK GOVERNANCE

Poštna banka Slovenije is organised as a public limited company and operates in line with the legislation applicable for companies. According to this legislation and its shareholders' will, a two-tier management system was selected for the Bank, namely the Management Board and Supervisory Board, and the General Meeting of Shareholders, at which shareholders exercise their rights in company's matters. In compliance with the legally defined rights and obligations, the relations between governing bodies are based also on the provisions of the Shareholder Agreement, which was concluded by the two shareholders in September 2004 in order to regulate coordinated exercise of the management entitlements.

Statement by the Bank's Management Board and Supervisory Board of Compliance with the Code

Poštna banka Slovenije was not a publicly traded company in 2013. The Bank operates in conformity with the Banking Act, the Companies Act, the Financial Instruments Market Act and other legislation, and observes the Ljubljana Stock Exchange Rules and other regulations governing the issues related to publicly traded companies.

The Management Board and the Supervisory Board of the Bank state that Poštna banka Slovenije at its operations voluntarily used the Corporate Governance Code for Joint Stock Companies, which was adopted by the Ljubljana Stock Exchange, the Association of Supervisory Board Members of Slovenia, and the Managers' Association of Slovenia on 8 December 2009 and has been applied since 1 January 2010.

The Corporate Governance Code for Joint Stock Companies is publicly accessible also on the Ljubljana Stock Exchange website http://www.ljse.si/.

According to Article 70 paragraph 5 item 2 of the Companies Act, the Bank provides the following explanations of deviations from the applied Code:

- Ad items 6.2, 8, 8.1: The Bank has only two shareholders that propose their representatives as members to the Supervisory Board according to the adopted agreement. All members of the Supervisory Board have the required level of education, expertise and experience. All members have signed a statement in line with the provisions of the Companies Act and the Banking Act;
- Ad item 5.6: So far, the members of the Supervisory Board have been elected jointly, in line with the established practice;
- Ad item 5.9: Financial statements form a part of the Annual Report, which is presented to the Bank's General Meeting of Shareholders, together with the auditor's opinion. Representative of the authorised auditor is not invited to attend the General Meeting of Shareholders;
- Ad item 10: The Chairman of the Supervisory Board is elected according to the agreement between the two shareholders;
- Ad entire item 16: The remuneration of the Bank's Management Board is aligned with the Act Regulating the Incomes of Managers of Companies Owned by the Republic of Slovenia and Municipalities;
- Ad item 20.4: Despite the fact that the Bank has no specially prepared financial calendar, significant announcements are regularly made and agreed with the two shareholders.

Additional explanations according to Article 70, paragraphs 6 and 7, of the Companies Act (ZGD-1)

Characteristics of internal control and risk management systems at the Bank in relation to the financial reporting procedure

Throughout its operations, the Bank's internal control system has been in place, since the Management Board is obligated to function so as to provide a suitable risk management system for all business partners, shareholders and supervisory institutions.

With the aim of ensuring safe operations and a safe working environment for employees, external providers and other business partners, the Bank's internal control activities stipulated by the legislation include the IT security policy and property security policy, which are in place, including business continuity plans and contingency plans. The Bank has in place suitable documents: business strategy and risk management strategy, information system development strategy, risk management policy, information system security policy, property security system policy and other documents defining monitoring of operations and control.

In order to protect its property, the Bank carries out selective access controls and other forms of technical security, including regular annual inventory.

Information system security is provided by technical and physical controls, and by monitoring the adequacy of hardware and software, taking into account the principle of confidentiality, availability and integrity of information.

The Bank's HR policy is aimed at monitoring staffing levels, training, and thus staff qualifications and quality.

In accordance with the internal organisation of work, internal controls are daily conducted at levels of individual financial services. The accounting records system provides reliable, timely and complete information.

The Internal Audit Department is involved in the internal control system by independently conducting its audits and assessing the adequacy of governance system, the quality of internal controls, the implementation of internal capital adequacy assessment process and activities performed by external providers.

In compliance with their competences, the Bank's bodies (Supervisory Board, Management Board, Credit Committee, Collection Committee, Asset and Liability Management Committee, Operational Risk Committee, Liquidity Committee) review performance reports, risk reports, reports on business environment and reports on data compliance with the applicable legislation, standards, codes and internal acts.

Important direct and indirect possessions of the Bank's shares

As at 31 December 2013, qualified holding as defined by the Takeovers Act, are held by the following entities:

- Nova KBM, which holds 31,229,499 ordinary non-par value shares resulting in 99.12–share of voting rights, and
- Pošta Slovenije, which holds 278,660 ordinary non-par value shares resulting in 0.88–share of voting rights.

Holders of securities providing special control rights

The bank has no shares providing special control rights.

Restrictions on voting rights

The Bank has only two shareholders that arranged all their mutual rights by entering into the Shareholder Agreement.

The Bank's rules on appointment and replacement of Management and Supervisory bodies' members and amendments to the Articles of Association

The rules on nomination and replacement of the management and supervisory bodies' members and amendments of the Articles of Association are defined in the Articles of Association of Poštna banka Slovenije d.d. – the Nova KBM Banking Group.

Powers of the Management Board members for issuing or purchasing treasury shares

The Bank's Management Board has no explicit power to purchase or issue treasury shares.

Bank bodies

The Bank's bodies are structured in line with the selected two-tier management system and include:
- General Meeting of Shareholders
- Supervisory Board, and
- the Management Board.

General Meeting of Shareholders

SThe General Meeting of Shareholders is the body through which the two shareholders exercise their rights and take decisions on basic issues in the Company's affairs relating to development issues and certain organisational and status issues in view of the structure and operations of the Bank. Powers of the General Meeting of Shareholders, the method of its operation and decision-making, and other matters relating to the General Meeting of Shareholders' work are defined in the Bank's Articles of Association in line with the applicable laws. The Articles of Association are published on the official Bank's website.

General Meetings of Shareholders in 2013

There were two General Meetings of Shareholders held in 2013. Both meetings were attended by both shareholders represented by their representatives or proxies.

The 29th General Meeting of Shareholders was held on 11 June 2013. At this meeting, the shareholders:
- Adopted the report on internal audit for 2012 with a positive opinion of the Supervisory Board,
- Acknowledged the 2012 Annual Report and the Supervisory Board's report on examination of the 2012 Annual Report,
- Adopted the proposal on the allocation of the distributable profit for 2012 in total amount of EUR 166,244.84 and allocated it to other reserves from profit,
- Decided on granting a discharge from liability to the Management Board and the Supervisory Board for their work in 2012. Under this item, the shareholders adopted a procedural proposal and voted separately on the discharge from liability for individual Management Board members. They granted no discharge from liability to the President of the Management Board, Drago Pišek, M.Sc., and the member of the Management Board, Viktor Lenče; however, they granted a discharge from liability to the President of the Board, Robert Senica. The Supervisory Board also received a discharge from liability for their work in 2012.

The General Meeting of Shareholders adopted also a decision on appointing the Bank's auditor for 2013.
The shareholders adopted all the resolutions at the 28th General Meeting of Shareholders unanimously.

The General Meeting of Shareholders met again on 18 December 2013. Implementation of the 30th General Meeting of Shareholders was an important basis for further set of activities aimed at increasing the Bank's share capital. At the General Meeting of Shareholders, the shareholders:
- Adopted a decision on increasing the share capital by non-cash contribution, namely by conversion of fixed deposits of both shareholders in the Bank's share capital. As a result, the Bank issued in total 629,237 new ordinary no-par value shares, of which Nova KBM acquired 107,862 shares, and Pošta Slovenije 80,075 shares.
- By amendments to the Bank's Articles of Association, it provided the Management Board with a power by which the latter may, upon an approval of the Supervisory Board and without any additional decision of the General Meeting of Shareholders, increase the share capital of the Bank within a period of five years from the entry of this power into the Bank's Articles of Association in the amounts as set out by this power in a new Article 11.a of the Articles of Association.

The shareholders adopted the resolutions at the 30th General Meeting of Shareholders unanimously.

Resolutions of both General Meetings of Shareholders held in 2013 were published on the Ljubljana Stock Exchange website through the SEOnet system, and on official Bank's web pages, where they will be accessible for five years.

Supervisory Board and its committees

Supervisory Board

In accordance with the Articles of Association of the Bank, the Supervisory Board, which supervises the running of the Bank's business, comprises of five members. The members of the Supervisory Board are elected by the General Meeting of Shareholders of the Bank on the shareholders' proposal. In line with the Shareholder Agreement, three members shall be proposed by the majority shareholder and two members by the minority shareholder. The members of the Supervisory Board shall elect from among them a Chairman and a Deputy Chairman in the manner and in accordance with the arrangement laid down in the Shareholder Agreement concluded between both shareholders on 6 September 2004.
Responsibilities of the Supervisory Board, decision-making and method of its work, and all other matters relating to the work of the Supervisory Board are included, based on the applicable law, in the Articles of Association of the Bank, and detailed in the Rules of Procedure of the Supervisory Board. Administrative and technical support to the Supervisory Board and its committees is provided by the secretary of the Supervisory Board that is also responsible for the organisation of work and preparation of the Supervisory Board minutes. She was appointed by the Supervisory Board upon proposal by the Management Board. According to the amended Decision of the Bank of Slovenia on Diligence of Members of the Management Board and Members of the Supervisory Board of Banks and Savings Banks (Official Gazette of RS, No. 74/13 of 6 September 2013), starting with application of these changes, transcripts of audio recordings of the Supervisory Board meetings have been made.

Performance of the Supervisory Board in 2013

The Supervisory Board operated in 2013 in the following, unchanged composition:

- Chairman
  Boris Novak, M.Sc., CEO of Pošta Slovenije
- Deputy Chairman
  Aleš Hauc, President of the Management Board of Nova KBM
- Member
  Miha Šlamberger, M.Sc., Secretary of Nova KBM
- Member
  Vinko Filipič, member of the Board of Directors of Pošta Slovenije
- Member
  Igor Žibrik, member of the Management Board of Nova KBM

Terms of office of the Supervisory Board in this composition shall expire on 21 June 2016.
In 2013, the Supervisory Board held twelve regular meetings and two correspondence meetings. The Supervisory Board carried out its function of control of management and administration of the Bank in the manner and within its powers, and in accordance with the applicable law. One of its important powers is appointment of the Bank's Management Board. Following appointment of the new President of the Management Board of the Bank, Robert Senica, at the end of 2012, the Supervisory Board established at its first meeting in 2013 that the Bank of Slovenia issued an authorisation to Robert Senica to perform his function, and the Supervisory Board concluded with him an employment contract with commencement of the five-year term of office as of 15 January 2013. The Supervisory Board carefully supervised performance of the Management Board also in 2013, and on the basis of reports received, it monitored operations of the Bank. Taking into account conditions in the environment, which reflected in 2013 to a larger extent in deterioration of the loan portfolio quality, the Supervisory Board paid particular attention to adequacy of the risk management system and to management of the risks. The Supervisory Board drew attention to the circumstances that could significantly affect business, financial or legal position of the company, including from the aspect of the Bank's actions in the past, and reached agreement in all its important decisions. In order to provide the best assessment and decision-making, which are in the best interest of the Bank, the Supervisory Board received from the Management Board also other available information about individual facts relating to operations of the Bank. At the end of 2013, the Supervisory Board, under its responsibilities, was intensely involved in the actions aimed at recapitalisation of the Bank, and by provision of relevant approvals, it contributed

significantly to ensuring the conditions for a continued existence and development of the Bank.
The Supervisory Board prepares a report in writing for the General Meeting of Shareholders, which is included in this Annual Report as an independent document, and in which the Supervisory Board comprehensively and credibly, in line with the applicable law, describes all its activities in the financial year 2013.

Committees of the Supervisory Board

In the interests of efficient work of the Supervisory Board, and as professional support and assistance to the Supervisory Board in carrying out its core function of supervising management and administration of the Bank, the following three committees of the Supervisory Board are active:
- Audit Committee of the Supervisory Board,
- Human Resources Committee of the Supervisory Board, and
- Committee of the Supervisory Board for Fostering Cooperation in the Financial (Banking) Group or between Nova KBM, Pošta Slovenije and Poštna banka Slovenije.

The committees work in the manner and under the responsibilities, as defined in their Rules of Procedure. In the matters not specifically covered by the Rules of Procedure, provisions of the Rules of Procedure of the Supervisory Board apply mutatis mutandis. Membership or composition and duties of the Audit Committee of the Supervisory Board are defined also by the applicable law. Members of the Supervisory Board's committees are entitled for their work to remuneration in line with the decision adopted by the General Meeting of Shareholders in 2011. Payment for external members of the committees is set out by decision of the Supervisory Board.

Audit Committee of the Supervisory Board

In line with the law, Audit Committee comprises of three members. The terms of office of committee members is tied to the Supervisory Board's terms of office. The Committee operated until 11 June 2013 in the following composition:
- Chairman
  Miha Šlamberger, M.Sc., Secretary of Nova KBM
- Member
  Boža Korbar, Director of Internal Audit Centre of Nova KBM
- Member
  Igor Marinič, M.Sc., Deputy CEO, Pošta Slovenije

As at 11 June 2013, the Supervisory Board acknowledged the resignation of the Committee Member, Boža Korbar, and adopted a decision on termination of her membership in the Audit Committee of the Supervisory Board. The Supervisory Board appointed on 4 December 2013 a new member, Jožica Germ, director of the company AJŠA, davčno svetovanje in storitve Maribor.
The Audit Committee performed in 2013 its tasks pursuant to the law, Articles of Association and the Instrument of Incorporation, which more specifically regulates the purpose and composition of the Committee, the conditions and method of its operation, and its powers and responsibilities.
In 2013, the Audit Committee met at eight regular meetings and held one correspondence meeting. The Committee worked in accordance with the framework plan of the Audit Committee for 2013 approved by the Supervisory Board.

The Committee completed in 2013 also all additional duties imposed by the Supervisory Board, and provided the Supervisory Board with duly reasoned opinions on the matters for which it is obliged and responsible in accordance with the law. The Chairman of the Committee provided the Supervisory Board at its meetings, if necessary, also with oral explanations and information on the assessment carried out, and provided the Supervisory Board with all necessary grounds for a constructive discussion and decision-making in the best interest of the Bank.

Human Resources Committee of the Supervisory Board

The Human Resources Committee of the Supervisory Board operated in 2013 in the following, unchanged composition:
- Chairperson
  Aleš Hauc, President of the Management Board of Nova KBM
- Member
  Boris Novak, M.Sc., CEO of Pošta Slovenije
- Member
  Miha Šlamberger, M.Sc., Secretary of Nova KBM

The Committee met in 2013 at one regular meeting, the focal point of which was discussion about the initiative of the President of the Management Board of Poštna banka Slovenije to enlarge the Management Board of the Bank with a third member of the Management Board.
The Committee discussed the specifically suggested candidate for the Management Board, and after a careful examination of the supporting documentation prepared a proposal for the Supervisory Board based on which the Supervisory Board invited the suggested candidate to an interview and adopted a decision on appointing her.
In 2013, there were no other matters in which the Committee, in accordance with its powers, could assist the Supervisory Board with its suggestions, opinions and other bases. In relation with its work in 2013, the Committee did not observed any facts of which it would like to note or should have especially noted the Supervisory Board.

Committee of the Supervisory Board for Fostering Cooperation in the Financial (Banking) Group or between Nova KBM, Pošta Slovenije and Poštna banka Slovenije

The Committee, which was established by the Supervisory Board in order to coordinate proposals for intensification of competitive advantage in joint appearances on the market and seeking and implementing potential synergy effects between the companies, comprises of four members. In 2013, the Committee's membership did not change. The Committee worked in the following structure:

- Chairman
  Vinko Filipič, member of the Board of Directors of Pošta Slovenije
- Member
  Petra Mencigar Cvar, M.Sc., Director of the development and technology field of Pošta Slovenije services
- Member
  Igor Žibrik, member of the Management Board of Nova KBM
- Member
  Vlasta Brečko, M.Sc., Executive Director in the Management Board of Nova KBM

General circumstances and poor economic conditions in the environment were not in favour of the activities in the scope of the Committee in 2013. This fact reflected also in its functioning, as the Committee met only once in 2013. Nevertheless, the content of the performed meeting encompassed all important aspects of possible joint operations, from examining the concept for integrating service offers of the Pošta Slovenije Business Centre into service range of both banks, to a constructive discussion about possible cooperation in the field of payment systems and in general, within the network of post offices. The Committee discussed also some other initiatives and was informed about necessary adjustments in individual formal bases, taking into account business decisions in some of the companies involved in the Group.

Remunerations for Supervisory Board and its committees

The members of the Supervisory Board and members of its committees are entitled to remunerations for their work, in the amount set by the General Meeting of Shareholders. According to the valid resolution adopted by the General Meeting of Shareholders in 2011, which complies with provisions of the Companies Act and follows the Criteria and Recommendations of the Capital Assets Management Agency of the Republic of Slovenia, and with a purpose of implementing the contemporary corporate governance guidelines, remunerations of the Supervisory Board comprise of:

- Session fees,
- Functions performance fees,
- Supplementary payments for special duties, and
- Other receipts.

External members of the Supervisory Board shall receive remuneration for their duties in accordance with a decision adopted by the Supervisory Board. Remunerations of individual Supervisory Board members and members of the Supervisory Board's committees, as received by them for the performance of their functions in 2013, are disclosed in the financial part of this Annual Report.

Management Board of the Bank

The rights and duties of the Management Board are defined by the Articles of Association, the Bank's Management Board Rules of Procedure and the employment contract signed with the members of the Management Board by the Chairperson of the Supervisory Board empowered to represent the company against the members of its Management Board. Provisions on functioning of the Management Board, its powers and responsibilities, appointment and dismissal or discharge are also included in the Articles of Association of the Bank, in accordance with applicable laws. The method of Management Board functioning, decision-making, representation of the Bank and other are detailed by the Rules of Procedure of the Management Board.

Performance of the Management Board in 2013

Pursuant to the Articles of Association of the Bank, which determine in accordance with the applicable laws that the Management Board of the Bank has to have at least two members, in 2013, the Management Board of the Bank comprised of a Chairman and a member of the Management Board, namely:

- Robert Senica, President, and
- Viktor Lenče, Member of the Management Board.

Robert Senica was appointed a President of the Management Board by the Supervisory Board at the end of 2012, after acknowledgement of the resignation submitted by the then President of the Management Board, Drago Pišek, which was followed by implementation of appropriate procedures aimed at selection of a new President of the Management Board. Robert Senica received an authorisation from the Bank of Slovenia to perform the function on 4 January 2013, and thus fulfilled the suspensory condition at his appointment. He started his five-year term of office in the capacity of the President of the Management Board of Poštna banka Slovenije as of 15 January 2013, in accordance with the decision adopted by the Supervisory Board and on the basis of the contract concluded. Thus, he joined the member of the Bank's Management Board, Viktor Lenče, who started his second five-year term in office as of 11 February 2010.

In October 2013, the Supervisory Board adopted a decision on enlargement of the Management Board, and appointed Elica Vogrinc a Member of the Management Board; she started her five-year term of office in the capacity of a Member of the Management Board as of 6 January 2014.

The year 2013 did not spare this Management Board, partially in its new composition. Turbulent environment and numerous surprises in the business environment, which had a significant adverse impact particularly on the Bank's portfolio and its management, requested a prudent and quick decision-making at the same time. Nevertheless, the Management Board acted in unbiased and objective manner with a view of interest of the Bank and in decision-making. They complied with relevant standards of professional diligence and the highest ethical management standards, taking into account prevention of conflicts of interest. The Management Board consistently complied with the requirements on reporting and forwarding data to the parent bank, and with general reporting obligations in accordance with respective applicable regulations It responded to the Management Board and the professional services of the parent bank and competent supervisory authorities in accordance with their specified requirements. It conducted businesses in a comprehensive manner and by due diligence, and paid even more significant emphasis to risks and management of risks, in accordance with the given situation. The Management Board informed the Supervisory Board on all important matters related to operations in a regular, timely and comprehensive manner. It has warned them timely about deviations from the goals set up, particularly in the area of the planned operating result, and consequently, a possibility of default to capital requirements. The Management Board carefully and in an open dialogue with both shareholders, undertook all the groundwork necessary for decision-making by relevant bodies of the Bank on an increase in the share capital of the Bank. The Management Board was also striving to prepare high quality reports and other materials for consideration and discussion by the Supervisory Board of the Bank. It did its best to provide the Supervisory Board with all additionally required documents, and to start and implement all procedures according to decisions or policies of the Supervisory Board.

The Management Board held regular meetings, as a rule on a weekly basis. In 2013, the Management Board decided on the matters related to operations of the Bank at 50 regular meetings, and adopted decisions upon 74 proposals made by professional services outside the meetings. Their decisions were adopted unanimously. The Management Board, under discussions at the meetings of the Management Board and outside, at closer meetings, and in wider discussions held by all bodies of the Bank, provided responsible persons in sectors and professional services with all important information and guidelines for their work, in a timely and understandable manner. It emphasised the importance of completing the matters within the deadlines set up, in particular the recommendations of the Internal Audit Department and other matters upon decisions and requirements of the parent bank, the supervisory body and others.
In light of difficult economic circumstances and the situation in the environment, in which the Bank operates, the Management Board did its best to nurture the partnership with Pošta Slovenije and promote coordinated operations within the Nova KBM Group.

Remuneration to the Management Board

The employment contract concluded with the President and the Member of the Management Board stipulates also the type and amount of remuneration for the function and is aligned with the Act Regulating the Incomes of Managers of Companies Owned by the Republic of Slovenia and Municipalities. Based on the criteria adopted for determining performance, the Supervisory Board decides also on bonuses to the Management Board, taking into account the applicable legislation and any government's recommendations regarding mitigation of impacts of the financial crisis in the field of salaries of management staff in companies directly or indirectly owned by the state. Remunerations of the Management Board for 2013 are disclosed in the financial part of this Annual Report.

Management personnel as at 31 December 2013:

Name and surname:	Function:
Drago Pišek, M.Sc.,	Executive Associate of the Management Board
Klemen Hazabent, M.Sc.,	Executive Associate – Coordinator for the area of risk management
Danica Ozvaldič, M.Sc.,	Adviser to the Management Board
Aleš Živkovič	Executive Associate of the Management Board
Mateja Unuk	Head of Internal Audit Department
Duška Zalokar	Head of Credit Rating and Risk Management Department
Boštjan Černivec	Head of Restructuring of High-Risk Investments and Recovery Coordination Department
Mojca Mak	Director of Support Services
Aleksander Jerenko	Director of Retail Banking Division
Jelka Žugman	Director of Corporate Banking Division Maribor
Regina Jerman	Director of Corporate Banking Division Ljubljana
Rosanda Falež	Director of Marketing and Public Relations Division
Božena Blažič, M.Sc.,	Director of Payment Transactions and Electronic Banking Division
Natalija Muršič Tomažič, M.Sc.	Director of Treasury Division
Boris Hauptman	Director of Management Accounting Division
Miran Bizjak	Director of IT Division
Sanja Miljuš Herman	Director of Legal, HR and General Affairs Division
Andreja Gjud	Head of Technology and Organisation Department (until 30 December 2013)

The Professional Board of the Bank consists of the Management Board, executive associates of the Management Board, adviser to the Management Board, executive associate for money laundering prevention, terrorism financing and compliance of operations, IT security engineer, directors of divisions and heads of departments.

The Management Board transferred a part of its authorisations and competences to collective bodies operating within their assigned powers, i.e.:

- Credit Committee for corporate clients' investments,
- Credit Committee for retail investments,
- Credit Committee for high risk investments,
- Credit Committee for Corporate Clients' Investments,
- Liquidity Committee,
- Asset and Liability Management Committee,
- Operational Risk Committee.

6 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management Board confirms the financial statements for the year ended as at 31 December 2013, the applied accounting policies and notes to financial statements.

The Management Board is responsible for the preparation of the Annual Report in the manner providing for a true and fair presentation of the assets standing and profit and loss for the year ended as at 31 December 2013.

The Management Board confirms to have consistently applied the appropriate accounting policies and made the accounting estimates according to the principle of prudence and due diligence. The Management Board also confirms that the financial statements and the notes thereto have been prepared on the basis of the assumptions of going concern and in line with the applicable legislation and the International Financial Reporting Standards as adopted by the European Union.

Furthermore, the Management Board is responsible for keeping proper accounting records, the adoption of appropriate measures to safeguard the assets and to prevent and detect fraud, other irregularities or illegalities.

At any time during the five years of the date when the tax should be assessed, tax authorities may inspect the operations of the Company. This may result in additionally imposed tax, default interest and fines arising from income tax and other taxes and duties. The management of the Company is not aware of any circumstances that might result in potential material liability arising there from.

Maribor, March 2014

Elica Vogrinc
Member of the
Management Board

Viktor Lenče
Member of the
Management Board

Robert Senica
President of the
Management Board

Deloitte.

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POROČILO NEODVISNEGA REVIZORJA
lastnikom družbe POŠTNA BANKA SLOVENIJE d.d.

Poročilo o računovodskih izkazih

Revidirali smo priložene računovodske izkaze banke Poštna banka Slovenije, d.d. – bančna skupina Nove Kreditne banke Maribor d.d. (v nadaljevanju »banka«), ki vključujejo izkaz finančnega položaja na dan 31. decembra 2013, izkaz poslovnega izida, izkaz drugega vseobsegajočega donosa, izkaz sprememb lastniškega kapitala in izkaz denarnih tokov za tedaj končano leto ter povzetek bistvenih računovodskih usmeritev in druge pojasnjevalne opombe.

Odgovornost poslovodstva za računovodske izkaze

Poslovodstvo je odgovorno za pripravo in pošteno predstavitev teh računovodskih izkazov v skladu z mednarodnimi standardi računovodskega poročanja, kot jih je sprejela EU, in za takšen notranji nadzor, ki je po mnenju poslovodstva potreben za pripravo računovodskih izkazov, ki ne vsebujejo pomembno napačne navedbe zaradi prevare ali napake.

Revizorjeva odgovornost

Naša odgovornost je izraziti mnenje o teh računovodskih izkazih na podlagi revizije. Revizijo smo opravili v skladu z mednarodnimi standardi revidiranja. Ti standardi zahtevajo od nas izpolnjevanje etičnih zahtev ter načrtovanje in izvedbo revizije za pridobitev sprejemljivega zagotovila, da računovodski izkazi ne vsebujejo pomembno napačne navedbe.

Revizija vključuje izvajanje postopkov za pridobitev revizijskih dokazov o zneskih in razkritjih v računovodskih izkazih. Izbrani postopki so odvisni od revizorjeve presoje in vključujejo tudi ocenjevanje tveganj napačne navedbe v računovodskih izkazih zaradi prevare ali napake. Pri ocenjevanju teh tveganj prouči revizor notranje kontroliranje, povezano s pripravljanjem in poštenim predstavljanjem računovodskih izkazov banke, da bi določil okoliščinam ustrezne revizijske postopke, ne pa, da bi izrazil mnenje o uspešnosti notranjega kontroliranja banke. Revizija vključuje tudi ovrednotenje ustreznosti uporabljenih računovodskih usmeritev in utemeljenosti računovodskih ocen poslovodstva kot tudi ovrednotenje celotne predstavitve računovodskih izkazov.

Verjamemo, da so pridobljeni revizijski dokazi zadostna in ustrezna podlaga za naše revizijsko mnenje.

Mnenje

Po našem mnenju računovodski izkazi podajajo v vseh pomembnih pogledih resničen in pošten prikaz finančnega položaja banke na dan 31. decembra 2013 ter njenega poslovnega izida in denarnih tokov za tedaj končano leto v skladu z mednarodnimi standardi računovodskega poročanja, kot jih je sprejela EU.

Poročilo o drugih zakonskih in regulativnih zahtevah

Poslovodstvo je odgovorno tudi za pripravo poslovnega poročila v skladu z zahtevami Zakona o gospodarskih družbah (ZGD-1). Naša odgovornost je podati oceno o tem, ali je poslovno poročilo skladno z revidiranimi računovodskimi izkazi. Naši postopki v zvezi s tem so opravljeni v skladu z mednarodnim standardom revidiranja 720 in omejeni zgolj na oceno skladnosti poslovnega poročila z revidiranimi računovodskimi izkazi. Po našem mnenju je poslovno poročilo skladno z revidiranimi računovodskimi izkazi.

DELOITTE REVIZIJA d.o.o.

Aleš Grm
Pooblaščeni revizor

Yuri Sidorovich
Predsednik uprave

Ljubljana, 14. marec 2014

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

FINANCIAL REPORT

1 FINANCIAL STATEMENTS OF THE BANK

Income statement

in thousands of EUR

ITEM	Notes	2013 year	2012 year
Interest income and similar income	2.4.1	28,756	35,025
Interest expenses and similar expenses	2.4.1	-11,824	-12,507
Net interest income	**2.4.1**	**16,932**	**22,518**
Dividend income	**2.4.2**	**23**	**14**
Fee and commission income	2.4.3	37,365	38,719
Fee and commission expenses	2.4.3	-27,818	-30,080
Net fee and commission income	**2.4.3**	**9,547**	**8,639**
Losses on financial assets and liabilities not measured at fair value	2.4.4	-1,129	-86
Net gains from financial assets and liabilities held for trading	2.4.5	181	111
Net exchange losses	2.4.6	-95	-3
Net losses on derecognising assets, other than non-current assets held for sale	2.4.7	-6	-1
Other net losses from operation	2.4.8	-1,469	-152
Administration costs	2.4.9	-16,111	-16,254
Amortisation	2.4.10	-1,808	-1,655
Provisions	2.4.11	-1,655	-236
Impairments	2.4.12	-61,447	-12,499
OPERATING PROFIT/LOSS FROM ORDINARY ACTIVITY		**-57,037**	**396**
Income tax from continuing operations	2.4.13	-127	-64
NET OPERATING PROFIT/LOSS FROM ORDINARY ACTIVITY		**-57,164**	**332**
NET PROFIT/LOSS FOR THE YEAR		**-57,164**	**332**
Basic and diluted gain/loss per share	2.4.14	-41.50	0.75

Notes on pages 66-127 are integral part of financial statements.

Statement of other comprehensive income

in thousands of EUR

ITEM	2013 year	2012 year
NET PROFIT/LOSS FOR THE YEAR AFTER TAX	**-57,164**	**332**
OTHER COMPREHENSIVE INCOME AFTER TAX	**1,517**	**1,722**
ITEMS THAT WILL NOT BE RE-CLASSIFIED IN INCOME STATEMENT LATER	**-5**	**0**
Actuarial net surpluses/deficits for pension schemes recognised in retained gains/losses	-6	0
Income tax relating to items that will not be re-classified in income statement later	1	0
ITEMS THAT MAY BE RE-CLASSIFIED IN INCOME STATEMENT LATER	**1,522**	**1,722**
Net gains/losses recognised in revaluation surplus related to financial assets available for sale	1,811	2,108
Gains/losses recognised in revaluation surplus	1,806	2,017
Transfer of gains/losses from revaluation surplus to profit or loss	5	91
Income tax relating to items that may be re-classified in income statement later	-289	-386
TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX	**-55,647**	**2,054**

Notes on pages 66-127 are integral part of financial statements.

Statement of financial position

in thousands of EUR

Item	Notes	31 December 2013	31 December 2012
Cash and cash balances with the Central Bank	2.5.1	59,882	43,686
Financial assets held for trading	2.5.2	236	363
Available-for-sale financial assets	2.5.3	195,527	127,716
Loans		417,811	511,568
- loans to banks	2.5.5	60,658	71,635
- loans to non-bank clients	2.5.6	351,308	434,121
- other financial assets	2.5.7	5,845	5,812
Held-to-maturity financial investments	2.5.4	87,468	101,070
Property, plant and equipment	2.5.8	8,275	8,702
Intangible assets	2.5.9	4,189	3,879
Current tax assets	2.5.10	591	1,410
- current tax assets		0	693
- deferred tax assets		591	717
Other assets	2.5.11	1.663	1,125
TOTAL ASSETS		**775,642**	**799,519**
Financial liabilities to the Central Bank	2.5.12	45,668	45,416
Financial liabilities measured at amortised cost	2.5.13	679,933	701,972
- deposits due to banks		0	1,992
- deposits due to non-bank clients		634,506	626,251
- loans from banks		30,313	46,261
- subordinated debt		9,020	20,485
- other financial liabilities		6,094	6,983
Provisions	2.5.14	5,449	3,869
Current tax liabilities	2.5.10	612	380
- current tax liabilities		0	58
- deferred tax liabilities		612	322
Other liabilities	2.5.15	1,103	441
TOTAL LIABILITIES		**732,765**	**752,078**
Share capital	2.5.16	41,382	7,366
Capital reserves	2.5.16	0	8,996
Capital revaluation surplus	2.5.16	2,984	1,467
Reserves from profit (including retained gains)	2.5.16	0	29,446
Net profit/loss for the business year	2.5.16	-1,489	166
TOTAL EQUITY		**42,877**	**47,441**
TOTAL EQUITY AND LIABILITIES		775,642	799,519

Notes on pages 66-127 are integral part of financial statements.

Cash flow statement (using the indirect method or Variant II)

in thousands of EUR

Designation	ITEM	Notes	2013 year	2012 year
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total profit/loss before tax		-57,037	396
	Amortisation	2.4.10	1,808	1,655
	Impairments/(reversal of impairments) of available-for-sale financial assets		12	991
	Loan impairments/(reversal of impairments)		61,320	11,509
	Impairments of property, plant and equipment, investment properties, intangible long-term assets and other assets		115	0
	Net gains/losses from exchange differences	2.4.6	95	3
	Net (gains)/ losses from sales of tangible assets and investment property		6	1
	Other (gains)/losses from investing activity		-3,775	-4,082
	Other (gains)/losses from financing activities		634	895
	Other adjustments to total profit or loss before tax		1,773	236
	Cash flows from operating activities before changes in operating assets and liabilities		**4,951**	**11,604**
b)	**(Increase)/decrease in operating assets (exclusive of cash equivalents)**		**-29,641**	**26,699**
	Net (increase)/decrease in financial assets held for trading		126	190
	Net (increase)/decrease in financial assets available for sale		-43,579	8,456
	Net (increase)/decrease in loans		14,465	18,178
	Net (increase)/decrease in other assets		-653	-125
c)	**Increase/(decrease) in operating liabilities**		**-9,571**	**-29,146**
	Net increase/(decrease) in financial liabilities to the Central Bank		253	403
	Net increase/(decrease) in deposits and loans raised, measured at amortised cost		-10,503	-8,425
	Net increase/(decrease) in issued debt securities, measured at amortised cost		0	-21,087
	Net increase/(decrease) in other liabilities		679	-37
č)	**Cash flows from operating activities (a+b+c)**		**-34,261**	**9,157**
d)	**(Paid)/returned income tax**		**636**	**-72**
e)	**Net cash flows from operating activities (c2+d)**		**-33,625**	**9,085**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Cash receipts from investment activities**		**29,251**	**28,430**
	Cash proceeds from the sales of property, plant and equipment, and investment properties		18	8
	Receipts from non-current assets or liabilities held for sale		0	4
	Cash proceeds from the sale of held-to-maturity financial investments		29,233	28,418
b)	**Cash disbursements from investment activities**		**-13,813**	**-20,269**
	(Cash payments for the purchase of property, plant and equipment, and investment properties)		-953	-1,399
	(Cash payments for the purchase of intangible long-term assets)		-1,003	-1,122
	(Cash payments to acquire held-to-maturity financial investments)		-11,857	-17,748
c)	**Net cash flows from investing activities (a-b)**		**15,438**	**8,161**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash receipts from financing activities**		**24,879**	**0**
	Income from issued subordinate debt		9,000	0
	Income from issued shares and other equity instruments		15,879	0
b)	**Cash disbursements from financing activities**		**-896**	**-815**
	(Payment of subordinated debt)		-896	-815
c)	**Net cash flows from financing activities (a-b)**		**23,983**	**-815**
	Effects of changes in exchange rates on cash and cash equivalents		-139	0
E.	**Net increase/decrease in cash assets and cash equivalents (Ae+Bc+Cc)**		**5,796**	**16,431**
F.	**Cash and cash equivalents at the beginning of the period**		**68,680**	**52,249**
G.	**Cash and cash equivalents at the end of the period (D+E+F)**	**2.5.1**	**74,337**	**68,680**

Interest paid and interest received and dividends are included in note 2.4.2.

Notes on pages 66-127 are integral part of financial statements.

Statement of changes in shareholders' equity for the period between 1 January and 31 December 2013

in thousands of EUR

ITEM	Share capital	Capital reserves	Capital revaluation surplus	Reserves from profit	Retained gain/ loss (including net gain/loss for the business year)	Total equity
OPENING BALANCE IN THE PERIOD	**7,366**	**8,996**	**1,467**	**29,446**	**166**	**47,441**
Comprehensive income for the year after tax	0	0	1,517	0	-57,164	-55,647
Subscribed (or contributed) new equity	34,016	17,067	0	0	0	51,083
Transfer of net profit to reserves from profit	0	0	0	166	-166	0
Compensation of loss from previous years	0	-26,063	0	-29,611	55,675	0
CLOSING BALANCE IN THE PERIOD	**41,382**	**0**	**2,984**	**0**	**-1,489**	**42,877**
ACCUMULATED LOSS FOR THE YEAR					**-1,489**	**-1,489**

Statement of changes in shareholders' equity for the period between 1 January and 31 December 2012

in thousands of EUR

ITEM	Share capital	Capital reserves	Capital revaluation surplus	Reserves from profit	Retained gains (including net gains for the business year)	Total equity
OPENING BALANCE IN THE PERIOD	**7,366**	**8,996**	**-255**	**28,037**	**1,242**	**45,386**
Comprehensive income for the year after tax	0	0	1,722	0	332	2,054
Transfer of net profit to reserves from profit	0	0	0	1,408	-1,408	0
CLOSING BALANCE IN THE PERIOD	**7,366**	**8,996**	**1,467**	**29,446**	**166**	**47,441**
DISTRIBUTABLE PROFIT FOR THE YEAR					**166**	**166**

Notes on pages 66-127 are integral part of financial statements.

2 NOTES TO THE FINANCIAL STATEMENTS

2.1 Basic information

Poštna banka Slovenije is a commercial bank focusing on standard retail and corporate transactions.

The Bank has its registered office in Maribor, Ulica Vita Kraigherja 5.

Poštna banka Slovenije is a limited company, of which 99.12 percent is owned by Nova KBM and 0.88 percent by Pošta Slovenije. It is a member of the Nova KBM Group.

The Nova KBM Group consists of the parent company Nova KBM and eleven subsidiaries, including Poštna banka Slovenije.

The Nova KBM Group prepares consolidated financial statements available at the registered office of Nova KBM in Maribor, Ulica Vita Kraigherja 4.

Poštna banka Slovenije is obligated to compile separate financial statements.

2.2 Basis of presentation of financial statements

The Management Board of Poštna banka Slovenije on 21 January 2014 approved the published financial statements of the Bank as at 31 December 2013.

Statement of Compliance
The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis of measurement
The financial statements have been prepared on a historical cost basis, except for the following items, which are measured at fair value:
- Financial assets measured at fair value through profit or loss,
- Available-for-sale financial assets.

The methods used to measure fair values are discussed below.

Use of estimates and judgements

The preparation of financial statements according to IFRS requires the Bank to make judgments and estimates that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities as at the reporting date, and the amounts of revenue and expenses for the period then ended.

Major judgments refer to the classification of financial instruments with the emphasis on the distinction between financial instruments held to maturity and financial instruments held for trading and available for sale. The classification of financial instruments is carried out before the initial recognition of the financial instrument according to the Bank's policy.

The estimates are applied to: impairments of loans to clients, impairments of the available-for-sale financial assets, fair value of financial assets and liabilities, provisions for off-balance-sheet risks, amortisation/depreciation period of property, plant and equipment and intangible assets, contingent tax items, provisions for liabilities to employees and provisions for liabilities arising from litigation.

Presentation and functional currency

These financial statements are presented in Euros, the Bank's functional and presentation currency.

All amounts in the financial statements and their respective notes are prepared in thousands of EUR except when otherwise indicated. Due to rounded data, calculating differences might occur in totting up.

Comparative information

In line with the amended decision of the Bank of Slovenia concerning the books, the Bank adjusted in 2013 comparative data for 2012 accordingly. The adjustment for 2012 affect neither the Bank's operating results nor its equity.

Related parties

For the purpose of financial statements related parties include:

- The companies, which directly or indirectly, through one or more intermediaries, control or are controlled or jointly con trolled by the reporting Bank (these include: parent companies, subsidiaries and partner companies),
- Associated companies,
- Executive directors and directors of such banks and companies, in which executive directors and Bank's directors may exert significant influence (participation in deciding about the financial and business policy of a company).

Segments of operations

The Bank operates as a single reporting segment, i.e. the „banking“ segment.

2.3 Accounting policies

Adopted accounting policies were applied consistently in both reporting periods presented in these financial statements.

2.3.1 Foreign currency translation

Transactions in foreign currency are converted into the functional currency at the exchange rate on the transaction date. Foreign exchange differences are recognised in the income statement.

Assets and liabilities items expressed in foreign currencies are converted in the financial statements based on the European Central Bank reference exchange rate applicable on reporting date. The effects of conversion are posted in the income statement under net profit or loss from exchange differences.

2.3.2 Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The Bank classifies as cash equivalents:
- Cash and balances in the settlement account and transaction accounts,
- Loans to banks with original maturity of up to three months,
- Investments in available-for-sale-debt securities with original maturity of up to three months.

2.3.3 Financial assets

(i) Classification of financial assets

Upon initial recognition, the Bank classifies financial assets with regard to the purpose of acquisition, the time the financial instruments are held and the type of financial instrument, as follows:

- **Financial assets measured at fair value through profit or loss** are financial instruments held for trading and other financial instruments measured at fair through profit or loss. The Bank classifies as financial instruments held for trading those instruments that it plans to actively trade in and exploit their short-term price fluctuations. This group comprises equity and debt securities.
- **Held-to-maturity financial investments** are financial assets with fixed or determinable payments and fixed maturities which the Bank has the positive intention and ability to hold to maturity.
- **Available-for-sale financial assets** are not acquired for trading and intended to be held for an indefinite period of time. Such assets may be sold subject to liquidity requirements or changes in market conditions (interest rates, foreign exchange rates or financial instrument prices).
- **Loans and receivables** are financial assets with fixed or determinable payments that are not traded in an active market.

The Bank has no financial instruments for the purpose of economic hedging of another financial instrument nor any instruments that require hedge accounting for risk.

(ii) Recognising and derecognising financial assets

Acquisitions and disposals of financial assets, other than loans and receivables, are recognised at the trade date (date of contract conclusion). Loans and receivables are recognised at the settlement date or on the day when clients are provided with funds.

A financial asset is derecognised when the contractual rights to cash flows from such asset expire or the financial asset is transferred and the transfer fulfils the criteria for derecognising (the Bank transferred all rights and risks arising from a financial asset). If the Bank transfers a financial asset but keeps nearly all risks and rewards of ownership, the financial asset is not derecognised.

On derecognising a financial asset in its entirety, the difference between the asset's book value and the sum of the consideration received (including any new asset obtained less any new commitment) and any cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

(iii) Measurement of financial assets

Financial assets, other than financial assets measured at fair value through profit or loss, are initially measured at fair value increased by transaction costs.
Financial assets measured at fair value through profit or loss are initially measured at fair value and the transaction costs are upon acquisition recognised in the income statement.

Financial assets held for trading and available-for-sale financial assets are after initial recognition measured at fair value. Fair value is based on the quoted market price at the reporting date. If a quoted market price is not available, the fair value is determined using the valuation models. These include the application of prices in comparable transactions and the discounted future cash flow method. Available-for-sale equity securities, the fair value of which cannot be reliably measured, are measured at cost (purchase price increased by transaction cost and reduced by impairment).

Loans and receivables are measured at amortised cost using the effective interest rate method and are recorded in the amount of outstanding principal plus unpaid interest and commission less impairment.

Investments held to maturity are measured at amortised cost. This cost is computed as the amount of initially recognized receivable minus principal repayments, plus or minus any cumulative repayment of difference between the initially recognized amount and the amount to be received on maturity less impairment of the investment.

(iv) Gains and losses

Gains and losses arising from the change in the fair value of financial assets measured at fair value through profit or loss are recognised in the income statement in the period, in which they arise.

Gains and losses arising from the change in the fair value of financial assets available for sale are recognised directly in comprehensive income, with the exception of impairment losses, until derecognition. In the latter case the accumulated gains or losses disclosed in the comprehensive income are recognised in the income statement. Interest arising from available-for-sale debt securities calculated using the effective interest rate method is recognised directly in the income statement.

If the transaction cost on an inactive market significantly differs from the fair value of the same instrument on another relevant comparable market or if the transaction cost significantly differs from the price based on the valuation model considering the assumptions from the active market, the Bank immediately recognises the difference between the transaction cost and fair value in the income statement under net gains and losses from trading as „day one profit“. If the market price is not relevant, the difference between the price of transaction and valuation model is recognised in the income statement once the market becomes significant or the instrument is disposed.

(v) Reclassification of financial assets

In 2013, the Bank did not reclassify financial assets from one category into another.

(vi) Impairments of financial assets

Available-for-sale financial assets
For available-for-sale financial investments, the Bank assesses at each reporting period whether there is objective evidence that an investment is impaired. A significant and prolonged decline in the fair value of the investment below its cost can represent an objective evidence of impairment.

If a debt instrument available for sale is impaired, the accumulated loss disclosed in the comprehensive income is transferred to the income statement. Such recognised loss may be reversed. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the loss was recognised, the impairment reversal is recognised in the income statement.

If an available-for-sale equity security is impaired, the impairment loss is recognised in the income statement. The impairment of an equity security is not reversed through the income statement; however, the subsequent increase in fair value is recognised directly in comprehensive income.

The Bank considers objective evidence on impairment of investments in securities as a significant (over 40 percent) or prolonged (9 months or more) decrease in fair value below their initial cost.

Held-to-maturity financial investments
The Bank assesses held-to-maturity financial investments for objective signs of impairment at each reporting period.

The impairment loss is measured as the difference between the asset's carrying amount and the present value of future cash flows discounted at the financial asset's original effective interest rate. The impairment amount is recognised in the income statement.

Loans and receivables
The Bank classifies each client into a credit rating group according to its internal methodology. Clients are classified into credit rating groups based on their financial position, performance, future ability to provide cash flow for repayment of liabilities, repayment of past obligations, industry risk and soft factors.

The Bank assesses regularly or at least on a quarterly basis whether there is objective evidence or events occurring after initial recognition of the asset, and whether those events have an impact on the estimated future cash flows of the financial assets or group of financial assets, which can be reliably measured.

On the basis of the risk rating of the client and concluded transaction, the Bank makes adequate impairments of financial assets according to IFRS and the internal methodology. Financial assets are assessed on an individual basis. If individual assessment reveals impairment of a financial asset, the latter is impaired on an individual basis or classified into the relevant group in terms of risk assigned to the debtor or financial asset, and impaired on a collective basis. All individually insignificant financial assets are also subject to group assessment and impairment.

In an individual assessment of a financial asset, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of future cash flows discounted at the contractual interest rate of the financial asset. If the Bank has prime or suitable collateral, it will also consider the estimated cash flows from liquidation of collateral.

Group assessment of financial assets is conducted according to the model based on the likelihood of the client in a particular group to default.
Due to impairment, the carrying amount of an asset is decreased directly or by use of the value adjustment account. The loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment decreases, the previously recognised impairment loss is reversed. The reversed impairment amount is recognised in the income statement.

Renegotiated loans
Whenever possible, the Bank strives for restructuring loans instead of liquidating collateral. Restructuring of loans comprises the extension of payment deadlines and agreeing on new credit terms and conditions. Once the new terms and conditions are agreed, the loan is no longer overdue, however, the client's credit rating does not improve solely based on restructuring. The Bank continuously reviews whether the new terms and conditions of restructured loans are fulfilled and monitors the possibility of future payments. Such loans are impaired on a collective basis or individually, as calculated based on the original effective interest rate on the loan.

(vii) Offset of financial assets

Financial assets and liabilities are offset in the statement of financial position when the legal right and intention of net settlement exist or when the asset is liquidated and liability settled at the same time.

2.3.4 Leases

The Bank has not posted in its books any assets or liabilities from finance lease.

Operating lease is any lease other than a finance lease.

Bank as the lessee
In the case of operating lease, payments made are stated in the income statement in proportion to the duration of the lease.

Bank as the lessor
Assets under operating lease are disclosed within property, plant and equipment. Rental income is recognised in the income statement in proportion to the lease term.

2.3.5 Property, plant and equipment (tangible fixed assets)

Items of property, plant and equipment are assets used for the Bank's activity, carried at cost less accumulated depreciation and any impairment losses. Upon initial recognition, the cost includes the purchase price and the costs attributed directly to the acquisition of the asset.

Subsequent costs form part of the value of acquired assets and are recognised only if it is probable that economic benefits from subsequent cost in relation to the asset will flow to the Bank, and provided they can be reliably measured. All other investments, maintenance and repairs are charged against the income statement in the period they arise.

A fixed asset is depreciated from the date it is available for use. Value adjustments for depreciation are made on an individual basis using the straight-line depreciation method over the estimated useful life.

Amortisation/depreciation rates in 2013 and 2012 were identical, i.e.:

Fixed asset	Depreciation rate (in %)
Buildings	3.00
Other equipment	12.50 to 20.00
Computer equipment	33.33

Land is recorded separately from buildings. The useful life of land is generally indefinite and therefore not depreciated.

In case of condominium of business premises, the cost of the appurtenant land is included in the cost of that portion of the building owned by the Bank.

The value of property, plant and equipment is checked for any impairment losses in case of any signs that their carrying amount could not be entirely recovered. An expert service, authorised officer or committee assigned by the Management Board of the Bank annually verifies if there exist reasons for impairment of property, plant and equipment.

If the asset's estimated recoverable amount is less than its carrying amount, the carrying amount has to be reduced to recoverable amount and the loss from impairment recognised in the income statement. The recoverable amount is the higher of the fair value less costs to sale or the asset's value in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between the proceeds from disposal and the carrying amount, and are recognised in the income statement.

2.3.6 Intangible assets

The Bank has only intangible assets with finite useful life.

Upon initial recognition, the cost includes the purchase price and the costs attributed directly to the acquisition of the asset or bringing the asset to working condition.

An intangible asset starts being amortised when it becomes available for use. The Bank uses the straight-line amortisation method over the estimated useful life of an asset.

In 2013, the Bank applied the same amortisation rate as in 2012, i.e. 10.00 %.

Intangible assets are no longer amortised when they are reclassified to non-current assets held for sale or upon derecognition, since the Bank no longer expects any economic benefit from them.

The recoverable value of an intangible asset is reassessed annually. If it is below the carrying amount, revaluation is carried out due to impairment.

2.3.7 Inventories

Inventories are measured at the lower of cost or net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs of sale. Inventories are not subject to revaluation to account for strengthening.

Real estate acquired as recovery of receivables is upon initial recognition measured according to the appraisal record submitted upon receivable recovery or at the contractual value. Such real estate is held by the Bank with the intention of sale and is carried at fair value.

2.3.8 Financial liabilities

Financial liabilities include liabilities to the Central Bank, and financial liabilities measured at amortised cost.

The latter refer to liabilities arising from deposits and loans of banks and non-bank clients, debts arising from issued debt securities and other financing liabilities.

Financial liabilities measured at amortised cost are stated in the amount of received cash less direct transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost, and any difference between the initially recognized amount and the amount to be received on maturity shall be recognised in profit and loss account using the effective interest rate method.

A financial liability is derecognised when the commitment is discharged, cancelled or expired. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid is recognised in profit or loss account.

2.3.9 Provisions

The Bank recognises long-term provisions for liabilities and costs when present obligations (legal or constructive) exist as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. Provisions are set up for pensions and similar liabilities, off-balance-sheet liabilities, unresolved litigation and other purposes.

The Bank recognises provisions for pensions and similar liabilities reflecting the present value of liability for severance pay upon retirement and jubilee bonuses. The calculation is performed separately for each employee by taking into account the cost of severance pay upon retirement, to which employees are entitled in accordance with their employment contracts, and the cost of all expected jubilee bonuses for the total years of service in the Bank before retirement. The cost of the current and previous periods for severance pay is recognised in profit and loss account, and the actuarial deficit/surplus in the statement of comprehensive income. The cost of the current and previous periods and actuarial deficit/surplus for jubilee bonuses is recognised in profit and loss account. The liabilities are calculated for the Bank by a certified actuary using the book reserve method. Present value is calculated based on the discount interest rate equalling market return on corporate bonds of an issuer with high credit rating, issued in the currency identical to that of the employer's liabilities.

The Bank recognises provisions for off-balance-sheet liabilities based on the risk rating of the client and concluded transaction determined according to similar estimates as loan impairment estimates.

Provisions for legal action represent a reliably estimated amount of obligation at the reporting date. They are estimated based on known facts from the court proceedings and past experience in similar actions.

2.3.10 Equity

The Bank's share capital is divided into ordinary no-par value shares.

Dividends from shares are recognised as a financial liability in the period they are approved by the General Meeting of Shareholders.

The Bank's reserves include capital reserves and reserves from profit, which comprise of legal reserves, statutory reserves and other reserves from profit.

2.3.11 Contingencies and commitments

The Bank operates in financial instruments giving rise to off-balance-sheet risk. Financial instruments include financial and performance guarantees, letters of credit, credit lines and approved indrawn loans and limits.

2.3.12 Financial guarantees

Contingencies from guarantees (sureties) represent irrevocable payment commitments in case the Bank's client fails to discharge their liability to third parties.

Fee and commission income is evenly recognised in the income statement.

Risks related to contingencies and commitments are assessed similarly as credit risks. Every increase in liabilities based on estimated expenses necessary for discharging contractual obligations is reflected in provisions.

2.3.13 Interest income and expenses

Income is recognised when it is probable that future economic benefits will flow to the Bank and these benefits can be measured reliably.

Interest income and expenses are recognised in amounts, deadlines and manner specified in the resolution on interest rates or agreements between the Bank and the client.

Whereby interest income is recognised in a discounted value depending on the level of impairment of financial instrument. Interest on financial instruments, where repayment is not expected, is not recognised as revenues.

The income statement discloses all interest income and expenses from operations with financial assets by means of the effective interest rate method.

Interest income comprises regular, default and deferred interest, prepaid fee for cost in retail loan repayment and fee for approval of corporate loans. The fee is transferred to income over the loan repayment period.
Interest expenses include interest on deposits, issued securities and raised loans, and other expenses arising from financial liabilities.

2.3.14 Dividend income

Dividend income comprises of dividends or profit shares from equity investments in companies. The Bank recognises dividend income in the income statement when it obtains the right to payment.

2.3.15 Fee and commission income and expense

Fee and commission income comprises of fees and commissions for provision of services by the Bank. Fee and commission expense comprises of fees for services provided by third parties.

Fee and commission income and expense are recognised in the income statement when the related service is performed.

2.3.16 Gains/losses on financial assets not measured at fair value through profit or loss

Gains and losses on financial assets available for sale, loans and held-to-maturity financial investments are recognised in the income statement upon sale, maturity date or derecognition of an asset for some other reason.

2.3.17 Net gains/losses from financial assets held for trading

Net gains and losses from trading comprise realised and unrealised gains and losses on financial instruments held for trading.

2.3.18 Other net gains and losses

Other net operating income and expenses include income and expenses from non-banking activity (rental income, effects of inventory sale, membership fees, contributions and other duties).

2.3.19 Impairments

Impairments of the Bank include impairments of financial assets not measured at fair value through profit or loss account.

2.3.20 Taxes

Income tax is calculated in line with the law, i.e. at a 17-percent tax rate.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Tax is accounted for each time at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

The major temporary differences arise from valuation of financial instruments and provisions.

A deferred tax asset (receivable) is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax related to valuation of available-for-sale financial instruments measured at fair value is disclosed directly in comprehensive income.

2.3.21 Amended standards and interpretations

Information related to initial use of certain new regulations

Standards and interpretations applicable in the current period
In the current period, the following standards, amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:
- **IFRS 13 „Fair Value Measurement"**, adopted by the EU on 11 December 2012(effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 „First-Time Adoption of IFRS"** – High hyper-inflation and removal of agreed dates for the first-time users of IFRS, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 „First-Time Adoption of IFRS"**– State loans, adopted by the EU on 4 March 2013(effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 „Financial Instruments: Disclosures"** – Offsetting financial assets and financial liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 „Presentation of financial statements"** – Presentation of components of other comprehensive income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 „Income tax"** – Deferred tax: Reversal of assets concerned, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IAS 19 „Employee Benefits“** – Improved calculation of post-employment earnings, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards „IFRS improvements (period 2009-2011)“**, based on the annual project on IFRS improvements (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34), mostly with a purpose of removing incompliance and interpretation of the text, adopted by the EU on 27 March 2013 (amendments have to be used for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 „Stripping costs in the production phase of a surface mine“**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

Adoption of these amendments to existing standards did not lead to any change in accounting policy of the company.

Standards and interpretations issued by IFRS and adopted by the EU, but not yet effective
As at the date of approval of these financial statements, the following standards, amendments to existing standards and interpretations were issued by IFRS and adopted by the EU, but not yet effective:

- **IFRS 10 „Consolidated Financial Statements“**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 „Joint Arrangements“**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 „Disclosure of Interests in Other Entities“**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (amended in 2011) „Separate financial statements“**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (amended in 2011) „Investments in associates and joint ventures“**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 „Consolidated financial statements“, IFRS 11 „Joint ventures“** and **IFRS 12 „Disclosure of Interests in Other Entities“** – Guidance for transition, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 „Consolidated financial statements“, IFRS 12 „Disclosure of Interests in Other Entities“** and **IAS 27 (amended in 2011) „Separate financial statements“** – Investment companies, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 „Financial Instruments: Presentation“** – Offsetting financial assets and financial liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 „Impairment of Assets“** – Disclosure of recoverable amount for non-financial assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 „Financial Instruments: Recognition and measurement“** Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

Standards and interpretations issued by IFRS, but not yet adopted by the EU
At present, IFRSs as adopted by the EU do not distinguish essentially from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments to existing standards and interpretations that as at [date of published financial statements] (the dates of entry into force indicated below are applicable for the whole IFRS) have not been yet approved for use in the EU:

- **IFRS 9 „Financial instruments“** and subsequent amendments (the date of entry into effect has not been set yet),
- **Amendments to IAS 19 „Employee Benefits“** – Defined benefit plans: Employee contributions (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to various standards „IFRS improvements (period 2010-2012)“**, based on the annual project on IFRS improvements (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), mostly with a purpose of removing incompliance and interpretation of the text (amendments have to be used for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards „IFRS improvements (period 2011-2013)“**, based on the annual project on IFRS improvements (IFRS 1, IFRS 3, IFRS 13 and IAS 40), mostly with a purpose of removing incompliance and interpretation of the text (amendments have to be used for annual periods beginning on or after 1 July 2014).

The Bank assumes that introduction of these standards, amendments to existing standards and interpretations will have no significant impact on the Bank's financial statements during the time of initial use.
At the same time, hedge accounting for risk related to financial assets and liabilities portfolio, the principles of which have not been adopted by the EU yet, has not been regulated yet.
The Bank estimates that the use of hedge accounting for risk related to financial assets and liabilities in line with the requirements of **IAS 39: „Financial instruments: Recognition and measurement“** would have no significant impact on the Bank's financial statements, if it were used as at the date of the balance sheet.

Further details on individual standards, corrections, amendments and notes that can be used as necessary:

- **IFRS 9 „Financial instruments“**, published by IASB on 12 November 2009. On 28 October 2010, IASB reissued IFRS 9, incorporating new requirements relating to accounting for financial liabilities, and transferred from IAS 39 the requirement for derecognition of financial assets and financial liabilities. On 19 November, IASB issued an additional package of amendments to accounting requirements for financial instruments. The standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing a number of different rules in IAS 39. The approach of IFRS 9 is based on the method used by the company in financial instrument management (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires using a single method for impairments, thereby replacing numerous different impairment methods used in IAS 39. New requirements on accounting for financial liabilities remove the problem of volatility in profit or loss resulting from a decision of the issuer to measure its debts at fair value. IASB decided to keep the existing measurement of amortised cost for most liabilities, while limited amendments to those which are necessary to remove the problem of own loans. According to new requirements, the company that chooses to measure liabilities at fair value will recognise a portion of change in fair value resulting from changes in own credit risk of the company in the other comprehensive income in the income statement, and not in the income statement. The changes from November 2013 introduce actual renovation of hedge, which will enable companies for better disclosure of risk management activity in their financial statements. Consequently, changes in the treatment of so-called issue of own loan that were already included in IFRS 9 Financial instruments will allow to be used separately, and it will not be necessary to alter other accounting for financial instruments. It also eliminates the mandatory implementation of IFRS 9 as of 1 January 2015, and provides compilers of financial statements with sufficient time for transition to new requirements,
- **IFRS 10 „Consolidated financial statements“** published by IASB on 12 May 2011. IFRS 10 replaces instructions relating to the consolidation in IAS 27 „Consolidated and Separate Financial Statements“ and SIC 12 „Consolidation - Special Purpose Entities“ by introducing a single consolidation model for all entities based on control, regardless of the nature of the investee (i.e. whether the company is controlled by voting rights of investors or through other contractual arrangements as it is common in special purpose entities). According to IFRS 10, control is based on whether an investor has 1) power over the investee;

2) exposure or rights to variable returns from its cooperation with the investee; and 3) the ability to use its power over the investee in order to affect the amount of returns,

- **IFRS 11 „Joint Arrangements“** published by IASB on 12 May 2011. IFRS 11 introduces new accounting requirements for joint arrangements that replace IAS 31 Interest in joint ventures. Optional use of proportionate consolidation method in accounting for jointly-controlled entities has been removed. In addition, IFRS 11 currently removes jointly controlled assets to a mere distinction between joint operations and joint ventures. Joint operation is a joint arrangement in which the parties have rights to assets through joint control and are committed to liabilities. Joint venture is a joint arrangement in which the parties have rights to net assets through joint control,
- **IFRS 12 „Disclosure of Interests in Other Entities“** published by IASB on 12 May 2011. IFRS 12 will require improved disclosures on consolidated and non-consolidated entities controlled by the company. IFRS 12 aims at requiring information in order to enable users of financial statements to evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures resulting from non-consolidated structured entities, and the involvement of non-controlling shareholders in the business of consolidated entities,
- **IFRS 13 „Fair Value Measurement“** published by IASB on 12 May 2011. IFRS 13 establishes a fair value, provides guidance on how to determine fair value, and requires disclosures regarding fair value measurements. Nevertheless, IFRS 13 does not change the requirements regarding the items that should be measured or disclosed at fair value,
- **Amendments to IFRS 1 „First-Time Adoption of International Financial Reporting Standards“** – High hyper-inflation and removal of agreed dates for the first-time users of IFRS published by IASB on 20 December 2010. The first amendment replaces references to the agreed date „1 January 2004“ with the „date of transition to IFRS“, thus removing the need of entities first-time users of IFRS to change their derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance for entities on how to continue their existing financial statements in accordance with IFRS following the period in which the entity did not comply with IFRS because its functional currency was subjected to high hyperinflation,
- **Amendments to IFRS 1 „First-Time Adoption of IFRS“** – State loans published by IASB on 13 March 2012. The amendment considers the issue on how an entity using IFRS for the first time accounts state loans with the interest rate below the market rate at the time of transition to IFRS. It also introduces an exception for retrospective use of IFRS, which provides entities using IFRS for the first time with the same relief as existing compilers of financial statements in accordance with IFRS that were enabled for this relief by introduction of the requirement in IAS 20 „Accounting for Government Grants and Disclosure of Government Assistance“, in 2008,
- **Amendments to IFRS 7 „Financial Instruments: Disclosures“ – Offset of Financial Assets and Financial Liabilities** published by IASB on 16 December 2011. The amendments require information about all recognised financial instruments offset in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information on recognised financial instruments, which are the subject to enforceable master netting agreements and similar agreements, even if they are not offset in accordance with IAS 32,
- **Amendments to IFRS 9 „Financial Instruments“ and IFRS 7 „Financial Instruments: Disclosures“** - Mandatory date of putting into effect and disclosure of transitions published by IASB on 16 December 2011. Amendments postpone the mandatory effective date from 1 January 2013 to 1 January 2015. Amendments also provide relief from the requirement to amend comparative financial statements for the impact of using IFRS 9. This exemption was originally available only to companies that decided to use IFRS 9 before 2012. Instead, additional disclosures of transitions will be necessary to help investors understand the impact of initial application of IFRS 9 on classification and measurement of financial instruments,

- **Amendments to IFRS 10 „Consolidated financial statements", IFRS 11 „Joint ventures"** and **IFRS 12 „Disclosure of Interests in Other Entities"** – Guidance for transition published by IASB on 28 June 2012. The amendment is aimed at allowing further relief in transition to IFRS 10, IFRS 11 and IFRS 12, by „limiting the requirement to provide customised comparative data only on comparable previous period". Amendments were made also to IFRS 11 and IFRS 12 in order to cancel the requirement to provide comparable data the periods preceding the current previous period,
- **Amendments to IFRS 10 „Consolidated financial statements", IFRS 12 „Disclosure of Interests in Other Entities"** and **IAS 27 „Separate financial statements"** Investment companies, published by IASB on 31 October 2012. The amendments introduce an exception for the request for consolidation of IFRS 10 and require from investment companies to carry out measurements at fair value through profit or loss, and not through consolidation. These amendments also specify requirements for disclosure for investment companies,
- **Amendments to IAS 1 „Presentation of financial statements" – Presentation of components of other comprehensive income**, published by IASB on 16 June 2011. The amendments require that companies, which compile financial statements in accordance with IFRS, collect items within other comprehensive income that may be reclassified to profit and loss set in the income statement. The amendments also confirm existing requirements to have the items in other comprehensive income and profit or loss presented as either a single statement or as two consecutive statements,
- **Amendments to IAS 12 „Income tax"** – Deferred tax: **Reversal of assets concerned**, published by IASB on 20 December 2010. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover a carrying amount of the asset through its use or sale. If the asset is measured by the fair value model in IAS 40 „Investment Property", it may be difficult or subjective to assess whether recovery will take place through use or sale. The amendment provides a practical solution to the problem by introducing an assumption that recovery of the carrying amount will be usually made through sale,
- **Amendments to IAS 19 „Employee Benefits" – Improved calculation of post-employment earnings** published by IASB on 16 June 2011. Amendments bring significant improvements through: (1) eliminating options of postponing recognitions of gains or losses known as the „band method", which improves the comparability and reliability of presentation; (2) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including a requirement for presentation of remeasurements in other comprehensive income, thereby separating those changes from the changes that many people consider a result from daily operation of an entity; (3) improving disclosure requirements for defined benefit plans, which offer better information on the nature of these plans and the risks to which companies are exposed due to participating in these plans,
- **Amendments to IAS 19 „Employee Benefits" – Defined benefit plans: Employee contributions**, published by IASB on 21 November 2013. A limited scope of the amendments apply to contributions from employees or third parties to defined benefit plans. The amendments aim at simplifying accounting of contributions, which do not depend on the employee's length of service, for example: employee contributions calculated on the basis of a fixed percent of payments,
- **IAS 27 „Separate financial statements"** (amended in 2011) published by IASB on 12 May 2011. Requirements relating to separate financial statements are unchanged and included in the amendment to IAS 27. Other parts of IAS 27 were replaced by IFRS 10,
- **IAS 28 „Investments in associates and joint ventures"** (amended in 2011) published by IASB on 12 May 2011. IAS 28 is amended in line with issued IFRS 10, IFRS 11 and IFRS 12,
- **Amendments to IAS 32 „Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities**, published by IASB on 16 December 2011. The amendments provide clarification on the application of netting and focus on four main areas: (a) the meaning of „currently it has a legally enforceable right to offset"; (b) the use of simultaneous encashment and settlement; (c) offsetting the amounts of guarantees; (d) a unit of account for application of netting requirements,

- **Amendments to IAS 36 „Impairment of Assets“** – Disclosure of recoverable amount for non-financial assets, published by IASB on 29 May 2013. Limited amendments to IAS 36 relate to disclosure of information about recoverable amount of impaired assets, if this value is based on fair value less costs of disposal. While preparing IFRS 13 Fair Value Measurement, IASB decided to amend IAS 36 in order to require disclosures of recoverable amount of impaired assets. The current amendments clarify the original purpose of IASB to limit the scope of such disclosures to recoverable amount of impaired assets based on fair value less costs of disposal,
- **Amendments to IAS 39 „Financial Instruments: Recognition and measurement“** – Novation of Derivatives and Continuation of Hedge Accounting, published by IASB on 27 June 2013. Limited amendments allow further hedge accounting in cases where the derivative, which was labelled as an instrument for hedging, is renovated in order to implement clearing with a central counterparty due to laws and regulations, provided that certain conditions are met (in this context renovation provides that the parties must agree on replacement of the original counterparty with a new one),
- **Amendments to various standards „IFRS improvements (period 2009-2011)“** published by IASB on 17 May 2012. Amendments to various standards and interpretations result from annual project on IFRS improvements (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34), aimed particularly at removing inconsistencies and interpretation of the text. The amendments clarify the requirements for accounting recognition in cases where a free interpretation was allowed previously. The most important amendments include new or revised requirements relating to: (i) re-use of IFRS 1, (ii) borrowing costs under IFRS 1, (iii) interpretation of requirements for comparable data, (iv) classification of equipment for maintenance, (v) interim financial reporting and information segments for all assets and liabilities,
- **Amendments to various standards „IFRS improvements (period 2010-2012)“**, published by IASB on 12 December 2013. They result from annual project on IFRS improvements (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IFRS 16, IAS 24 and IAS 38) and aim particularly at removing inconsistencies and interpretation of the text. The amendments clarify the requirements for accounting recognition in cases where a free interpretation was allowed previously. The most important amendments include new or revised requirements relating to: (i) definition of „required conditions“; (ii) accounting of amounts the payment of which depends on future events under a business merger; (iii) merger of business segments and aligning total assets of the segment subject to reporting with the assets of the company; (IV) measurement of short-term receivables and payables; and (vi) explanations about the key management personnel,
- **Amendments to various standards „IFRS improvements (period 2011-2013)“**, published by IASB on 12 December 2013. They result from annual project on IFRS improvements (IFRS 1, IFRS 3, IFRS 13 and IAS 40) and aim particularly at removing inconsistencies and interpretation of the text. The amendments clarify the requirements for accounting recognition in cases where a free interpretation was allowed previously. The most important amendments include new or revised requirements relating to: (i) importance of effective IFRS in IFRS 1; (ii) the scope of exemption for joint ventures; (iii) the volume of paragraph 52 in IFRS 13 (exemptions of the portfolio), and (iv) clarifying an interconnection of IFRS 3 and IAS 40 in the classification of real estate as an investment property or owner-occupied property,
- **IFRIC 20 „Stripping costs in the production phase of a surface mine“**, published by IASB on 19 October 2011. The explanation indicates that costs associated with a „disposal activity“ have to be accounted for as an addition to the existing asset or its improvement, and that this component shall be depreciated over the expected useful life of recognised constituents of the mineral body, which become more accessible as a result of disposal activities (by using production method units, unless some other method is more appropriate),
- **IFRIC 21 „Contributions“** published by IASB on 20 May 2013. IFRIC 21 explained IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 specifies criteria for recognition of liabilities, which also include the requirement that the company has a current obligation arising from a past event (an obligating event). IFRIC 21 explains that an obligating event affecting occurrence of the obligation to pay a levy, is an activity described by the associated legislation that results in payment of a levy.

2.4 Notes to the income statement items

2.4.1 Interest income and expenses

a) Interest by sector

in thousands of EUR

	Revenue 2013	Expenses 2013	Revenue 2012	Expenses 2012
Non-financial companies	11,183	-1,005	16,511	-736
State	8,646	-992	7,256	-994
Banks	2,116	-1,477	3,011	-2,414
Other financial organisations	306	-796	789	-1,978
Households	6,369	-7,465	7,310	-6,327
Foreign entities	124	-1	127	-1
Non-profit providers of services to households	12	-88	21	-57
Total	**28,756**	**-11,824**	**35,025**	**-12,507**
NET INTEREST	**16,932**		**22,518**	

b) By type of interest

in thousands of EUR

	Revenue 2013	Expenses 2013	Revenue 2012	Expenses 2012
Income/expenses from ordinary activity	27,325	-11,824	33,502	-12,507
Default interest	1,431	0	1,523	0
Total	**28,756**	**-11,824**	**35,025**	**-12,507**
NET INTEREST	**16,932**		**22.518**	

Regular interest income also includes income from discounts of purchased receivables amounting to EUR 22 thousand (EUR 51 thousand in 2012).

c) Interest income and expense by type of asset and liability

in thousands of EUR

	2013 Current	2013 Non-current	2012 Current	2012 Non-current
Interest income				
Interest from cash balances with the Central Bank	34	0	59	0
Interest from available-for-sale financial assets	137	6,489	133	4,841
Interest from loans and deposits	8,100	10,221	11,877	13,982
Interest from held-to-maturity financial investments	196	3,579	130	3,952
Interest from other financial receivables	0	0	51	0
Total by maturity	**8,467**	**20,289**	**12,250**	**22,775**
Total	**28,756**		**35,025**	
Interest expenses				
Interest for financial liabilities to the Central Bank	0	-253	-4	-403
Interest for financial liabilities measured at amortised cost	-4,142	-7,429	-4,340	-7,760
Interest for other financial liabilities	0	0	0	0
Total by maturity	**-4,142**	**-7,682**	**-4,344**	**-8,163**
Total	**-11,824**		**-12,507**	
NET INTEREST	**16,932**		**22,518**	

d) Net interest

in thousands of EUR

	2013	2012
Total interest income and similar income	28,756	35,025
Total interest expenses and similar expenses	-11,824	-12,507
Net interest and similar income	**16,932**	**22,518**
Average interest rates on assets (in %)	3.4	4.2
Average interest rates on liabilities (in %)	1.6	1.7

e) Interest expenses related to subordinated debt

in thousands of EUR

	2013	2012
Deposits		
Long-term deposits of Pošta Slovenije	263	382
Long-term deposits of Nova KBM	372	514
TOTAL	**635**	**896**

The notes in Item 2.5.13 e) Subordinated debt.

2.4.2 Dividend income

Dividend income

in thousands of EUR

	2013	2012
Dividend income from financial assets held for trading		
Shares and stakes of other issuers	23	14
TOTAL	**23**	**14**

Cash flows from interest and dividends

in thousands of EUR

	2013	2012
Interest paid	-12,504	-12,312
Interest received	30,098	33,921
Dividends received	23	14

2.4.3 Fees and commission net income

a) Fees and commissions by sector

in thousands of EUR

	2013	2012
Fees and commissions income	**37,365**	**38,719**
Non-financial companies	29,078	31,249
State	655	740
Banks	532	655
Other financial organisations	297	346
Households	6,617	5,592
Foreign entities	32	19
Non-profit providers of services to households	154	118
Fees and commissions expenses	**-27,818**	**-30,080**
Non-financial companies	-26,435	-28,682
Banks	-1,374	-1,361
Other financial organisations	-6	-34
Households	-3	-3
NET FEE AND COMMISSION INCOME	**9,547**	**8,639**

b) By type of fee and commission

in thousands of EUR

	2013	2012
Fee and commission income		
Fees and commissions on issued guarantees	461	341
Fees and commissions from services provided to Group banks	85	113
Fees and commissions on domestic payment transactions	34,909	35,428
Fees and commissions on international payment transactions	67	65
Opravnine od Fees and commissions on credit transactions poslov	1,605	1,445
Fees and commissions from administrative services performed	238	1,327
Total	**37,365**	**38,719**
Fee and commission expenses		
Fees and commissions for domestic banking services	-3,973	-3,854
Fees and commissions for international banking services	-20	-21
Fees and commissions for exchange transactions	-140	-123
Fees and commissions for brokerage and other securities transactions	-2	-29
Fees and commissions on payment transactions	-22,387	-24,684
Fees and commissions for services provided to Group banks	-509	-513
Fees and commissions for other services	-787	-856
Total	**-27,818**	**-30,080**
NET FEE AND COMMISSION INCOME	**9,547**	**8,639**

2.4.4 Losses on financial assets and liabilities not measured at fair value

in thousands of EUR

	2013	2012
Gains on financial liabilities measured at fair value	3	1
Losses on loans measured at fair value	-1,132	-87
TOTAL	**-1,129**	**-86**

2.4.5 Net gains/losses on financial assets and liabilities held for trading

in thousands of EUR

	Gains 2013	Losses 2013	Net gains/ losses 2013	Gains 2012	Losses 2012	Net gains/ losses 2012
Trading in equity securities and interests	675	-801	-126	1,107	-1,297	-190
Gains/losses from foreign exchange trading	366	-59	307	348	-47	301
TOTAL	**1,041**	**-860**	**181**	**1,455**	**-1,344**	**111**

2.4.6 Net exchange losses

in thousands of EUR

	2013	2012
Exchange rate gains	289	290
Exchange rate losses	-384	-293
TOTAL	**-95**	**-3**

2.4.7 Net losses on derecognition of assets other than non-current assets held for sale

in thousands of EUR

	2013	2012
Gains on derecognition of property, plant and equipment held for sale	0	1
Gains on derecognition of property, plant and equipment held for sale	-6	-2
TOTAL	**-6**	**-1**

2.4.8 Other net losses from operation

in thousands of EUR

	2013	2012
Revenue		
Income from non-banking services	21	21
Other operating income	618	194
Total	**639**	**215**
Expenses		
Membership fees and similar	-64	-80
Taxes and other duties	-1,303	-201
Other operating expenses	-741	-86
Total	**-2,108**	**-367**
OTHER NET LOSSES FROM OPERATION	**-1,469**	**-152**

2.4.9 Administration costs

a) By type

in thousands of EUR

	2013	2012
Staff expenses		
Gross salaries	7,415	7,193
Social security contributions	541	525
Pension insurance contributions	655	641
Commuting allowances	328	313
Meal allowance	303	291
Other costs of employees on employment contracts	334	694
Total staff expenses	**9,576**	**9,657**
General and administrative expenses		
Costs of material	505	568
Costs of energy	82	83
Costs of professional literature	68	72
Other costs	11	17
Rental costs for business purposes	728	677
Services provided by others	2,412	2,239
Costs for business travel	113	154
Costs of fixed asset maintenance	1,552	1,546
Advertising costs	345	382
Entertainment allowance	22	88
Consulting, auditing, accounting and other services	380	359
Tuition fees, scholarships and other training/education costs	88	207
Insurance costs	105	83
Other administrative expenses	124	122
Total general and administrative expenses	**6,535**	**6,597**
TOTAL	**16,111**	**16,254**

The Bank also included in staff expenses the costs for unused annual leave of employees.

The Bank also included in other costs of employees on employment contracts the annual leave allowance, supplementary pension insurance cost, severance pay, jubilee bonuses and similar.

The amount of EUR 2,412 thousand (EUR 2,239 thousand in 2012) for services provided by others covers also postal and telephone services, operating costs, contracted works, cleaning of premises, protection of property, cost of lawyers, etc.

b) Costs of auditors

in thousands of EUR

	2013	2012
Auditing of the Annual Report	69	53
TOTAL	**69**	**53**

2 4.10 Amortisation

in thousands of EUR

	2013	2012
Depreciation of property, plant and equipment	1,330	1,266
Depreciation of intangible fixed assets	478	389
TOTAL	**1,808**	**1,655**

In 2013, the upgrades related to certain fixed assets were in line with standards recorded under primary fixed asset as an increase in acquisition cost of an asset resulting from greater capacity of the primary fixed asset. The useful life of a primary asset remained unchanged.

2.4.11 Provisions

in thousands of EUR

	2013	2012
Provisions for pensions and similar liabilities	2	27
Provisions for off-balance sheet liabilities	2,068	184
Provisions for pending lawsuits	-404	38
Other provisions	-11	-13
Net additional (+) - reversed provisions (-)	**1,655**	**236**

2.4.12 Impairments

in thousands of EUR

	2013	2012
IMPAIRMENTS OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**61,332**	**12,499**
Financial assets measured at cost	7	900
Available-for-sale financial assets measured at fair value	5	91
Loans measured at amortised cost	61,296	11,495
Other financial assets measured at amortised cost	24	13
IMPAIRMENT OF OTHER ASSETS	**115**	**0**
Other assets	115	0
Net additional (+) - reversed impairments (-)	**61,447**	**12,499**

2.4.13 Income tax from ordinary activity

a) Income tax

in thousands of EUR

	2013	2012
Deferred tax from continuing operations	127	64
TOTAL	**127**	**64**

The Bank does not record any income tax liability for 2012 and 2013.

The amount of EUR 127 thousand is a difference between expenses and revenues from deferred tax recognised directly in the income statement.

b) Effective tax rate

in thousands of EUR

Comparison between effective and applicable tax rate	2013 Rate	2013 Value	2012 Rate	2012 Value
Profit/loss before tax according to IFRS		**-57,037**		**396**
Income tax at the official rate	17.0%	-9,696	18.0%	71
Tax relief used in current period	0.0%	0	-34.3%	-136
Expenses not allowable for tax purposes	-0.1%	47	13.4%	53
Revenues recognised for tax purposes (decrease)	0.0%	-4	-1.0%	-4
Other adjustments in the income statement	-17.1%	9,780	20.2%	80
TOTAL INCOME TAX	**-0.2%**	**127**	**16.2%**	**64**

The amount of other adjustments in the income statement results from changes in deferred tax assets (including tax losses for 2013).

2.4.14 Net gains/loss per share

	2013	2012
Net profit/loss for the financial year (in thousands of EUR)	-57,164	332
Weighted average number of shares	1,377,561	441,300
Basic and diluted gains/loss per share (in Euros per share)	-41,50	0,75

Gains/loss per share are calculated as a ratio between the Bank's net profit/loss for the financial year and the weighted average number of all shares.

Diluted loss per share in 2013 equalled EUR –40.77 (the Bank has issued a subordinated debt in the amount of EUR 9,000 thousand, which could be converted into shares).

In total, the Bank had 31,508,159 shares as at 31 December 2013 (441,300 shares as at 31 December 2012).

2.5 Notes to the items of the statement of financial position

2.5.1 Cash and cash balances with the Central Bank

in thousands of EUR

	31 December 2013	31 December 2012
Cash in hand	**23,678**	**14,556**
Mandatory deposits with Central Bank	**33,253**	**26,039**
- settlement account with Central Bank	33,253	26,039
Other deposits with Central Bank	**2,951**	**3,091**
TOTAL	**59,882**	**43,686**

The 2013 mandatory deposits were calculated in accordance with the Regulation of the European Central Bank on the application of minimum reserves. The mandatory reserves are recorded under the settlement account with the Bank of Slovenia.

Other deposits are excluded assets from the obligatory settlement scheme equalling EUR 2,951 thousand (EUR 3,091 thousand in 2012).

Cash and cash equivalents

in thousands of EUR

	31 December 2013	31 December 2012
Cash and cash balances with the Central Bank	59,882	43,686
Loans to banks with maturity of up to 90 days	14,455	24,994
TOTAL	**74,337**	**68,680**

2.5.2 Financial assets measured at fair value through profit or loss (held for trading)

a) By type and quotation

in thousands of EUR

	31 December 2013	31 December 2012
Shares and stakes	**236**	**363**
- shares and stakes of banks	0	177
- shares and stakes of other issuers	236	186
Total	**236**	**363**
Listed on the stock exchange	236	363
TOTAL	**236**	**363**

Financial assets measured at fair value through profit or loss (held for trading) were not provided as guarantee for liabilities in 2013.

The fair value of financial instruments is determined based on unadjusted quoted price on the regulated market.

b) Movement in financial assets held for trading

in thousands of EUR

	2013	2012
As at 1 January	**363**	**552**
Decrease during the year	**127**	**189**
- impairments	113	189
- disposals and withdrawals	14	0
AS AT 31 DECEMBER	**236**	**363**

2.5.3 Financial assets available-for-sale

a) By type, sector and quotation

in thousands of EUR

	31 December 2013	31 December 2012
Shares and stakes available for sale, at fair value	**914**	**818**
- equity investments in banks	0	1
- equity investments in other financial organisations	914	817
Shares and stakes available for sale, at cost	**132**	**139**
- equity investments in banks	0	8
- equity investments in non-financial companies	132	131
Debt securities available for sale	**194,481**	**126,759**
- issued by the government and the Central Bank	167,890	106,738
- issued by banks	24,404	17,811
- issued by other issuers	2,187	2,210
Total	**195,527**	**127,716**
Listed on the stock exchange	187,438	127,577
Not listed on the stock exchange	8,089	139
TOTAL	**195,527**	**127,716**

Available-for-sale financial assets are measured at fair value, including financial investments that are not quoted on the regulated market.

The fair value of financial instruments is determined based on unadjusted quoted price on the regulated market and based on comparable financial instruments.

The fair value of financial instruments stated at cost is not significantly different from their carrying amount.

b) Data on equity participations where the Bank's share does not exceed 20 percent

in thousands of EUR

	Participations as at 31 December 2013	Participations as at 31 December 2012
Shares and stakes available for sale, at fair value	914	817
Shares and stakes available for sale, at cost	132	139
TOTAL	**1,046**	**956**

c) Movement in available-for-sale financial assets

in thousands of EUR

	Shares and stakes At fair value	Shares and stakes At cost	Debt securities	Total financial assets AFS
As at 1 January 2013	**817**	**139**	**126,760**	**127,716**
Recognition of new financial assets	0	0	65,216	65,216
Interest	0	0	1,859	1,859
Net revaluation through equity	102	0	1,710	1,812
Net impairments through profit or loss	-5	-7	0	-12
Derecognition of financial assets at maturity	0	0	-64	-64
Net profit/loss at derecognition	0	0	-1,000	-1,000
AS AT 31 DECEMBER 2013	**914**	**132**	**194,481**	**195,527**

In debt securities, the Bank in 2013 derecognised NLB bonds in the amount of EUR 1,000 thousand having the nature of a subordinate debt instrument. At the end of 2012, the fair value of the instrument amounted to EUR 910 thousand.

The Bank is not exposed to high-risk Euro-area states. Pledged property is described under Item 2.5.24.1 Asset collateral.

in thousands of EUR

	Shares and stakes At fair value	Shares and stakes At cost	Debt securities	Total financial assets AFS
As at 1 January 2012	**713**	**43**	**133,311**	**134,067**
Recognition of new financial assets	0	996	35,274	36,270
Interest	0	0	-414	-414
Net revaluation through equity	208	0	1,899	2,107
Net impairments through profit or loss	-91	-900	0	-991
Derecognition of financial assets	-13	0	-43,310	-43,323
AS AT 31 DECEMBER 2012	**817**	**139**	**126,760**	**127,716**

2.5.4 Held-to-maturity financial investments

a) By type

in thousands of EUR

	31 December 2013	31 December 2012
Held-to-maturity debt securities		
- issued by the state and the Central Bank	**64,017**	**77,690**
- short-term securities	5,985	7,932
- long-term securities	58,032	69,758
- issued by banks	**18,703**	**18,626**
- long-term securities	18,703	18,626
- issued by other issuers	**4,748**	**4,754**
- long-term securities	4,748	4,754
Total	**87,468**	**101,070**
Listed on the stock exchange	87,468	101,070
TOTAL	**87,468**	**101,070**

In 2013 and 2012, the Bank had no foreign-currency held-to-maturity debt securities.

The Bank is not exposed to high-risk Euro-area states. Pledged property is described under Item 2.5.24.1 Asset collateral.

b) Movement in held-to-maturity financial investments

in thousands of EUR

	2013	2012
As at 1 January	**101,070**	**107,658**
Increase during the year	**15,632**	**21,830**
- acquisition	11,857	17,748
- other (interest accrual)	3,775	4,082
Decrease during the year	**-29,234**	**-28,418**
- disposals and withdrawals	-24,932	-24,198
- other (interest received)	-4,302	-4,220
AS AT 31 DECEMBER	**87,468**	**101,070**

2.5.5 Loans to banks

a) By maturity and type

in thousands of EUR

	31 December 2013	31 December 2012
Sight deposits (withdrawal)	2,455	2,994
Current loans	12,003	22,903
Non-current loans	46,200	45,738
Total - gross	**60,658**	**71,635**
Total impairments	**0**	**0**
TOTAL - NET	**60,658**	**71,635**

Sight deposits include transaction accounts in domestic currency with domestic and foreign banks equalling EUR 444 thousand (as at 31 December 2012: EUR 727 thousand), and transaction accounts in foreign currency with domestic banks equalling EUR 2,011 thousand (as at 31 December 2012: EUR 2,267 thousand).

2.5.6 Loans to non-bank customers

a) By maturity and type

in thousands of EUR

	31 December 2013	31 December 2012
Current loans	199,318	221,374
Loan impairments	-55,664	-36,041
Interest impairments	-5,407	-3,224
Non-current loans	262,228	278,118
Loan impairments	-46,368	-25,271
Interest impairments	-3,354	-1,631
Receivables arising from guarantees	1,795	2,584
Impairments	-1,201	-1,765
Interest impairments	-39	-23
Total - gross	**463,341**	**502,076**
Total impairments	**-112,033**	**-67,955**
TOTAL - NET	**351,308**	**434,121**

The Bank transferred in 2013 non-performing in the amount of EUR 29,488 thousand to the Bank Assets Management Company through Nova KBM.

As at 31 December 2013, the Bank's loans granted in foreign currency amounted to EUR 35 thousand (as at 31 December 2012 only in domestic currency).

Current loans also include purchased current receivables totalling EUR 36 thousand (as at 31 December 2012: EUR 442 thousand), for which a discount was accounted for in the amount of EUR 10 thousand (as at 31 December 2012: EUR 22 thousand).

Among long-term bank loans in 2013, the Bank did not have any purchased long-term receivables (as at 31 December 2012: EUR 19 thousand, accounted discount of EUR 2 thousand).

In 2013, the common average interest rate applied to current loans to the non-banking sector was 3.8 percent (5.1 percent in 2012), and for non-current loans 3.4 percent (4.9 percent in 2012).

b) By sector

in thousands of EUR

	31 December 2013	31 December 2012
Non-financial companies	331,024	363,365
State	1,251	1,060
Other financial organisations	10,882	16,028
Foreign entities	2,764	2,789
Non-profit providers of services to households	180	320
Households	117,240	118,514
Total - gross	**463,341**	**502,076**
Impairments	**-112,033**	**-67,955**
TOTAL - NET	**351,308**	**434,121**

c) Movement in impairments

in thousands of EUR

	31 December 2013	31 December 2012
As at 1 January	**67,955**	**60,599**
Additional impairments for principals	72,343	32,495
Reversed impairments for principals	-11,081	-21,014
Additional/reversed impairments for interest	5,696	1,683
Additional/reversed impairments for fees and commissions	34	15
Write-offs of loans to non-bank clients	-866	-5,823
Transfer to Bank Assets Management Company	-22,048	0
AS AT 31 DECEMBER	**112,033**	**67,955**

2.5.7 Other financial assets

a) By type

in thousands of EUR

	31 December 2013	31 December 2012
Cheques	182	22
Fees and commissions receivables	344	352
Trade debtors	6	6
Other financial assets from other receivables	5,382	5,483
Total - gross	**5,914**	**5,863**
Impairments	**-69**	**-51**
TOTAL - NET	**5,845**	**5,812**

The largest share of other financial assets is taken by settlement receivables from business relationships and retail transactions, amounting to EUR 4,006 thousand (as at 31 December 2012: EUR 4,653 thousand).

b) Movement in impairments

in thousands of EUR

	31 December 2013	31 December 2012
As at 1 January	**51**	**45**
Additional impairments for principals	42	24
Reversed impairments for principals	-18	-12
Additional/reversed impairments for interest	1	0
Write-offs of loans to non-bank clients	0	-6
Transfer to Bank Assets Management Company	-7	0
AS AT 31 DECEMBER	**69**	**51**

2.5.8 Property, plant and equipment (tangible fixed assets)

in thousands of EUR

	Land and buildings	Computer equipment	Other equipment	Fixed assets under construction	Total
Cost as at 1 January 2013	**10,004**	**6,282**	**2,700**	**138**	**19,124**
Transfers	115	22	1	-138	0
Increase	0	765	188	0	953
Decrease	0	-71	-92	0	-163
As at 31 December 2013	**10,119**	**6,998**	**2,797**	**0**	**19,914**
Value adjustment as at 1 January 2013	**3,293**	**5,008**	**2,121**	**0**	**10,422**
Increase	0	27	0	0	27
Amortisation	345	837	147	0	1,329
Decrease	0	-71	-68	0	-139
As at 31 December 2013	**3,638**	**5,801**	**2,200**	**0**	**11,639**
Carrying amount as at 1 January 2013	**6,711**	**1,274**	**579**	**138**	**8,702**
Carrying amount as at 31 December 2013	**6,481**	**1,197**	**597**	**0**	**8,275**

Increase in the value of tangible fixed assets results primarily from increase in the value of computer equipment.

The Bank has no pledged/mortgaged property, plant and equipment.

The Bank has no funds from finance lease nor does it lease out its assets. The Bank has an operating lease over business premises of its branch offices. Lease expenses are stated under administrative expenses.

The cost of property, plant and equipment, which was finally depreciated and still used as at 31 December 2013 was EUR 5,797 thousand.

As at the balance sheet date, the Bank does not record any payables from property, plant and equipment.

in thousands of EUR

	Land and buildings	Computer equipment	Other equip-ment	Fixed assets under construction	Total
Cost as at 1 January 2012	**9,932**	**5,984**	**2,784**	**110**	**18,810**
Increase	72	1,253	45	28	1,398
Decrease	0	-955	-129	0	-1,084
As at 31 December 2012	**10,004**	**6,282**	**2,700**	**138**	**19,124**
Value adjustment as at 1 January 2012	**2,953**	**5,190**	**2,088**	**0**	**10,231**
Amortisation	340	773	153	0	1,266
Decrease	0	-955	-120	0	-1,075
As at 31 December 2012	**3,293**	**5,008**	**2,121**	**0**	**10,422**
Carrying amount as at 1 January 2012	**6,979**	**794**	**696**	**110**	**8,579**
Carrying amount as at 31 December 2012	**6,711**	**1,274**	**579**	**138**	**8,702**

2.5.9 Intangible assets

in thousands of EUR

	Software	Intangible assets under construction	Other intangible assets	Total
Cost as at 1 January 2013	**7,778**	**1,490**	**22**	**9,290**
Transfer	1,453	-1,453	0	0
Increase	906	0	0	906
Decrease	-156	0	0	-156
As at 31 December 2013	**9,981**	**37**	**22**	**10,040**
Value adjustment as at 1 January 2013	**5,399**	**0**	**12**	**5,411**
Amortisation	477	0	2	479
Decrease	-39	0	0	-39
As at 31 December 2013	**5,837**	**0**	**14**	**5,851**
Carrying amount as at 1 January 2013	**2,379**	**1,490**	**10**	**3,879**
Carrying amount as at 31 December 2013	**4,144**	**37**	**8**	**4,189**

The increase in intangible fixed assets refers primarily to the purchase of new and upgrade of existing applications. The Bank has no intangible assets pledged/mortgaged and is not constrained with disposal of intangible assets.

In 2012 and 2013, the Bank did not capitalise development cost.

in thousands of EUR

	Software	Intangible assets under construction	Other intangible assets	Total
Cost as at 1 January 2012	**7,207**	**960**	**22**	**8,189**
Increase	**592**	**530**	**0**	**1,122**
Decrease	-21	0	0	-21
As at 31 December 2012	**7,778**	**1,490**	**22**	**9,290**
Value adjustment as at 1 January 2012	**5,029**	**0**	**10**	**5,039**
Amortisation	387	0	2	389
Decrease	-17	0	0	-17
As at 31 December 2012	**5,399**	**0**	**12**	**5,411**
Carrying amount as at 1 January 2012	**2,178**	**960**	**12**	**3,150**
Carrying amount as at 31 December 2012	**2,379**	**1,490**	**10**	**3,879**

2.5.10 Tax assets and tax liabilities

a) Tax assets

in thousands of EUR

	31 December 2013	31 December 2012
Current tax assets	**0**	**693**
Non-current deferred tax assets	**591**	**717**
- from other provisions for litigation	75	152
- from impairment of financial assets AFS	393	420
- from non-current provisions for employees	112	130
- from surplus depreciation and amortisation	9	12
- from other provisions (NHSS)	2	3
TOTAL	**591**	**1,410**

Deferred tax assets for temporary differences were recognised by the Bank to the extent that it is probable that taxable profit would be available, against which the deductible temporary differences can be utilised. The Bank has not recognised deferred tax assets from losses in 2013. In 2013, deferred tax assets were included in the income statement, EUR 127 thousand, and in the capital, EUR 1 thousand, respectively. As at 31 December 2013, deferred tax assets were valued according to expected turnover and by taking into account a 17-percent tax rate that will apply also in 2014 and in the coming years.

b) Tax liabilities

in thousands of EUR

	31 December 2013	31 December 2012
Current tax liabilities	0	58
Deferred tax liabilities	612	322
TOTAL	**612**	**380**

The Bank does not record any liabilities to the state from income tax for 2013.

Deferred tax liabilities result from valuation of available-for-sale securities.

2.5.11 Other assets

By type

in thousands of EUR

	31 December 2013	31 December 2012
Inventories	1,493	780
Receivables for advances made	122	118
Other receivables:	1	3
- receivables for prepayment of other taxes, contributions and duties	1	1
- receivables from Tax Office for overpayment of other taxes	0	2
Capitalised deferred costs and accrued revenues less interest	177	239
Total - gross	**1,793**	**1,140**
Impairments	**-130**	**-15**
TOTAL - NET	**1,663**	**1,125**

The Bank's inventories include real estate obtained for repayment of receivables in the amount of EUR 1,353 thousand (as at 31 December 2012: EUR 745 thousand). In 2013, the Bank acquired 3 pieces of property as payment of receivables in an estimated amount of EUR 608 thousand after revaluation. Revaluation of property for repayment of receivables amounts to EUR 115 thousand (Note 2.4.12 Impairment of other assets).

2.5.12 Financial liabilities to the Central Bank

Financial liabilities to the Central Bank

in thousands of EUR

	31 December 2013	31 December 2012
Loans from the Central Bank		
Non-current loans	45,668	45,416
TOTAL	**45,668**	**45,416**

The Bank has pledged its property as collateral in credit operations with the Bank of Slovenia for a long-term loan from long-term refinancing operations (described in section 2.5.24.1).

2.5.13 Financial liabilities measured at amortised cost

a) By type

in thousands of EUR

	31 December 2013	31 December 2012
Deposits	634,506	628,243
Loans	30,313	46,261
Subordinated debt	9,020	20,485
Other financial liabilities	6,094	6,983
TOTAL	**679,933**	**701,972**

b) Deposits by client and maturity

in thousands of EUR

	31 December 2013	31 December 2012
Deposits due to banks	**0**	**1,992**
Non-current deposits due to banks	0	1,992
Deposits due to non-bank clients	**634,506**	**626,251**
Sight deposits due to non-bank clients	331,894	324,532
Current deposits due to non-bank clients	158,086	170,905
Non-current deposits due to non-bank clients	144,526	130,814
TOTAL	**634,506**	**628,243**

Foreign-currency deposits from non-bank clients amounted to EUR 1,620 thousand, of which EUR 1,467 thousand short-term and EUR 153 thousand long-term (31 December 2012: EUR 1,709 thousand, of which EUR 1,545 thousand short-term and EUR 164 thousand long-term).

In 2013, the average interest rate applied to short-term deposits of the non-banking sector was 2.2 percent (2.3 percent in 2012) and the rate applied to long-term deposits was 4.0 percent (4.0 percent in 2012).

c) Loans by client and maturity

in thousands of EUR

	31 December 2013	31 December 2012
Bank loans		
Non-current loans from banks	30,313	46,261
TOTAL	**30,313**	**46,261**

The Bank has no material property pledged for loans raised.

d) Deposits and loans by secto

in thousands of EUR

	31 December 2013	31 December 2012
Deposits	**634,506**	**628,243**
Banks	0	1,992
Non-financial companies	31,637	26,061
State	24,420	32,056
Other financial organisations	7,759	26,921
Foreign entities	690	766
Non-profit providers of services to households	11,208	6,340
Households	558,792	534,107
Loans	**30,313**	**46,261**
Banks	30,313	46,261
TOTAL	**664,819**	**674,504**

e) Subordinated debt

in thousands of EUR

	31 December 2013	31 December 2012
Deposits		
- Long-term deposits of Pošta Slovenije	0	8,728
- Long-term deposits of Nova KBM	9,020	11,757
TOTAL	**9,020**	**20,485**

Subordinated debt is considered by the Bank in the calculation of additional capital or additional original own funds (Note on capital risks in Chapter 3).

Based on the decisions adopted by the 30th General Meeting of Shareholders of the Bank on 18 December 2013, existing subordinated liabilities of additional capital were converted to the Bank's share capital as of 20 December 2013, in the amount of EUR 20,204 thousand (the principal of EUR 19,589 thousand and the interest of EUR 615 thousand). In December 2013, the Bank issued subordinated liabilities of additional original own funds amounting to EUR 9,000 thousand, which were paid by Nova KBM. Interest payable accounts for this instrument amounted at the end of the year to EUR 20 thousand.

Total interest expense from subordinated debt arising from non-current deposits in 2013 equalled: Pošta Slovenije EUR - 263 thousand, Nova KBM EUR - 372 thousand.

f) Other financial liabilities

in thousands of EUR

	31 December 2013	31 December 2012
Fees and commissions payable	29	28
Liabilities from gross salaries to employees	673	684
Trade payables	601	665
Accrued (passive) costs less interest	2,460	2,666
Other financial liabilities	2,331	2,940
TOTAL	**6,094**	**6,983**

2.5.14 Provisions

a) By type

in thousands of EUR

	31 December 2013	31 December 2012
Provisions for pending lawsuits	504	909
Provisions for pensions and similar liabilities to employees	811	885
Provisions for off-balance sheet liabilities	4,082	2,013
Other provisions - National Housing Savings Scheme	52	62
TOTAL	**5,449**	**3,869**

The Bank recognises provisions for future liabilities to employees based on actuarial calculations and for unresolved legal action based on legal opinions.

Among others, actuarial calculations were based on the following assumptions:
- Planned growth of average salaries in the Republic of Slovenia (UMAR and own assessment),
- Discount interest rate of 10-year corporate bonds with high credit rating in the Euro-area, plus margin for local risk,
- Estimated employee fluctuation,
- Mortality in employees by using Slovenian population mortality tables.

Provisions for unsolved litigations increased in 2013 by calculated interest on arrears for provisions established before 2012.

The Bank establishes provisions for off-balance sheet obligations for the provision of guarantees, unused loans and credit lines, and unused revolving loans and overdrafts on transaction accounts. The amount of provisions depends on the client’s credit rating or the instrument.

b) Movement in provisions

in thousands of EUR

	Provisions for pensions and similar liabilities to employees	Provisions for off-balance sheet liabilities	Provisions for pending law-suits	Other provi-sions – NHSS	Total
As at 1 January 2013	**885**	**2,013**	**909**	**63**	**3,869**
Provisions made during the year	26	2,825	53	3	2,907
Provisions reversed during the year	-24	-756	-458	-14	-1,252
Net provisions established/reversed through equity	6	0	0	0	6
Provisions used during the year	-81	0	0	0	-81
As at 31 December 2013	**812**	**4,082**	**504**	**52**	**5,449**

in thousands of EUR

	Provisions for pensions and similar liabilities to employees	Provisions for off-balance sheet liabilities	Provisions for pending lawsuits	Other provi-sions – NHSS	Total
As at 1 January 2012	**891**	**1,829**	**871**	**76**	**3,666**
Provisions made during the year	35	2,058	38	4	2,135
Provisions reversed during the year	-8	-1,874	0	-17	-1,899
Provisions used during the year	-33	0	0	0	-33
As at 31 December 2012	**885**	**2,013**	**909**	**63**	**3,869**

2.5.15 Other liabilities

in thousands of EUR

	31 December 2013	31 December 2012
Liabilities from received advance payments	17	3
Taxes and contributions payable	409	314
Accrued passive costs less interest	677	124
TOTAL	**1,103**	**441**

The Bank has no liabilities from finance lease. The most important operating lease contracts have been concluded for the lease of business premises and databases.

2.5.16 Equity

in thousands of EUR

	31 December 2013	31 December 2012
Share capital – ordinary shares	41,382	7,366
Capital reserves	0	8,996
Capital revaluation surplus	2,984	1,467
Reserves from profit (including retained gains)	0	29,446
- legal reserves	0	1,469
- statutory reserves	0	3,683
- other reserves from profit	0	24,294
Net profit/loss for the business year	-1,489	166
TOTAL EQUITY	**42,877**	**47,441**

a) Share capital

in thousands of EUR

	31 December 2013	31 December 2012
Ordinary shares		
- subscribed by banks	36,731	4,051
- subscribed by non-financial companies	4,651	3,315
TOTAL	**41,382**	**7,366**

The Bank's equity is divided into 31,508,159 ordinary no-par value shares with a nominal value of EUR 1.31.

The Bank issued shares in the following issues:

- 1st issue in 1992 – 100,000 shares,
- 2nd issue in 1994 – 70,000 shares,
- 3rd issue in 1999 – 104,500 shares,
- 4th issue in 2001 – 1,250 shares,
- 5th issue in 2002 – 35,095 shares,
- 6th issue in 2006 – 45,255 shares,
- 7th issue in 2007 – 85,200 shares,
- in 2013, following the decisions adopted by the 30th General Meeting of Shareholders, the Bank carried out a recapitalisation on 18 December 2013, namely: by a conversion of existing hybrid instruments of additional capital into share capital in the amount of EUR 20,204 thousand 187,937 shares were paid, and by a non-cash contribution of EUR 15,000 thousand and a cash contribution of EUR 15,879 thousand 30,878,922 shares were paid additionally.

Following contributions of the owners, the relationship between them has changed (Nova KBM : Pošta Slovenije from 55 per cent : 45 per cent to 99.12 per cent : 0.88 per cent).

Consequently, the owners of the Bank are:

- Nova KBM holding a 99.12-percent stake, and
- Pošta Slovenije holding a 0.88-percent stake.

In 2013, the Bank did not purchase or sell treasury shares, and as at 31 December 2013 held no treasury shares.

b) Capital reserves

in thousands of EUR

	31 December 2013	31 December 2012
Paid-in capital surplus	0	5,760
Capital reserves arising from general revaluation capital adjustment	0	3,236
TOTAL	**0**	**8,996**

Movement in capital reserves is presented in the statement of changes in shareholders' equity. By recapitalisation in 2013, capital reserves increased by EUR 17,067 thousand to EUR 26,063 thousand. By decision of the Supervisory Board of the Bank, they were fully used to cover loss for the financial year 2013.

c) Capital revaluation surplus

in thousands of EUR

	31 December 2013	31 December 2012
Revaluation surplus related to available-for-sale financial assets	**2,989**	**1,467**
Revaluation	2,377	1,145
Deferred tax	612	322
Other revaluation surplus	**-5**	**0**
Revaluation - others	-5	0
TOTAL	**2,984**	**1,467**

In other revaluation surplus, the Bank records revaluation of provisions for retirement in the amount of EUR -5 thousand.

d) Reserves from profit

in thousands of EUR

	31 December 2013	31 December 2012
- legal reserves	0	1,469
- statutory reserves	0	3,683
- other reserves from profit	0	24,294
TOTAL	**0**	**29,446**

Movement in reserves from profit is presented in the statement of changes in shareholders' equity. In 2013, reserves from profit increased by EUR 166 thousand from the distributable profit in 2012, to EUR 29,611 thousand. By decision of the Supervisory Board of the Bank, they were fully used to cover the loss for 2013.

e) Accumulated profit/loss

in thousands of EUR

	31 December 2013	31 December 2012
Net profit/loss for the business year	-1,489	332
- increase in other reserves from profit pursuant to the approval of the Supervisory Board	0	-166
ACCUMULATED PROFIT/LOSS	**-1,489**	**166**

At its meeting in 2013, the General Meeting of Shareholders allocated total distributable profit as at 31 December 2012 in the amount of EUR 166 thousand to other reserves from profit.
Net loss of the Bank for the financial year 2013 equals EUR -57,164 thousand, and if comprehensive income of EUR 1,517 thousand is taken into account, it equals EUR -55,647 thousand.
By covering loss from the bank's capital reserves and reserves from profit of the Bank in the amount of EUR 55,675 thousand, total loss of the Bank for the financial year 2013 equals EUR -1,489 thousand.

2.5.17 Contingencies and commitments by type

in thousands of EUR

	Current	Non-current	Total
As at 31 December 2013			
Financial guarantees	2,773	6,399	9,172
Performance guarantees	14,648	12,148	26,796
Total guarantees	**17,421**	**18,547**	**35,968**
Granted but undrawn loans	354	162	516
Granted but undrawn overdraft facilities	25,560	305	25,865
Approved credit lines	9,696	0	9,696
Total assumed liabilities	**35,610**	**467**	**36,077**
TOTAL	**53,031**	**19,014**	**72,045**
As at 31 December 2012			
Financial guarantees	4,851	6,132	10,983
Performance guarantees	5,968	12,314	18,282
Total guarantees	**10,819**	**18,446**	**29,265**
Granted but undrawn loans	637	119	756
Granted but undrawn overdraft facilities	18,812	0	18,812
Approved credit lines	17,556	0	17,556
Approved overdrafts in payment cards	6,824	0	6,824
Total assumed liabilities	**43,829**	**119**	**43,948**
TOTAL	**54,648**	**18,565**	**73,213**

Data on contingencies and commitments are carried at remaining maturity.

Pursuant to the Decision on Credit Risk Loss Assessment of Banks and Savings Banks, the risk-bearing contingent liabilities amount to EUR 72,045 thousand (as at 31 December 2012: EUR 73,213 thousand). The Bank established special provisions for these liabilities totalling EUR 4,082 thousand (as at 31 December 2012: EUR 2,013 thousand). Contingent liabilities do not include debtors under letters of credit in the amount of EUR 285 thousand (in 2012: EUR 249 thousand). These liabilities are already covered by granted unused overdrafts or loans.

2.5.18 Operations by authorisation

in thousands of EUR

	31 December 2013	31 December 2012
Operations by authorisation	**0**	**3**
Liabilities	0	3

2.5.19 Fair value of financial assets and financial liabilities

in thousands of EUR

	31 December 2013		31 December 2012	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and cash balances with the Central Bank	59,882	59,882	43,686	43,686
Financial assets held for trading	236	236	363	363
Available-for-sale financial assets	195,527	195,527	127,716	127,716
Loans to banks	60,658	60,658	71,635	71,635
Loans to non-bank clients	351,308	350,754	434,121	433,982
Other financial assets	5,845	5,845	5,812	5,812
Held-to-maturity financial investments	87,468	87,052	101,070	100,762
Other assets	1,663	1,663	1,125	1,125
Financial liabilities				
Financial liabilities to the Central Bank	45,668	45,668	45,416	45,416
Deposits due to banks	0	0	1,992	1,992
Deposits due to non-bank clients	634,506	634,814	626,251	626,177
Bank loans	30,313	30,313	46,261	46,261
Subordinated debt	9,020	9,020	20,485	20,485
Other financial liabilities	6,094	6,094	6,983	6,983
Other liabilities	1,103	1,103	441	441

The Bank measures financial assets and liabilities at market values, the values calculated by the model taking into account market interest rates, and at cost. Assets and liabilities carried at amortised cost (loans to non-bank clients and deposits from non-bank clients) are measured by the model of net present value cash flows using interest rates on new contracts for the same products. where the items with a remaining maturity of over one year and a fixed interest rate are taken into account without considering the credit risk. In hierarchy, these assets and liabilities are classified in level 3. All other current assets and liabilities are carried out at cost, likewise the assets and liabilities, the fair value of which cannot be reliably determined and are also classified in level 3. All financial assets held to maturity are measured at market prices on the stock exchange and are classified in level 1.

Valuation levels for financial assets at fair valu

in thousands of EUR

	31 December 2013			31 December 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets held for trading	236	0	0	363	0	0
Available-for-sale financial assets	187,438	0	8,089	126,675	902	139
Debt financial instruments	186,524	0	7,957	125,857	902	0
Equity financial instruments	914	0	132	818	0	139

Composition and movements (purchases, sales and revaluations, and gains and losses through equity or income statement) of financial assets held for trading are presented in Item 2.5.2, and financial assets available for sale in Item 2.5.3.

The increase in debt instruments by EUR 7,957 thousand in the level 3 is due to the purchase of certificates on deposit of Nova KBM in 2013, of which a larger portion (EUR 6,000 thousand) is due in January 2015, and the remaining portion in December 2017. Certificates on deposits are not quoted in active markets, they present no risk for the Bank, and the Bank carries them at cost and classify into level 3.

At the end of 2013, only the transfer of debt instruments from level 2 to level 1 was carried out (as at 31 December 2012: EUR 902 thousand) as a result of market prices for instruments becoming available again.

Fair value for all instruments is determined at the end of 2013. The bank carried out no one-off fair value measurements.

2.5.20 Related-party transactions, compliance with regulations and an important business contacts

In the business year 2013, the Bank neither concluded legal transactions with the parent company, any company associated with the parent company or upon initiative or in interest of such companies, nor it made or waived any other actions upon initiative or in interest of these companies, whereby such transactions would have meant deprivation for the Bank.

The Bank has no financial subsidiaries established outside of the Republic of Slovenia.

2.5.20.1 Bank shareholders

in thousands of EUR

Statement of financial position	31 December 2013		31 December 2012	
	Nova KBM	Pošta Slovenije	Nova KBM	Pošta Slovenije
Assets	**56,539**	**1,998**	**47,256**	**2,227**
Financial assets held for trading	0	0	177	0
Available-for-sale financial assets	7,958	0	0	0
Loans and deposits granted	47,874	0	46,826	0
- sight deposits	1,671	0	1,103	0
- current loans	3	0	3	0
- non-current loans	46,200	0	45,720	0
Other financial assets	707	1,998	253	2,227
Liabilities	**9,297**	**4,391**	**20,026**	**11,802**
Loans and deposits raised	0	1,967	7,927	443
- sight deposits	0	1,967	0	443
- non-current loans	0	0	7,927	0
Subordinated debt	9,020	0	11,757	8,728
Other financial liabilities	277	2,424	342	2,631
Income statement	**1. 1. - 31 December 2013**		**1. 1. - 31 December 2012**	
Revenue	**1,270**	**26,331**	**2,390**	**28,961**
- interest	827	11	1,414	0
- fees and commissions	59	26,320	76	28,961
- foreign exchange differences	39	0	43	0
- from financial transactions	325	0	857	0
- other net operating income	20	0	0	0
Expenses	**-1,864**	**-26,911**	**-2,681**	**-29,405**
interest	-529	-265	-764	-384
- fees and commissions	-509	-25,609	-513	-27,915
- foreign exchange differences	-91	0	-55	0
- from financial transactions	-505	0	-1,121	0
- other expenses	-230	-1,037	-228	-1,106

In 2004, Poštna banka Slovenije became a member of the Nova KBM Banking Group and consequently, a member of the wider Financial Group, providing a whole range of financial services through various companies.

For the purpose of providing services to the Bank's clients, a long-term contract on business cooperation was signed with Pošta Slovenije for the period of 25 years. Under the contract, Pošta Slovenije provides services to the Bank's clients at post office counters on behalf and for the account of Poštna banka Slovenije. The subject of the contract also includes services provided by Poštna banka Slovenije to Pošta Slovenije. The types of services, the manner of their provision, and other related issues are regulated by the execution contracts.

2.5.20.2 Members of the Financial Group

in thousands of EUR

Statement of financial position 31 December 2013	KBM-Leasing	KBM Leasing Hrvatska	Adria Bank	Moja naložba	Gorica Leasing	KBM Invest	KBM Fineko
Assets	**4,418**	**2,700**	**0**	**0**	**0**	**1,002**	**2,196**
Granted loans	4,418	2,700	0	0	0	1,002	2,196
- current loans	4,418	2,700	0	0	0	1,002	0
- non-current loans	0	0	0	0	0	0	2,196
Liabilities	**0**	**0**	**0**	**10**	**0**	**0**	**0**
Other financial liabilities	0	0	0	10	0	0	0
Income statement 1 January - 31 December 2013							
Revenue	**224**	**129**	**51**	**0**	**19**	**59**	**142**
- interest	203	123	29	0	13	54	142
- fees and commissions	21	6	22	0	6	5	0
Expenses	**0**	**0**	**-5**	**0**	**0**	**0**	**0**
- fees and commissions	0	0	-5	0	0	0	0

in thousands of EUR

Statement of financial position 31 December 2012	KBM-Leasing	KBM Leasing Hrvatska	Adria Bank	Moja naložba	KBM Invest	KBM Fineko	KBM Infond
Assets	**4,417**	**2,710**	**2,018**	**0**	**1,003**	**2,239**	**0**
Loans and deposits granted	4,417	2,710	2,018	0	1,003	2,239	0
- current loans	4,417	2,710	2,000	0	1,003	0	0
- non-current loans	0	0	18	0	0	2,239	0
Liabilities	**0**	**0**	**0**	**35**	**0**	**0**	**250**
Loans and deposits raised	0	0	0	25	0	0	250
Other financial liabilities	0	0	0	10	0	0	0
Off-balance sheet liabilities	**0**	**0**	**11,000**	**0**	**0**	**0**	**0**
Income statement 1 January – 31 December 2012							
Revenue	**289**	**125**	**37**	**0**	**32**	**9**	**0**
- interest	281	124	19	0	27	9	0
- fees and commissions	8	1	18	0	5	0	0
Expenses	**0**	**0**	**-23**	**0**	**0**	**0**	**-13**
- interest	0	0	-17	0	0	0	-13
- fees and commissions	0	0	-6	0	0	0	0

2.5.20.3 Key management personnel

in thousands of EUR

	2013	2012
Granted loans		
As at 1 January	196	246
Increase	34	20
Decrease	-52	-70
As at 31 December	178	196
Interest income from loans	4	6
Deposits raised		
As at 1 January	201	275
Increase	142	239
Decrease	-88	-313
As at 31 December	255	201
Interest expense	-9	-7
Short-term benefits (receipts)	**676**	**756**

Key management personnel comprises of the Management Board, the Supervisory Board, and four employees of the Bank with special powers employed under management contracts. The data shown in the Table includes also transactions with their family members. The Bank makes collective impairments of 1 percent for loans. Deposits do not include the balance on multi-currency accounts.

Other related parties

in thousands of EUR

	31 December 2013	31 December 2012
Loans granted to non-bank clients	0	645
Liabilities to non-bank clients	882	1,408
Other liabilities	5	5
Off-balance sheet liabilities	41	45
Expenses	**-257**	**-189**
Interest expense	-39	-23
Other expenses	-218	-166
Revenue	**9**	**35**
Interest income	9	34
Other income	0	1

Other related parties include companies other than of the Banking Group.

All transactions with related parties have been carried out under normal market conditions.

2.5.21 Loans approved to the members of the Management Board, Supervisory Board, other Bank employees, employees on individual employment contracts, for which the tariff section of the collective agreement does not apply

in thousands of EUR

	Members of the Management Board		Members of the Supervisory Board		Other employees under management contract	
	2013	2012	2013	2012	2013	2012
Loans	9	23	0	0	376	392
Average interest rate on loans in %	5.05	5.78	0	0	3.28	3.73
Repayments	10	12	0	0	86	80

In addition to Bank employees with special powers employed under management contracts, the Table also includes all other employees employed under management contracts.

2.5.22 Management and Supervisory Board members receipts

in thousands of EUR

	2013	2012
Members of the Management Board, of whom:	**220**	**276**
Robert Senica, President of the Management Board since 15 January 2013	112	0
Drago Pišek – President of the Management Board until 30 December 2012	0	144
Viktor Lenče – Member of the Management Board	108	132
Members of the Supervisory Board	**104**	**99**
Other employees under management contract	**1,646**	**1,554**
TOTAL	**1,970**	**1,929**

Receipts of the Management Board members include salaries, bonuses and supplementary pension insurance (in 2012 also other bonuses).

Receipts of the Supervisory Board members include session fees and cost refund for their work in the Supervisory Board and the work in the Bank's Supervisory Board committees.

Remunerations of other Bank employees on management contracts include salaries, performance bonuses, annual leave allowance, bonuses and supplementary pension insurance.

All remuneration figures are indicated in gross amounts.

Receipts of the Management Board in 2013

in thousands of EUR

	Robert Senica	Viktor Lenče	Total
Gross salaries	105	102	207
Fringe benefits	7	5	12
Supplementary pension insurance premium	0	1	1
Total	**112**	**108**	**220**

Receipts of the Management Board in 2012

in thousands of EUR

	Drago Pišek	Viktor Lenče	Total
Gross salaries	117	109	226
Bonuses	17	16	33
Fringe benefits	9	6	15
Supplementary pension insurance premium	1	1	2
Total	**144**	**132**	**276**

Receipts of the Supervisory Board members in 2013

in thousands of EUR

Name and surname	Session fees	Functions performance fees for members of the Supervisory Board	Total
Aleš Hauc	4	17	21
Miha Šlamberger	6	17	23
Boris Novak	4	18	22
Vinko Filipič	4	16	20
Žibrik Igor	4	14	18
Total	**22**	**82**	**104**

Session fees also include remuneration of members of the Supervisory Board in the Audit Committee, the Human Resources Committee and the Committee for Fostering Cooperation in the Banking Group.

Pursuant to the resolution of the Bank's General Meeting of Shareholders as at 20 July 2011, members of the Supervisory Board are entitled and paid basic function performance fee since July.

Receipts of the Supervisory Board members in 2012

in thousands of EUR

Name and surname	Session fees	Payments for function performance to SB members	Total
Aleš Hauc	4	18	22
Andrej Plos	2	7	9
Jurij Blatnik	1	6	7
Simon Hvalec	3	13	16
Manja Skernišak	0	9	9
Miha Šlamberger	3	9	12
Boris Novak	2	10	12
Vinko Filipič	2	8	10
Žibrik Igor	1	1	2
Total	**18**	**81**	**99**

2.5.23 Important business contact

A direct business contact exists between a Management Board member or Supervisory Board member or their close family members and the Bank or its subsidiary.
The Bank did not enter in any contractual relations on purchase of goods or provision of services with members of the Management Board, Supervisory Board and their close family members in 2013. Business contacts established with them relate to the use of banking services, comply with the adopted Bank's policy and do not differ from the conditions provided by the Bank to other employees.

In line with its business policy, the Bank earmarks certain amount of finance for sponsorships and donations. The Bank traditionally sponsors the festivals in Lent and Vurberk, and for several years it has also sponsored the Puppet Theatre of Maribor and Mini Theatre, cooperated with Branik Ski Club in the Golden Fox World Cup, and supported top clubs and athletes in such sports as skiing, kayaking, volley-ball, soccer and motocross. Members of the Management Board and Supervisory Board and their close family members are not members of the organisations sponsored by the Bank in 2013 with the amount exceeding EUR 1,000. However, the member of the Supervisory Board is the Honorary President of the Nova KBM Branik Volleyball Club, to which the Bank in 2013 donated EUR 9,150 intended to sponsorship cooperation with this club. The contract was signed on 29 May 2013, and the payment was made as one-off payment.

The Bank helped with donations in 2013 to numerous humanitarian and health projects and sports clubs. Members of the Management Board and Supervisory Board and their close family members are not members of the organisations that received by the Bank in 2013 any donations exceeding EUR 1,000.

2.5.24 Exposure to the Bank of Slovenia and the Republic of Slovenia

in thousands of EUR

	31 December 2013	31 December 2012
BANK OF SLOVENIA (BS)	**36,204**	**29,382**
Settlement account	33,253	26,039
Current receivables	2,951	3,091
Other	0	252
REPUBLIC OF SLOVENIA (RS)	**234,581**	**186,301**
Bonds	197,718	150,230
Treasury bills	10,893	17,765
Loans	0	177
Investments with the guarantee of the Republic of Slovenia by type	25,747	17,321
DARS	4,748	4,754
SID	12,648	12,567
Probanka	940	0
Bank Assets Management Company	7,411	0
Other	223	808
TOTAL EXPOSURE TO THE BS AND THE RS	**270,785**	**215,683**
SHARE IN TOTAL ASSETS (in %)	**34.9**	**27.0**

2.5.24.1 Asset collateral

Poštna banka Slovenije held as at 31 December 2013 a pool of financial assets to provide security for credit transactions with the Bank of Slovenia complying with the list of eligible financial assets in the carrying amount of EUR 108,357 thousand (as at 31 December 2012: EUR 122,982 thousand). The Bank valuates the list of eligible financial assets in the amount of EUR 106,718 thousand (as at 31 December 2012: EUR 115,352 thousand). At the end of 2013, the Bank's pledged property for long-term re-financing operations and payment transactions through the SEPA system amounted to EUR 46.667 thousand (as at 31 December 2012: EUR 45,915 thousand).

2.5.25 Important after-balance sheet events

No material after-balance sheet events occurred from the date of the balance sheet to the date of signing this Annual Report, which would require additional notes to the financial statements.

3 EXPOSURE TO DIFFERENT TYPES OF RISK

3.1 Capital and capital requirements

Capital and capital adequacy

in thousands of EUR

Items	31 December 2013	31 December 2012
Original own funds		
Paid up share capital	41,382	7,366
Capital reserves	0	8,996
Reserves and retained earnings	0	29,279
(-) Interim profit/loss for calculation (non-audited)	-1,489	0
Revaluation surplus (RS) – credit rating filters	0	0
Hybrid instruments in original own funds	9,000	0
(-) Intangible assets	-4,189	-3,879
(-) Other country-specific deductible items	-2	-1
Total original own funds	**44,702**	**41,761**
Additional own funds – tier I		
RS adjustment in relation to financial assets AFS – shares and stakes	154	86
Hybrid instruments and cumulative preference shares	0	19,589
Subordinated debt I	0	0
Total additional own funds	**154**	**19,675**
TOTAL CAPITAL (for the purpose of capital adequacy)	**44,856**	**61,436**
Capital requirements		
Sum of capital requirements for credit risk	**30,177**	**37,324**
Central government units or central banks	0	0
Regional or local government units	25	34
Public sector entities	363	314
Multilateral development banks	0	0
International organisations	0	0
Institutions	612	1,010
Companies	13,219	18,516
Retail banking	7,588	8,145
Mortgage collateral	0	0
Overdue items	4,421	4,256
Regulatory high-risk categories of exposures	2,759	3,823
Covered bonds	0	0
Short-term receivables from institutions and companies	0	0
Investments in investments funds	0	0
Other exposures	1,190	1,226
Capital requirement for operational risk	**5,668**	**5,678**
TOTAL CAPITAL REQUIREMENTS	**35,845**	**43,002**
Capital adequacy ratio (in %)	**10.01**	**11.43**
Original own funds ratio (in %)	**9.98**	**7.77**
Original net own funds ratio (in %)	**7.97**	**7.77**

In 2013, the Bank complied with the requirements for capital adequacy. According to the regulations of the Bank of Slovenia, the prescribed capital adequacy ratio is 8.00 percent, and the internally set minimum ratio of the Bank is 8.80 percent. The ratio as at 31 December 2013 was 10.01 percent.

The following hybrid instruments are included in the calculation of original own funds as at 31 December 2013:

in thousands of EUR

	Currency	Maturity date	Interest rate	31 December 2013	31 December 2012
Deposits included in additional own funds					
Pošta Slovenije	EUR	no maturity	E6M+2.70%	0	6,456
Pošta Slovenije	EUR	no maturity	E6M+3.50%	0	1,890
Nova KBM	EUR	no maturity	E6M+2.70%	0	8,933
Nova KBM	EUR	no maturity	E6M+2.70%	0	2,310
Nova KBM	EUR	no maturity	10.00%	9,000	0
TOTAL				**9,000**	**19,589**

Subordinated deposit holds the right to exchange for equity.

The deposit has no fixed maturity date and represent hybrid instruments by nature, which may be included in the calculation of the Bank's original own funds. Depositor's receivables under contracts may not be withdrawn at the depositor's request and without prior consent of the Bank of Slovenia. The Bank of Slovenia will not grant consent for withdrawal prior to the expiration of the five-year period following the conclusion of relevant contract and if there is no evidence or confirmation that the Bank will maintain the required level of capital and capital adequacy after the withdrawal.

The condition of the conversion of hybrid deposit in the Bank's capital occurs when the ratio of ordinary original own funds of the Bank falls below 7 percent (valid until 31 December 2013). Since 1 January 2014, the condition of conversion occurs when the ratio of ordinary original own funds falls to 5.225 percent.

Impact of transfer of receivables to Bank Assets Management Company on capital adequacy

in thousands of EUR

	Gross	Impairments	Net
Transferred receivables as at 31 December 2013	29,488	22,056	7,432

in %

Capital ratios as at 31 December 2013	Before transfer	After transfer	Difference
Ordinary shareholders' equity ratio	7.84	7.97	0.13
Original own funds ratio	9.81	9.98	0.17
Capital adequacy ratio	9.85	10.01	0.16

3.1.1 Minimum capital requirements

The Bank must always have adequate capital given the scope and type of transactions it performs and the risks arising there from. The capital of the Bank must at all times equal or exceed the sum of capital requirements for credit, market and operational risk, or minimum capital of the Bank.

The Bank manages capital risk related to adequacy of capital composition in view of the scope and method of operation by adequately planning capital and capital ratio, regularly monitoring capital and capital requirements, and taking measures to increase capital and reduce risks.

The Bank calculates the capital requirement for credit risk according to the standardised approach. The Bank appointed SID banka as a suitable export agency for the category of exposure to central government units and central banks, and it appointed the credit rating agency Moody's as a suitable external credit rating agency for the category of exposure to institutions.

In exposure categories, for which a credit rating institution was appointed, the allocation of weight is based on the financial instrument's rating. If such rating is not available, the long-term credit rating of the debtor or comparable financial instrument of the same debtor is used. If these do not exist, the country's credit rating is used. The weight for exposure categories, for which a credit rating institution was not appointed, is allocated in view of the debtor's country credit rating or according to specific rules applying to the respective exposure category.
The Bank calculates the capital requirement for market risks in line with the legislation, without using internal models. The capital requirement for operational risks is calculated by the Bank according to the simple approach.

3.2 Credit risk

The Bank mitigates credit risk through regular monitoring of the portfolio by credit rating category. Receivables are classified in groups of collective impairments A to E, or in a group of individual impairments P. The Bank assesses regularly whether there is objective evidence or events occurring after initial recognition of the asset, and whether that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets, which can be reliably measured. Relevant information indicating impairment of a financial asset include default on payment, likelihood of bankruptcy, compulsory composition and financial reorganisation.

The Bank treats significant financial assets and commitments including off-balance sheet items on a case-by-case basis. The amount of impairment of a financial asset or commitment under off-balance sheet items is measured as the difference between the contractual value of the asset and net present value of future cash flows discounted at contractual interest rate for the asset. If the Bank has prime or suitable collateral, it will also consider the estimated cash flows from liquidation of collateral.

Part of the portfolio, which does not meet the criteria for individual treatment, is subject to collective treatment. Classification into categories is based on the clients' credit ratings. On the basis of internal credit rating classification methodology, the Bank makes collective provisions for individual homogenous groups according to historical data about default probability and resulting loss. The percentages of collective impairments are calculated according to analyses of migration matrices, which indicate the number of clients being moved from credit rating categories into the category of defaulters within one year.

3.2.1 Exposure by type of investment and financial instrument, and by credit rating category and collateral, restriction of investment, and collection of risk-bearing investments

a) Exposure by type of investment and financial instrument

31 December 2013	Gross exposures (in thousands of EUR)	Share (in %)	Impairments and provisions (in thousands of EUR)	Share (in %)	Share of impairments and provisions in gross exposure (in %)
Cash and other receivables from the Central Bank	59,882	6.3	0	0.0	0.0
Property, plant and equipment	8,275	0.9	0	0.0	0.0
Financial assets held for trading	236	0.0	0	0.0	0.0
Available-for-sale financial assets	195,527	20.5	0	0.0	0.0
Held-to-maturity financial investments	87,468	9.2	0	0.0	0.0
Loans and receivables	532,175	55.7	112,101	96.5	21.1
Assumed liabilities	72,045	7.5	4,082	3.5	5.7
TOTAL	**955,608**	**100.0**	**116,183**	**100.0**	**12.2**

Exposure does not cover intangible assets in the amount of EUR 4,189 thousand.

31 December 2012	Gross exposures (in thousands of EUR)	Share (in %)	Impairments and provisions (in thousands of EUR)	Share (in %)	Share of impairments and provisions in gross exposure (in %)
Cash and other receivables from the Central Bank	43,938	4.7	0	0.0	0.0
Property, plant and equipment	8,702	0.9	0	0.0	0.0
Financial assets held for trading	363	0.0	0	0.0	0.0
Available-for-sale financial assets	127,716	13.6	0	0.0	0.0
Held-to-maturity financial investments	101,070	10.8	0	0.0	0.0
Loans and receivables	581,882	62.1	68,006	97.1	11.7
Assumed liabilities	73,213	7.8	2,013	2.9	2.7
TOTAL	**936,884**	**100.0**	**70,019**	**100.0**	**7.5**

Distribution of exposure by industry

31 December 2013 Activity	Gross exposures (in thousands of EUR)	Share (in %)	Impairments and provisions (in thousands of EUR)	Share (in %)
Public administration and defence; compulsory social security	209,702	21.9	39	0.0
Financial and insurance activities	183,911	19.2	5,205	4.6
Retail	114,919	12.0	3,097	2.8
Manufacturing	111,500	11.7	27,122	24.2
Wholesale and retail trade; repair of motor vehicles	85,008	8.9	15,551	13.9
Construction	70,674	7.4	29,752	26.5
Foreign legal entities	34,183	3.6	243	0.2
Professional, scientific and technical activities	32,011	3.3	7,040	6.3
Real estate activities	27,808	2.9	8,962	8.0
Accommodation and food service activities	16,534	1.7	4,321	3.9
Other activities	15,401	1.6	1,365	1.2
Water supply; sewerage, waste management and remediation activities	12,558	1.3	426	0.4
Agriculture, forestry and fishing	12,141	1.3	3,639	3.2
Information and communication	9,444	1.0	2,270	2.0
Transport and warehousing	8,260	0.9	696	0.6
Electricity, gas, steam and air conditioning supply	5,182	0.5	758	0.7
Arts, entertainment and recreation	3,263	0.3	1,590	1.4
Human health and social work activities	3,109	0.3	25	0.0
TOTAL	**955,608**	**100.0**	**112,101**	**100.0**

Based on the *Bank's client exposure by sector of activity*, the Bank concludes that the major risks are still present in construction, manufacturing and trade. These three sectors represent one-third of total exposure. Following increased risk in these sectors, the Bank tries to obtain from them more adequate quality collateral, while managing credit risk by established impairments and provisions, of which two-thirds are also made in these sectors. The Bank mitigates exposures in risky activities by limits – recommended exposure amounts by sector of activity.

31 December 2012 Activity	Gross exposures (in thousands of EUR)	Share (in %)	Impairments and provisions (in thousands of EUR)	Share (in %)
Financial and insurance activities	170,632	18.2	4,725	6.7
Public administration and defence; compulsory social security	170,075	18.2	225	0.3
Manufacturing	116,146	12.4	15,820	22.6
Retail	115,046	12.3	2,833	4.0
Wholesale and retail trade; repair of motor vehicles	88,726	9.5	9,479	13.5
Construction	86,426	9.2	20,337	29.0
Foreign legal entities	46,254	4.9	30	0.0
Professional, scientific and technical activities	39,870	4.3	7,148	10.2
Real estate activities	23,567	2.5	3,223	4.6
Accommodation and food service activities	14,199	1.5	1,811	2.6
Agriculture, forestry and fishing	12,798	1.4	1,691	2.4
Information and communication	9,642	1.0	628	0.9
Water supply; sewerage, waste management and remediation activities	8,799	0.9	509	0.7
Other activities	8,364	0.9	301	0.4
Transport and warehousing	7,804	0.8	631	0.9
Electricity, gas, steam and air conditioning supply	7,359	0.8	194	0.3
Human health and social work activities	7,134	0.8	45	0.1
Arts, entertainment and recreation	4,043	0.4	389	0.6
TOTAL	**936,884**	**100.0**	**70,019**	**100.0**

b) Exposure by type of client, credit rating category and collateral for financial instruments at amortised cost

By type of client

in thousands of EUR

	31 December 2013		31 December 2012	
	Gross exposures	Impairments	Gross exposures	Impairments
Republic of Slovenia	64,241	0	78,676	0
Banks	121,757	0	125,708	0
Foreign legal entities	2,764	243	2,789	30
Non-bank clients	465,713	111,858	504,371	67,976
TOTAL	**654,475**	**112,101**	**711,544**	**68,006**

By credit rating category (excluding banks and the Republic of Slovenia)

in thousands of EUR

	31 December 2013				31 December 2012			
	Gross exposures	Share (in %)	Impairments	Share (in %)	Gross exposures	Share (in %)	Impairments	Share (in %)
A	149,933	32.0	1,165	1.0	174,517	34.4	1,290	1.9
B	82,908	17.7	1,027	0.9	134,477	26.5	1,609	2.4
C	26,652	5.7	2,472	2.2	65,850	13.0	6,042	8.9
D	5,621	1.2	2,810	2.5	14,844	2.9	7,422	10.9
E	15,407	3.3	15,407	13.7	8,802	1.7	8,802	12.9
P	187,956	40.1	89,220	79.6	108,670	21.4	42,841	63.0
TOTAL	**468,477**	**100.0**	**112,101**	**100.0**	**507,160**	**100.0**	**68,006**	**100.0**

The table includes foreign entities and non-bank clients.

In 2013, the structure of exposure by credit rating categories worsened, which means that the previous year's trend continued, mainly as a consequence of continued financial and economic crisis at home and abroad. The proportion of individually impaired receivables increased as much as by 18.7 percent points. Due to such growth of individually impaired receivables, the proportion of non-performing loans classified into C, D and E increased in 2013 by 7.4 percentage points. The Bank is safeguarded against credit risks by establishing impairments, the share of which in total exposure rose in 2013 by 10.5 percentage points.

Past due but not impaired receivables from non-bank clients by maturity, 2013

in thousands of EUR

31 December 2013		Past due but not impaired			
	Neither past due nor impaired	Total past due but not impaired	Up to 30 days	Over 30 up to 90 days	Over 90 days
A	148,756	12	0	0	12
B	79,130	2,751	5	7	2,739
C	22,580	1,600	456	347	797
D	977	1,834	37	314	1,483
E	0	0	0	0	0
P	51,706	47,030	2,571	1,513	42,946
TOTAL	**303,149**	**53,227**	**3,069**	**2,181**	**47,977**

Receivables from non-bank clients amounted to EUR 468,477 thousand, impairments were recognised at EUR 112,101 thousand, and the not impaired part totalled EUR 356,376 thousand, of which EUR 53,227 thousand were overdue.

The largest proportion of overdue but not impaired receivables is in the P group and they are secured by relevant collateral.

Past due but not impaired receivables from non-bank clients by maturity, 2012

in thousands of EUR

31 December 2012		Past due but not impaired			
	Neither past due nor impaired	Total past due but not impaired	Up to 30 days	Over 30 up to 90 days	Over 90 days
A	173,126	101	94	0	7
B	131,247	1,621	198	1,251	172
C	58,186	1,622	356	411	855
D	2,076	5,346	157	358	4,831
E	0	0	0	0	0
P	23,466	42,363	898	3,442	38,023
TOTAL	**388,101**	**51,053**	**1,703**	**5,462**	**43,888**

Collateral value by type

in thousands of EUR

No.		Non-bank clients 31 December 2013	Non-bank clients 31 December 2012
1	**Collateral for individually impaired receivables**	**212,010**	**115,397**
	- property	165,244	90,893
	- equity securities	3,358	7,303
	- other	43,408	17,201
2	**Collateral for collectively impaired receivables**	**386,380**	**547,869**
	- property	238,638	340,480
	- equity securities	5,993	16,942
	- other	141,749	190,447
TOTAL (1+2)		**598,390**	**663,266**

Segmentation of collateral:

- Property means mortgaging of immovable property,
- Equity securities involve shares and stakes,
- other collateral includes all other types of collateral (deposits, sureties, guarantees, insurance company, etc.).

Following increased risks resulting from continued financial and economic crisis at home and abroad, the Bank tries to obtain more adequate quality collateral. In 2013, the Bank increased collateral particularly in individually impaired receivables, which resulted in increased collateral by property by 81.8 percent. This results partially from increased portion of individually impaired receivables and consequently, migration of collateral loans from collectively impaired to individually impaired receivables. In total, collateral by property was in 2013 lower by 6.4 percent, primarily due to decrease in real estate prices.

At the end of 2013, the Bank had 185 clients individually estimated in total value of exposure of EUR 196.7 million. Compared to the end of 2012, the amount of individually estimated assets rose by 74 percent, while the number of clients has almost doubled (there were 97 clients a year ago). For this exposure, there were impairments or reservations made in the amount of EUR 92.2 million as at 31 December 2013. The average share of coverage was 46.9 percent and increased compared to the previous year by 8.21 percentage points.

The Bank had as at 31 December 2013 for individually impaired receivables collateral in the amount of EUR 168.6 million, of which EUR 121.2 million were commercial mortgages, EUR 44.1 million were residential mortgages, and EUR 3.4 million were shares and stakes. Other collateral amounted to EUR 43.4 millions, but they are not taken into account in the calculation of individual impairments. Compared to the previous year, collateral increased by 73.7 percent (the value of pledged commercial mortgages increased by 78.9 per cent and residential mortgages by 90.3 percent, while collateral by shares and stakes dropped to a half).

c) Restrictions of exposure

	Allowed % of capital	Achieved %
Exposure to an entity	25	17
Exposure to institution	100	63

According to the decision of the Bank of Slovenia, exposure limits are calculated at net value after impairments and provisions were made.

Without taking into account impairments, the maximum exposure to a company amounts to EUR 7,964 thousand. Exposure is secured by commercial property worth EUR 11,756 thousand. Taking into account the impairments and provisions, net exposure amounts to EUR 5,767 thousand. Maximum financial guarantee issued by the Bank is EUR 3,160 thousand, it is secured by commercial property worth EUR 3,552 thousand. Taking into account provisions, net exposure amounts to EUR 2,368 thousand.

d) Collection of higher risk investments

The Judicial Recovery Department is responsible for monitoring, management and collection of investments under judicial procedures in accordance with regulations and internal guidelines.

In corporate banking, the Bank at the end of the year conducted collection procedures for 280 high risk investments in the amount of EUR 81.7 million. The average impairment was 70.2 percent.

In the period from January to December 2013, receivables from 107 corporate debtors amounting to EUR 42.6 million were transferred to the judicial Recovery Department on the basis of decisions adopted by the Credit Committee. The Bank succeeded to collect EUR 2.1 million in all collection procedures with an effect on income statement in the amount of EUR 1.6 million.

Based on the decision No. 22, adopted at the 34th meeting of the Assets and Liabilities Management Committee as at 2 September 2013, the Management Board of the Bank adopted a decision on receivable write-offs in the total amount of EUR 779 thousand. The Bank set up relevant off-balance sheet records for receivables written-off.

In retail banking, the Bank at the end of 2013 conducted collection procedures for 767 high risk investments against 718 debtors, whereby receivables totalled EUR 1.42 million. Of these, 613 were personal accounts and 154 were consumer loans. In 2013, 81 personal accounts and 46 consumer loans for 119 debtors totalling EUR 265 thousand were transferred to high risk investments. In the same period, collection totalled EUR 100 thousand. A debt of 41 debtors totalling EUR 49.5 thousand was written off.

In Retail Banking Division provisions are made in lending and in account management. The Bank classifies receivables into categories A to E individually by debtor with regard to delays. Impairments are made in accordance with classification.

Collateral repossessed

Collateral repossessed as at 31 December 2013 amounted to EUR 1.4 million. In 2013, the Bank acquired property as payment of receivables in the amount of EUR 631 thousand (in 2013, the Bank sold no property).

Movement in overdue receivables

in thousands of EUR

Type of receivable and investment	As at 1 January 2013	%	Net increase /decrease	Receivable write-offs	As at 31 December 2013	%
Loans to non-bank clients	**103,386**	20.59	40,675	-1,017	**143,044**	30.87
Other financial assets	**164**	2.80	28	-17	**175**	2.96
TOTAL	**103,550**		**40,703**	**-1,034**	**143,219**	

in thousands of EUR

Type of receivable and investment	As at 1 January 2012	%	Net increase /decrease	Receivable write-offs	As at 31 December 2012	%
Loans to non-bank clients	**73,685**	14.72	35,605	-5,904	**103,386**	20.59
Other financial assets	**44**	0.63	146	-26	**164**	2.80
TOTAL	**73,729**		**35,751**	**-5,930**	**103,550**	

The Table contains overdue receivables with no regard to days of delay and default amount.

In 2013, the Bank wrote off loans impaired for a longer period and unlikely to be recovered.

More than 90 days overdue exposures to non-bank clients

in thousands of EUR

	31 December 2013		31 December 2012	
	Total	Overdue amount	Total	Overdue amount
Gross exposure	168,275	122,112	139,942	90,801
Impairments	93,563	74,152	57,599	46,925
NET EXPOSURE	**74,712**	**47,960**	**82,343**	**43,876**

The Table presents overdue exposures to non-bank clients where receivables are in full or in part more than 90 days overdue and exceed EUR 100.

e) Exposure by category

Distribution of exposure by category

31 December 2013	Gross exposures (in thousands of EUR)	Share (in %)	Impairments and provisions (in thousands of EUR)	Share (in %)	Net exposures (in thousands of EUR)	Share (in %)	Aver. gross exp. (in thousands of EUR)
Exposure to central governments and central banks	261,514	27.4	0	0.0	261,514	31.2	245,213
Exposure to regional government units	634	0.1	3	0.0	631	0.1	3,190
Exposure to public sector entities	7,888	0.8	2	0.0	7,886	0.9	1,109
Exposure to institutions	104,263	10.9	0	0.0	104,263	12.4	112,496
Exposure to companies	209,286	21.9	14,125	12.2	195,161	23.2	246,796
Exposure from retail banking	150,520	15.8	2,135	1.8	148,385	17.7	156,763
Overdue items	95,390	10.0	44,803	38.6	50,587	6.0	72,604
Regulatory high-risk exposures	87,564	9.2	55,115	47.4	32,449	3.9	97,442
Other categories of exposure	38,549	4.0	0	0.0	38,549	4.6	36,343
TOTAL	**955,608**	**100.0**	**116,183**	**100.0**	**839,425**	**100.0**	**971,956**

Maximum exposure at the end of 2013 was to central government units and central banks with a share of 27.4 percent gross or 31.2 percent net. This exposure is followed by exposure to companies, 21.9 percent gross and 23.2 percent net. Nearly a half of impairments and provisions is for regulatory high-risk items, which are followed by overdue items with their share of 38.6 percent. Share of impairments and provisions to companies is 12.2 percent.

Distribution of exposure by country

31 December 2013 State	Gross exposures (in thousands of EUR)	Share (in %)	Impairments and provisions (in thousands of EUR)	Share (in %)
Slovenia	921,425	96.4	115,940	99.8
Austria	21,031	2.2	0	0.0
Belgium	5,204	0.5	0	0.0
France	5,147	0.5	0	0.0
Croatia	2,764	0.3	243	0.2
Germany	37	0.0	0	0.0
TOTAL	**955,608**	**100.0**	**116,183**	**100.0**

Distribution of exposure by country, broken down into major exposure categories

in thousands of EUR

31 December 2013 State	Exposure to central governments and central banks	Exposure to institutions	Exposure to companies	Other	Total
Slovenia	245,629	88,729	206,522	380,545	**921,425**
Austria	5,534	15,497	0	0	**21,031**
Belgium	5,204	0	0	0	**5,204**
France	5,147	0	0	0	**5,147**
Croatia	0	0	2,764	0	**2,764**
Germany	0	37	0	0	**37**
TOTAL	**261,514**	**104,263**	**209,286**	**380,545**	**955,608**

Most of the exposure is to Slovenia, 96.4 percent, followed by exposure to Austria with 2.2 percent.

3.3 Market risks

Market risk management is focused on market risk of trading book and banking book items. The trading book market risk includes position risk of equity securities and currency risk (open foreign exchange position risk). The banking book market risk, however, includes position risk of equity and debt securities, currency risk and interest rate risk.

The Bank's portfolio structure indicates a conservative approach to securities trading. The Bank allocates a minor portion of its securities to trading. It calculates the market risk capital requirement in accordance with the Bank of Slovenia's acts, namely its Decision concerning capital requirement for market risks in banks and savings banks, and the provisions of Article 148 of the Banking Act.

The Bank measures securities held for trading at market prices on a daily basis. Also, the liquidation value of individual securities and the overall portfolio is calculated daily in the current year, representing profit or loss as a difference between market and purchase price. The Bank measures available-for-sale securities in the banking book at market prices and those held until maturity at amortised cost. The Bank calculates profit or loss at the level of each security and the overall portfolio of securities in the banking book.

The Bank's Strategy and policy on investments in securities provides a specific structure of investments in securities, whereas the authorisation for trading portfolio management defines specific limits regarding individual types of securities investments.

In order to assess the risk of securities and the entire trading portfolio, the Bank makes VaR calculations on a daily basis using one-year historical data, 99-percent confidence interval and a 10-day time interval on securities.

10-day VaR in 2013

in thousands of EUR

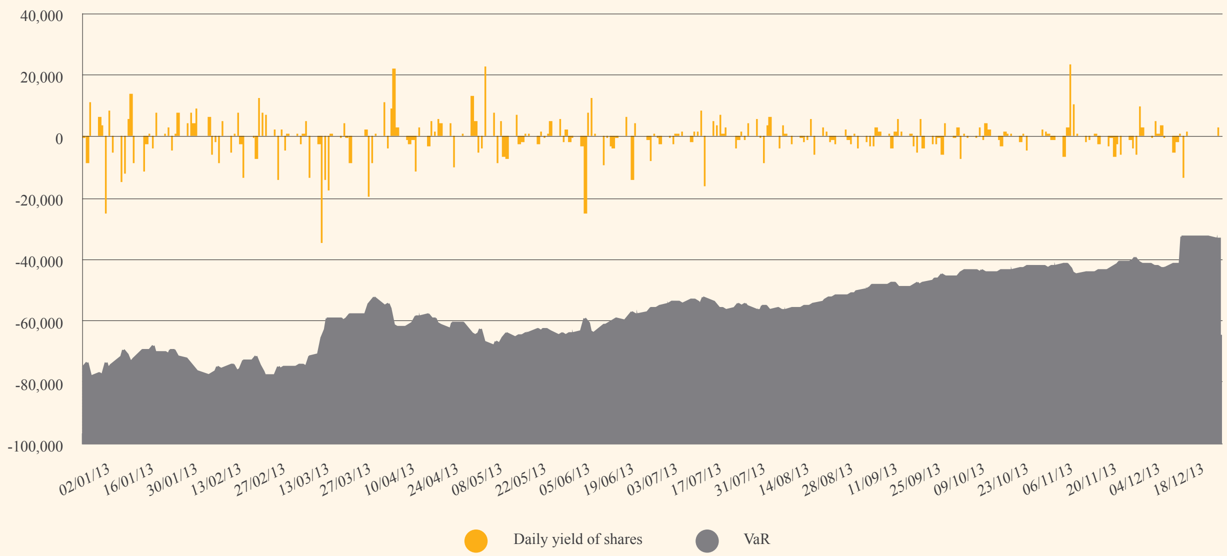
	Highest	Lowest	Mean
VaR	78.2	32.4	57.0

The trading portfolio's 10-day VaR indicates that at the highest exposure to position risk in 2013, it would be possible to claim with a 99-percent probability that in the event of an equal position of securities, the loss in the next 10 working days would not exceed EUR 78.2 thousand, which was the highest VaR in 2013.

In 2013, there was a slight drop in the 10-day VaR recorded. VaR was EUR 75.3 thousand at the beginning of the year, and after oscillations during the year, it stood at EUR 33 thousand on the last day in the year.

Graph 13

in thousands of EUR



The Bank classifies equity securities not included in the trading book as available-for-sale financial instruments carried at fair value through the Bank's equity. The Bank owns the above securities for liquidity management purposes. During the reporting period, the Bank did not sell any equity securities that are not included in the trading book, but on the basis of a decision on emergency measures issued by the Bank of Slovenia on 18 December 2013, 136,000 shares of Nova KBM previously carried by the Bank in trading portfolio ceased.

The same basis led to cessation of investment in subordinated bonds of NLB (10,000 lots) and the shares of Probanka (500 lots of regular and 300 lots of preference shares) carried by the Bank in the banking book.

The Bank recorded in 2013 expenses from these cessations in the amount of EUR 1,186 million.

Foreign currency risk

The Bank monitors and manages currency risk on a daily basis. The resulting risks are reflected both in assets and liabilities items of the Bank's balance sheet and result mainly from international payment transactions, as well as taking and placing foreign-currency loans. The Bank conducts a policy of the closest possible foreign-currency position. The majority of foreign currency liquid investments are corporate loans, cash in hand, balances with domestic banks and deposits with domestic banks.

The Asset and Liability Management Committee monitors on a monthly basis the open foreign exchange position, currency risk-adjusted items and the achievement of the structure of foreign-currency liquid investments. The Bank has set exposure limits by currency.

More than 99 percent of the Bank's operations are in the domestic currency, meaning that the Bank is not sensitive to exchange rate fluctuations.

Bank's exposure to currency and foreign exchange risk

in thousands of EUR

Balance sheet items	Total	EUR	USD	CHF	HRK	Other
As at 31 December 2013						
Cash and cash balances with the Central Bank	59,882	59,604	38	46	139	55
Financial assets held for trading	236	236	0	0	0	0
Available-for-sale financial assets	195,527	195,527	0	0	0	0
Loans	417,811	415,590	406	977	84	754
Held-to-maturity financial investments	87,468	87,468	0	0	0	0
Other assets*	14,718	14,718	0	0	0	0
Total assets: (1)	**775,642**	**773,143**	**444**	**1,023**	**223**	**809**
Financial liabilities to the Central Bank	45,668	45,668	0	0	0	0
Financial liabilities measured at amortised cost	679,933	678,134	523	1,060	9	207
- deposits	*634,506*	632,887	514	1,060	9	36
- loans	*30,313*	30,313	0	0	0	0
- subordinated debt	*9,020*	9,020	0	0	0	0
- other financial liabilities	6,094	5,914	9	0	0	171
Other liabilities*	7,164	7,158	3	0	3	0
Total equity	42,877	42,877	0	0	0	0
Total liabilities and equity: (2)	**775,642**	**773,837**	**526**	**1,060**	**12**	**207**
Mismatch (1) less (2)	**0**	**(694)**	**(82)**	**(37)**	**211**	**602**
Off-balance sheet liabilities (B.1–B.4)	**72,045**	**71,400**	**239**	**0**	**406**	**0**
As at 31 December 2012						
Total assets: (1)	799,519	796,934	531	1,045	220	789
Total liabilities and equity: (2)	799,519	797,804	622	1,036	9	48
Mismatch (1) less (2)	**0**	**(870)**	**(91)**	**9**	**211**	**741**

* Other assets also include income tax assets, property, plant and equipment, and intangible assets, while other liabilities also include income tax liabilities and provisions.

Losses from exchange differences (changes in foreign exchange rates) in 2013 amounted to EUR 95 thousand, while in 2012, losses amounted to EUR 3 thousand (see note 2.4.6).

Statement of financial position by territory

in thousands of EUR

Balance sheet items	Total	Slovenia	Total foreign countries	European Union	Republics of the former YU	Other
As at 31 December 2013						
Cash and cash balances with the Central Bank	59,882	59,882	0	0	0	0
Financial assets held for trading	236	236	0	0	0	0
Available-for-sale financial assets	195,527	164,144	31,383	31,383	0	0
Loans	417,811	415,010	2,801	2,801	0	0
Held-to-maturity financial investments	87,468	87,468	0	0	0	0
Other assets*	14,718	14,718	0	0	0	0
Total assets: (1)	**775,642**	**741,458**	**34,184**	**34,184**	**0**	**0**
Financial liabilities to the Central Bank	45,668	45,668	0	0	0	0
Financial liabilities measured at amortised cost	679,933	679,930	3	3	0	0
- deposits	634,506	634,506	0	0	0	0
- loans	30,313	30,313	0	0	0	0
- subordinated debt	9,020	9,020	0	0	0	0
- other financial liabilities	6,094	6,091	3	3	0	0
Other liabilities*	7,164	7,155	9	8	1	0
Total equity	42,877	42,877	0	0	0	0
Total liabilities and equity: (2)	**775,642**	**775,630**	**12**	**11**	**1**	**0**
Mismatch (1) less (2)	**0**	**(34,172)**	**34,172**	**34,173**	**(1)**	**0**
Off-balance sheet liabilities (B.1–B.4)	72,045	72,045	0	0	0	0
As at 31 December 2012						
Total assets: (1)	799,519	762,265	37,254	34,465	2,789	0
Total liabilities and equity: (2)	799,519	799,512	7	4	0	3
Mismatch (1) less (2)	**0**	**(37,247)**	**37,247**	**34,461**	**2,789**	**(3)**

* Other assets also include income tax assets, property, plant and equipment, and intangible assets, while other liabilities also include income tax liabilities and provisions.

Interest rate risk

The Bank uses the interest spread methodology by time gap for interest rate risk management. Interest rate risk is measured monthly.

In 2013, the Bank made decisions about interest rates on credit and deposit transactions in accordance with the market conditions.

Bank's exposure to interest rate risk

in thousands of EUR

	Total	Non-interest bearing	Interest bearing	Sight	Up to 1 month	1 - 3 months	3 - 12 months	1 – 5 years	Over 5 years
Balance sheet items As at 31 December 2013									
Cash and cash balances with the Central Bank	59,882	23,679	36,203	0	36,203	0	0	0	0
Financial assets held for trading	236	236	0	0	0	0	0	0	0
Available-for-sale financial assets	195,527	6,416	189,111	0	0	10,036	31,165	99,532	48,378
Loans	417,811	65,565	352,246		188,581	56,564	42,247	61,943	2,911
- loans to banks	60,658	1,200	59,458	0	14,458	0	0	45,000	0
- loans to non-bank clients	351,308	58,520	292,788	0	174,123	56,564	42,247	16,943	2,911
- other financial assets	5,845	5,845	0	0	0	0	0	0	0
Held-to-maturity financial investments	87,468	1,696	85,772	0	0	5,880	47,073	28,153	4,666
Other assets*	14,718	14,718	0	0	0	0	0	0	0
Total assets: (1)	**775,642**	**112,310**	**663,332**	**0**	**224,784**	**72,480**	**120,485**	**189,628**	**55,955**
Financial liabilities to the Central Bank	45,668	668	45,000	0	0	0	0	45,000	0
Financial liabilities measured at amortised cost	679,933	9,685	670,248	0	404,068	96,702	140,190	18,967	10,321
Other liabilities*	7,164	7,164	0	0	0	0	0	0	0
Total equity	42,877	42,877	0	0	0	0	0	0	0
Total liabilities and equity: (2)	**775,642**	**60,394**	**715,248**	**0**	**404,068**	**96,702**	**140,190**	**63,967**	**10,321**
Net exposure to interest rate risk (1) less (2)	**0**	**51,916**	**(51,916)**	**0**	**(179,284)**	**(24,222)**	**(19,705)**	**125,661**	**45,634**
Cumulative exposure	0	51,916	(755,467)	0	(179,284)	(203,506)	(223,211)	(97,550)	(51,916)
Interest rate risk as at 31 December 2012									
Total assets: (1)	799,519	94,432	705,087	0	312,791	53,709	64,706	228,979	44,902
Total liabilities and equity: (2)	799,519	63,378	736,141	0	416,259	90,859	171,675	56,195	1,153
Net exposure to interest rate risk (1) less (2)	**0**	**31,054**	**(31,054)**	**0**	**(103,468)**	**(37,150)**	**(106,969)**	**172,784**	**43,749**
Cumulative exposure	0	31,054	(597,530)	0	(103,468)	(140,618)	(247,587)	(74,803)	(31,054)

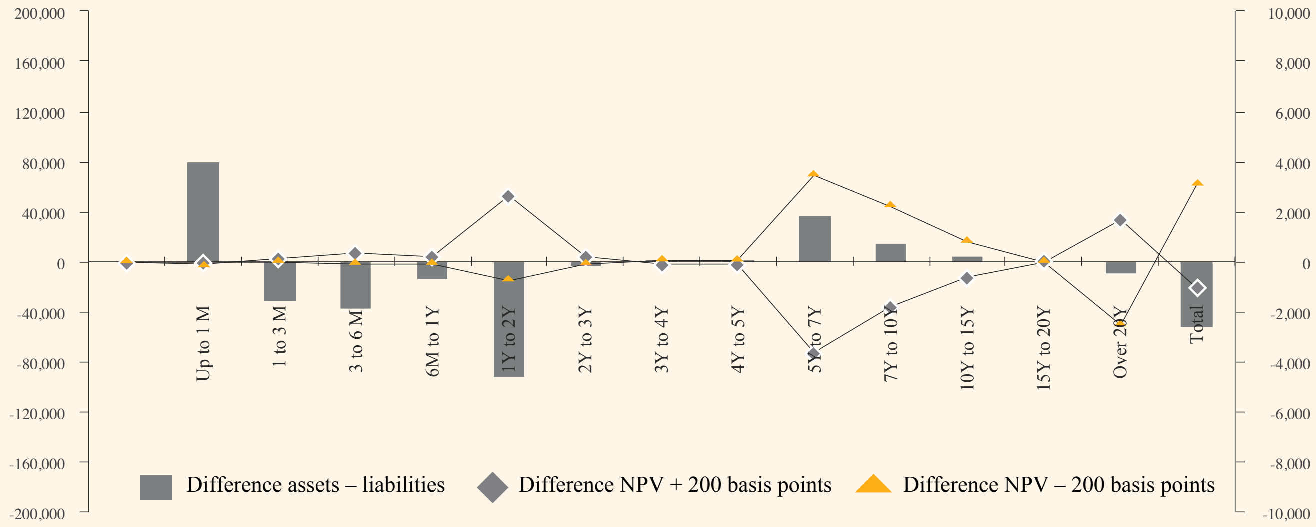
* Other assets also include income tax assets, property, plant and equipment, and intangible assets, while other liabilities also include income tax liabilities and provisions

Parallel shift in the yield curve by 200 basis points and impact on equity and profit or loss
Assumptions considered by the Bank in calculations made on the parallel shift in the yield curve are as follows:

- To assess interest rate risk, the Bank uses all interest rate sensitive non-trading items, based on cumulative data for all currencies, since it performs more than 99 percent of transactions in the domestic currency,
- In line with its internal methodology, the Bank classifies sight deposits into time categories of up to 5 years,
- The Bank does not take into account in the calculation the possibility of early withdrawal of deposits and early loan repayment,
- The Bank classifies financial instruments tied on variable interest rate in accordance with the re-determination of reference interest rate,
- The Bank excludes sight deposits from the calculation of the impact on profit or loss.

Graph 14:

Net present value of equity (NPV) plus +/- 200 basis points as at 31 December 2013 (in thousands of EUR)



Impact on net present value of equity and profit or loss as at 31 December 2013 in thousands of EUR

in thousands of EUR

	+ 200 basis points	- 200 basis points
Bank's equity	44,856	44,856
20 % of equity	8,971	8,971
Net present value of equity	-1,069	3,092
% of equity	2.38%	6.89%
IMPACT ON ONE-YEAR PROFIT OR LOSS	**2,058**	**-2,058**

In 2012, the impact on net present value of equity at + 200 basis points was EUR -2,297 thousand, and at – 200 basis points, it was EUR 3,202 thousand, while the impact on profit or loss accounted for EUR +/-2,240 thousand.

Gaps by currency

The share of interest-sensitive assets in domestic currency is 99.71 percent and the respective share in liabilities is 99.77 percent. All foreign-currency positions are short and with up to two-year maturity.

Reference interest rates

The Bank has long positions on applied reference interest rates, as a result of which net interest income is sensitive to a decrease in EURIBOR. The longest net position is in 6-month EURIBOR, i.e. 27.03 percent.

Reference interest rates	31 December 2013		
Structure (in %)	ASSETS	LIABILITIES	NET
EURIBOR	33.16	6.45	26.71
Other reference interest rates	2.28	0.12	2.16
Fixed interest rate	64.56	93.43	-28.87
TOTAL	**100.00**	**100.00**	**0.00**

Reference interest rates	31 December 2012		
Structure (in %)	ASSETS	LIABILITIES	NET
EURIBOR	40.68	11.29	29.39
Other reference interest rates	2.23	0.23	2.00
Fixed interest rate	57.09	88.48	-31.39
TOTAL	**100.00**	**100.00**	**0.00**

3.4 Liquidity risk

Ensuring liquidity and solvency is in addition to ensuring capital adequacy the main concern of the Bank, which has to operate so that it can discharge due obligations at any time. When acquiring long-term sources of funds, the Bank depends on domestic banks (in particular Nova KBM and SID banka d.d., Ljubljana) and the sources it obtains from the non-banking sector, which is why it adjusts the dynamic of its activities on the market to the possibility of obtaining the said sources.

Asset and liability mismatch in the statement of financial position in terms of expected maturity

in thousands of EUR

Balance sheet items	Total	Sight	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
As at 31 December 2013							
Cash and cash balances with the Central Bank	59,882	59,882	0	0	0	0	0
Financial assets held for trading	236	0	236	0	0	0	0
Available-for-sale financial assets	195,527	0	195,527	0	0	0	0
Loans	417,811	60,493	29,735	19,038	92,203	142,459	73,883
Held-to-maturity financial investments	87,468	0	0	6,483	48,167	28,152	4,666
Other assets*	14,718	0	14,718	0	0	0	0
Total assets: (1)	**775,642**	**120,375**	**240,216**	**25,521**	**140,370**	**170,611**	**78,549**
Financial liabilities to the Central Bank	45,668	0	0	0	0	45,668	0
Financial liabilities measured at amortised cost	679,933	331,895	74,828	82,914	136,143	41,139	13,014
Other liabilities*	7,164	430	3,151	107	575	2,013	888
Equity	42,877	0	0	0	0	0	42,877
Total liabilities and equity: (2)	**775,642**	**332,325**	**77,979**	**83,021**	**136,718**	**88,820**	**56,779**
Mismatch (1) less (2)	**0**	**(211,950)**	**162,237**	**(57,500)**	**3,652**	**81,791**	**21,770**
Off-balance sheet liabilities	72,045	756	18,315	6,822	27,138	14,698	4,316
As at 31 December 2012							
Total assets: (1)	799,519	96,262	189,645	32,378	151,612	235,016	94,605
Total liabilities and equity: (2)	799,519	325,085	79,964	74,224	162,413	85,815	72,018
Mismatch (1) less (2)	**0**	**(228,823)**	**109,681**	**(41,846)**	**(10,801)**	**149,201**	**22,587**

* Other assets also include income tax assets, property, plant and equipment, and intangible assets, while other liabilities also include income tax liabilities and provisions.

Financial liabilities by contractual undiscounted maturity

in thousands of EUR

Balance sheet items	Total	Sight	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
As at 31 December 2013							
Financial liabilities to the Central Bank	45,668	0	0	0	0	45,668	0
Financial liabilities measured at amortised cost	708,670	331,895	74,942	83,481	139,259	47,787	31,306
Other liabilities	7,164	430	3,151	107	575	2,013	888
Total financial liabilities	**761,502**	**332,325**	**78,093**	**83,588**	**139,834**	**95,468**	**32,194**
Off-balance sheet liabilities	72,045	756	18,315	6,822	27,138	14,698	4,316
As at 31 December 2012							
Financial liabilities to the Central Bank	45,416	0	0	0	0	45,416	0
Financial liabilities measured at amortised cost	728,248	324,864	75,742	74,682	166,423	45,724	40,813
Other liabilities	4,690	221	2,686	31	242	1,032	479
Total financial liabilities	**778,354**	**325,085**	**78,428**	**74,713**	**166,665**	**92,172**	**41,291**
Off-balance sheet liabilities	73,213	1,175	18,035	3,780	31,348	14,301	4,575

In the scope of liquidity management strategy and policy, the Bank pursues the goal of minimising liquidity risk, which is one of the bases for safe operations of the Bank. This involves prudent assets and liabilities management in terms of daily cash flows, their diversification and the highest possible asset-liability matching.

The Bank manages liquidity risk by compiling daily and monthly plans of liquidity flows. Based thereon, the Bank matches highly liquid assets with daily due liabilities. In addition to the planned cash flows the Bank also monitors the discrepancies and the reasons for them. Given that retail payments at post office outlets and withdrawals from and deliveries of cash to counters represent the largest cash flows, the Bank strives to maintain a high quality level of planning of such flows as well as others.

In liquidity risk management, the Bank also calculates the cost of providing necessary funds for financing its clients, whereby the Bank primarily focuses on retail deposits, and to some extent on corporate deposits, primarily aiming at providing a stable and sound basis for future growth.

The cost of ensuring liquidity of the Bank is based on market interest rates and a full set of instruments on the market and with the Central Bank. In these terms and in view of deposits stability, the cost of liquidity calculated in December 2013 was 0.066 percent or 6.6 basis points. Cost of liquidity is regularly monitored and calculated (at least quarterly and at each change in key parameters, such as the reference interest rate of the European Central Bank) providing a basis for investment decisions.

In accordance with the effective regulations, the Bank calculates liquidity ratios on daily basis, namely the ratio between the level of investments and liabilities with specific remaining maturity. The regulations require the Bank to maintain the liquidity ratio in the so-called first class above 1 (the remaining maturity of 0 to 30 days is taken into consideration in the computation), with the second-class liquidity ratio (the remaining maturity of 0 to 180 days is taken into consideration in the computation) provided for information purposes only.

In 2013, the Bank, as always, complied with the requirements of the Bank of Slovenia regarding minimum liquidity position. The 2013 liquidity ratio movement is shown in the Table below.

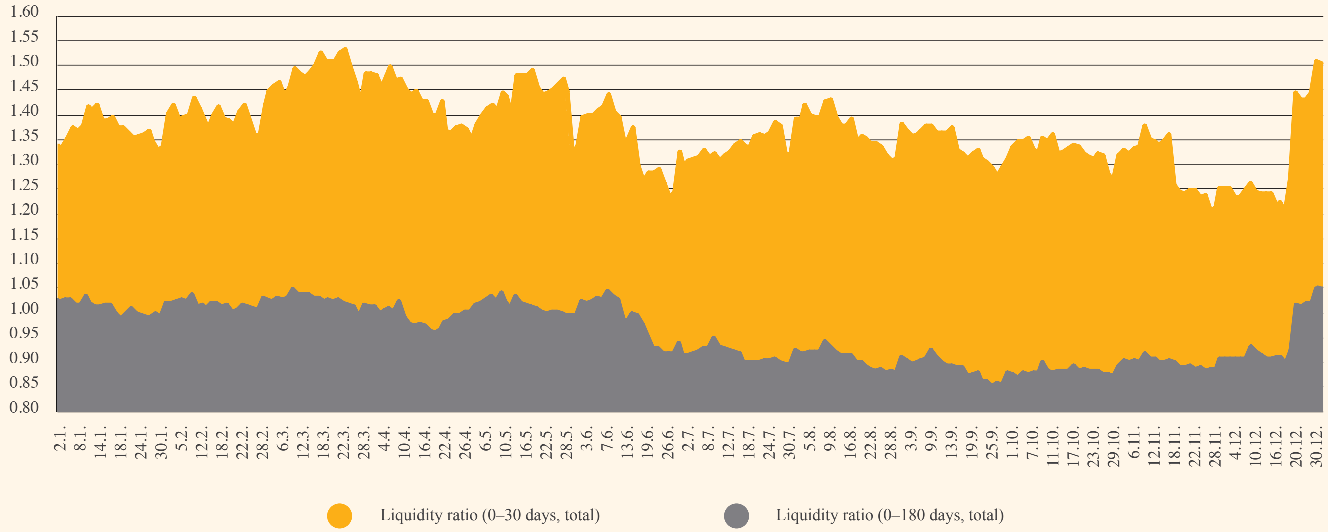
Achieved liquidity ratios

in %

	As at 31 December 2013	As at 31 December 2012	Average 2013	Average 2012
Up to 30 days' maturity	1.51	1.35	1.37	1.35
Up to 180 days' maturity	1.05	1.01	0.96	1.06

Graph 15:

Liquidity ratio movement in January to December 2013 (in %)



The Bank has developed liquidity risk management scenarios for any circumstances that might affect liquidity. The scenarios envisage any undesirable changes in the Bank (e.g. change in volume of sight deposits) and changes due to external factors (e.g. decrease in quality of sources due to global crisis or occurrence of loss events due to operational risks that might affect the Bank's liquidity management). The Bank has laid down rules of conduct within liquidity risk management scenarios for possible causes of discrepancies in the planned Bank's liquidity position. Accordingly, daily liquidity risk management is integrated into the Bank's liquidity management, reviewed or approved by the Liquidity Committee. Moreover, liquidity and liquidity risk management is also monitored by the Credit Rating and Risk Management Department.

In 2013, the Bank conducted a stress test concerning worsening of liquidity position – a liquidity shock using the Bank of Slovenia's scenario. It showed no effect on the Bank's operating results or its capital adequacy.

Liabilities as at 31 December 2013 with maturity period over 5 years

in thousands of EUR

	Maturity year	Principal
Deposits		
- hybrid deposits	no maturity	9,000
- other deposits	2019	688
	2020	182
	2021	212
	2022	143
TOTAL deposits		**10,225**
Loans raised	2019	1,153
	2020	486
	2021	486
	2022	133
	2023	133
	2024	133
	2025	133
	2026	0
	2027	0
	2028	0
TOTAL loans raised		**2,659**

With a purpose of liquidity risk management, the Bank maintains adequate property level in the so-called Eurosystem collateral pool. These are investments in securities meeting high standards in terms of credit rating regulations as prescribed by the European Central Bank. The strategy and policy on investment in securities complies with these requirements; and in case of liquidity needs, the Bank has access to monetary policy instruments offered by the European Central Bank. These securities are also listed on regulated markets, and the Bank can sell them in case of liquidity requirements.