ANNUAL REPORT 2014

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

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KEY PERFORMANCE INDICATORS

Key performance indicators

	2014	2013	2012
Total assets (in thousands of EUR)	720,102	775,642	799,519
Total equity (in thousands of EUR)	50,303	42,877	47,441
Net profit/loss (in thousands of EUR)	246	-57,164	332
Book value per share (in EUR)	1.60	1.36	107.50
Return on equity			
a. before tax (in %)	0.40	-141.89	0.84
b. after tax (in %)	0.49	-142.20	0.71
Return on assets after tax (in %)	0.03	-7.05	0.04
Operating expenses to average assets (in %)	2.26	2.21	2.18
Capital adequacy (in %)	11.84	10.01	11.43
Loans/deposits (non-bank clients) (in %)	49.33	55.37	69.32
Operating expenses/income (in %)	53.17	74.71	57.70

Figure 1:
Total assets

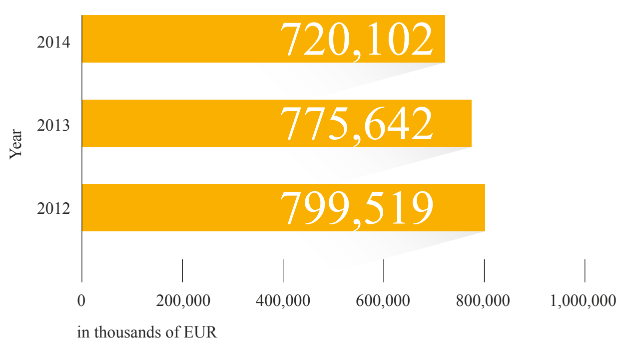
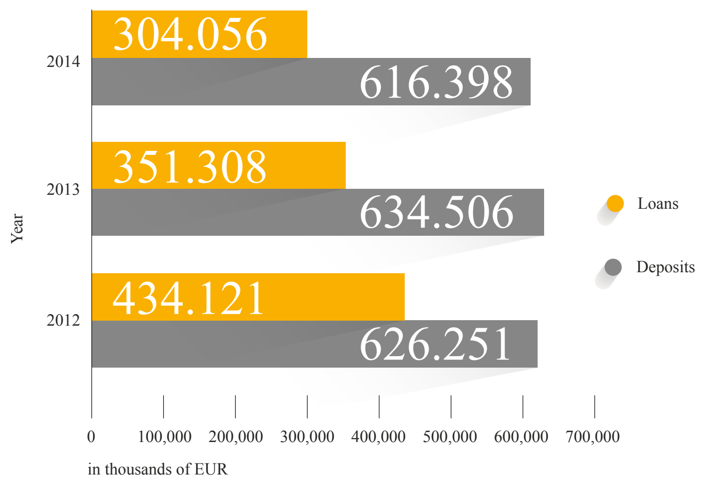


Figure 2:
Loans/deposits (non-bank clients)



STATEMENT BY THE MANAGEMENT BOARD

Aleksander Jerenko
Substitute Member
of the Management Board

Mojca Mak
Substitute Member
of the Management Board

Dear colleagues,

Due to the extremely weak economic recovery and many other challenges, Poštna banka Slovenije carried out in 2014 numerous activities and introduced significant changes aimed at achieving improvements in its organisation, cost-effectiveness and operations of the Bank with respect to its clients and business partners with a purpose to ensure a positive result and business performance of the Bank.

Because of comprehensive changes in all areas of the Bank's operations, the year of 2014 was a very demanding year, and we can say, also a turning point for the Bank and its staff.

In 2014, no significant economic growth occurred in Europe and Slovenia, which affected operations of the entire banking sector. Due to the absence of relevant structural reforms, Slovenian business environment is still uncompetitive and over-indebted; the growth of consumption in the private sector is weak, while the unemployment is relatively high. Capital adequacy requirements, contraction of balance sheets in banks, negative growth rates in loans mainly to business clients, and too little opportunities to increase income are continued in the banking system. All these developments have influenced the operations of Poštna banka Slovenije.

In spite of the decision that the Bank shall remain strategically focused on conservative business policy in all areas of its operations, due to persistent challenging economic and financial environments, the Bank had to focus its activities in 2014 on cleaning the loan portfolio resulting from the past, reducing its operating costs and seeking effective methods for its operations with a purpose to ensure a positive growth of its operations.
Its operating expenses amounted to EUR 17,043 thousand, which is 5 percent or EUR 876 thousand less than in 2013. Compared to the same period of the previous year, the Bank reduced the costs of salaries by 11 percent or EUR 920 thousand. A real impact of the Bank's reorganisation and reduction of salaries will be shown particularly in 2015. The Bank has implemented streamlining measures also in the area of material and services costs, which decreased in 2014 by 3 percent or EUR 176 thousand.
In 2014, the Bank recorded net interest income in the amount of EUR 20,582 thousand, which exceeds the respective figure for 2013 by 22 percent. A higher net interest income compared to the previous year resulted mainly from lower interest expenses.
A positive result of the Bank's operations before provisions and impairments amounted to EUR 15,011 thousand, which is an increase of EUR 8,946 thousand compared to 2013. Due to further worsening of financial position in companies and, in individual cases, decreases in the estimated value of assets acquired as collateral for loans, the Bank recognised EUR 14,810 thousand of additional net provisions and impairments in 2014.
The volume of operations of Poštna banka Slovenije in 2014 measured by its total assets amounted at the end of 2014 to EUR 720,102 million, which is by EUR 55,540 thousand or 7 percent less than in the previous year. At the end of 2014, the Bank generated a net profit of EUR 246 thousand. The Bank's capital adequacy reached 11.84 percent at the end of 2014.

In difficult circumstances during 2014, the Bank tried to take advantage of those business opportunities, which exist even when the environment was not particularly favourable. Therefore, the Bank continued its efforts to develop its operations through introduction of new services, activities aimed at attracting new clients and generating all types of income.

In the area of retail banking, the Bank organised again a traditional motivational event in the field of promoting sales of personal accounts and savings products intended for the staff of Pošta Slovenije, which remains an important strategic business partner of the Bank. In cooperation with Pošta Slovenije, the Bank continued implementation of workshops aimed at involving postmen in the sale of services.
With a purpose of increasing non-interest income, the Bank started in 2014 provision of a wide range of insurance products targeting both natural persons and corporate clients. The Bank also introduced a loan at point of sales product.

The Bank changed its method of work in corporate banking. It introduced active marketing as a fieldwork. The Bank was actively taking opportunities to expand its operations with good clients and establish cooperation with new clients. The Bank acquired new clients in line with its strategy 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. Activities in this area were mostly focused on cleaning the loan portfolio, as the payment discipline and corporate liquidity still remained poor.

In September, the Bank carried out a comprehensive reorganisation and developed a new job classification with a purpose of achieving a lean organisational structure and a higher operational and cost efficiency. We believe that the Bank, through such an organisation scheme of units and work processes will exploit its potential and perform successfully and cost-effectively. We are aware, however, that constant changes in the external environment require an appropriate and timely response of the Bank to these changes through implementing new measures and adequate organisation of its operations.

The Bank earmarks every year part of its funds for the environment where it operates. As a Slovenian bank, the Bank decided in 2014 to support the projects aimed at helping hungry children or families concerned with the need to survive in Slovenia. Therefore, the Bank supported three projects, namely „Botrstvo“ (Godparentship) implemented by Zveza prijateljev mladine Moste-polje, „Pomagajmo preživeti“ (Let’s help them to survive) of the Slovenian Karitas, and „Lepo je deliti“ (It is nice to share) of the Red Cross of Slovenia.

We estimate that 2015 will be a demanding year, full of changes for the Bank. It will be the year of setting-up a new business model, new goals, strategies and corporate culture. The government carries out activities aimed at selling the largest Bank's shareholder, Nova KBM, and consequently, the Bank itself. There are also integration processes between the Bank and Nova KBM undergoing.
The Bank, again in 2015, plans to develop new services, new technological solutions, and appropriate organisation of the Bank. A significant focus will be given to the most intensive personal sales and quality of investments, adjusting interest rate policy, and to increasing non-interest income.
The Bank will continue coordination of its activities within the Nova KBM Group, and will take necessary steps, in partnership with Pošta Slovenije, to achieve optimum results, streamline its costs and unify its resources, where possible. The Bank will seek and implement potential synergy effects of joint operations on the market, and the resulting value added for all three participants.
Through all the above activities, we wish to enable Poštna banka Slovenije to develop to a modern, effective and targeted Bank. It will remain specialised in retail banking and small and medium-sized enterprises also in the future.

We are ending this letter by a conclusion that the search for better, more modern and rational paths shall be a permanent task of the Bank, because all the measures implemented so far have shown positive results in the Bank's operations and stability.
We believe that with professional and hardworking employees, good business partners, and the owners having an ear for the Bank's plans, we are on the track to meeting the strategic goals and achieving the vision of the Bank.

Maribor, February 2015

Aleksander Jerenko
Substitute Member
of the Management Board

Mojca Mak
Substitute Member
of the Management Board

REPORT OF THE SUPERVISORY BOARD

Sabina Župec Kranjc, M.Sc.
Deputy Chairperson

Composition of the Supervisory Board

The Supervisory Board of Poštna banka Slovenije is composed of five members. The Supervisory Board operated at the beginning of 2014 in the following composition: Boris Novak, M.Sc., Chairperson, Aleš Hauc, Deputy Chairperson, and the members: Igor Žibrik, Miha Šlamberger, M.Sc., and Vinko Filipič. Halfway through 2014, there was a change in operations of the Supervisory Board. Namely, on 26 June 2014, the then Chairperson of the Supervisory Board, Boris Novak, M.Sc., resigned from his office, and the Supervisory Board appointed his then Deputy, Aleš Hauc, a Chairperson of the Supervisory Board. The Supervisory Board then appointed Boris Novak, M.Sc. a Deputy Chairperson of the Supervisory Board, but on 30 June 2014, also Boris Novak, M.Sc., resigned from this office and acted further as a member. As at 2 July 2014, the Supervisory Board appointed the then member, Igor Žibrik, a Deputy Chairperson of the Supervisory Board.

As at 25 August 2014, Igor Žibrik resigned from the membership of the Supervisory Board.

As at 3 December 2014, the General Meeting of Shareholders replaced the resigned member Igor Žibrik by a new Substitute Member of the Supervisory Board, Sabina Župec Kranjc, M.Sc. On 10 December 2014, the Supervisory Board appointed Sabina Župec Kranjc, M.Sc., also a Deputy Chairperson of the Supervisory Board.

At the end of the 2014 business year, the Supervisory Board was composed as follows: Aleš Hauc, Chairperson, Sabina Župec Kranjc, M.Sc., Deputy Chairperson, and the following members: Miha Šlamberger, M.Sc., Boris Novak, M.Sc., and Vinko Filipič.

The Supervisory Board has performed its basic function of providing effective control over managing the Bank with a duty of diligent and conscientious practices and in line with the powers imposed by the applicable legislation, other regulations and internal rules of the Bank. In doing so, it also observed provisions of the applicable Corporate Governance Code for Joint Stock Companies and operated in the manner as specified by the Rules of Procedure of the Supervisory Board.

The Supervisory Board estimates that it acted in a responsible manner within its powers in 2014, supervised the work of the Management Board, and monitored the operations of the Bank.

Method and scope of supervising management of the Bank

The Supervisory Board worked in an organised way and in line with the Rules of Procedure of the Supervisory Board. In its work, it complied with the standards of appropriate professional diligence and corporate integrity, and followed high professional and ethical standards of management. The Supervisory Board estimates that it has received sufficient number of reports and information and, if necessary, additional clarifications and explanations needed for a responsible monitoring the implementation of the business and financial plans set up, and for the control over a sound and prudent management of Bank's operations. The Supervisory Board members were provided with professionally prepared materials, which represented an adequate basis and sufficient information to discuss particular cases. If necessary, the Management Board, which was always invited to attend the Supervisory Board' meetings, presented specific materials in details and exhaustively answered any additional questions asked by members of the Supervisory Board. The Management Board and the Supervisory Board held an open dialogue in all matters, ensuring therefore mutual understanding of decisions taken in the best interests of the Bank. The Supervisory Board was, among other things, actively involved in the development of the Policy on assessing suitability of management bodies and key function holders (Fit & Proper Policy), where it paid particular attention to a harmonised practice aimed at meeting governance standards at the level of the Nova KBM Group.

Supervisory Board members, both as individuals and as a group, have sufficient expertise to work in the Supervisory Board and are able to make reasonable, objective and independent decisions and judgments on their own. They have rich and diverse experience, understand the functioning of the Bank, and have personal qualities, including professionalism and personal integrity, while they adequately complement each other in professional fields. They understand their role in the Supervisory Board and carry it out actively, taking into account the nature of the Bank's operations and associated risks. All the members of the Supervisory Board have dedicated sufficient time and efforts to effective fulfilment of their responsibilities, which is shown also by a high level of their involvement and active participation in discussions at Supervisory Board's meetings.

Members of the Supervisory Board considered in their work and decision-making processes only interests of the Bank, and took all precautionary measures to avoid situations and practices that could result in conflict of interest. There were no examples of conflicts of interest among Supervisory Board's members that would require any action or could have been the reason for termination of office of any member of the Supervisory Board.

The Chairperson of the Supervisory Board took care of organising, conducting and implementing Supervisory Board's meetings in a responsible way, and in line with the conferred powers and the Rules of Procedure of the Supervisory Board, he performed all the tasks resulting from this position in a diligent manner. The Chairperson significantly contributed to the fact that decisions of the Supervisory Board were adopted in a prudent manner and based on a thorough knowledge of the problem. The Chairperson encouraged open and critical debates and provided for expressing of and dealing with all positions. The Chairperson held communication with the Management Board of the Bank in matters requiring a prompt notification and immediate flow of information also outside meetings of the Supervisory Board; the Chairperson of the Supervisory Board also held communications with the public.

The Supervisory Board believes that performance of management and supervisory functions in 2014 was interactive and effective, regardless of changes in the Management Board composition, for which the Supervisory Board was striving to find the most suitable candidates in given circumstances, in line with professional standards and good practices recommended in the functioning of supervisory boards and human resources committees in this area.

Checking the Bank's operations and discussion of major issues related to the operations of the Bank

In 2014, the Supervisory Board convened seven regular meetings and held ten correspondence meetings. In its work, the Supervisory Board carefully implemented its basic control function, and was actively involved in defining management relations in the Bank throughout the 2014 financial year. It evaluated prudently operations of the Management Board of the Bank and carried out other tasks in accordance with the law and within its powers. Among them, its competence related to appointment and dismissal of members of the Management Board of the Bank was especially pointed out in 2014, as there were several changes in the composition of the Management Board during the year. In professionally conducted processes of identifying appropriate candidates, the Supervisory Board strongly emphasised the awareness of a necessary additional diligence, as the Bank might be especially sensitive to management-related risk due to harsh conditions, although the Bank relatively well manages its position on the Slovenian banking market in such conditions. In spite of the efforts for proactive performance of the Supervisory Board and the Human Resources Committee in this area, time component was not in favour of those activities. Consequently, the Bank was managed in part of the year by the Management Board composed of substitute members. Taking into account all necessary procedures and rules of the regulator related to the transposition of EBA guidelines on internal governance into the Slovenian legal system, as well as the implementation of the pan-European SSM system of banking supervision, the Supervisory Board carefully examined compliance with pre-established requirements, criteria and recommendations for appointing board members before each specific appointment was made. Therefore, the Supervisory Board discussed and approved in 2014 the updated Policy on assessing suitability of management bodies and key function holders (Fit & Proper Policy) and approved the appointment of the Committee in charge of making assessments of suitability. The Supervisory Board requested an assessment of suitability to perform this function to be made for each individual candidate to the Management Board and, consequently, asked the Fit & Proper Committee to draw up assessments of suitability for four candidates in 2014.

Due to the changes in the Management Board composition, the Supervisory Board particularly carefully monitored in 2014 performance of the Management Board and prudent operations of the Bank. In doing so, the Supervisory Board constantly kept pointing out proper functioning in the area of risk management through professional materials received in the context of its meetings. It insisted on timely and repeated identifications, measurements, monitoring and evaluation of all types of risks, to which the Bank was exposed in its operations. It requested setting-up the controls to reduce the risks, where they were identified as insufficient. The Supervisory Board drew attention to the circumstances that could significantly affect operational, financial or legal position of the Bank, including consideration of the Bank's actions in the past. The Supervisory Board reached agreement on all its important decisions.

The most important contents of the Supervisory Board meetings in 2014 were related to the Bank's current operations, movement of non-performing loans in the Bank's portfolio, and activities of the Bank aimed at resolving these issues, implementing the policy of receivables restructuring, the structure of internal organisation and the composition of the Bank's Management Board and its performance. In the context of monitoring operations of the Bank, the Supervisory Board regularly discussed and reviewed quarterly reports on operations of the Bank, projections of its operations until the end of the year, and the assessment of ensuring capital adequacy of the Bank, and quarterly reports on internal audit of the Bank. The Supervisory Board was also informed on the progress of external legal reviews of individual credit transactions with certain clients and, after receiving the first final reports, charged the Management Board to carry out further activities or measures in respect of observed irregularities and alleged violations. The Supervisory Board has not yet received the final report of the Management Board on the implemented activities.

In 2014, the Supervisory Board discussed the following key contents and the following important issues related to the operations of the Bank:

- **On 24 January 2014**, the Supervisory Board acknowledged the unaudited business results for 2013 and gave the Management Board its approval to cover the net loss for 2013;
- **On 19 February 2014**, the Supervisory Board discussed the unaudited performance report of the Bank for 2013 and agreed on changes in the internal organisation of the Bank;
- **On 28 March 2014**, the Supervisory Board discussed and approved the 2013 Annual Report of Poštna banka Slovenije;
- **On 15 April 2015**, the Supervisory Board discussed and approved the Restructuring of High-Risk Investment Policy and acknowledged the activities to be undertaken by the Bank in 2014 in individual companies included in the attached list of over-indebted but promising companies;
- **On 16 May 2014**, the Supervisory Board approved proposals for the General Meeting of Shareholders, namely the information on the amount of loss and coverage of the loss for 2013, discharge of the Management Board and the Supervisory Board from their function for 2013, a proposal for the appointment of an auditor, acknowledgement of the Policy on assessing suitability of members of management bodies and key function holders;
- **On 20 May 2014**, the Supervisory Board adopted a decision on consensual discharge of Viktor Lenče from his position of a Member of the Management Board and the termination of employment in the Bank with the effect as of 30 June 2014;
- **On 26 June 2014**, the Supervisory Board appointed in accordance with the law a Substitute Member of the Management Board of Poštna banka Slovenije, Danica Ozvaldič, M.Sc., for a 6-month term; she started her term of office on 1 August 2014. The Supervisory Board also approved a proposal on the change in chairing the Supervisory Board, and instead of Boris Novak, M.Sc., appointed Aleš Hauc a Chairperson of the Supervisory Board. Boris Novak, M.Sc., assumed the position of a Deputy Chairperson of the Supervisory Board;
- **On 2 July 2014**, the Supervisory Board accepted the notice on resignation of Boris Novak, M.Sc., for his resignation from the position of a Deputy Chairperson of the Supervisory Board, and appointed Igor Žibrik a Deputy Chairperson;
- **On 15 July 2014**, the Supervisory Board adopted a resolution on consensual discharge of Robert Senica from the position of a President of the Management Board of Poštna banka Slovenije and a termination of the contract of employment with the effect as of 31 July 2014, as he assumed the position of a Member of the Management Board of Nova KBM d.d.;
- **On 21 October 2014**, the Supervisory Board acknowledged a notice on resignation of Igor Žibrik from the membership of the Supervisory Board of Poštna banka Slovenije as at 25 August 2014. The Supervisory Board approved the revised Policy on assessing suitability of members of management bodies

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and key function holders, and agreed that the General Meeting of Shareholders of the Bank shall be informed about the Policy in those contents;

- **On 25 November 2014**, the Supervisory Board took note of the assessment of suitability of a candidate for a Member of the Supervisory Board, Sabina Župec Kranjc, M.Sc., and agreed on proposal to the General Meeting of Shareholders to appoint Ms Župec Kranjc a new Substitute Member of the Supervisory Board instead of Igor Žibrik who had resigned;
- **On 10 December 2014**, the Supervisory Board took note of the assessment of suitability of a candidate for a Member of the Management Board of Poštna banka Slovenije, Marija Brenk. The Supervisory Board appointed Marija Brenk a Member of the Management Board of Poštna banka Slovenije. Ms Brenk will start her five-year office at this function after obtaining an authorisation from the Bank of Slovenia and ECB.

  On 10 December 2014, the Supervisory Board appointed Sabina Župec Kranjc, M.Sc., a Deputy Chairperson of the Supervisory Board.

  On 10 December 2014, the Supervisory Board also approved the Business Goals and the Financial Plan of Poštna banka Slovenije for 2015, with a request for a repeated revision of projections for 2016 and 2017;
- **On 16 December 2014**, the Supervisory Board accepted the notice on resignation of Elica Vogrinc from the position of a Member of the Management Board of Poštna banka Slovenije and appointed as at 17 December 2014 Mojca Mak a Substitute Member of the Management Board for a 6-month term in accordance with the law;
- **On 23 January 2015**, the Supervisory Board received information on early unaudited results of the Bank for 2014 and approved the use of net profit of 2014 to cover the transferred loss of 2013. The Supervisory Board also took note of the results of the stress test of the Bank of Slovenia, in which the Bank was involved in 2014;
- **On 27 January 2015**, the Supervisory Board discussed personnel matters, and following the reviews of the candidates' suitability assessments carried out under relevant procedures:
  - Appointed Aleksander Jerenko a Substitute Member of the Management Board for the term of maximum 6 months in line with the law, or until Marija Brenk assumes her function of a Member of the Management Board, respectively,
  - Appointed Marko Novak a President of the Management Board of Poštna banka Slovenije. Mr Novak will start his five-year term of office at this function after obtaining an authorisation from the Bank of Slovenia and ECB.

In addition to these key topics, the Supervisory Board discussed at its meetings in 2014 also the following important issues:

- **At its meeting in February 2014**, the Supervisory Board approved the work plan of the Supervisory Board's Audit Committee for 2014, the plan of internal auditing and compliance of the Bank's operations for 2014, and agreed on the amendments to the Rules of Procedure of the Supervisory Board's Human Resources Committee and the Rules of Procedure of the Management Board. The Supervisory Board acknowledged the updated programme of planned effects resulting from implementing the streamlining of operating costs programme RaSt, which is carried out at the level of the Nova KBM Group, and in particular on the measures undertaken by the Banks to reduce labour costs. The Supervisory Board also acknowledged the updated report on the write-offs performed on the basis of the Supervisory Board's consent from 2005 onwards. The Supervisory Board reviewed the report on assessment of the quality of internal audit activities and the Action Plan for the implementation of the recommendations, and agreed on the proposed amendments to the Charter of the Supervisory Board's Audit Committee. The Supervisory Board was also acquainted with the Code of Good Business Conduct and Professional Ethics in PBS, and discussed the proposal to adopt an annex to this Code for members of the Management Board and the Supervisory Board. At this meeting, the Supervisory Board also agreed on the Policy on assessing suitability of members of management bodies or supervision and key function holders;
- **At its meeting in March 2014**, the Supervisory Board adopted the reports on the activities of the Supervisory Board' committees in 2013, and a decision on reducing the remuneration of members of the Supervisory Board and members of the Supervisory Board's committees;
- **At its meeting in May 2014**, the Supervisory Board was informed about the Risk Profile and the Auditor's letter to the management for 2013. The Supervisory Board adopted the report on the work of the Internal Audit Department for 2013, and the report on its work for the first quarter of 2014, and was acquainted with the Final Audit Report of the Nova KBM Internal Audit Centre on the review of implementing the recommendations resulting from the audit of the portfolio management in Poštna banka Slovenije. The Supervisory Board took note of the Letter of the Bank of Slovenia concerning the review of authenticity and suitability of Euro cash with the opinion of the Audit Committee, Decision of the Bank of Slovenia on establishing elimination of violations pursuant to the Order on additional measures aimed at increasing the Bank's share capital from the end of 2013. It also discussed the report on the performance of the Bank's information system, and took note of appointing the President of the Management

Board, Robert Senica, a Member of the Management Board of Nova KBM d.d.;

- **At its meeting in June 2014**, the Supervisory Board discussed a brief information about ordinary operations of the Bank and agreed on the proposal on amendments to the Articles of Association of the Bank aimed at completing activities of the Bank with an additional financial service, namely, the provision of agency services in the sale of insurance products;
- **At its meeting in October 2014**, in addition to regular quarterly reports on operations of the Bank, the internal audit, reviews of activities in viable companies, and the review of the state of affairs in external legal reviews of individual credit transactions and actions undertaken by the Management Board, the Supervisory Board also discussed reports on activities in the field of information technology, organisation of e-archiving and digitalisation with a purpose to check the possibilities for cooperation with the parent bank aimed at pursuing economies of scale; it checked the measures aimed at increasing effectiveness of recovery, and called for more effective engagement of professional services of the Bank in procedures of judicial recovery and restructuring of investment and recovery. At the same meeting, the Supervisory Board also adopted the report on internal audit for the second quarter of 2014, and agreed on discharging the Head of the Internal Audit Department, Mateja Unuk, and appointment of the Acting Head of Internal Audit Department in Poštna banka Slovenije, Melita Dobaj. The Supervisory Board also took note of the letter from the member of the Management Board, Elica Vogrinc, concerning the Bank of Slovenia's requirements following a review of the Bank's operations with the Nivo d.d. Company, and took appropriate actions due to a suspected conflict of interest;
- **In December 2014**, the Supervisory Board agreed on the Trading Strategy and Policy;
- **In January 2015**, in addition to the first information on the unaudited result for 2014, the Supervisory Board discussed regular reports on operations, internal audits for the last quarter of 2014, and on activities in over-indebted yet promising companies in the last quarter of 2014, together with the plan for further activities in 2015. The Supervisory Board examined the state of the portfolio, took note of the expanded report on NPL loans, and reviewed business projections for 2016 and 2017 after a repeated verification based on the request of the Supervisory Board; the Supervisory Board also suggested setting up a membership of the working group of Pošta Slovenije, Poštna banka Slovenije and Nova KBM, which would define a detailed plan of activities related to changing the business model of Poštna banka Slovenije and initiate further joint activities in the performance of all the three companies on the market.

At its meetings in 2014, the Supervisory Board also discussed and agreed on write-offs of receivables, which qualify for write-offs pursuant to the Decision of the Bank of Slovenia on credit risk loss assessment of banks and savings banks and, in accordance with its respective responsibilities, on other write-offs and capital investments of the Bank, and a large exposure of the Bank to clients, countries and institutions in accordance with the provisions of the Banking Act (ZBan-1). The Supervisory Board was also informed about the division of transactions and the coordination of the areas of the Bank's activity among the members of the Management Board following respective changes in the Management Board.
Based on the above facts, the Supervisory Board believes that in 2014, it regularly, thoroughly and with due diligence supervised management of the Bank and performance of its internal audit, and checked operations of the Bank, under its powers and in accordance with Article 272 and Article 281 of the Companies Act (ZGD-1). Based on interactions with the Management Board of the Bank, the Supervisory Board will further support the changes that will lead the Bank towards increasing its corporate culture and contribute to reducing various risks and encourage harmonisation of operations at the level of the Nova KBM d.d. Group.

Committees of the Supervisory Board

According to the Companies Act (ZGD-1) and the Banking Act (ZBan-1), three committees of the Supervisory Board operate 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. Members of the committees include members of the Supervisory Board and external experts from various fields of expertise. Functioning of the committees in such capacity has ensured a substantive professional examination of matters and drafting of opinions for the Supervisory Board, by which the committees significantly contributed to more effective implementation of the control function.

The Audit Committee

met in 2014 at seven regular meetings. The Committee performed its tasks in accordance with the framework plan of the Audit Committee for 2014 approved by the Supervisory Board. The Committee completed in 2014 also all additional duties imposed by the Supervisory Board, and provided the Supervisory Board, in line with its powers, with opinions on the contents, of which it is obliged and responsible to judge in accordance with the law. Among other tasks performed in 2014, the Committee specifically closely monitored the effectiveness of internal control, internal audit and risk management systems, and verified a timely adoption of measures aimed at remedying the shortcomings and discrepancies found in audits. In the context of discussions at its meetings, the Committee made several recommendations, particularly in the field of applying accounting principles and internal control procedures. The Committee prepared written opinions for the Supervisory Board, with highlights from discussions, and the position adopted by the Committee against individual discussed matters, and the Chairperson of the Committee presented written opinions and explained them, if necessary, at the meetings of the Supervisory Board.

The Supervisory Board's Human Resources Committee

met in 2014 at five regular meetings and made a decision on one matter through a correspondence meeting. With respect to the changes in the Management Board of the Bank during the 2014 financial year, the Committee, in accordance with its respective powers, implemented all necessary procedures relating to appointment and discharge of individual members of the Management Board. In the context of these tasks, the Committee followed the principles of modern corporate governance and complied with legal provisions. Therefore, before developing any proposal, the Committee, in line with regulatory requirements, among other things, also took a detailed look at assessments of suitability, which were prepared by the Fit & Proper Committee about candidates for members of the Management Board, and provided the Supervisory Board with properly reasoned proposals.

The Committee for Fostering Cooperation in the Financial (Banking) Group or between Nova KBM, Po‘ta Slovenije and Po‘tna banka Slovenije

did not meet in 2014. This was mainly due to circumstances, such as a modified ownership ratio, the process of selling Nova KBM, and the commenced process of partial integration of Poštna banka Slovenije into Nova KBM. Notwithstanding this fact, all the members of the Committee were actively involved in the work of individual working groups, which are set up for various specific areas of activity with a purpose to seek synergies and added value in joint performance of all the three companies on the market, and are composed of representatives of all the three companies.

Review and approval of the 2014 Annual Report

The Management Board of the Bank submitted the audited 2014 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 Report on internal audit work in 2014.

The Supervisory Board discussed the audited 2014 Annual Report of Poštna banka Slovenije d.d. – the Nova KBM d.d. Banking Group – and found out that in terms of its content, the report summarises in a comprehensive manner operations of the Bank in the year, for which it was prepared. The Supervisory Board also acknowledged the report of an independent auditor, the Deloitte Revizija d.o.o. Company, Ljubljana, according to which the financial statements of the Bank, in all material respects, are a fair presentation of Poštna banka Slovenije financial position as at 31 December 2014, 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 applying to the compiling financial statements. The auditor's opinion also confirms that the business report complies, in terms of substance, with the financial statements. The Supervisory Board notes that the report of the independent auditor is without reservations and, as such, appropriate.

The Supervisory Board was acquainted with the proposal of the Management Board of the Bank and provided the Management Board of the Bank with its approval concerning the use of the net profit for 2014 in the amount of EUR 246,118.81 to cover the transferred loss for the year 2013. The residue loss in the amount of EUR 1,243,368.84 shall remain uncovered and be posted as a retained loss of 2013.

Supervisory Board of Poštna banka Slovenije, d.d. – Nova KBM d.d. Banking Group

Sabina Župec Kranjc, M.Sc.
Deputy Chairperson

BUSINESS REPORT

1 FINANCIAL HIGHLIGHTS

Contents[1]	31 December 2014	31 December 2013	31 December 2012	Index
1	2	3	4	5=2/3
Statement of financial position (in thousands of EUR)				
Total assets	720,102	775,642	799,519	93
Total deposits of the non-banking sector	616,398	634,506	626,251	97
- corporate clients and other	58,682	79,536	95,604	74
- retail	557,716	554,970	530,647	100
Total loans to the non-banking sector[2]	304,056	351,308	434,121	87
- corporate clients and other	213,261	260,739	342,872	82
- retail	90,795	90,569	91,249	100
Total equity	50,303	42,877	47,441	117
Impairments of financial assets measured at amortised cost and provisions	131,801	117,550	71,875	112
Off-balance sheet items[3]	66,155	72,045	73,213	92
Income statement (in thousands of EUR)	**1-12/2014**	**1-12/2013**	**1-12/2012**	**Indeks**
Net interest income	20,582	16,932	22,518	122
Net non-interest income	11,472	7,052	8,522	163
Staff expenses, general and administrative expenses	15,140	16,111	16,254	94
Amortisation	1,903	1,808	1,655	105
Impairments and provisions	14,810	63,102	12,735	23
Profit or loss from continuing and discontinued operations before tax	201	-57,037	396	-
Net profit or loss	246	-57,164	332	-
Income tax on profit from continuing and discontinued operations	45	-127	64	-
Statement of comprehensive income (in thousands of EUR)	**1-12/2014**	**1-12/2013**	**1-12/2012**	**Indeks**
Other comprehensive income before taxation	8,651	1,806	2,108	479
Income tax relating to components of other comprehensive income	-1,471	-289	-386	509
Employees	**31 December 2014**	**31 December 2013**	**31 December 2012**	
Number of employees	237	239	236	99
Shares				
Number of shareholders	2	2	2	100
Number of shares	31,508,159	31,508,159	441,300	100
Nominal value per share – (in EUR)	1.3134	1.3134	16.6917	100
Book value per share – (in EUR)	1.60	1.36	107.50	117
INDICATORS				
Capital for the purpose of capital adequacy (in thousands of EUR)	44,867	44,856	61,437	100
Capital requirements (in thousands of EUR)	30,317	35,845	43,008	85
Capital adequacy (in %)	11.84	10.01	11.43	
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	20.07	16.71	9.39	
Profitability (in %)				
Interest margin	2.73	2.09	2.74	
Financial intermediation margin	4.25	2.96	3.78	
Return on assets before taxation	0.03	-7.03	0.05	
Return on assets after tax	0.03	-7.05	0.04	
Return on equity before taxation	0.40	-141.89	0.84	
Return on equity after tax	0.49	-142.20	0.71	
Operating expenses (in %)				
Operating expenses / average assets	2.26	2.21	2.18	
Liquidity (in %)				
Liquid assets / current financial liabilities due to non-banking sector	64.17	46.06	38.56	
Liquid assets / average assets	43.04	28.87	24.03	

[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. After the disintegration of Yugoslavia and after Poštna hranilnica closed its branch 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 branch offices 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 operations, extends its range of products and puts emphasis on its service quality, which is reflected in the range of services and the relationship with its clients. Along with the increase in the volume of operations and development of business functions, the Bank has also strengthened its support functions, and puts significant emphasis on management of all types of risks encountered by the Bank in its operations.

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. The 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 additional increase in the Bank's capital, which resulted in 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. Additional disclosures on share capital and shareholders of the Bank are available in the financial section in Note 2.5.18.1.

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 for the provision of services 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 reco-

urse of non-current outstanding receivables secured with a financial instrument (forfeiting),
- Payment transaction services in accordance with the Payment Transactions Act, other than payment system management services,
- Issuance and management of payment instruments (e.g. credit cards and traveller cheques),
- Issuing of guarantees and other warranties,
- 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.
- Provision of additional financial service of agents in the sale of insurance products according to the law governing the insurance industry.

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 through 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.
Abbreviated name: PB Slovenije d.d. – bančna skupina Nove KBM d.d.
Registered office: Ulica Vita Kraigherja 5, 2000 Maribor
Phone: 02 228 82 00
Fax: 02 228 82 10
Ljubljana business area: Tržaška cesta 134, 1000 Ljubljana
Phone: 01 479 12 00
Fax: 01 479 12 27
Website: www.pbs.si
E-mail: info@pbs.si
Date of establishment: 1 August 1991
Start of operations: 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
Equity: EUR 41,381,959.24
Account number: 01000-0009000034
IBAN: SI56 0100 0000 9000 034
SWIFT/BIC Code: PBSLSI22

2.3 Branch network

Business network of Poštna banka Slovenije comprised in 2014 of 550 post offices of different organisational forms: 71 contractual post offices and 24 mobile post offices, while the number of traditional postal offices was reduced to 455. In all these units, retail services and certain services for corporate clients were carried out. Exchange services were provided by 360 post offices.

The advantages of performing services through the post office network lie mainly in the fact that post offices are evenly distributed across the country, their opening hours are convenient, and they are open also on Saturdays.

In 2014, the Bank kept in its network 11 mobile bankers, which were available to clients throughout Slovenia. Mobile bankers are trained for individual advice and sales at home, in offices or any other place suitable for Bank's clients.

In 2014, 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 258 ATMs of Nova KBM.

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. Retail clients were also able to perform banking services at mobile bank through mobile phones and tablets.

The Bank carried out services for retail and corporate clients also in its own units, namely directly at the locations of its business sectors in Ljubljana and Maribor, and in addition, in business centres at various locations. In this field, Maribor and Ljubljana business centres in the framework of business sectors are primarily intended for provision of services and marketing of banking products for retail clients, while Celje, Koper, Kranj and Murska Sobota business centres operate also for corporate clients.

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

Kranj Business Centre
Dražgoška 8, 4000 Kranj
Phone: +386 4 201 8550
Fax: +386 4 201 8553

Koper Business Centre
Kolodvorska cesta 9, 6104 Koper
Phone: +386 5 662 1848
Fax: +386 5 662 1849

Celje Business Centre
Krekov trg 9, 3000 Celje
Phone: +386 3 424 3980
Fax: +386 3 424 3985

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

2.4 Internal organisation

In spite of the measures aimed at streamlining its operations, which the Bank has implemented since the very first effects of the financial and then economic crisis on the Bank‘s operations were shown, further unstable conditions in the environment required also structural changes. In view of establishing more functionally effective and sustainable organisational structure in terms of costs, there was an extensive reorganisation implemented in 2014.
The Bank carries out its operations in business organisational units that are organised on the basis of functional and territorial principles. Organisational units of the Bank are located at the Bank‘s registered office and in the areas determined by a decision of the Management Board.

Since 1 September 2014 onwards, the Bank has been organised as follows:

Management Board and its support services
The Management Board manages and represents the Bank in legal transactions and has full powers in accordance with applicable laws and the Articles of Association of the Bank. The services that operate under the management of the Bank, represent a support function to the Management Board and are responsible for organising, professional implementation and monitoring of business processes for smooth and lawful operations of the Bank in accordance with regulations and internal rules of the Bank. Support services include:
- Cabinet of the Management Board,
- Compliance of operations,
- Risk management department,
- Legal office,
- Internal audit department,
- Public relations.

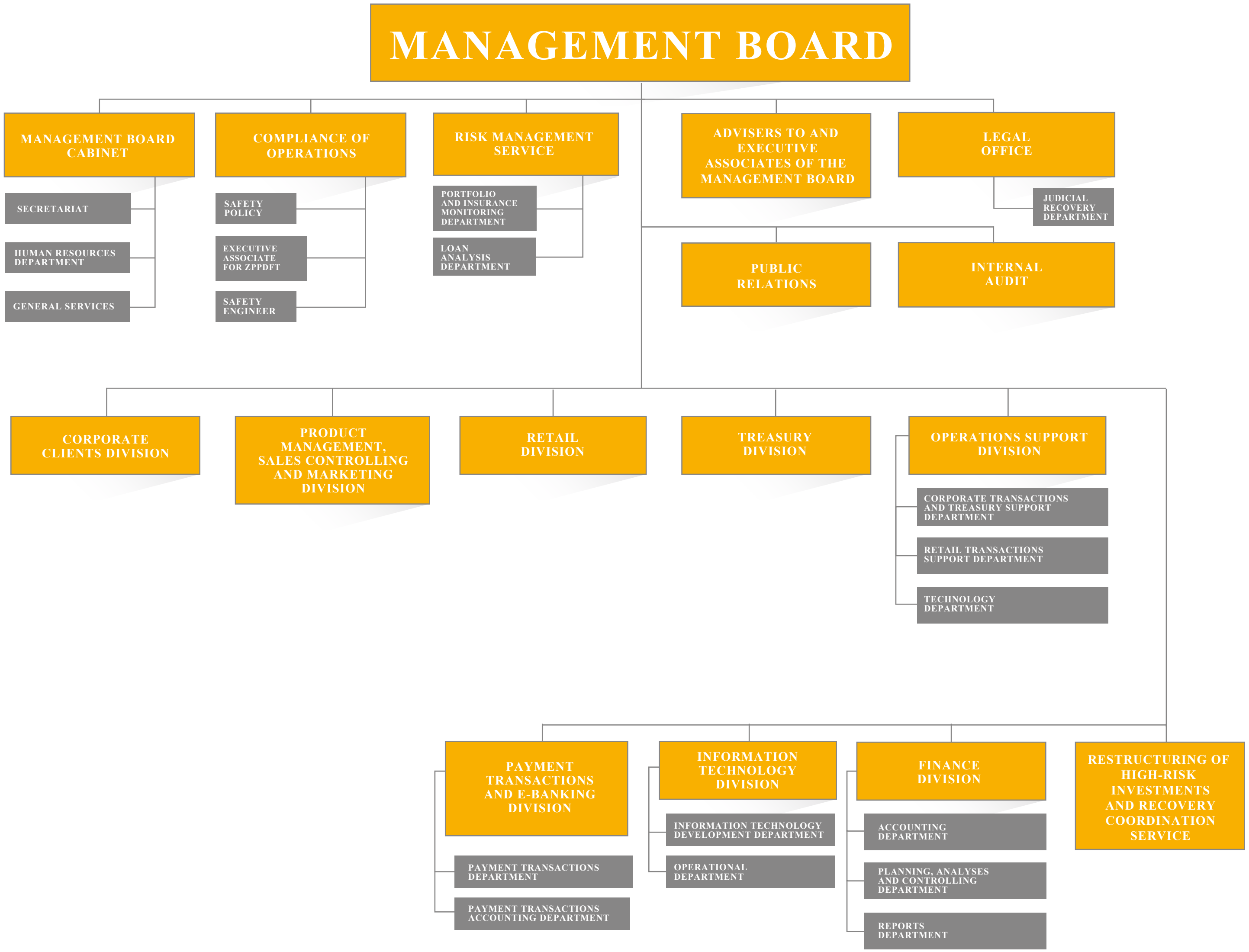
Functional organisational units
Functional organisational units are represented by divisions within which all business operations are carried out in accordance with the mission and vision of the Bank, taking into account all types of risks, to which the Bank might be exposed when implementing its transactions from the scope of work of each sector. Functional organisational units include:
- Corporate banking division,
- Retail banking division,
- Product management, sales controlling and marketing division,
- Treasury division,
- Payment transactions and electronic banking division,
- Finance division,
- Information technology division,
- Restructuring of high-risk investments and recovery coordination department,
- Business support division.

Within some services and divisions, there are also departments organised according to the needs of the working process.

In line with the Bank‘s business policy, in individual business organisational units operate also business centres as territorial units:
- Maribor Business Centre,
- Ljubljana Business Centre,
- Celje Business Centre,
- Murska Sobota Business Centre,
- Koper Business Centre,
- Kranj Business Centre.

The Bank conducts its transactions also through post office counters, the organisation of which is the responsibility of Pošta Slovenije.

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

- Through the Pošta Slovenije network, the Bank will enable its clients to carry out high-quality financial services at post office counters in cooperation with the Nova KBM Group,
- To operate successfully and profitably through stable operations in a domestic environment,
- Priority will be given to the safety of the Bank, the quality of its portfolio, and the management of all types of risks.

Values

Expedience, availability, safety and efficiency.

Key policy orientations and objectives under the Nova KBM Group

Nova KBM prepared in 2014 a restructuring plan for the Nova KBM Group, in which Poštna banka Slovenije is established as a strategically important part of the Nova KBM Group. The Bank has set up the following policies for the preparation of the business plan 2015 and the projections from 2016 to 2017:

- Active acquisition of new clients in the field of retail banking and among small and medium-sized enterprises, in accordance with the restrictions on the growth of risk-weighted assets,
- A segmented growth of loans with respect to restrictions on risk-weighted assets,
- The growth of loans to non-bank clients in the amount of 70 percent of the GDP growth,
- Preservation of capital adequacy in accordance with regulations,
- Reduction of costs by 5 percent,
- Streamlining the number of employees,
- Increase in non-interest income,
- Optimisation and harmonisation of the Bank's resources within the Nova KBM Banking Group in order to achieve synergy effects,
- 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 implementation of measures aimed at reducing operating costs and achieving greater cost-effectiveness.

4 BANK'S PERFORMANCE ANALYSIS FOR 2014

4.1 Economic and banking environment

Economic environment and forecasts*

Macroeconomic indicators	2006	2007	2008	2009	2010	2011	2012	2013	2014 estimate	2015 forecast	2016 forecast
GDP in %	5.7	6.9	3.3	-7.8	1.2	0.6	-2.6	-1.0	**2.5**	**2.0**	**1.7**
Registered unemployment (in %)	9.4	7.7	6.7	9.1	10.7	11.8	12.0	13.1	**13.1**	**12.6**	**12.2**
Real growth of salaries per employee	2.2	2.2	2.5	2.5	2.1	0.2	-2.4	-2.0	**1.0**	**1.0**	**1.3**
Exports in %	14.1	13.6	4.2	-16.6	10.1	7.0	0.3	2.6	**5.2**	**4.7**	**5.3**
Imports in %	12.4	16.8	3.8	-18.8	6.6	5.0	-3.9	1.4	**3.9**	**4.1**	**4.5**
Inflation rate (end of year) in %	2.8	5.6	2.1	1.8	1.9	2.0	2.7	0.7	**0.5**	**0.1**	**1.0**

Recovery of economic activities has continued in the third quarter of 2014 primarily due to accelerated growth in exports. GDP grew in nine months year-on-year by 2.7 %. Total exports in three quarters of 2014 exceeded the figures for the same period last year by 5.6 %.

A year-to-year growth in domestic consumption continued also n the third quarter. Strengthening of year-to-year growth in the number of employees and average gross salaries was accompanied by year-to-year growth in **household consumption**, particularly in the segment of durable goods. This was further accelerated by improvement in indicators of consumer confidence, among other things, as a result of lower uncertainty following the rehabilitation of the banking system. The latter one, together with the stabilisation of conditions on international financial markets, contributed to improvement of financing conditions of the government.

Economic growth for 2015 is expected to exceed the figures indicated in the 2014 Autumn Forecast, mainly as a result of better expectations regarding the growth of exports; and investment consumption forecasts are also slightly higher. Along with further growth in foreign demand, improvement in cost-effectiveness of the trading sector, and improved terms in trade, **exports** will remain the main factor of economic growth in Slovenia. Important factors affecting the improvement in expectations regarding the growth of exports are improved terms of trade (the ratio between import and export prices), along with significantly lower assumed average price of oil and other commodities in the coming year, because of their significant decrease in recent months.

The growth in **gross fixed capital formation** will slow down in the next year following a considerable strengthening in this year. This year's growth in gross fixed capital formation results mainly from public investment in other buildings and structures associated with enhanced disbursement of the EU funds before the financial perspective ends next year. Next year, the expec-

* (Source: Umar, Pregled uresničevanja Jesenske napovedi gospodarskih gibanj 2014, December 2014)

ted growth in these investments will be significantly lower than this year; therefore, we expect that it will slow down also the overall growth of investment.
Following further fiscal consolidation, **government consumption** will decrease this year and the next year. This year's drop will be similar to the last year's one and will result from streamlining expenditure on goods and services, reduction of social transfers in kind, while in the area of labour costs, further reductions in the number of employees are expected. A drop in government consumption will slightly slow down next year.
After the Autumn Forecasts were prepared, a significant drop in the price of oil and other raw materials affects a lower forecast of **inflation** in the current year, but particularly in the next year. Next year, inflation will fall below this year's figures and will be much lower than expected in the last autumn, on the account of much lower assumptions in terms of oil prices and partly also in other raw materials as compared to the Autumn Forecast. At the same time, along with the recovery in private consumption, which is still modest, and also as a result of gradual transfer of lower raw material prices to other prices, the growth in prices of other non-industrial goods and services will be lower than expected in the autumn.

Banking environment and forecasts*

The process of rehabilitation of banks, which began in 2013, has significantly contributed to the reduction of **risk** in the banking system. In spite of an improvement in domestic macroeconomic situation, the process of contraction in bank balance sheets continued last year. The rate of contraction in loans to non-financial clients remains deeply negative, but with signs of a gradual stabilisation. The reasons for the contraction of loans to corporate clients remained last year more or less the same compared to 2013: a relatively high leverage in the corporate sector has decreased very slowly and restricted creditworthy demand, banks remained reluctant in assuming additional credit risks with tighter credit standards in spite of improvement in capital adequacy ratios. Further requirements for increased capital adequacy might result in further contraction of loans rather than in an increase in capital and, consequently, they can result in repeated deterioration in banks' credit portfolios. Credit risk remains very important and high, but the situation is stabilising as a result of settlement of non-performing loans. Attention should be paid to income risk of banks, which is increasing in the environment of low interest rates, shrinking balance sheets, reluctance in assuming credit risks, and increased corporate financing abroad. The risk of refinancing and macroeconomic risks for banks are decreasing.

Credit risk remains high, but is gradually stabilising. Non-performing assets (classified as receivables past due over 90 days) were increasing during the first months of the year, and stabilised later, with a repeated increase in September and a swing down in October. Instability of non-performing assets and oscillations upwards show that the risk of further deterioration in the loan portfolio of banks remained high. This suggests the need for more active intervention by the banks in resolving non-performing receivables; through divestment of such receivables, faster write-offs, etc. and a greater segmentation of the risks of borrowers when granting new loans, banks can make a significant contribution to the credit risk management and improvement in the quality of bank investments. The process of de-leveraging and restructuring of over-indebted companies is running slowly. The December guidelines of the Bank of Slovenia aimed at establishing impairments or provisions for receivables from companies, with which an agreement on restructuring is concluded, were adopted with a view to accelerate corporate restructuring and a more active involvement of banks in these processes.

Income risk is increasing. With a high realised credit risk, there is a high probability for additional impairments and provisions, and consequently, the growth of income risk in banks. The policy of reluctance in assuming credit risk diverts banks' investment into less risky, but also less profitable investments. The share of securities in balance sheets of banks has increased to 24 % by October 2014. A higher focus of banks on government bonds further increases income risk, which might result from potential reductions in sovereign ratings or possible re-increase of mistrust to more vulnerable Euro-area countries in international financial markets.

*(Source: Publication of the Bank of Slovenia: Stabilnost slovenskega bančnega sistema, December 2014)

Risk of refinancing has decreased in 2014, along with intensive de--leveraging to abroad. Following a recovered confidence in domestic banks, retail deposits are returning to the banking system. This positive trend is particularly obvious in large domestic banks that had recorded the largest drop in confidence of depositors and reduction in household deposits in 2013. Due to expected low growth rates in household deposits in the next two years, banks will remain exposed to the risk of a less stable funding structure. The policy of ECB indicates that its financing will remain a sufficient source of liquidity; however, the perception of banks concerning the sufficiency of creditworthy demand and the stability of other sources of funding does not yet allow placement of these resources into loans to the business sector.

Macroeconomic risk: Though strengthening economic growth, mainly due to favourable trends in exports, and through improving conditions in the labour market, the macroeconomic situation in Slovenia is improving, while macroeconomic risks for banks are decreasing. Nevertheless, there is a risk of lower GDP growth than expected due to uncertain economic recovery in some of the EMU member states and a possible escalation of geopolitical tensions in the territories of Ukraine and the Middle East. Domestic economic growth remains predominantly based on foreign demand, which may lose its momentum due to uncertain economic recovery in key foreign trading partners.

4.2 Major events in 2014

January
- Elica Vogrinc commenced her five-year terms of office as a Member of the Management Board of Poštna banka Slovenije.

February
- Poštna banka Slovenije started providing insurance products for life insurance of borrowers, life risk insurance, group accident insurance of PBS clients, property insurance, and life insurance for business-related risk for corporate clients.

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.
- Poštna banka Slovenije set up a new, business effective organisational structure.

April
- Through the advertising campaign called Close to Services Anywhere, the Bank advertised its presence in the places where competing banks were closing their outlets. The aim was to raise awareness among local people that they were not left without a bank in their towns, because the PBS network is present in all post offices.
- In accordance with the new Public Information Access Act, the Bank commenced regular publishing of the contents prescribed by the law on its websites.

June
- In contract post offices, the Bank began providing services to corporate clients in addition to retail services, namely cash withdrawals and deposits and non-cash transactions with a limited amount of transactions.
- Based on the changed ownership structure resulting from the capital increase at the end of 2013, the Supervisory Board adopted a change in the chairmanship of the Supervisory Board of Poštna banka Slovenije, which was assumed by the previous Deputy Chairperson Aleš Hauc instead of Boris Novak, M.Sc. The Supervisory Board appointed Igor Žibrik a Deputy Chairperson of the Supervisory Board.

July
- The Bank started implementing the Agreement on improving tax regulation compliance at the international level, and implementing of FATCA (Foreign Account Tax Compliance Act).

August
- At departure of Robert Senica, the previous Chairperson of the Management Board, Danica Ozvaldič, M.Sc., assumed the posi-

tion of a Substitute Member of the Management Board of Poštna banka Slovenije.

September

- Loan at point of sales is a new service, which the Bank started providing for enterprises, especially retailers, as such a loan is approved to purchasers at a point of sale with no need to visit the Bank and approve the documentation by the purchaser's employer.
- The Bank continued expanding its range in the provision of insurance services, namely by insuring cards and personal items.
- The Bank carried out a comprehensive reorganisation and developed a new job classification with a view to achieving a lean organisational structure and higher operational and cost efficiency.

October

- In cooperation with Pošta Slovenije, the Bank introduced for its clients and non-clients an additional payment service, namely cross-border payments in Euro up to EUR 50,000 provided that the recipient's bank is a SEPA member.

December

- In the field of insurance agency, the Bank expanded its range of services and started providing travel insurance and the Best Doctors health insurance of Zavarovalnica Maribor.
- At resignation of Igor Žibrik as a Member of the Supervisory Board, the Bank's General Meeting of Shareholders appointed Sabina Župec Kranjc, M.Sc., a new Member of the Supervisory Board Then, the Supervisory Board appointed Sabina Župec Kranjc, M.Sc., also a Deputy Chairperson of the Supervisory Board.
- The Supervisory Board appointed Marija Brenk a Member of the Management Board of Poštna banka Slovenije, namely for a five-year office starting from the day of assuming her function. The decision on appointing Marija Brenk a Member of the Management Board is effective under the suspensive condition that the appointed person obtains an authorisation by the Bank of Slovenia to perform the function.
- At departure of Elica Vogrinc, Mojca Mak assumed the office of a Substitute Member of the Management Board of Poštna banka Slovenije.
- The Bank supported three projects taking care for reducing the number of hungry children and families concerned with the need to survive in Slovenia, namely **„Botrstvo“** (Godparentship) implemented by Zveza prijateljev mladine Moste-polje, **„Pomagajmo preživeti“** (Let's help them to survive) of the Slovenian Karitas, and **„Lepo je deliti“** (It is nice to share) of the Red Cross of Slovenia.

4.3 Performance of the bank

4.3.1 Financial result

The Bank generated in 2014 a profit of EUR 15,011 thousand before impairments and provisions. If impairments and provisions in the amount of EUR 14,810 thousand were taken into account, the Bank closed the year with a profit of EUR 246 thousand. Total comprehensive result, which includes also the effects of revaluation recognised in capital, was positive, in the amount of EUR 7,427 thousand.

in thousands of EUR

Revenue and expenses	2014	%	2013	%	Index 14/13
Net interest income	20,582	64,2	16,932	70.6	122
Net fee and commission income	9,570	29,9	9,547	39.8	100
Net gains/losses on financial assets and liabilities held for trading	335	1,0	181	0.8	185
Other net gains/losses	1,567	4,9	-2,676	-11.2	
Financial and operating revenue and expenses	**32,054**	**100,0**	**23,984**	**100.0**	**134**
Labour costs	-8,781	51,5	-9,576	53.4	92
Costs of material and services	-6,359	37,3	-6,535	36.5	97
Amortisation	-1,903	11,2	-1,808	10.1	105
Total operating expenses	**-17,043**	**100,0**	**-17,919**	**100.0**	**95**
Profit before provisions and impairments	**15,011**		**6,065**		**248**
Provisions and impairments	-14,810		-63,102		23
Profit for the business year	**201**	**100,0**	**-57,037**	**100.0**	
Income tax	45	-22,4	-127	-0.2	-35
Net profit for the business year	**246**	**122,4**	**-57,164**	**100.2**	
Net gains recognised in revaluation surplus	7,181		1,517		
Comprehensive income	**7,427**		**-55,647**		

Net interest income

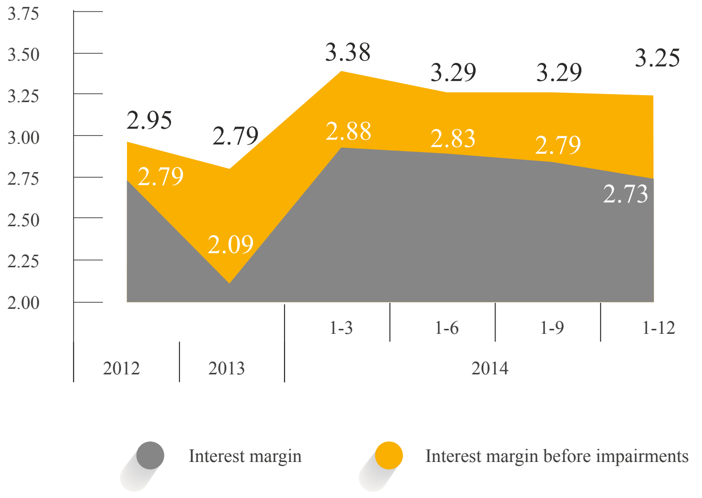
In 2014, the Bank recorded net interest in the amount of EUR 20,582 thousand, which was by 22 percent or EUR 3,650 thousand higher compared to the previous year. Net interest accounted for 64.2 percent of total income. Increase in net interest income in 2014 compared to the previous year resulted mainly from a greater reduction in interest expenses than interest income. Realisation of lower **interest income** resulted from lower deposit interest rates, a changed structure of sources (sight deposits increased by 5.9 percent points, current deposits decreased by 4.3 percent points, while non-current deposits decreased by 1.6 percent points) and lower volume of operations.

The major portion of *interest income*, accounting for EUR 27,968 thousand, is interest income from loans granted and deposits, namely EUR 16,995 thousand, which accounted for 60.8 percent of total interest income (in 2013, their share was 61.7 percent). Interest income from securities amounted to EUR 10,137 thousand, representing the share of 36.2 percent (the same as in 2013).

Interest expenses are recorded in the amount of EUR 7,386 thousand, which is by 37.5 percent or EUR 4,438 thousand lower than in 2013. The largest portion of all interest expenses, namely 99.6 percent, is accounted for by interest expenses for financial liabilities at amortised cost, and within these, the highest expenses, in a 64.5-percent share, resulted from retail deposits.

Interest margin amounted to 2.73 percent (of which credit interest margin was 3.71 percent, and deposit interest margin was 0.98 percent), which exceeds the figures for 2013 by 0.64 percent points. Increase in interest margin results mainly from lower deposit interest rates (decrease from 1.46 percent in 2013 to 0.98 percent in 2014). If impairments of interest were excluded, the *interest margin* of 3.25 percent would be recorded, or 2.79 percent for 2013.

Figure 3:
Interest margin movement (in percent)



Net non-interest income

In 2014, the Bank realised EUR 11,472 thousand of net non-interest income, which was 63 percent or EUR 4.420 thousand more than in the same period of last year (major items of net non-interest income include: net fee and commission income of EUR 9,570 thousand, gains from the sale of AFS securities of EUR 4.467 thousand, gains from dealing in foreign currencies in the amount of EUR 289 thousand; while in net non-interest expenses, major items include balance sheet tax and tax on financial services in the amount of EUR -1,419 thousand).

Operating expenses

Operating expenses (administrative cost and amortisation) equalled EUR 17,043 thousand in 2014 and fell below the last year's figure by 5 percent or EUR 876 thousand.

Labour costs in the amount of EUR 8,781 thousand were lower by 11 percent or EUR 795 thousand compared to the same period of the past year.

Costs of material and services were lower by 3 percent or EUR 176 thousand, while depreciation and amortisation was higher by 5 percent or EUR 95 thousand (in November 2013, depreciation of the new SW application for retail banking commenced).

Cost-effectiveness indicator, CIR, equalled 53.17 percent, which is by 21.54 percent points better than in 2013. CIR 2, in which the Bank takes into account the reduction in operating costs for extraordinary expenses, amounted to 51.01 percent. In addition to reduction in operating costs, the amount of CIR resulted from an increase in net income.

Net impairments and provisions

Impairments and provisions in the amount of EUR 14,810 thousand were lower by EUR 48,292 thousand compared to the same period of the past year.

Income tax from continuing operations

The Bank did not record tax liabilities for income tax from continuing operations in 2014. This amount is a difference between revenues and expenses from deferred taxes.

Comprehensive income

Total comprehensive income after tax, including valuation of available-for-sale securities through capital, is positive, equalling EUR 7,427 thousand (in 2013, it was negative and amounted to EUR 55,647 thousand). Comprehensive income consists of net profit for the financial year in the amount of EUR 246 thousand and other comprehensive income after tax in the amount of EUR 7,181 thousand. The included deferred income tax from other comprehensive income amounts in 2014 to EUR 1,483 thousand.

4.3.2 Financial position

Total assets of the Bank amounted at the end of 2014 to EUR 720,102 thousand. Compared to 2013, the figure dropped by EUR 55,540 thousand or 7 percent. The decrease mostly resulted from the returned ECB loan in the amount of EUR 45,668 thousand, and from liabilities to non-bank clients, a decrease of which was lower. The Bank's market share measured by total assets, dropped from 1.92 percent to 1.86 percent compared to the previous year.

in thousands of EUR

Bank's sources	31 December 2014	%	31 December 2013	%	Change	Index
	1	2	3	4	5=1-3	6=1:3
Financial liabilities at amortised cost	662,068	91.9	725,601	93.5	-63,533	91
- liabilities to non-bank clients	*616,398*	*85.6*	*634,506*	*81.8*	*-18,108*	*97*
- loans due to banks and central banks	*30,662*	*4.3*	*75,981*	*9.8*	*-45,319*	*40*
- subordinated debt	*9,900*	*1.4*	*9,020*	*1.2*	*880*	*110*
- other financial liabilities	*5,108*	*0.7*	*6,094*	*0.8*	*-986*	*84*
Provisions	*4,670*	0.6	*5,449*	0.7	-779	86
Other liabilities, incl. tax	3,061	0.4	1,715	0.2	1,346	178
Equity	50,303	7.0	42,877	5.5	7,426	117
Total	**720,102**	**100.0**	**775,642**	**100.0**	**-55,540**	**93**

Amounts due to non-bank clients totalling EUR 616,398 thousand comprise of sight deposits of EUR 358,613 thousand, which increased in 2014 by EUR 26,719 thousand, current deposits of EUR 127,215 thousand, having decreased by EUR 30,871 thousand, and non-current deposits of EUR 130,570 thousand, which decreased by EUR 13,956 thousand. Retail deposits accounted for 90.5 percent of total liabilities to non-banking clients, having grown by 3.0 percentage points from 2013.

Subordinated debt in the amount of EUR 9,900 thousand represents a paid deposit of Nova KBM, which the Bank included in its additional tier1 capital.

Change in capital is described in detail in the financial part of the Report, in Note to Item 2.5.15.

in thousands of EUR

Bank's assets	31 December 2014	%	31 December 2013	%	Change	Index
	1	2	3	4	5=1-3	6=1:3
Cash, cash balances with the Central Bank and sight deposits with banks	76,851	10.7	62,337	8.0	14,514	123
Financial assets (securities)	315,249	43.8	283,231	36.5	32,018	111
Loans	304,059	42.2	409,511	52.8	-105,452	74
- loans to banks	3	0.0	58,203	7.5	-58,200	0
- loans to non-bank clients	304,056	42.2	351,308	45.3	-47,252	87
Other financial assets	5,823	0.8	5,845	0.8	-22	100
Property, plant and equipment and intangible assets	11,320	1.6	12,464	1.6	-1,144	91
Other assets, incl. tax	6,800	0.9	2,254	0.3	4,546	302
Total	**720,102**	**100.0**	**775,642**	**100.0**	**-55,540**	**92,8**

The Bank invested a majority of its assets in securities amounting to 43.8 percent (available for sale 27.6 percent, held to maturity 16.2 percent), which are followed by investment in loans to non-bank clients in the amount of 42.2 percent (29.6 percent to corporate borrowers and 12.6 percent to retail clients), other investments of 14.0 percent represent investments in property, plant and equipment, cash in hand and cash in bank accounts, including sight deposits with banks, other financial assets and other assets, including tax.

The most liquid assets of the Bank increased in 2014 by 23 percent or EUR 14,514 thousand. The cash balance decreased by 0.1 percent or EUR 172 thousand, to EUR 23,506 thousand, while deposits with the Central Bank increased by EUR 12,780 thousand, to EUR 48,984 thousand, comprising of mandatory deposits, overnight deposits, and other current deposits with the Central Bank, and sight deposits with banks increased by EUR 1,906 thousand, to EUR 4,361 thousand.

Investments in securities increased in 2014 by EUR 32,018 thousand or 11 percent, and equalled at the end of the year EUR 315,249 thousand. In 2014, the Bank sold part of securities from the AFS group in total amount of EUR 36,736 thousand.

The balance of net *loans to non-bank clients* amounted at the end of 2014 to EUR 304,056 thousand, which falls below the figure for 2013 by 13 percent. The whole amount of decrease practically refers to corporate clients, while the volume of retail loans remained at the last year's level. In the structure of loans to non-bank clients, current loans account for 31 percent, and non-current loans for 68 percent.

4.3.3 Cash flow statement

in thousands of EUR

	2014	2013
Cash and cash equivalents at the beginning of the period	**74,337**	**68,680**
Net cash flows from operating activities	29,120	-33,625
Net cash flows from investing activities	-26,690	15,438
Net cash flows from financing activities	0	23,983
Effects of changes in exchange rates on cash and cash equivalents	84	-139
Net increase/decrease in cash and cash equivalents	**2,514**	**5,657**
Cash and cash equivalents at the end of period	**76,851**	**74,337**

Cash and cash equivalents in 2014 increased by EUR 2,514 thousand to EUR 76,851 thousand. This increase resulted from net cash flows from operating activities (+EUR 29,120 thousand, an impact of the reduced volume of lending and the volume of dealing in securities from the AFS group), while the decrease resulted from cash flows from investing activity (-EUR 26,690 thousand, and increase in investment in securities held to maturity). More details in the Cash flow statement in Chapter on Financial statements of the Bank.

4.4 Operations of specific areas

4.4.1 Retail banking

In 2014, a negative trend in the economic environment continued, which was reflected in investment activity and consumption, and consequently, in the demand for banking services. It was necessary to adjust organisation and method of work in the Bank.

The Bank carried out activities to attract new clients – personal account holders – through all existing sales channels. In addition, with the aim to have as many clients with a maximum number of products as possible, the Bank was intensively searching for cross-selling opportunities among existing retail and corporate clients.

Among so-called traditional banking products, the number of personal accounts in the Bank decreased by about 5 percent in 2014 compared to the previous year and stood at around 118,000 open accounts at the end of the year. Reduction in the number of personal accounts was due to closing accounts with no transactions. The number of cards with deferred payment has grown by more than 0.5 percent, while the Bank recorded in the field of electronic banking an increase of more than 6.5 percent. At the end of the year, over 11,400 clients used e-banking.

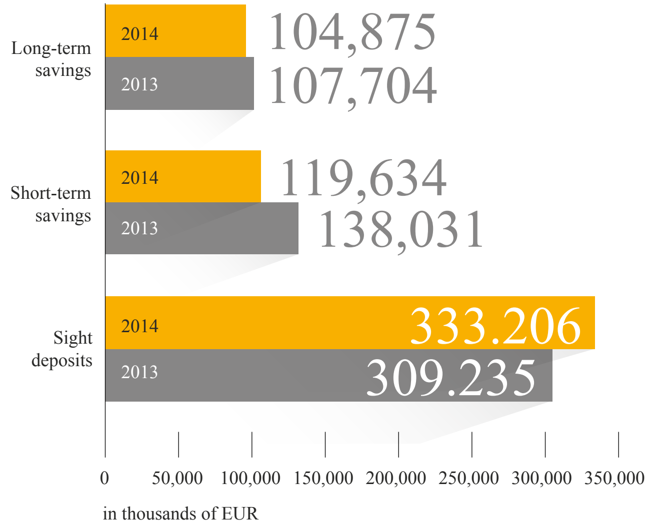
The Bank continued acquiring new users of additional services also in 2014. The number of users of SMS security information (over 63-percent growth) and the number of Moneta users (over 67-percent growth) grew intensively

With a purpose to increase its income, the Bank, after obtaining 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, commenced provision of insurance products at the beginning of 2014. Therefore, the Bank provides its clients with life insurance of borrowers, risk life insurance, accident insurance of Poštna banka Slovenije clients, property insurance, insurance of cards and personal items, travel insurance, business-related risk insurance for corporate clients and the Best Doctors insurance.

Deposit operations

In raising the funds, the Bank reached in 2014 a slight growth in retail funds, namely by EUR 2.8 million or 0.5 percent, where sight deposits increased by 7.8 percent, the volume of short-term savings fell by 13.3 percent, and the volume of long-term savings also decreased by 2.6 percent. Consequently, all retail funds increased in 2014 from EUR 555 million to almost EUR 558 million.

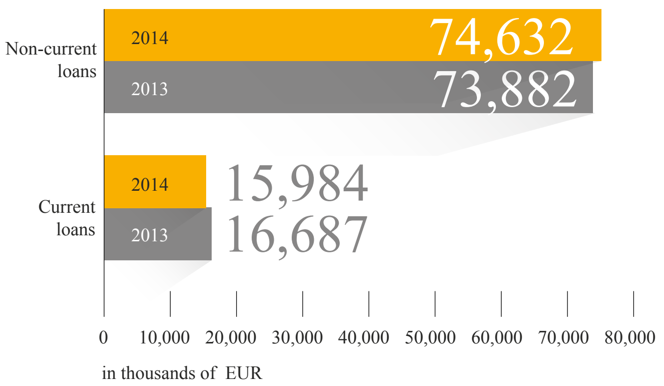
Figure 4:
Retail deposits by maturity



Lending operations

The Bank managed to keep the amount of *loans given* in 2014 compared to the end of 2013. A slight decrease was recorded in current loans, while the Bank recorded a slight growth in non-current loans. The level of overdrafts (permitted overdrafts) on personal accounts remained approximately the same. The volume of retail loans totalled slightly over EUR 90.6 million. Housing loans were in constant rise, and the trend in consumer loans turned to a positive direction in the second half of the year.

Figure 5:
Volume of retail loans by maturity

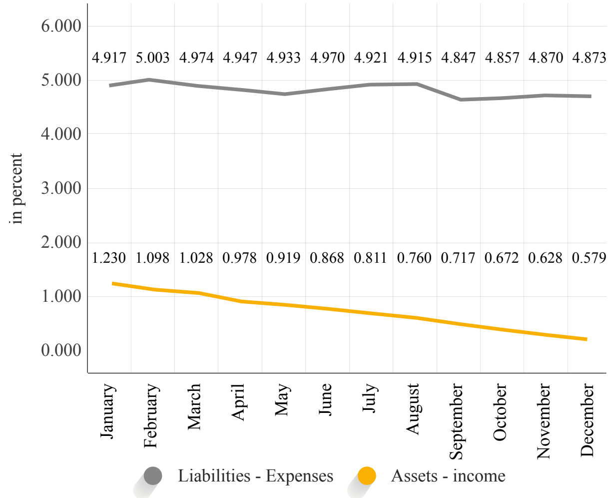


Interest margin

In spite of a decrease in average interest rates on the asset and liability side, the Bank continued the trend of the growth in interest margin also in 2014.

The average credit interest rate at the end of the year was lower than at the beginning as a result of lower interest rates on housing loans, but on the other hand, also deposit interest rates decreased, especially in the second half of the year.

Figure 6:
Changes in average credit and deposit interest rates in 2014



4.4.2 Corporate banking

In 2014, the area of corporate banking was substantially affected by the financial and economic crisis. Payment discipline and liquidity have additionally worsened in majority of legal entities.

Under such circumstances, the Bank pursued mainly the goal of clearing the existing loan portfolio, which is reflected also in the results achieved in 2014, showing a decline in corporate loans.

The Bank paid special attention to intensive collection of overdue receivables from corporate clients in all its organisational units. An important role in more effective monitoring of collection had the Collection Committee for corporate clients' collection.

Along with clearing its loan portfolio, the Bank was striving to maintain and broaden the scope of transactions with existing good clients and to acquire new clients, 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, loans for corporate clients, including the Restructuring Department and Judicial Recovery Department, stood at EUR 183,751 thousand.
The structure of loans by maturity reveals in 2014 compared to 2013 a further slight increase in the share of non-current loans, which accounts now for 70.97 percent of total loans. As at 31 December 2014, non-current loans stood at EUR 88,602 thousand.
Total volume of issued guarantees remained in 2014 approximately at the same level as at the end of 2013 and equalled EUR 28,692 thousand.

The Bank marketed in corporate banking the products of active (loans), passive (deposits) and neutral transactions (transaction accounts). 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 by specific segments, and lending based on special arrangements with subsidised loans.

With the aim of successful corporate restructuring, the Bank continued special treatment of clients and cooperation with other creditor banks and the Bank Assets Management Company. Under the leadership of the Bank Association of Slovenia, the Slovenian principles of financial restructuring of debt in the economy were adopted. In the context of risk management, there was intensive cooperation in the area of joint clients with Nova KBM.

4.4.3 Execution of payment transactions

Payment systems

At the end of 2014, the Bank 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 the accounts in the Bank (internal payment transactions).

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

	2014	2013	Index
TARGET 2	6.0	7.1	84
SEPA ICP	3.3	3.3	100
SEPA ECP	0.1	0.06	166
Internal	0.3	0.7	43

Volume of credit transfers – number of orders

	2014	2013	Index
TARGET 2	15,355	15,403	100
SEPA ICP	22,751,388	25,811,769	88
SEPA ECP	47,134	27,225	173
Internal	965,976	862,743	112

In 2014, the Bank recorded a 11-percent smaller total value of transactions within the Republic of Slovenia as in the previous year (TARGET 2 and SEPA IKP). The amount of payments in TARGET 2 payment system decreased by 6 percent, and the Bank also recorded significant reduction in processing domestic SEPA credit transfers (by 22 percent), mainly as a result of decline in one-off payment transactions at post offices and a reduction in the volume of transactions carried out by the Bank's clients. The Bank observes an increase in SEPA external transactions, as the migration of most European banks into SEPA schemes was completed in 2014.

Transaction accounts of corporate clients

The Bank provided payment services to corporate clients through its business centre, post office outlets and electronic banking. The Bank offers its clients a multi-currency transaction account enabling them to easily perform payment transactions. The number of transaction accounts in the Bank decreased in 2014 by 4 percent compared to the previous year, as the Bank closed 917 and opened 737 corporate transaction accounts in 2014. The reasons for closing accounts included: cessation of operations, transaction accounts do not show ordinary course of business, longer outstanding liabilities to the Bank. In 2014, most new accounts were opened by the Bank on behalf of corporate clients.

Number of open accounts of corporate clients as at:

Type of corporate clients	31 December 2014	31 December 2013	Index
Companies	1,376	1,344	102
Sole traders	1,336	1,497	89
Societies, groups of persons, others	1,577	1,628	97
Total	**4,289**	**4,469**	**96**

Electronic banking

Electronic banking is used by 2,412 clients, of which 1,083 are corporate clients, 826 sole traders and 503 other types of clients. The number of clients using electronic banking decreased by 9 percent compared to 2013, particularly due to closing accounts of clients that performed their transactions in electronic way.

The Bank provided its clients in 2014 with payment services through two electronic banks. In addition to payment services, the Bank provides e-banking users also with receiving and issuing e-bills.

Payment transactions at post office counters

The Bank keeps an important role in receiving and processing retail payment orders paid in cash. Payment services on behalf of the Bank are carried out by its contractual partners, Pošta Slovenije and Petrol.

Volume of transactions at post office counters

	Amount	Amount	Index	Value in EUR million	Value in EUR million	Index
	2014	2013		2014	2013	
UPNs with OCR and declaration	13,014,862	15,968,520	81	545.1	654.5	83
Other UPN payment orders	6,227,339	6,628,157	94	967.9	1.012.5	96
Cash pension payments	378,590	433,898	87	149.1	170.3	87
Deposits and withdrawals for NKBM*	529,508	560,553	94	186.3	186.7	100
Postal money orders	454,306	480,623	94	20.9	23.0	91

*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 2014, there was a 15-percent drop recorded in the volume and a 9-percent drop in the value of one-off payment transactions as compared to 2013. The Bank attributed the reason for the decrease mainly to a strong competition and to e-banking.

The volume of operations with the contractual provider Petrol receiving payments up to EUR 1,000, amounted in 2014 to EUR 30.9 million. There were 504,133 payment orders processed, which exceeded the respective figure for 2013 by 18 percent.

The Bank provides payment to and from retail transaction accounts of Nova KBM clients. The volume of these services dropped by 6 percent in 2014 compared to 2013. For many years, there has been a trend of decreased pension payments in cash; in 2014, there were 13 percent less pensions paid in cash than in 2013.

At the end of October 2014, the Bank offered a new payment service at post office counters, namely cross-border payment in cash. Within two months of 2014, there were 1,545 transactions carried out totalling EUR 525 thousand.

International payment transactions

The Bank enables its clients to carry out transactions by using multi-currency transaction accounts. The Bank processes international payment transactions through Nova KBM.

The volume of cross-border transactions and other payment transactions to abroad in 2014 was significantly higher than in 2013, mainly due to increased volumes of payment transactions on corporate accounts. Most international payments are processed by the Bank in EUR, HRK and US$.

Volume of foreign-currency payment transactions in EUR million

Payments	2014	2013	Index
Inflows	94.4	62.1	152
Outflows	97.2	53.9	180
Total	**191.6**	**116.0**	**165**

International postal money orders

The Bank carries out accounting services for retail clients by means of international postal money orders on behalf of Pošta Slovenije. Settlement of receipts and payments by international postal money orders is carried out with 19 countries; transactions with one post administration are still carried out by mail, and with the others, it is carried out electronically, through the Eurogiro system.

	Amount	Amount	Index	Value in EUR million	Value in EUR million	Index
	2014	**2013**		**2014**	**2013**	
Cashed international postal money orders	6,236	5,136	121	1.791	1.420	126
International postal money orders paid-in	1,071	1,028	104	0.169	0.151	112
Total	**7,307**	**6,164**	**118**	**1.791**	**1.571**	**114**

The Bank recorded in 2014 an increased volume of paid and cashed international postal orders. The value of transactions also increased compared to 2013 due to an increase in the average value of cashed and international postal money orders.

4.4.4 Treasury operations

The Bank carried out in 2014 a principal function of 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 year 2014 was marked by inoperative domestic inter-bank money market and the introduction of negative interest rates on excess balances in settlement accounts. Consequently, the Bank was trying to invest liquidity surpluses in liquid securities in the best possible time optimisation.

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 2014.

At the end of 2014, the Bank’s fixed deposits from corporate clients, municipalities, societies and sole traders totalled EUR 59.6 million. In addition to the above amount, the Bank includes the EUR 9.9 million hybrid deposit paid by the parent bank, which the Bank can take into account in the components of its additional tier1 capital.

Similarly as the year before, the year 2014 was marked by the financial crisis, which was still reflected in the Slovenian banking system through difficult obtaining of long-term inter-bank sources. Therefore, Poštna banka Slovenije in 2014 did not disburse any new long-term sources from other banks, but it raised a loan at the European Central Bank (hereinafter the ECB) in the amount of EUR 10 million under the targeted long-term refinancing operations. Nevertheless, total indebtedness of the Bank with the ECB at the end of 2014 compared to the previous year decreased by EUR 35.7 million. In the period of March to July 2014, the Bank returned prematurely a long-term source of the ECB, which would be otherwise due on 29 January 2015 in a nominal amount of EUR 45.0 million.

The Treasury Division of the Bank also managed its extensive investments in securities. In these activities, the Bank pursued the goals of safety, liquidity and adequate return on securities. The Bank allocated in 2014 its purchased securities to banking items, of which 37.0 percent were classified as held to maturity and 62.91 percent as available for sale, as at 31 December 2014.

The Bank has a small portion of securities classified as held for trading, representing trading book items. As at 31 December 2014, these securities accounted for 0.09 percent of the overall securities portfolio, or EUR 0.28 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 89.4 percent at the end of 2014, while total securities in the Bank's assets represented 43.8 percent.

Investments in securities as at 31 December 2014 and 2013

in thousands of EUR

Type	2014	2013	Index
Securities of the Republic of Slovenia and securities with the guarantee of the Republic of Slovenia	220,468	227,222	97
Shares of issuers established in the Republic of Slovenia	1,973	1,159	170
Bonds of other issuers in the Republic of Slovenia	4,157	8,926	47
Debt securities of foreign issuers	74,523	30,778	242
Other securities of issuers established in the Republic of Slovenia	7,956	7,956	100
Total	**309,078**	**276,041**	**112**

Note: Data is exclusive of interest.

In 2014, the Bank did not issue any bonds, and consequently, the Bank has no securities issued to be listed on a regulated market.

4.4.5 Information technology development

In 2014, 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:

- the Supervisory Board's guidelines aimed at integration of the Bank's information technology into Nova KBM information technology,
- IT strategy for the period 2010-2015,
- Programme of projects and duties for 2014,
- Security policy strategy.

In cooperation with the external provider, the Bank developed and provided its business partners in 2014 with the software application for loans at point of sales. The application allows entering all the information about the borrower and the loan directly at the point of sales through a secure Internet connection, and in case of meeting all the requirements, the loan can be approved.
In support for corporate loans, the Bank, in cooperation with the external supplier, completed software for:

- Preparation of numerous extracts for the needs of the Credit Committee, the needs of Nova KBM and audits,
- Monitoring contractual commitments,
- Preparation of e-bills for budget users,
- Monitoring guarantee frameworks,
- Monitoring restructured loans.

In support for the reporting system, the Bank followed requirements of the laws and the regulator. The Bank prepared and completed all required reports (COREP, FINREP, NSFR, LCR).

The Bank started in 2014 the development of software support for debit cards for corporate transaction accounts. Analysis, planning, development and testing of software were mostly implemented in 2014, and services for debit cards for corporate clients will be available to Bank's clients early in 2015.
In accordance with its business requirements and amended laws and other banking regulations, the Bank implemented in 2014 necessary changes and supplements to the application support developed by the Bank.
The Bank completed and upgraded software applications with a view to:

- Comply with FATCA requirements,
- Introduce support for personal bankruptcies,
- Introduce cross-border cash transactions by UPN and payments by UPN payment cards.

The Bank introduced in 2014 a software package aimed at secure ZBS B2B file sharing, which allows file sharing among banks and clients. The Bank prepared reporting pursuant to ZDIJZ (Public Information Access Act) and exchanges files with PPA (Public Payments Administration of the Republic of Slovenia) using the ZBS B2B software package.

In 2014, the Bank continued server virtualisation 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. The Bank replaced and upgraded in 2014 the disk array at the primary and the backup locations, and conducted a comprehensive test of business continuity.

In 2014, the Bank started planning and implementation of integrating its information technology into Nova KBM in order to achieve maximum synergy effects. The Bank introduced a common classification of clients and provided access to software packages installed in the Nova KBM information system. Through these activities, both Banks provided a uniform software support for business processes that require a uniform classification of clients.

4.4.6 Staff and training

The Bank strives for a quality selection of personnel and provision of the human resources structure that follows the business orientation of the Bank as an entity in the ever changing financial and economic environments.

Through the change in internal organisation of the Bank and amendments to the Job Classification Act prepared accordingly, the Bank took in 2014 a step forward in its efforts to set up a target management as an important tool for attaining the goals set up at the level of the Bank and the level of each employee.

By its new classification of jobs, the Bank streamlined the list of jobs with the terms of occupation from 165 job titles to 70. The Bank and the PBS Trade Union regulated the evaluation of jobs in the Tariff Attachment to the Collective Agreement of Poštna banka Slovenije. At the same time, the Bank revised the content of employment contracts and all employees, including employees on individual employment contracts, received new employment contracts in line with the applicable legislation. According to the new classification of jobs, a revision in Safety Statement with Risk Assessment was carried out in 2014.

As at 31 December 2014, the Bank employed 237 employees, of which 173 women and 64 men. Six workers were employed under fixed-term arrangements. The average number of employees in 2014 was 239.

In 2014, the Bank employed 16 new employees and 18 employees left the Bank. Employee fluctuation in 2014 was 7.1 percent.

The Bank stimulates the employees through a system of rewarding, promotion and performance appraisal. The Bank strives to set up a comprehensive system of performance management, monitoring of organisational culture and attitudes of staff, and career planning for each employee.

To this end, the Bank revised in 2014 the form for the implementation of annual interviews, in which more emphasis is given to the ability of using the knowledge and other skills and competencies of individuals to work in an effective and efficient manner. These actions are the starting point for further upgrading of performance management in employees and a systemic treatment of all the elements that affect work performance of an individual.

Education structure of employees as at 31 December 2014:

Level of education	Number of employees	%
Level V or lower	84	35.4
Level VI	39	16.5
Level VII or higher	114	48.1
Total	**237**	**100.0**

Education and training

Within the human resources function, the Bank carries out ongoing activities for the implementation of education policy, which pursues several aspects of human resources development, in accordance with the needs of the Bank on the one hand and perso-

nal growth and career development of an employee, on the other hand. The Bank recognises the importance of continuing education in employees as an added value in ensuring and maintaining competitiveness of the business entity.
In 2014, the Bank continued a rational approach in the implementation of its education policy. In terms of maintaining the part of the Bank's capital, which is represented by its employees, the Bank pursued primarily economic aspects and invested mainly in professional education and training due to changes in the laws and requirements of the regulator. The Bank responded to invitations of the parent bank, which organised in cooperation with its experts a number of current in-house training courses in various areas of bank operations at the level of the Nova KBM Group. Consequently, 96 employees attended 59 different courses from all areas of banking operations in 2014, including training courses in the Nova KBM Group.
Training courses called „Mala bančna šola" (Little school of banking) for post office staff were organised also by Poštna banka Slovenije with its employees who were previously especially trained for this purpose. This education has been carried out for the fourth year in the row, and 108 post office staff members upgraded in 2014 their knowledge in the field of Bank's products, payment transactions, sales and excellence, and communication.
In the context of rational approach to the implementation of the education policy, the Bank put in 2014 a greater emphasis on the transfer of knowledge between employees, and organised several in-house training courses held by the staff of the Bank having the knowledge and skills in specific areas of their operation.
In line with applicable laws, all employees are periodically involved also in required training courses in the field of safety at work and fire safety.

According to the acquired formal education levels, the Bank has a relatively high educational structure, and at the end of 2014, the Bank had no longer contracts concluded with its employees for education at work aimed at obtaining a higher formal educational level.

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 includes a definition of all risks arising in operations of the Bank, establishment of risk monitoring methodologies, setting up exposure limits for individual types of risk, constant monitoring of exposure to risks, and compliance with the set-up restrictions. At the same time, the Bank is being adjusted to 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 in charge 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 to 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. Calculations of individual impairment and changes in classifications are discussed by the Classification Committee prior to being confirmed by the Management Board. The Bank monitors credit risk also through the Asset and Liability Management Committee and the Collection Committee. 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 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 at the occasion of 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 using 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 2014 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 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 control and prevention of intrusions into the information system of the Bank, 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 detail in *Chapter Exposure to different types of risk.*

4.6 Internal audit operations

Internal audit is organised as an independent department directly subordinated to the Management Board of the Bank. It performs its work in accordance with the Banking Act, 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 plan for 2014, were attained through implemented audits. In 2014, the emphasis was given to credit risk management. Based on a decision adopted by the Nova KBM Audit Committee, extraordinary reviews of the implementation of impairments were carried out each quarter. With regard to credit risk, an audit in the field of retail clients, a revision of insurance in the field of corporate banking, and an audit of the implementation of recommendations concerning contractual commitments were carried out. Implemented extraordinary audits at request of the Management Board related to lending to individual companies and to loans secured by the Slovenian Enterprise Fund's guarantees. Other implemented audits included an audit of the Bank's internal portal and a revision of the new programme support for retail banking – jOmega.

When auditing, the internal audit 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 operations in compliance with the legislation and authorisations.

Important activities of the internal audit include also consulting, coordination of external auditing and monitoring the implementation of provided recommendations.

The Internal Audit 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 of the Bank. Quarterly reports and the annual report on internal audit's work were discussed by the Supervisory Board's Audit Committee prior to being put on the agenda of the Supervisory Board meeting.

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 and certified internal auditor. Employees of the Internal Audit Department attend regular training courses.

4.7 Social responsibility

The Bank invested in research and development, took care of its employees, established, strengthened and maintained relations with its business partners, the media and both shareholders, also in 2014. The Bank kept its policy and allocated part of its income to cultural, sports, humanitarian and environmental activities.

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 2014.

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 in electronic format, and since 2014 also the magazine for employees. 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. Since 2013, the Bank has been involving its employees in the use of multifunctional devices (printers, scanners) in order to reduce consumption of paper and toners.

Relations to employees

2014 was a challenging year for the Bank and its employees. The Bank was introducing changes in different areas of its operations and implemented a variety of new activities. It was therefore important to strengthen good and open relations with employees, taking care of their development and satisfaction, communication with employees, and to improve the flow of information.

The Bank has been conducting annual interviews with employees for many years. The interviews are intended to encourage employees to set up measurable goals for their work in cooperation with their superiors. Above all, however, the Bank conducts interviews to discover abilities and additional knowledge in employees, which the Bank wants to strengthen or further refine in its employees.

In accordance with the health risk assessment, the Bank regularly refers its employees to mandatory preventive medical examinations, including also breast mammography for all those female colleagues who have completed 40 years of age or more.

In accordance with the law, the Bank regularly organises theoretical and practical training of employees in the field of safety at work and fire safety, which employees attend periodically.

The Bank took care of regular communication with employees at any news or changes that they needed at their work. Only well-informed employees can carry out their work in quality manner, timely and smoothly.

During the comprehensive reorganisation of the Bank and the development of a new job classification, the Bank organised worker's assemblies in Ljubljana and Maribor. The purpose was to present the need to develop a lean and business- and cost-effective organisational structure. The Bank also communicated a newly developed job classification. By doing this, the Bank allowed employees to expose additional issues, opinions and suggestions, and got respective answers.

In 2014, the Bank informed its employees on results, corporation news and policies by letters of the Management Board.

In addition, the Bank issued monthly newsletters to employees in electronic format, through which they were informed on current updates and changes.

The Bank continued active upgrading of 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.

The Bank has been issuing its internal publication for 14 years; in 2014, it was redesigned into a magazine for employees. The magazine is intended for employees and retired employees, and its contents are regularly upgraded. The purpose of the magazine remained the same, namely, to inform its employees about performance of the Bank, management's decisions, activities in various areas of operations, the latest events in the Bank, and about other professional and some popular news. The Bank issued 4 editions of the magazine for employees also in 2014.

The Bank also daily publishes at its internal web portal clippings on appearances of Poštna banka Slovenije in the media, and on developments in the banking sector, thus enabling employees to be informed with current topics.

In 2014, the Bank, in cooperation with the parent bank, informed its employees about updates in the Nova KBM Group through circulars of the Group, in the creation of which the Bank actively participated.

The Bank continued the tradition of socialising among its employees, and organised a meeting of its employees also in 2014. In addition, the Bank also takes care of keeping relations with its pensioners and invites them to meetings of employees on a regular basis.

The Bank has set up its own PBS Sport Society organising recreational activities and participation of employees in various bank and post office competitions.

The Bank is aware of the importance of social partnership, therefore, it paid a special attention to cooperation with PBS Trade Union, likewise as in all previous years. During challenging operating conditions in 2014, necessary reorganisation, newly developed job classification, and also a reduction in the number of employees, the Bank strengthened quality relationships with the PBS Trade Union and in cooperation with them, it reached an agreement on the measures needed to reduce labour costs.
In 2014, the Bank, again in cooperation with the PBS Trade Union, organised a pre-New Year distribution of presents and a theatre show with Grandpa Frost for employees' children.

Relations to clients

The Bank regularly monitors operations of its clients and their needs, and accordingly adapts its services and offers, and develops new ones.
In 2014, the Bank started providing insurance policies for life insurance of borrowers, life risk insurance, group accident insurance of PBS clients, property insurance, life insurance for business-related risk for corporate clients, insurance of cards and personal items, travel insurance, and the Best Doctors health insurance.
The bank introduced a new service, a loan at point of sales, which the Bank started offering to enterprises, especially retailers, as such a loan is approved to purchasers at a point of sale with no need to visit the Bank and approve the documentation by the purchaser's employer.
In cooperation with Pošta Slovenije, the Bank introduced for its clients and non-clients an additional payment service, namely cross-border payments in Euro up to EUR 50,000 provided that the recipient's bank is a SEPA member.
In contract post offices, the Bank began providing services to corporate clients in addition to retail services, namely cash withdrawals and deposits, and non-cash transactions with a limited amount of transactions.

In 2014, the Bank communicated with its present and potential clients. It focused on attaining of 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 2014, 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.
Through the advertising campaign called Close to Services Anywhere, the Bank advertised its presence in the places where competing banks were closing their outlets. The aim was to raise awareness among local people that they were not left without a bank in their towns, because the PBS network is present at all post offices.
The Bank informed its clients about new services in its offer regularly through renewed monthly statements on transactions on personal accounts. In addition, the Bank continued sending 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.

Relations to owners

In 2014, the ownership structure of the Bank did not change. The majority owner is Nova KBM, a smaller stake is held by Pošta Slovenije. In accordance with the law, the Bank was promptly informing the owner of the Bank and the interested public about its financial and legal situation and about operations of the Bank. The Bank published important information from the Supervisory Board meetings, convocations and resolutions of the General Meeting of Shareholders, and the annual report through the Ljubljana Stock Exchange electronic information system – Seonet, and on the Bank's website.

Relations to 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 have access to all publications of the Bank through the Bank's website.

Involvement in a broader community

Sponsorship

In 2014, the Bank was – which has become almost traditional – among the sponsors of the Lent Festival and the „Vurberk 2014“ 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 supported the Maribor Branik Women's Volleyball Club and the Maribor Branik Handball Club. In 2014, the Bank supported top clubs and athletes in such sports as skiing, kayaking, volley-ball and motocross, whose dedication, perseverance and excellence helped them to achieve outstanding results at national and international levels.

Donations

The Bank donated funds in 2014 to numerous humanitarian and health care projects aimed at improving the quality of life in children, pupils and persons in need of medical care and other assistance. The Bank thus supported projects in the treatment of cardiovascular diseases, cerebral paralysis and autism. The Bank supported also three projects taking care for reduction in the number of hungry children and families concerned with the need to survive in Slovenia, namely **Botrstvo** (Godparentship) implemented by Zveza prijateljev mladine Moste-polje, P**omagajmo preživeti** (Let's help them to survive) of the Slovenian Karitas, and **Lepo je deliti** (It is nice to share) of the Red Cross of Slovenia.

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 with the Management Board and Supervisory Board, and the General Meeting of Shareholders, at which the two shareholders exercise their management rights. In compliance with the legally defined rights and obligations, the relations between governing bodies also include the provisions of the Shareholder Agreement, which was concluded by the two shareholders in September 2004.

Important direct and indirect possessions of the Bank's shares

As at 31 December 2014, 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 99.1156-percent share of voting rights,
- Pošta Slovenije, which holds 278,660 ordinary non-par value shares resulting in 0.8844-percent 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.

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.

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.

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

The 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 2014

There were two General Meetings of Shareholders held in 2014. Both meetings were attended by both shareholders represented by their representatives or proxies.

At the 31st General Meeting of Shareholders held on 23 June 2014 the two shareholders:

- Adopted the report on internal auditing for 2013 with a positive opinion of the Supervisory Board,
- Acknowledged the 2013 Annual Report and the Supervisory

Board's report on examination of the 2013 Annual Report,
- Were acquainted with the fact that Poštna banka Slovenije recorded for the financial year 2013 a net loss of EUR 57,164,467.25, which shall be covered in its total amount of EUR 55,674,979.60 by reserves from profit already established and by capital reserves, while the residue loss of EUR 1,489,487.65 shall remain uncovered and be posted as a retained loss of 2013.
- Decided on granting a discharge to the Management Board and the Supervisory Board for their work in 2013. The shareholders voted on discharge of the Management Board separately for each Management Board member. The General Meeting of Shareholders granted a discharge for the work in 2013 to the Chairperson of the Management Board, Robert Senica, while no discharge was granted to the Management Board Member, Viktor Lenče. The General Meeting of Shareholders granted a discharge to the Supervisory Board for their work in 2013,
- Adopted a resolution on appointing an auditor to audit the financial statements of the Bank for 2014,
- Were acquainted with the Policy on assessing suitability of members of management bodies and key function holders of Poštna banka Slovenije.

3. 12. The 32nd General Meeting of Shareholders was held on 3 December 2014. At this meeting, the two shareholders:
- Adopted amendments to the Articles of Association of the Bank, and thus formalised performance of the activity, which the Bank started additionally in 2014 following the receipt of the decision of the Bank of Slovenia on issuing an authorisation to carry out agent services in the sale of insurance products according to the law governing the insurance industry,
- Were acquainted with amendments and supplements to the Policy on assessing suitability of members of management bodies and key function holders of Poštna banka Slovenije (Fit & Proper Policy),
- Took note on the resignation of a Member of the Supervisory Board Igor Žibrik and nominate Sabina Župec Kranjc, M.Sc., a Substitute Member with her term of office until 21 June 2016.

The two shareholders adopted unanimously the resolutions at both General Meetings of Shareholders that took place in 2014.

Resolutions of both General Meetings were published on the Ljubljana Stock Exchange website through the SEOnet system, and on the official Bank's website, 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 provides responsible supervision and decision-making on behalf of the Bank, 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 Shareholders' Agreement, three members shall be proposed by the majority shareholder and two members by the minority shareholder. The Supervisory Board members elect from among themselves a Chairperson and a Deputy Chairperson in the manner and in accordance with the agreement as defined in the Shareholders' Agreement concluded between the two shareholders on 6 September 2004. With regard to the significantly changed ownership structure, the minority shareholder handed over the chairmanship of the Supervisory Board in 2014 to the majority shareholder, although according to the Shareholders' Agreement the period for chairmanship exchange has not yet expired. A representative of the majority shareholder assumed also the function of a Deputy Chairperson.

Based on the applicable laws, 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 in the Articles of Association of the Bank, and detailed in the Rules of Procedure of the Supervisory Board. The Bank provides the Supervisory Board and its committees with all necessary technical and administrative support.

Performance of the Supervisory Board in 2014

In 2014, the Supervisory Board convened seven regular meetings and held ten correspondence meetings. In its work, the Supervisory Board carefully implemented its basic control function, and was actively involved in defining management relations in the Bank throughout the 2014 financial year. It evaluated prudently operations of the Management Board of the Bank and carried out other tasks in accordance with the law and within its powers.

In 2014, there were changes in the Supervisory Board structure. On 26 June 2014, the Supervisory Board unanimously appointed Aleš Hauc, the previous Deputy Chairman of the Supervisory Board, a Chairperson of the Supervisory Board to replace Boris Novak, M.Sc., who had resigned from this position. In accordance with the decisions adopted by the Supervisory Board, the position of a Deputy Chairman was first assumed by Boris Novak, M.Sc., and following his resignation also from this position, the position was assumed by Igor Žibrik. Boris Novak, M.Sc., continued his work as a Member of the Supervisory Board. As at 25 August 2014, Igor Žibrik resigned from the membership of the Supervisory Board. The General Meeting of Shareholders took note of his resignation on 3 December 2014 and appointed, upon a proposal of the majority shareholder, Sabina Župec Kranjc, M.Sc., a new Substitute Member of the Supervisory Board of the Bank. Subsequently, on 10 December 2014, the Supervisory Board appointed the new Member of the Supervisory Board a Deputy Chairperson of the Supervisory Board.

The Supervisory Board operated at the end of 2014 in the following composition:

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

Terms of office of this composition of the Supervisory Board shall expire on 21 June 2016.

The Supervisory Board prepared for the General Meeting of Shareholders a written Report of the Supervisory Board, which is included in this Annual Report as an independent document. In accordance with applicable laws and regulatory requirements, the Report of the Supervisory Board comprehensively and credibly describes all the activities of the Supervisory Board for the financial year 2014.

Committees of the Supervisory Board

In accordance with the guidelines of modern corporate governance, there are three committees of the Supervisory as a professional assistance to the Supervisory Board in specific areas, and as support in the development and implementation of best practices:

- 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.

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.

In 2014, the Audit committee met at seven regular meetings and operated in the following unchanged composition:

- Chairperson - Miha Šlamberger, M.Sc., Secretary of Nova KBM
- Member - Igor Marinič, M.Sc., Deputy CEO, Pošta Slovenije
- Member - Jožica Germ, director of the company AJŠA, davčno svetovanje in storitve d.o.o.

The Audit committee performed in 2014 its tasks pursuant to the law, Articles of Association and the instrument of the Audit committee incorporation, which was in 2014 revised and aligned with the content of the Audit committee of the parent bank, Nova KBM, instrument of incorporation. The instrument of incorporation more specifically regulates the purpose and composition of the Committee, the terms and conditions for its operation, and its powers and responsibilities.

Human Resources Committee of the Supervisory Board

Human resources committee of the Supervisory Board comprises of three members. In 2014, the Committee met at five regular meetings and decided in one case through a correspondence meeting. The

Committee worked in the following unchanged structure:

- 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

With respect to changes in the Management Board of the Bank, the Committee carried out in 2014 all appropriate procedures, carefully examined all necessary bases, and in accordance with its respective powers prepared for the Supervisory Board reasoned proposals in terms of contents, which provided professional and transparent debate in all the matters discussed.

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 did not meet in 2014, operates 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 three companies. The Committee comprises of two representatives of the shareholder Nova KBM and two representatives of the shareholder Pošta Slovenije. The Management Board of Poštna banka Slovenije is regularly invited to attend the Committee's meetings. By invitation of the Committee, its meetings are attended also by professionals from all three companies.

At the end of 2014, the Committee's composition was the following:

- Chairperson - 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 - Vlasta Brečko, M.Sc., Executive Director of the Management Board of Nova KBM

Remunerations for Supervisory Board and its committees

Members of the Supervisory Board and members of its committees are entitled to the following remunerations for their work:

- Session fees
- Functions performance fees,
- Supplementary payments for special duties, and
- Other receipts (travel costs, ...).

Amounts of entitlements are determined in line with the applicable resolution of the General Meeting of Shareholders in 2011.
In accordance with the resolution adopted by the General Meeting of Shareholders of Nova KBM on 27 June 2014, the members of the Supervisory Board who are also members of the Management Board of the parent company, Nova KBM, shall receive no session fees from 8 July 2014 onwards.
External members of the Supervisory Board's committees shall receive remuneration for their duties in the amount according to a decision adopted by the Supervisory Board. Income of individual Supervisory Board members and members of the Supervisory Board's committees, which was received by them for the performance of their functions in 2014, is disclosed in the financial part of this Annual Report.

Management Board of the Bank

The Management Board of the Bank holds a key function in the Bank and manages the Bank independently and at its own responsibility. It is responsible to the Bank, its shareholders and creditors. Taking into account that the Management Board takes care and is responsible for operations of the whole Bank, its position differs from positions of other employees in the Bank. The Management Board works in compliance with applicable laws. Rights and obligations, powers and responsibilities of the Management Board are determined, beside by applicable laws, also by the Articles of Association of the Bank. The method of work of the Management Board is governed in detail by the Rules of Procedure of the Management Board.
Relations between the members of the Management Board and the Bank are governed by an employment contract, which is signed with each member of the Management Board by the Chairperson of the Supervisory Board in accordance with its power of representing the company against members of the Management board.

Performance of the Management Board in 2014

In 2014, the composition of the Management Board changed several times.
The Management Board started the year 2014 in the following composition: Robert Senica, President of the Management Board, and Viktor Lenče, Member of the Management Board. The change early in the

year was expected, since the Supervisory Board had adopted a decision on extension of the Management Board by one additional member already in October 2013, and appointed Elica Vogrinc a Member of the Management Board. Elica Vogrinc started her five-year terms in the position of a Member of the Management Board after obtaining an authorisation to perform the function, on 6 January 2014. By mid-year of 2014, the Management Board worked in a three-member composition, and following consensual discharge of Viktor Lenče from the position of a Member of the Management Board as at 30 June 2014, the Management Board comprised of two members again. Nevertheless, an additional change was expected, because the Supervisory Board of Nova KBM appointed Robert Senica, President of the Management Board, a member of the Management Board of Nova KBM in April 2014. The term of office of Robert Senica in the position of the President of the Management Board of Poštna banka Slovenije was terminated in agreement as at 31 July 2014. In order to ensure continuity in the work of the Management Board, the Supervisory Board appointed a Substitute Member of the Management Board, Danica Ozvaldič, M.Sc., who started her six-month term determined by the law on 1 August 2014. As of this date, the Management Board has worked in the following composition: Elica Vogrinc, Member of the Management Board, and Danica Ozvaldič, M.Sc., Substitute Member of the Management Board. After the procedures necessary to appoint a new member of the Management Board were completed, the Supervisory Board appointed on 10 December 2014 Marija Brenk a Member of the Management Board of Poštna banka Slovenije. At the end of the year, the procedure of obtaining an authorisation to perform the function of a board member for Marija Brenk was still in progress, and the newly appointed Member did not start her function 2014.
At the same time, the Management Board in its composition of Elica Vogrinc, a Member of the Management Board, and Danica Ozvaldič, M.Sc., a Substitute Member of the Management Board, did not remain unchanged until the end of 2014. On 16 December 2014, the Supervisory Board accepted a resignation by the Member of the Management Board, Elica Vogrinc, and discharged her in consensual manner from the position.
Given the circumstances, the Supervisory Board appointed on 17 December 2014 Mojca Mak a Substitute Member of the Management Board. According to the law, the term of a substitute member of the Management Board may last for a maximum period of six months.
The Bank concluded 2014 with the Management Board in the following composition:

- Danica Ozvaldič, M.Sc., Substitute Member of the Management Board, and
- Mojca Mak, Substitute Member of the Management Board.

The Management Board, in all its compositions, strived in 2014 for responsible work in the best interest of the Bank and in accordance with the standards of appropriate professional diligence. In 2014, the Management Board of the Bank carefully complied with the reporting obligations, in accordance with general obligations on reporting to the regulatory authority and other competent authorities and in accordance with applicable laws. It provided Nova KBM with all the required bases and data in the context of joint projects and tasks and for the needs of procedures and checks, which were held in the parent bank. The Management Board submitted to the Supervisory Board materials that were professionally prepared and credible in terms of their contents, and regularly informed the Supervisory Board about all important matters associated with operations of the Bank. The Management Board paid in 2014 significant attention to establishing a more efficient organisation, including a change in internal organisation of the Bank and a change in job classification. The Management Board responded to the findings concerning the lack of established controls by changes in personnel at managerial positions, a change in respective work instructions with an emphasis on risk management, and required a strict compliance with the instructions.
In 2014, the Management Board also complied with the requirements in the internal management and developed, in the context of Fit & Proper Policy, a list of key function holders, which are the subject to assessments of suitability in accordance with European guidelines and bylaws of the Bank of Slovenia. In 2014, the Management Board commissioned the development of two Fit & Proper assessments.
Following a significantly modified ownership structure, the Management Board in 2014 intensified its efforts to raise awareness of the importance of long-term partnership with Pošta Slovenije. It supported the proposals of professional services aimed at nurturing and further development of this relationship. The Management Board was actively involved in setting-up and operation of joint working

groups with a purpose of examining the possibilities and establishing a new business model, which would provide added value sought in the partnership of Pošta Slovenije, Poštna banka Slovenije and Nova KBM for all the tree partners in joint action on the market, based on changed conditions in the environment.

In 2014, the Management Board met at regular meetings, which were held, as a rule, on weekly basis. In urgent matters requiring immediate decision, the Management Board made decisions also outside of regular meetings. Therefore, in 2014, the Management Board decided on the matters related to operations of the Bank at 48 regular meetings, and adopted 68 decisions outside its meetings. Its decisions were mostly adopted unanimously. The Management Board, under discussions at its meetings and outside the meetings, at close meetings, and in wider discussions held by the bodies of the Bank, provided persons in charge in sectors and professional services with all important information and guidelines for their work, in a timely and understandable manner.

Remuneration to the Management Board

An employment contract concluded with the President and the Member of the Management Board determines also the type and amount of remuneration for performance of 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 2014 are disclosed in the financial part of this Annual Report.

Management personnel as at 31 December 2014:

Name and surname:	Function:
Danica Ozvaldič	Adviser to the Management Board (pursuant to Article 62 of ZBan-1 and based on the decision of the Supervisory Board as of 1 August 2014 at the position of a Substitute Member of the Management Board)
Elica Vogrinc	Adviser to the Management Board
Anita Osterc Kralj	Head of Cabinet of the Management Board
Sanja Miljuš Herman	Head of Legal office
Duška Zalokar	Head of Risk management department
Melita Dobaj	Head of Internal audit department
Sabina Janežič	Director of Retail banking division
Aleksander Jerenko	Director of Product management, sales controlling and marketing division
Primož Peklar, M.Sc.,	Director of Retail banking division
Natalija Muršič Tomažič, M.Sc.,	Director of Treasury division
Mojca Mak	Director of Support services (pursuant to Article 62 of ZBan-1 and based on the decision of the Supervisory Board as of 17 December 2014, at the position of a Substitute Member of the Management Board)
Božena Blažič, M.Sc.,	Director of Payment transactions and electronic banking division

Miran Bizjak	Director of Information technology division
Boris Hauptman	Director of Finance division
Boštjan Černivec	Head of Restructuring of high-risk investments and recovery coordination department

The Professional Board of the Bank consists of the Management Board, adviser to the Management Board, executive associate for money laundering and terrorism financing prevention, security engineer, representative of public relations, directors of divisions and heads of departments.

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

- Credit committee for corporate clients' investments and retail investments,
- Credit committee of areas,
- Credit committee for high risk investments,
- Committee for corporate clients' collection,
- Liquidity committee,
- Asset and liability management committee,
- Operational risk committee,
- Classification committee,
- Project monitoring committee.

6 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management Board confirms the financial statements for the year ended as at 31 December 2014, 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 2014.

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, February 2015

Aleksander Jerenko,
Substitute Member
of the Management Board

Mojca Mak,
Substitute Member
of the Management Board

7 AUDITOR'S REPORT

Deloitte.

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1000 Ljubljana
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www.facebook.com/DeloitteSlovenija

INDEPENDENT AUDITOR'S REPORT
to the owners of POŠTNA BANKA SLOVENIJE d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of the bank Poštna banka Slovenije d.d. – Banking Group of Nova Kreditna banka Maribor d.d. (hereinafter: the "bank"), which comprise the statement of financial position as at 31 December 2014, the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The management is responsible for preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. The management is also responsible for the level of internal control required in its opinion to prepare financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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FINANCIAL REPORT

Opinion

In our opinion, the financial statements give, in all material respects, a true and fair view of the financial position of the bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Aleš Grm
Certified Auditor

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija
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Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Ljubljana, 20 February 2015

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

FINANCIAL REPORT

1. FINANCIAL STATEMENTS OF THE BANK

Income statement

in thousands of EUR

ITEM	Notes	2014 year	2013 year
Interest income	2.4.1	27,968	28,756
Interest expenses	2.4.1	-7,386	-11,824
Net interest income	**2.4.1**	**20,582**	**16,932**
Dividend income	**2.4.2**	**55**	**23**
Fee and commission income	2.4.3	33,871	37,365
Fee and commission expenses	2.4.3	-24,301	-27,818
Net fee and commission income	**2.4.3**	**9,570**	**9,547**
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss	2.4.4	3,960	-1,129
Net gains from financial assets and liabilities held for trading	2.4.5	335	181
Net exchange losses	2.4.6	-2	-95
Net losses on derecognition of assets, other than non-current assets held for sale	2.4.7	-39	-6
Other net losses from operation	2.4.8	-2,407	-1,469
Administration costs	2.4.9	-15,140	-16,111
Amortisation	2.4.10	-1,903	-1,808
Provisions	2.4.11	841	-1,655
Impairments	2.4.12	-15,651	-61,447
OPERATING PROFIT/LOSS FROM ORDINARY ACTIVITY		**201**	**-57,037**
Income tax from continuing operations	2.4.13	45	-127
NET OPERATING PROFIT/LOSS FROM ORDINARY ACTIVITY		**246**	**-57,164**
NET PROFIT/LOSS FOR THE YEAR		**246**	**-57,164**
Basic net gains/loss per share	2.4.14	0.0078	-41.50

Notes on pages 63–120 are integral part of financial statements.

Statement of other comprehensive income

in thousands of EUR

ITEM	2014 year	2013 year
NET PROFIT/LOSS FOR THE YEAR AFTER TAX	**246**	**-57,164**
OTHER COMPREHENSIVE INCOME AFTER TAX	**7,181**	**1,517**
ITEMS THAT WILL NOT BE RE-CLASSIFIED IN INCOME STATEMENT	**-59**	**-5**
Actuarial surpluses/deficits related to pension schemes with defined benefits	-71	-6
Income tax relating to items that will not be re-classified	12	1
ITEMS THAT MAY BE RE-CLASSIFIED IN INCOME STATEMENT LATER	**7,240**	**1,522**
Gains related to available-for-sale financial assets	8,723	1,811
Revaluation surpluses recognised in equity	8,708	1,806
Transfer of gains to profit or loss	15	5
Income tax relating to items that may be re-classified in income statement	-1,483	-289
TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX	**7,427**	**-55,647**

Notes on pages 63–120 are integral part of financial statements.

Statement of financial position

in thousands of EUR

Items	Notes	31 December 2014	31 December 2013
Cash, cash balances with the Central Bank and sight deposits with banks	2.5.1	76,851	62,337
Financial assets held for trading	2.5.2	282	236
Available-for-sale financial assets	2.5.3	198,376	195,527
Loans		309,882	415,356
- loans to banks	2.5.5	3	58,203
- loans to non-bank clients	2.5.6	304,056	351,308
- other financial assets	2.5.7	5,823	5,845
Held-to-maturity financial investments	2.5.4	116,591	87,468
Property, plant and equipment	2.5.8	7,308	8,275
Intangible assets	2.5.9	4,012	4,189
Other assets	2.5.11	6,800	1,663
TOTAL ASSETS		**720,102**	**775,051**
Financial liabilities measured at amortised cost	2.5.12	662,068	725,601
- deposits due to non-bank clients		616,398	634,506
- loans from banks and central banks		30,662	75,981
- subordinated debt		9,900	9,020
- other financial liabilities		5,108	6,094
Provisions	2.5.13	4,670	5,449
Income tax liabilities	2.5.10	1,447	21
- deferred tax liabilities		1,447	21
Other liabilities	2.5.14	1,614	1,103
TOTAL LIABILITIES		**669,799**	**732,174**
Share capital	2.5.15	41,382	41,382
Accumulated other comprehensive income	2.5.15	10,164	2,984
Retained gain/loss (including net gain/loss for the business year)	2.5.15	-1,243	-1,489
TOTAL EQUITY		**50,303**	**42,877**
TOTAL EQUITY AND LIABILITIES		**720,102**	**775,051**

Notes on pages 63–120 are integral part of financial statements.

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

in thousands of EUR

Designation	ITEM	Notes	2014 year	2013 year
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	**Total profit/loss before tax**		**201**	**(57,037)**
	Amortisation	2.4.10	1,903	1,808
	Impairments of available-for-sale financial assets		15	12
	Loan impairments		15,368	61,320
	Impairments of property, plant and equipment, investment properties, intangible assets and other assets		267	115
	Net exchange losses	2.4.6	2	95
	Net losses from sales of property, plant and equipment, and investment property		44	6
	Other (gains) from investing activity		(3,226)	(3,775)
	Other losses from financing activities		880	634
	Other adjustments to total profit or loss before tax		(841)	1,773
	Cash flows from operating activities before changes in operating assets and liabilities		14,613	4,951
	Cash flows from operating activities before changes in operating assets and liabilities		**14,613**	**4,951**
b)	**(Increase)/decrease in operating assets (exclusive of cash equivalents)**		**78,515**	**(29,641)**
	Net (increase)/decrease in financial assets held for trading		(45)	126
	Net (increase)/decrease in financial assets available for sale		5,858	(43,579)
	Net decrease in loans		73,003	14,465
	Net (increase) in other assets		(301)	(653)
c)	**(Decrease) in operating liabilities**		**(64,008)**	**(9,571)**
	Net (decrease) in deposits and loans raised measured at amortised cost		(64,499)	(10,250)
	Net increase in other liabilities		491	679
c2)	**Cash flows from operating activities (a+b+c)**		**29,120**	**(34,261)**
d)	**Returned income tax**		**0**	**636**
e)	**Net cash flows from operating activities (c2+d)**		**29,120**	**(33,625)**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Cash receipts from investing activities**		**58,767**	**29,251**
	Cash proceeds from the sales of property, plant and equipment, and investment properties		116	18
	Cash proceeds from the sales of intangible assets		21	0
	Cash proceeds from the sales of held-to-maturity financial investments		58,630	29,233
b)	**Cash disbursements from investing activities**		**(85,457)**	**(13,813)**
	(Cash payments for the purchase of property, plant and equipment, and investment properties)		(496)	(953)
	(Cash payments for the purchase of intangible assets)		(434)	(1,003)
	(Cash payments to acquire held-to-maturity financial investments)		(84,527)	(11,857)
c)	**Net cash flows from investing activities (a-b)**		**(26,690)**	**15,438**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash receipts from financing activities**		**0**	**24,879**
	Income from issued subordinate debt		0	9,000
	Income from issued shares and other equity instruments		0	15,879
b)	**Cash disbursements from financing activities**		**0**	**(896)**
	(Payment of subordinated debt)		0	(896)
c)	**Net cash flows from financing activities (a-b)**		**0**	**23,983**
D.	**Effects of changes in exchange rates on cash and cash equivalents**		**84**	**(139)**
E.	**Net increase in cash and cash equivalents (Ae+Bc+Cc)**		**2,430**	**5,796**
F.	**Cash and cash equivalents at the beginning of the period**		**74,337**	**68,680**
G.	**Cash and cash equivalents at the end of the period (D+E+F)**	**2.5.1**	**76,851**	**74,337**

Interest paid and interest and dividends received are included in note 2.4.2.
Notes on pages 60–103 are integral part of financial statements.

Statement of changes in shareholders' equity for the period from 1 January to 31 December 2014

in thousands of EUR

ITEM	Share capital	Capital reserves	Accumulated other comprehensive income	Reserves from profit	Retained gain/ loss (including net gain/loss for the business year)	Total equity
OPENING BALANCE IN THE PERIOD	**41,382**	**0**	**2,984**	**0**	**-1,489**	**42,877**
Comprehensive income for the year after tax	0	0	7,180	0	246	**7,426**
CLOSING BALANCE IN THE PERIOD	**41,382**	**0**	**10,164**	**0**	**-1,243**	**50,303**
ACCUMULATED LOSS FOR THE YEAR					**-1,243**	**-1,243**

Statement of changes in shareholders' equity for the period from 1 January to 31 December 2013

in thousands of EUR

ITEM	Share capital	Capital reserves	Accumulated other comprehensive income	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**

Notes on pages 63–120 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 public 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 subsidiaries, including Poštna banka Slovenije.

The Nova KBM Group prepares consolidated financial statements which are 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 approved on 14 January 2015 the published financial statements of the Bank as at 31 December 2014.

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 held for trading,
- 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 an 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 2014 comparative data for 2013 accordingly. The adjustment for 2013 affects neither the Bank's operating results nor its equity.

In its 2014 Annual Report, the Bank adjusted comparative figures for 2013 in the statement of financial position items and its respective notes on assets by including sight deposits with banks recorded under Item „Loans to banks“ into the renamed Item „Cash, cash balances with central banks and sight deposits with banks“.

In its 2014 Annual Report, the Bank adjusted comparative figures for 2013 in the statement of financial position items and its respective notes on liabilities by removing Item „Financial liabilities to the Central Bank“, while including its liabilities into loans from banks and central banks under Item „Financial liabilities measured at amortised cost“.

Effects of changes in the statement of financial position as at 31 December 2013:

in thousands of EUR

	31 December 2013
Cash, cash balances with central banks and sight deposits with banks	2,455
Loans	-2,455
– loans to banks	-2,455
Financial liabilities to the Central Bank	-45,668
Financial liabilities measured at amortised cost	45,668
– loans from banks and central banks	45,668

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 controlled 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 financial and business policies 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 the reporting date. The effects of conversion are recorded in the income statement under net profit or loss from exchange differences.

2.3.2 Cash equivalents

Cash equivalents are current, highly liquid investments that are readily convertible to known amounts of cash and the subject to insignificant risks of changes in their 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 value 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 of 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 assets not acquired for trading and are 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) Recognition and derecognition of financial assets

Acquisitions and disposals of financial assets, other than loans and receivables, are recognised at the trade date (date of concluding the contract). 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 an asset expire or the financial asset is transferred and the transfer fulfils the criteria for derecognition (the Bank transferred all the 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 derecognition of a financial asset in its entirety, the difference between the asset's book value and the sum of the considerations 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.

Financial assets 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, any accumulated gains or losses disclosed in the comprehensive income are recognised in the income statement. Interest arising from available-for-sale debt securities calculated by 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 a „day one profit“. If the market price is not relevant, the difference between the price of transaction and the valuation model is recognised in the income statement once the market becomes significant or the instrument is disposed.

(v) Reclassification of financial assets

In 2014, 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 available-for-sale equity securities are impaired, the impairment loss is recognised in the income statement. The impairment of equity securities is not reversed through the income statement; however, the subsequent increase in fair value is recognised directly in the 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 a group of financial assets, which can be reliably measured.

On the basis of the risk rating of the client and the 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 collective 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 estimated cash flows from liquidation of collateral.

Collective 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 using 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 includes an 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 of 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 recorded in its books any assets or liabilities from finance lease, but only from operating lease.

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 2014 and 2013 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 from 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 2014, the Bank applied the same amortisation rate as in 2013, 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 payment of 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 on behalf of 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 non-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 risks. Financial instruments include financial and performance guarantees, letters of credit, credit lines and approved undrawn 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.

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.

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

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 expenses

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

Fee and commission income and expenses 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 from 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 of 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 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.

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 effective in the current period
The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current period:

- **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 „Disclosures 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 (revised 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 (revised 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 Arrangements“ and IFRS 12 „Disclosures of Interests in Other Entities“** – Transition Guidance, 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 „Disclosures of Interests in Other Entities“ and IAS 27 (revised in 2011) „Separate Financial Statements“** – Investment Entities, 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“** - Recoverable Amount Disclosures 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).

The adoption of these amendments to the existing standards has not led to any changes in the Entity’s accounting policies.

Standards and interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **Amendments to various standards „Improvements to IFRSs (cycle 2010–2012)“** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards „Improvements to IFRSs (cycle 2011-2013)“** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- **Amendments to IAS 19 „Employee Benefits“** – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **IFRIC 21 „Levies**“ adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

Standards and interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 31 December 2014 (the effective dates stated below apply for IFRS in full):

- **IFRS 9 „Financial Instruments“** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 14 „Regulatory Deferral Accounts“** (effective for annual periods beginning on or after 1 January 2016),
- **IFRS 15 „Revenue from Contracts with Customers“** (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 10 „Consolidated Financial Statements“ and IAS 28 „Investments in Associates and Joint Ventures“** –

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 10 „Consolidated Financial Statements“, IFRS 12 „Disclosure of Interests in Other Entities“ and IAS 28 „Investments in Associates and Joint Ventures“** – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 „Joint Arrangements“** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 „Presentation of Financial Statements“** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 „Property, Plant and Equipment“ and IAS 38 „Intangible Assets“** – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 „Property, Plant and Equipment“ and IAS 41 „Agriculture“** – Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 „Separate Financial Statements“** – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards „Improvements to IFRSs (cycle 2012–2014)“** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Entity anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.
At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

2.4 Notes to the income statement items

2.4.1 Interest income and interest expenses

a) Interest by sector

in thousands of EUR

	Revenue 2014	Expenses 2014	Revenue 2013	Expenses 2013
Non-financial companies	11,248	-388	11,183	-1,005
State	8,628	-594	8,646	-992
Banks	1,336	-1,355	2,116	-1,477
Other financial organisations	301	-239	306	-796
Households	6,353	-4,757	6,369	-7,465
Foreign entities	95	0	124	-1
Non-profit providers of households' services	7	-53	12	-88
Total	**27,968**	**-7,386**	**28,756**	**-11,824**
NET INTEREST	**20,582**		**16,932**	

b) By type of interest

in thousands of EUR

	Revenue 2014	Expenses 2014	Revenue 2013	Expenses 2013
Regular interest	25,124	-7,386	27,325	-11,824
Default interest	2,844	0	1,431	0
Total	**27,968**	**-7,386**	**28,756**	**-11,824**
NET INTEREST	**20,582**		**16,932**	

Regular interest income also includes income from discounts of purchased receivables amounting to EUR 3 thousand (EUR 22 thousand in 2013).

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

in thousands of EUR

	2014 Current	2014 Non-current	2013 Current	2013 Non-current
Interest income				
Interest from cash balances with the Central Bank	12	0	34	0
Interest from available-for-sale financial assets	164	6,747	137	6,489
Interest from loans and deposits	7,402	10,417	8,100	10,221
Interest from held-to-maturity financial investments	148	3,078	196	3,579
Total by maturity	**7,726**	**20,242**	**8,467**	**20,289**
Total	**27,968**		**28,756**	
Interest expenses				
Interest for financial liabilities to the Central Bank	0	-27	0	-253
Interest for financial liabilities measured at amortised cost	-1,899	-5,460	-4,142	-7,429
Total by maturity	**-1,899**	**-5,487**	**-4,142**	**-7,682**
Total	**-7,386**		**-11,824**	
NET INTEREST	**20,582**		**16,932**	

d) Net interest

in thousands of EUR

	2014	2013
Total interest income and similar income	27,968	28,756
Total interest expenses and similar expenses	-7,386	-11,824
Net interest and similar income	**20,582**	**16,932**
Average interest rates on assets (in %)	3.5	3.4
Average interest rates on liabilities (in %)	1.1	1.6

e) **Interest expenses related to subordinated debt**

in thousands of EUR

	2014	2013
Deposits		
Non-current deposits of Pošta Slovenije	0	263
Non-current deposits of Nova KBM	880	372
TOTAL	**880**	**635**

The notes in Item 2.5.12 e) Subordinated debt.

2.4.2 Dividend income

Dividend income

in thousands of EUR

	2014	2013
Dividend income from financial assets held for trading	**19**	**23**
- shares and stakes of other issuers	19	23
Dividend income from available-for-sale financial assets	**36**	**0**
- shares and stakes of other issuers	36	0
TOTAL	**55**	**23**

Cash flows from interest and dividends

in thousands of EUR

	2014	2013
Interest paid	-7,538	-12,504
Interest received	30,248	30,098
Dividends received	55	23

2.4.3 Fee and commission net income

a) Fees and commissions by sector

in thousands of EUR

	2014	2013
Fees and commissions income	**33,871**	**37,365**
Non-financial companies	25,770	29,078
State	602	655
Banks	489	532
Other financial organisations	234	297
Households	6,590	6,617
Foreign entities	21	32
Non-profit providers of services to households	165	154
Fees and commissions expenses	**-24,301**	**-27,818**
Non-financial companies	-23,288	-26,435
Banks	-1,000	-1,374
Other financial organisations	-12	-6
Households	-1	-3
NET FEE AND COMMISSION INCOME	**9,570**	**9,547**

b) By type of fee and commission

in thousands of EUR

	2014	2013
Fee and commission income		
Fees and commissions on issued guarantees	506	461
Fees and commissions from services provided to Group banks	82	85
Fees and commissions on domestic payment transactions	31,580	34,909
Fees and commissions on international payment transactions	73	67
Fees and commissions on brokerage and commission transactions	6	0
Fees and commissions on credit transactions	1,338	1,605
Fees and commissions from administrative services performed	286	238
Total	**33,871**	**37,365**
Fee and commission expenses		
Fees and commissions for domestic banking services	-3,899	-3,973
Fees and commissions for international banking services	-11	-20
Fees and commissions for exchange transactions	-140	-140
Fees and commissions for brokerage and other securities transactions	-7	-2
Fees and commissions on payment transactions	-19,201	-22,387
Fees and commissions for services provided to Group banks	-262	-509
Fees and commissions for other services	-781	-787
Total	**-24,301**	**-27,818**
NET FEE AND COMMISSION INCOME	**9,570**	**9,547**

2.4.4 Gains/losses on financial assets and liabilities not measured at fair value through profit or loss

in thousands of EUR

	2014	2013
Gains on financial assets available for sale	4,467	0
Gains on loans and other financial assets	120	0
Gains on financial liabilities measured at fair value	2	3
Losses on loans measured at fair value	-492	-1,132
Loses on other financial assets	-137	0
TOTAL	**3,960**	**-1,129**

2.4.5 Net gains on financial assets and liabilities held for trading

in thousands of EUR

	Gains 2014	Losses 2014	Net gains/ losses 2014	Gains 2013	Losses 2013	Net gains/ losses 2013
Trading in equity securities and interests	428	-382	46	675	-801	-126
Gains/losses from foreign exchange trading	348	-59	289	366	-59	307
TOTAL	**776**	**-441**	**335**	**1,041**	**-860**	**181**

2.4.6 Net exchange losses

in thousands of EUR

	2014	2013
Exchange rate gains	182	289
Exchange rate losses	-184	-384
TOTAL	**-2**	**-95**

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

in thousands of EUR

	2014	2013
Gains on derecognition of property, plant and equipment held for sale	3	0
Gains on derecognition of other assets excluding assets held for sale	6	0
Losses on derecognition of property, plant and equipment held for sale	-47	-6
Losses on derecognition of other assets excluding assets held for sale	-1	0
TOTAL	**-39**	**-6**

2.4.8 Other net losses from operation

in thousands of EUR

	2014	2013
Revenue		
Income from non-banking services	23	21
Other operating income	109	618
Total	**132**	**639**
Expenses		
Membership fees and similar	-57	-64
Taxes and other duties	-1,420	-1,303
Other operating expenses	-1,062	-741
Total	**-2,539**	**-2,108**
OTHER NET LOSSES FROM OPERATION	**-2,407**	**-1,469**

2.4.9 Administration costs

a) By type

in thousands of EUR

	2014	2013
Staff expenses		
Gross salaries	6,630	7,415
Social security contributions	482	541
Pension insurance contributions	579	655
Commuting allowances	325	328
Meal allowance	300	303
Other costs of employees on employment contracts	465	334
Total staff expenses	**8,781**	**9,576**
General and administrative expenses		
Costs of material	427	505
Costs of energy	65	82
Costs of professional literature	60	68
Other costs	5	11
Rents, royalties	713	728
Services provided by others	2,768	2,412
Costs for business travel	59	113
Costs of fixed asset maintenance	1,422	1,552
Advertising costs	252	345
Entertainment allowance	9	22
Consulting, auditing, accounting and other services	337	380
Tuition fees, scholarships and other training/education costs	48	88
Insurance costs	99	105
Other administrative expenses	95	124
Total general and administrative expenses	**6,359**	**6,535**
TOTAL	**15,140**	**16,111**

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, solidarity allowance and payment for the competition clause.

The amount of EUR 2,768 thousand (EUR 2,412 thousand in 2013) for services provided by others covers 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

	2014	2013
Auditing of the Annual Report	56	63
Other auditing services	14	6
TOTAL	**70**	**69**

2.4.10 Amortisation

in thousands of EUR

	2014	2013
Depreciation of property, plant and equipment	1,303	1,330
Depreciation of intangible fixed assets	600	478
TOTAL	**1,903**	**1,808**

2.4.11 Provisions

in thousands of EUR

	2014	2013
Provisions for pensions and similar liabilities	56	2
Provisions for off-balance sheet liabilities	-1,143	2,068
Provisions for pending lawsuits	226	-404
Provisions for other non-current liabilities to employees	34	0
Other provisions	-14	-11
Net additional (+) - reversed provisions (-)	**-841**	**1,655**

2.4.12 Impairments

in thousands of EUR

	2014	2013
IMPAIRMENTS OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**15,384**	**61,332**
Financial assets measured at cost	0	7
Available-for-sale financial assets measured at fair value	15	5
Loans measured at amortised cost	15,338	61,296
Other financial assets measured at amortised cost	31	24
IMPAIRMENT OF OTHER ASSETS	**267**	**115**
Other assets	267	115
Net additional (+) - reversed impairments (-)	**15,651**	**61,447**

Impairment of other assets includes impairment of property acquired as recovery of receivables.

2.4.13 Income tax from ordinary activity

a) Income tax

in thousands of EUR

	2014	2013
Deferred tax from continuing operations	-45	127
TOTAL	**-45**	**127**

The Bank does not record any income tax liability for 2014 and 2013.

The amount of EUR -45 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	2014 Rate	2014 Value	2013 Rate	2013 Value
Profit/loss before tax according to IFRS		**201**		**-57,037**
Income tax at the official rate	17.0 %	34	17.0 %	-9,696
Reversal of tax relief used in previous periods	0.3 %	1	0.0 %	0
Tax relief used in current period	-51.6 %	-104	0.0 %	0
Expenses not allowable for tax purposes	16.5 %	33	-0.1 %	47
Revenues recognised for tax purposes (decrease)	-4.7 %	-9	0.0 %	-4
Other adjustments in the income statement	0.0 %	0	-17.1 %	9,780
TOTAL INCOME TAX	**-22.5 %**	**-45**	**-0.2 %**	**127**

2.4.14 Net gains/loss per share

	2014	2013
Net profit/loss for the financial year (in thousands of EUR)	246	-57,164
Weighted average number of shares	31,508,159	1.377,561
Basic earnings/loss per share (in Euros per share)	0.0078	-41.50

Earnings/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 (adjusted) earnings per share in 2014 amounted to EUR 0.0061 (in 2013, diluted (adjusted) net loss per share 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 2014 and 31 December 2013.

2.5 Notes to the items of the statement of financial position

2.5.1 Cash and cash balances with the Central Bank and sight deposits with banks

in thousands of EUR

	31 December 2014	31 December 2013
Cash in hand	**23,506**	**23,678**
Mandatory deposits with Central Bank	**45,390**	**33,253**
- settlement account with Central Bank	45,390	33,253
Other deposits with Central Bank	**3,594**	**2,951**
Sight deposits with banks	**4,361**	**2,455**
TOTAL	**76,851**	**62,337**

The 2014 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 3,594 thousand (EUR 2,951 thousand in 2013).

Sight deposits include transaction accounts in national currency with domestic and foreign banks equalling EUR 2,394 thousand (EUR 444 thousand as at 31 December 2013), and transaction accounts in foreign currency with domestic banks equalling EUR 1,966 thousand (EUR 2,011 thousand as at 31 December 2013).

Cash and cash equivalents

in thousands of EUR

	31 December 2014	31 December 2013
Cash and cash balances with the Central Bank	72,490	59,882
Sight deposits with banks	4,361	2,455
Loans to banks with maturity of up to 90 days	0	12,000
TOTAL	**76,851**	**74,337**

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 2014	31 December 2013
Shares and stakes	**282**	**236**
- shares and stakes of banks	0	0
- shares and stakes of other issuers	282	236
Total	**282**	**236**
Listed on the stock exchange	282	236
TOTAL	**282**	**236**

Financial assets measured at fair value through profit or loss (held for trading) were not provided as guarantee for liabilities in 2014.

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

	2014	2013
As at 1 January	**236**	**363**
Increase during the year	**46**	**0**
- strengthening	46	0
Decrease during the year	**0**	**127**
- impairments	0	113
- disposals and withdrawals	0	14
AS AT 31 DECEMBER	**282**	**236**

2.5.3 Financial assets available-for-sale

a) By type, sector and quotation

in thousands of EUR

	31 December 2014	31 December 2013
Shares and stakes available for sale, at fair value	**1,684**	**914**
- equity investments in other financial organisations	1,684	914
Shares and stakes available for sale, at cost	**211**	**132**
- equity investments in non-financial companies	211	132
Debt securities available for sale	**196,481**	**194,481**
- issued by the government and the Central Bank	185,253	167,890
- issued by banks	9,034	24,404
- issued by other issuers	2,194	2,187
Total	**198,376**	**195,527**
Listed on the stock exchange	190,100	187,438
Not listed on the stock exchange	8,276	8,089
TOTAL	**198,376**	**195,527**

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.

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

in thousands of EUR

	Participations as at 31 December 2014	Participations as at 31 December 2013
Shares and stakes available for sale, at fair value	1,684	914
Shares and stakes available for sale, at cost	211	132
TOTAL	**1,895**	**1,046**

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 2014	**914**	**132**	**194,481**	**195,527**
Recognition of new financial assets	0	80	68,388	68,468
Interest	0	0	-2,085	-2,085
Net revaluation through equity	784	0	7,938	8,722
Net impairments through profit or loss	-15	0	0	-15
Derecognition of financial assets upon sale	0	0	-35,936	-35,936
Derecognition of financial assets at maturity	0	0	-40,772	-40,772
Net profit/loss at derecognition	0	0	4,467	4,467
AS AT 31 DECEMBER 2014	**1,683**	**212**	**196,481**	**198,376**

	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**

2.5.4 Held-to-maturity financial investments

a) By type

in thousands of EUR

	31 December 2014	31 December 2013
Held-to-maturity debt securities		
issued by the state and the Central Bank	**93,066**	**64,017**
- current securities	30,930	5,985
- non-current securities	62,136	58,032
issued by banks	**18,784**	**18,703**
- non-current securities	18,784	18,703
issued by other issuers	**4,741**	**4,748**
- non-current securities	4,741	4,748
Total	**116,591**	**87,468**
Listed on the stock exchange	116,591	87,468
TOTAL	**116,591**	**87,468**

In 2014 and 2013, the Bank had no foreign-currency held-to-maturity debt securities.

b) Movement in held-to-maturity financial investments

in thousands of EUR

	2014	2013
As at 1 January	**87,468**	**101,070**
Increase during the year	**87,753**	**15,632**
- acquisition	84,527	11,857
- other (interest accrual)	3,226	3,775
Decrease during the year	**-58,630**	**-29,234**
- withdrawals (maturity)	-54,822	-24,932
- other (interest received)	-3,808	-4,302
AS AT 31 DECEMBER	**116,591**	**87,468**

2.5.5 Loans to banks

a) By maturity and type

in thousands of EUR

	31 December 2014	31 December 2013
Current loans	3	12,003
Non-current loans	0	46,200
Total – gross	**3**	**58,203**
Total impairments	**0**	**0**
TOTAL – NET	**3**	**58,203**

2.5.6 Loans to non-bank clients

a) By maturity and type

in thousands of EUR

	31 December 2014	31 December 2013
Current loans	161,202	199,318
Loan impairments	-59,430	-55,664
Interest impairments	-7,458	-5,407
Non-current loans	264,879	262,228
Loan impairments	-53,045	-46,368
Interest impairments	-4,960	-3,354
Receivables arising from guarantees	5,006	1,795
Impairments	-2,070	-1,201
Interest impairments	-68	-39
Total – gross	**431,087**	**463,341**
Total impairments	**-127,031**	**-112,033**
TOTAL – NET	**304,056**	**351,308**

As at 31 December 2014, the Bank's loans granted in foreign currency amounted to EUR 20 thousand (EUR 35 thousand as at 31 December 2013).

Current loans also include purchased current receivables totalling EUR 30 thousand (EUR 36 thousand as at 31 December 2013), for which a discount was accounted for in the amount of EUR 9 thousand (EUR 10 thousand as at 31 December 2013).

In 2014, the common average interest rate applied to current loans to the non-banking sector was 4.2 percent (3.8 percent in 2013), and for non-current loans 3.8 percent (3.4 percent in 2013).

b) By sector

in thousands of EUR

	31 December 2014	31 December 2013
Non-financial companies	303,799	331,024
State	6,787	1,251
Other financial organisations	5,637	10,882
Foreign entities	785	2,764
Non-profit providers of services to households	127	180
Households	113,952	117,240
Total – gross	**431,087**	**463,341**
Impairments	**-127,031**	**-112,033**
TOTAL – NET	**304,056**	**351,308**

c) Movement in impairments

in thousands of EUR

	31 December 2014	31 December 2013
As at 1 January	**112,033**	**67,955**
Additional impairments for principals	29,062	72,343
Reversed impairments for principals	-13,734	-11,081
Additional/reversed impairments for interest	3,969	5,696
Additional/reversed impairments for fees and commissions	9	34
Write-offs of loans to non-bank clients	-3,003	-866
Transfer to the Bank Assets Management Company	0	-22,048
Transfer to property acquired as recovery of receivables and equity investments	-1,305	0
AS AT 31 DECEMBER	**127,031**	**112,033**

2.5.7 Other financial assets

a) By type

in thousands of EUR

	31 December 2014	31 December 2013
Cheques	6	182
Fees and commissions receivables	365	344
Trade debtors	5	6
Other financial assets from other receivables	5,547	5,382
Total – gross	**5,923**	**5,914**
Impairments	-100	-69
TOTAL – NET	**5,823**	**5,845**

The largest share of other financial assets is taken by settlement receivables from business relationships and retail transactions, amounting to EUR 4,003 thousand (EUR 4,006 thousand as at 31 December 2013).

b) Movement in impairments

in thousands of EUR

	31 December 2014	31 December 2013
As at 1 January	**69**	**51**
Additional impairments for principals	57	42
Reversed impairments for principals	-27	-18
Additional/reversed impairments for interest	1	1
Transfer to the Bank Assets Management Company	0	-7
AS AT 31 DECEMBER	**100**	**69**

2.3.8 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 2014	**10,119**	**6,998**	**2,797**	**0**	**19,914**
Increase	0	433	55	8	496
Decrease	0	-571	-327	0	-898
As at 31 December 2014	**10,119**	**6,860**	**2,525**	**8**	**19,512**
Value adjustment as at 1 January 2014	**3,638**	**5,801**	**2,200**	**0**	**11,639**
Amortisation	347	818	138	0	1,303
Decrease	0	-566	-172	0	-738
As at 31 December 2014	**3,985**	**6,053**	**2,166**	**0**	**12,204**
Carrying amount as at 1 January 2014	**6,481**	**1,197**	**597**	**0**	**8,275**
Carrying amount as at 31 December 2014	**6,134**	**807**	**359**	**8**	**7,308**

Increase in the value of tangible fixed assets result 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 recorded under administrative expenses.

The cost of property, plant and equipment, which was finally depreciated and still used as at 31 December 2014 was EUR 6,138 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 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**

2.5.9 Intangible assets

in thousands of EUR

	Software	Intangible assets under construction	Other intangible assets	Total
Cost as at 1 January 2014	**9,981**	**37**	**22**	**10,040**
Transfer	0	0	0	0
Increase	444	0	0	444
Decrease	-2,420	-20	0	-2,440
As at 31 December 2014	**8,005**	**17**	**22**	**8,044**
Value adjustment as at 1 January 2014	**5,837**	**0**	**14**	**5,851**
Amortisation	598	0	2	600
Decrease	-2,419	0	0	-2,419
As at 31 December 2014	**4,016**	**0**	**16**	**4,032**
Carrying amount as at 1 January 2014	**4,144**	**37**	**8**	**4,189**
Carrying amount as at 31 December 2014	**3,989**	**17**	**6**	**4,012**

The Bank has no intangible assets pledged/mortgaged and is not constrained with disposal of intangible assets.

In 2014 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 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**

2.5.10 Net income tax assets and liabilities

The Bank recorded for 2014 non-current deferred tax assets in the context of the offset amount of non-current deferred tax liabilities.

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 tax losses, which would otherwise amount as at 31 December 2014 to EUR 9,683 thousand.

In 2014, deferred tax assets were included in the income statement, EUR 45 thousand, and in the capital, EUR 12 thousand, respectively.

As at 31 December 2014, deferred tax assets and liabilities were valued according to expected turnover and by taking into account a 17-percent tax rate applicable in the coming years.

in thousands of EUR

	31 December 2014	31 December 2013
Deferred tax liabilities	1,447	21
TOTAL	**1,447**	**21**

The Bank recorded under non-current deferred tax liabilities of EUR 1,447 thousand an offset value of non-current deferred tax assets of EUR 252 thousand, and non-current deferred tax liabilities of EUR 1,699 thousand (as at 31 December 2013: assets of EUR 591 thousand and liabilities of EUR 612 thousand).
Non-current deferred tax assets of EUR 252 thousand relate primarily to deferred tax assets from non-current provisions for employee benefits amounting to EUR 131 thousand and deferred tax assets from other provisions for lawsuits equalling EUR 113 thousand.
Non-current deferred tax liabilities of EUR 1,699 thousand relate to deferred liabilities from impairment of financial assets (securities available for sale).
Increase in non-current tax liabilities in 2014 results from valuation of available-for-sale securities.

2.5.11 Other assets

By type

in thousands of EUR

	31 December 2014	31 December 2013
Inventories	6,508	1,493
Receivables for advances made	69	122
Other receivables:	20	1
- receivables for prepayment of other taxes, contributions and duties	0	1
- receivables for overpaid tax on total assets	20	0
Capitalised deferred costs and accrued revenues less interest	600	177
Total – gross	**7,197**	**1,793**
Impairments	-397	-130
TOTAL – NET	**6,800**	**1,663**

The Bank’s inventories include property obtained for recovery of receivables in the amount of EUR 6,101 thousand (EUR 1,353 thousand as at 31 December 2013). In 2014, the Bank acquired the property as recovery of receivables in the amount of EUR 5,015 thousand. Revaluation of the property for recovery of receivables amounts in 2014 to EUR 267 thousand (Note 2.4.12 impairment of other assets).

2.5.12 Financial liabilities measured at amortised cost

a) By type

in thousands of EUR

	31 December 2014	31 December 2013
Deposits	616,398	634,506
Loans	30,662	75,981
Subordinated debt	9,900	9,020
Other financial liabilities	5,108	6,094
TOTAL	**662,068**	**725,601**

b) Deposits by client and maturity

in thousands of EUR

	31 December 2014	31 December 2013
Deposits due to non-bank clients	**616,398**	**634,506**
Sight deposits due to non-bank clients	358,613	331,894
Current deposits due to non-bank clients	127,215	158,086
Non-current deposits due to non-bank clients	130,570	144,526
TOTAL	**616,398**	**634,506**

Foreign-currency deposits from non-bank clients amounted to EUR 1,448 thousand, of which EUR 1,230 thousand current and EUR 218 thousand non-current (as at 31 December 2013: EUR 1,620 thousand, of which EUR 1,467 thousand current and EUR 153 thousand non-current).

In 2013, the average interest rate applied to current deposits of the non-banking sector was 1.2 percent (2.2 percent in 2013) and the rate applied to non-current deposits was 2.9 percent (4.0 percent in 2013).

c) Loans by client and maturity

in thousands of EUR

	31 December 2014	31 December 2013
Loans from banks and central banks		
Non-current loans from banks	20,661	30,313
Non-current loans from central banks	10,001	45,668
TOTAL NON-CURRENT LOANS	**30,662**	**75,981**

The Bank has no material property pledged for loans raised from banks.

The Bank has pledged its property as collateral in credit operations with the Bank of Slovenia for a non-current loan raised with the Central Bank from long-term refinancing operations.

The Bank is subjected to restrictions in borrowing. Upper borrowing limits shall be calculated based on balances of gross loans and net lending to non-financial private sector in the Euro-area. The banks that received a loan through targeted long-term refinancing operations (TLTRO) and whose net lending for the period of 1 May 2014 to 30 April 2016 was below the calculated reference amount will have to repay the received funds in full in September 2016.

d) Deposits and loans by sector

in thousands of EUR

	31 December 2014	31 December 2013
Deposits	**616,398**	**634,506**
Non-financial companies	24,852	31,637
State	18,702	24,420
Other financial organisations	3,206	7,759
Foreign entities	907	690
Non-profit providers of services to households	7,318	11,208
Households	561,413	558,792
Loans from banks and central banks	**30,662**	**75,981**
Banks	30,662	75,981
- Central Bank	10,001	45,668
- other banks	20,661	30,313
TOTAL	**647,060**	**710,487**

e) Subordinated debt

in thousands of EUR

	31 December 2014	31 December 2013
Deposits		
- Non-current deposits of Nova KBM	9,900	9,020
TOTAL	**9,900**	**9,020**

Subordinated debt is considered by the Bank in the calculation of additional equity or additional tier1 (Note on capital risks in Chapter 3).

In December 2013, the Bank issued subordinated liabilities of additional tier1 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 900 thousand.

f) Other financial liabilities

in thousands of EUR

	31 December 2014	31 December 2013
Fees and commissions payable	29	29
Liabilities from gross salaries to employees	589	673
Trade payables	142	601
Accrued (passive) costs less interest	2,697	2,460
Other financial liabilities	1,651	2,331
TOTAL	**5,108**	**6,094**

2.5.13 Provisions

a) By type

in thousands of EUR

	31 December 2014	31 December 2013
Provisions for pending lawsuits	730	504
Provisions for pensions and similar liabilities to employees	964	811
Provisions for off-balance sheet liabilities	2,938	4,082
Other provisions – National Housing Savings Scheme	38	52
TOTAL	**4,670**	**5,449**

The Bank recognises provisions for future liabilities to employees based on actuarial calculations and for pending lawsuits 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.

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 2014	**812**	**4,082**	**504**	**52**	**5,449**
Provisions made during the year	185	1,800	226	0	2,211
Provisions reversed during the year	-95	-2,943	0	-14	-3,052
Net provisions established/reversed through equity	71	0	0	0	71
Provisions used during the year	-9	0	0	0	-9
AS AT 31 DECEMBER 2014	**964**	**2,939**	**730**	**38**	**4,670**

in thousands of EUR

	Provisions for pensions and similar liabilities to employees	Provisions for off-balance sheet liabilities	Provisions for pending lawsuits	Other provisions – 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**

2.5.14 Other liabilities

in thousands of EUR

	31 December 2014	31 December 2013
Liabilities from received advance payments	25	17
Taxes and contributions payable	217	409
Accrued passive costs less interest	1,372	677
TOTAL	**1,614**	**1,103**

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.

2.5.15 Equity

in thousands of EUR

	31 December 2014	31 December 2013
Share capital – ordinary shares	41,382	41,382
Accumulated other comprehensive income	10,164	2,984
Retained gain/loss (including net gain/loss for the business year)	-1,243	-1,489
TOTAL EQUITY	**50,303**	**42,877**

a) Share capital

in thousands of EUR

	31 December 2014	31 December 2013
Ordinary shares		
- subscribed by banks	41,018	36,731
- subscribed by non-financial companies	364	4,651
TOTAL	**41,382**	**41,382**

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 there were 187,937 shares paid in, 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 in additionally.

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

The owners of the Bank are:
- Nova KBM holding a 99.12-percent stake, and
- Pošta Slovenije holding a 0.88-percent stake.

In 2014, the Bank did not purchase or sell treasury shares, and as at 31 December 2014 held no treasury shares.

b) Accumulated other comprehensive income

in thousands of EUR

	31 December 2014	31 December 2013
Revaluation surplus related to available-for-sale financial assets	**10,228**	**2,989**
Revaluation	12,323	3,601
Deferred tax	-2,095	-612
Other revaluation surplus	**-64**	**-5**
Revaluation – other	-77	-6
Deferred tax – other	13	1
TOTAL	**10,164**	**2,984**

In other revaluation surplus, the Bank recorded revaluation of provisions for severance pay in the amount of EUR -64 thousand (-5 thousand in 2013).

c) Retained gain/loss (including net gain/loss for the business year)

in thousands of EUR

	31 December 2014	31 December 2013
Retained gain/loss (including net gain/loss for the business year)	-1,243	-1,489
TOTAL	**-1,243**	**-1,489**

Retained loss of 2013 equalling EUR 1,489 thousand was reduced based on the Supervisory Board's decision by the 2014 profit of EUR 246 thousand and as at 31 December 2014 amounted to EUR 1,243 thousand.

2.5.16 Contingencies and commitments by type

in thousands of EUR

	Current	Non-current	Total
As at 31 December 2014			
Financial guarantees	2,902	2,468	5,370
Performance guarantees	18,920	9,170	28,090
Total guarantees	**21,822**	**11,638**	**33,460**
Granted but undrawn loans	353	129	482
Granted but undrawn overdraft facilities	23,690	446	24,136
Approved credit lines	8,077	0	8,077
Total assumed liabilities	**32,120**	**575**	**32,695**
TOTAL	**53,942**	**12,213**	**66,155**
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**

Data on contingencies and commitments are carried at remaining maturity.

The risk-bearing contingent liabilities amounted to EUR 66,155 thousand (EUR 72,045 thousand as at 31 December 2013). The Bank established special provisions for these liabilities totalling EUR 2,938 thousand (EUR 4,082 thousand as at 31 December 2013). Contingent liabilities do not include debtors under letters of credit in the amount of EUR 953 thousand (EUR 285 thousand in 2013). These liabilities are already covered by granted unused overdrafts or loans.

2.5.17 Fair value of financial assets and financial liabilities

in thousands of EUR

	31 December 2014		31 December 2013	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash, cash balances with the Central Bank and sight deposits with banks	76,851	76,851	59,882	59,882
Financial assets held for trading	282	282	236	236
Available-for-sale financial assets	198,376	198,376	195,527	195,527
Loans to banks	3	3	60,658	60,658
Loans to non-bank clients	304,056	303,946	351,308	350,754
Other financial assets	5,823	5,823	5,845	5,845
Held-to-maturity financial investments	116,591	118,147	87,468	87,052
Other assets	6,800	6,800	1,663	1,663
Financial liabilities				
Deposits due to non-bank clients	616,398	616,704	634,506	634,814
Loans from banks and central banks	30,662	30,662	75,981	75,981
Subordinated debt	9,900	9,900	9,020	9,020
Other financial liabilities	5,108	5,108	6,094	6,094
Other liabilities	1,614	1,614	1,103	1,103

The Table presents fair values by balance-sheet items.

The Bank measures fair value of financial assets and liabilities according to the following order: market values, the values calculated by the model taking into account market interest rates, and at cost.

Fair values of financial assets held for trading, available-for-sale and held-to-maturity (they are carried at amortised cost) that are listed on stock exchanges, are recorded at published prices (Bloomberg, Ljubljana Stock Exchange).

Assets and liabilities carried at amortised cost (loans to non-bank clients and deposits due to 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.

All other current assets and liabilities, likewise assets and liabilities the fair value of which cannot be reliably determined and which take into account subjective variables not available on the markets are measured at cost.

Valuation levels for financial assets at fair value

in thousands of EUR

	31 December 2014			31 December 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets held for trading	282	0	0	236	0	0
Available-for-sale financial assets	190,210	0	8,167	187,438	0	8,089
Debt financial instruments	188,526	0	7,956	186,524	0	7,957
Equity financial instruments	1,684	0	211	914	0	132

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 of financial assets available for sale in Item 2.5.3.

Debt financial instruments of EUR 7,956 thousand in the Level 3 result from the purchase of certificates on deposits of Nova KBM in 2013, of which a larger part (EUR 6,000 thousand) is due in January 2015 and the remaining part 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 classifies into Level 3.

Fair value for all instruments is determined at the end of 2014. The Bank did not carry out any one-off fair value measurements. There were no transitions between levels.

2.5.18 Related-party transactions

In the business year 2014, 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 deprive the Bank.

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

2.5.18.1 Bank's shareholders

in thousands of EUR

Statement of financial position	31 December 2014		31 December 2013	
	Nova KBM	Pošta Slovenije	Nova KBM	Pošta Slovenije
Assets	**11,258**	**1,815**	**56,539**	**1,998**
Available-for-sale financial assets	7,958	0	7,958	0
Loans and deposits granted	2,758	0	47,874	0
• sight deposits	2,755	0	1,671	0
• current loans	3	0	3	0
• non-current loans	0	0	46,200	0
Other financial assets	542	1,815	707	1,998
Liabilities	**10,135**	**2,831**	**9,297**	**4,391**
Loans and deposits raised	0	742	0	1,967
• sight deposits	0	742	0	1,967
Subordinated debt	9,900	0	9,020	0
Other financial liabilities	235	2,089	277	2,424

Income statement	31 December 2014		31 December 2013	
Revenue	**577**	**22,773**	**1,270**	**26,331**
• interest	441	0	827	11
• fees and commissions	63	22,773	59	26,320
• foreign exchange differences	70	0	39	0
• financial transactions	0	0	325	0
• other net operating income	3	0	20	0
Expenses	**-1,405**	**-23,453**	**-1,864**	**-26,911**
• interest	-880	0	-529	-265
• fees and commissions	-262	-22,418	-509	-25,609
• foreign exchange differences	-22	0	-91	0
• financial transactions	-16	0	-505	0
• other expenses	-225	-1,035	-230	-1,037

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 a period of 25 years. Under the contract, Pošta Slovenije provides services to 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 method of their provision, and other related issues are regulated by implementing contracts.

2.5.18.2 Members of the Financial Group

in thousands of EUR

Statement of financial position 31 December 2014	KBM-Leasing	KBM Leasing Hrvatska	KBM Invest
Assets	**0**	**734**	**825**
Granted loans	0	734	825
• current loans	0	734	4
• non-current loans	0	0	821
Income statement 1 January – 31 December 2014			
Revenue	**222**	**94**	**202**
• interest	211	92	154
• fees and commissions	11	2	1
• loans written off	0	0	47
Expenses	**0**	**0**	**85**
other operating expenses	0	0	85

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

2.5.18.3 Key management personnel

in thousands of EUR

	Key management personnel and their close family members		Other related parties (companies)	
Statement of financial position	**2014**	**2013**	**2014**	**2013**
Assets	**95**	**178**	**0**	**0**
Deposits and loans granted	95	178	0	0
- loans due to non-bank clients	95	178	0	0
Liabilities	**25**	**255**	**844**	**887**
Deposits and loans received	25	255	832	882
- deposits due to non-bank clients	25	255	832	882
Other liabilities	0	0	12	5
Off-balance sheet items	**16**	**18**	**36**	**41**
Income statement				
Revenue	**2**	**4**	**4**	**9**
- interest	2	4	0	9
- other income	0	0	4	0
Expenses	**-2**	**-9**	**-204**	**-257**
- interest	-2	-9	-10	-39
- other expenses	0	0	-194	-218
Key management personnel's short-term receipts	**699**	**676**	**0**	**0**

The key management personnel comprises of the Management Board, employees with special powers employed under management contracts and the Supervisory Board of the Bank. The data shown in the Table includes also transactions with their close family members. The Bank made collective impairments of 0.38 percent for retail loans. Among other related parties, the Bank disclosed transactions with companies where the key management personnel or their close family members are owners or key management personnel.

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

2.5.19 Loans approved to the members of the Management Board, Supervisory Board and other Bank's employees employed under management 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 contracts	
	2014	2013	2014	2013	2014	2013
Loans	124	9	3	0	575	376
Average interest rate on loans in %	4.16	5.05	7.95	0	2.84	3.28
Repayments	20	10	0	0	127	86

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

2.5.20 Receipts

in thousands of EUR

	2014	2013
Members of the Management Board, of whom:	**386**	**220**
Robert Senica - President of the Management Board between 15 January 2013 and 31 July 2014	68	112
Viktor Lenče – Member of the Management Board until 30 June 2014	167	108
Elica Vogrinc - Member of the Management Board between 6 January 2014 and 16 December 2014	109	0
Danica Ozvaldič, M.Sc. – Substitute Member of the Management Board since 1 August 2014	38	0
Mojca Mak - Substitute Member of the Management Board since 17 December 2014	4	0
Members of the Supervisory Board	**79**	**104**
Other employees under management contracts	**1,176**	**1,646**
TOTAL	**1,641**	**1,970**

Receipts of the Management Board members include salaries, fringe benefits, payments for the competition clause, and bonuses (in 2013, bonuses were not paid, but supplementary pension insurance premiums were paid).

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.

Remuneration of other Bank's employees employed under management contracts include salaries, performance bonuses, annual leave allowance and fringe benefits (in 2013 also supplementary pension insurance premiums).

All remuneration figures are indicated in gross amounts.

Receipts of the Management Board in 2014

in thousands of EUR

	Robert Senica	Viktor Lenče	Elica Vogrinc	Danica Ozvaldič	Mojca Mak	Total
Gross salaries	64	51	102	38	4	259
Annual leave allowance	1	0	1	0	0	2
Bonuses	0	17	0	0	0	17
Fringe benefits	3	2	6	0	0	11
Payment for the competition clause	0	97	0	0	0	97
Total	**68**	**167**	**109**	**38**	**4**	**386**

Receipts of the Management Board in 2013

in thousands of EUR

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

Receipts of the Supervisory Board members in 2014

in thousands of EUR

Name and surname	Session fees	Functions performance fees for members of the Supervisory Board	Total
Aleš Hauc	2	9	11
Miha Šlamberger	6	16	22
Boris Novak	5	15	20
Vinko Filipič	4	14	18
Igor Žibrik	1	7	8
Total	**18**	**61**	**79**

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 adopted by the Bank's General Meeting of Shareholders as at 20 July 2011, members of the Supervisory Board are entitled and paid basic functions performance fees as of July 2011 onward. In accordance with the resolution adopted by the Nova KBM's General Meeting of Shareholders, since 8 July 2014 onward, Mr Aleš Hauc and Mr Igor Žibrik have no longer received session fees and function performance fees.

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
Igor Žibrik	4	14	18
Total	**22**	**82**	**104**

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

in thousands of EUR

	31 December 2014	31 December 2013
BANK OF SLOVENIA (BS)	**48,985**	**36,204**
Settlement account	45,390	33,253
Current receivables	3,595	2,951
REPUBLIC OF SLOVENIA (RS)	**221,388**	**234,581**
Bonds	149,529	197,718
Treasury bills	45,844	10,893
Investments with a guarantee of the Republic of Slovenia by type:	25,826	25,747
DARS	4,741	4,748
SID	12,733	12,648
Probanka	937	940
Bank Assets Management Company	7,415	7,411
Other	189	223
TOTAL EXPOSURE TO THE BS AND THE RS	**270,373**	**270,785**
SHARE IN TOTAL ASSETS (in %)	**37.5**	**34.9**

2.5.22. Asset encumbrance

in thousands of EUR

Template A - Assets

		Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Reporting institution's assets**	24,602		695,500	
030	Equity instruments	0	0	2,177	2,177
040	Debt securities	24,602	24,937	288,471	289,692
120	Other assets	0		41,625	

Template B - Asset-backed collateral received

		Fair value of encumbered asset-backed collateral received or own debt securities issued	Fair value of encumbered asset-backed collateral received or own debt securities issued that can be encumbered
		010	040
130	**Asset-backed collateral received by the reporting institution**	0	0
150	Equity instruments	0	0
160	Debt securities	0	0
230	Other asset-backed collateral received	0	0
240	**Own debt securities issued other than own covered bonds or asset-backed securities (ABS)**	0	0

Template C - Encumbered assets/asset-backed collateral received and related liabilities

		Related liabilities, contingent liabilities or securities lent	Assets, asset-backed collateral received and own debt securities issued other than covered bonds and asset-backed securities being encumbered
		010	030
010	**Book value of selected financial commitments**	579,379	24,602
	Not applicable		

D - Information about the importance of encumbrance

- For the TLTRO loan of EUR 10,001 thousand raised, debt securities of EUR 10,001 thousand pledged,
- As a guarantee for deposits up to EUR 100 thousand totalling EUR 569,738 thousand, debt securities of EUR 14,601 thousand pledged.

2.5.23 Important after-balance sheet events

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

3. EXPOSURE TO DIFFERENT TYPES OF RISK

3.1 Capital and capital requirements

in thousands of EUR

Items	31 December 2014	Without transitional arrangements 31 December 2014	31 December 2013
Common equity tier1			
Common tier1 capital paid in	41,382	41,382	41,382
Retained earnings from previous years (loss in 2013)	-1,489	-1,489	-1,489
Accumulated other comprehensive income*	-13	967	0
(-) Intangible assets	-803	-4,012	-4,189
(-) Other deductible items (lag in posting)	0	0	-2
Total common tier1 capital	**39,077**	**36,848**	**35,702**
Additional tier1 capital			
Paid-in additional tier1 capital	9,000	9,000	9,000
(-) Intangible assets	-3,210	0	0
Total additional tier1 capital	**5,790**	**9,000**	**9,000**
TOTAL TIER1 CAPITAL	**44,867**	**45,848**	**44,702**
Additional capital	0	0	154
RS adjustment in relation to AFS financial assets – shares and stakes	0	0	154
TOTAL ADDITIONAL CAPITAL	**0**	**0**	**154**
TOTAL BANK's CAPITAL	**44,867**	**45,848**	**44,856**
Capital requirements			
Sum of capital requirements for credit risk	**24,989**	**24,989**	**30,177**

Central government units or central banks	0	0	0
Regional or local government units	47	47	25
Public sector entities	45	45	363
Institutions	416	416	612
Companies	9,709	9,709	13,219
Retail exposures	7,103	7,103	7,588
Unpaid exposures	6,256	6,256	4,421
Items associated with very high risks	25	25	2,759
Shareholders' equity	135	135	0
Other items	1,253	1,253	1,190
Capital requirements for market risk	**83**	**83**	**0**
Capital requirements for operational risk	**5,093**	**5,093**	**5,668**
TOTAL CAPITAL REQUIREMENTS	**30,165**	**30,165**	**35,845**
Achieved common tier1 capital ratio in %	**10.36**	**9.77**	**7.97**
Achieved tier1 capital ratio in %	**11.90**	**12.16**	**9.98**
Achieved capital adequacy ratio in %	**11.90**	**12.16**	**10.01**
Minimum common tier1 capital ratio in %	5.125	5.125	4.000
Minimum tier1 capital ratio in %	5.50	5.50	4.00
Minimum capital adequacy of the Bank in %	8.00	8.00	8.00
Surplus / deficit in common tier1 capital in %	5.24	4.65	3.97
Surplus / deficit in tier1 capital in %	6.40	6.66	5.98
Surplus / deficit in capital adequacy in %	3.90	4.16	2.01

*Without taking into account unrealised gains or losses from exposures to central government units classified in the AFS category.

Data for 2014 was calculated in accordance with the new Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV), while the data for 2013 was still calculated in accordance with the Bank of Slovenia's decision on the calculation of capital requirements for credit risk pursuant to the standardised approach for banks and savings banks.

Annex IV – capital disclosure

in thousands of EUR

	Capital and capital adequacy	31 December 2014
	Common tier1 capital: instruments and reserves	
1	Capital instruments and related paid-in capital surplus	41,382
	ordinary shares - subscribed by banks	41,018
	ordinary shares - subscribed by non-financial companies	364
2	Retained earnings (loss in 2013)	-1,489
3	Accumulated other comprehensive income (and other reserves) *	967
3a	Provisions for general banking risks	0
4	The amount of qualifying items referred to in Article 484(3) and the associated paid-in capital surplus, which is the subject to phasing out from common tier1 capital	0
5	Minority interests (the amount allowed in the consolidated common tier1 capital)	0
5a	Independently reviewed gains during the year less any foreseeable charge or dividends	0
6	**Common tier1 capital before regulatory adjustments**	**40,860**
	Common tier1 capital: regulatory adjustments	
7	Additional value adjustments (negative amount)	0
8	Intangible assets (less related tax liabilities) (negative amount)	-4,012
9	Empty set in the EU	0
10	Deferred tax assets relating to future earnings, other than those arising from temporary differences (less related tax liabilities, if the conditions laid down in Article 38(3) are met) (negative amount)	0
11	Revaluation surplus related to gains or losses in cash flow hedges	0
12	Negative amounts resulting from the calculation of expected amounts of loss	0
13	Any increase in shareholders' capital resulting from securitised assets (negative amount)	0
14	Gains or losses arising from liabilities valued at fair value as a result of changes in credit rating	0
15	Pension fund assets with defined benefits (negative amount)	0
16	Direct and indirect holdings of the institution in its own instruments of common tier1 capital (negative amount)	0
17	Direct, indirect and synthetic holdings in instruments of common tier1 capital of entities in the financial sector, where those entities have reciprocal cross-holdings in the institution designed with an aim to inflate artificially the institution's capital (negative amount)	0
18	Direct, indirect and synthetic institution's holdings in instruments of common tier1 capital of entities in the financial sector, where the institution has no significant investment in those entities (the amount exceeding the threshold of 10 % less acceptable short positions) (negative amount)	0
19	Direct, indirect and synthetic institution's holdings in instruments of common tier1 capital of entities in the financial sector, where the institution has a significant investment in those entities (the amount exceeding the threshold of 10 % less acceptable short positions) (negative amount)	0
20	Empty set in the EU	0
20a	Amount of exposure of the following items, which qualify for the risk weight of 1 250 %, when the institution selects a deduction alternative	0
20b	of which: qualified stakes outside the financial sector (negative amount)	0
20c	of which: securitisation positions (negative amount)	0
20d	of which: free renditions (negative amount)	
21	Deferred tax assets arising from temporary differences (the amount exceeding the threshold of 10 % less related tax liabilities, if the conditions laid down in Article 38(3) are met) (negative amount)	0
22	The amount exceeding the threshold of 15 % (negative amount)	0
23	of which: direct and indirect institution's holdings in instruments of common tier1 capital of entities in the financial sector, where the institution has a significant investment in those entities	0
24	Empty set in the EU	0
25	of which: deferred tax assets arising from temporary differences	0
25a	Loss for the financial year (negative amount)	0
25b	Predictable tax burdens related to common tier1 capital items (negative amount)	0
27	Qualified additional tier1 capital deductions in excess of the institution's additional tier1 capital (negative amount)	0
28	**Total regulatory adjustments in common tier1 capital**	**-4,012**
29	**Common tier1 capital**	**36,848**
	Additional tier1 capital: instruments	
30	Capital instruments and related paid-in capital surplus	9,000
31	of which: classified as capital in accordance with applicable accounting standards	0
32	of which: classified as liabilities in accordance with applicable accounting standards	
33	The amount of qualifying items referred to in Article 484(4) and related paid-in capital surplus, which is the subject to phasing out from additional tier1 capital	0
34	Qualified tier1 capital included in the consolidated additional tier1 capital (including minority interests, which are not included in the row 5) issued by subsidiaries and held by a third party	0
35	of which: instruments that are issued by subsidiaries and the subject to phasing out	0
36	**Additional tier1 capital before regulatory adjustments**	**9,000**
	Additional tier1: regulatory adjustments	
37	Direct and indirect holdings of the institution in its own instruments of additional tier1 capital (negative amount)	0

38	Direct, indirect and synthetic holdings in instruments of additional tier1 capital of entities in the financial sector, where those entities have reciprocal cross-holdings in the institution designed with an aim to inflate artificially the institution's capital (negative amount)	0
39	Direct, indirect and synthetic institution's holdings in instruments of additional tier1 capital of entities in the financial sector, where the institution has no significant investment in those entities (the amount exceeding the threshold of 10 % less acceptable short positions) (negative amount)	0
40	Direct, indirect and synthetic institution's holdings in instruments of additional tier1 capital of entities in the financial sector, where the institution has a significant investment in those entities (less acceptable short positions) (negative amount)	0
41	Empty set in the EU	0
42	Qualified additional capital deductions in excess of the institution's additional capital (negative amount)	0
43	**Total regulatory adjustments in additional tier1 capital**	**0**
44	**Additional tier1 capital**	**9,000**
45	**Tier1 capital (tier1 capital = common tier1 capital + additional tier1 capital)**	**45,848**
Additional capital: instruments and provisions		
46	Capital instruments and related paid-in capital surplus	0
47	The amount of qualifying items referred to in Article 484(5) and related paid-in capital surplus, which is the subject to phasing out from additional capital	0
48	Qualified capital instruments included in the consolidated additional capital (including minority interests and instruments of additional tier1 capital, which are not included in the row 5 or 34) issued by subsidiaries and held by a third party	0
49	of which: instruments that are issued by subsidiaries and the subject to phasing out	0
50	Adjustments due to credit risk	0
51	**Additional capital before regulatory adjustments**	**0**
Additional capital: regulatory adjustments		
52	Direct and indirect holdings of an institution in its own instruments of additional capital and subordinated debts (negative amount)	0
53	Holdings in instruments of additional capital and subordinated debts of entities in the financial sector, where those entities have reciprocal cross-holdings in the institution designed with an aim to inflate artificially the institution's equity (negative amount)	0
54	Direct and indirect holdings in instruments of additional equity and subordinate debts of entities in the financial sector, where the institution has no significant investment in those entities (the amount exceeding the threshold of 10 % less acceptable short positions) (negative amount)	0
55	Direct and indirect institution's holdings in instruments of additional capital and subordinated debt of entities in the financial sector, where the institution has a significant investment in those entities (less acceptable short positions) (negative amount)	0
56	Empty set in the EU	
57	**Total regulatory adjustments in additional capital**	
58	**Additional capital**	**0**
59	**Total capital (total capital = tier1 capital + additional capital)**	**45,848**
60	**Total risk adjusted assets**	**377,067**
Capital ratios and buffers		
61	Common tier1 capital (as a percent share of the total risk exposure amount)	9.77
62	Tier1 capital (as a percent share of the total risk exposure amount)	12.16
63	Total capital (as a percent share of the total risk exposure amount)	12.16
64	The requirement for an institution's own buffer (request for common tier1 capital in accordance with Article 92(1)(a), together with requirements for protective capital buffers and countercyclical buffers, systemic risk buffers and buffers for systemically important institutions, which are expressed as a percentage of the risk exposure amount)	0.00
65	of which: requirement for protective capital buffer	0.00
66	of which: requirement for countercyclical buffer	0.00
67	of which: requirement for systemic risk buffers	0.00
67a	of which: buffer for global systemically important institutions (hereinafter referred to as GSII) or other systemically important institutions (hereinafter referred to as OSII)	0.00
68	Common tier1 capital that can meet requirements for buffers (as a percent share of risk exposure amount)	0.00
69	[not relevant for EU legislation]	0.00
70	[not relevant for EU legislation]	0.00
71	[not relevant for EU legislation]	
Amounts below deduction thresholds (before risk weighing)		
72	Direct and indirect shares of capital of entities in the financial sector, where the institution has no significant investment in those entities (the amount below the threshold of 10 % less acceptable short positions)	1,684
73	Direct and indirect institution's holdings in instruments of common tier1 capital of entities in the financial sector, where the institution has a significant investment in those entities (the amount below the threshold of 10 % less acceptable short positions)	0
74	Empty set in the EU	
75	Deferred tax assets arising from temporary differences (the amount below the threshold of 10 % less related tax liabilities, if the conditions laid down in Article 38(3) are met)	0
Applicable restrictions on the inclusion of provisions into additional capital		
76	Adjustments due to the credit risk included in additional capital related to exposures subject to the standardised approach (before applying the upper limit)	0
77	Upper limit for the inclusion of adjustments due to credit risk into additional capital on the basis of standardised approach	0
78	Adjustments due to credit risk included in additional capital related to exposures subject to the standardised approach based on internal credit ratings (before applying the upper limit)	0

79	Upper limit for the inclusion of adjustments due to credit risk into additional capital on the basis of internal credit rating approach	0
Capital instruments that are subject to phasing out arrangements (only applicable between 1 January 2014 and 1 January 2022)		
80	Current upper limit for common tier1 capital instruments, which are the subject to phasing out arrangements	0
81	- The amount excluded from common tier1 capital due to the upper limit (exceeding the upper limit after purchases and maturities)	0
82	- Current upper limit for additional tier1 capital instruments, which are the subject to phasing out arrangements	0
83	- The amount excluded from additional tier1 capital due to the upper limit (exceeding the upper limit after purchases and maturities)	0
84	- Current upper limit for additional capital instruments, which are the subject to phasing out arrangements	0
85	- The amount excluded from additional capital due to the upper limit (exceeding the upper limit after purchases and maturities)	0

*Without taking into account unrealised gains or losses from exposures to central government units classified in AFS category.

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

According to the CRD IV Directive, pursuant to the transitional provisions on capital buffers, as of 2016, there will be a **protective capital buffer** introduced, which will gradually, every year additionally by 0.625 percent, increase a minimum common tier1 capital ratio, which results in the 2016-ratio of MIN 5.125 percent, 2017-ratio of MIN 5.750 percent, 2018-ratio of MIN 6.375 percent, and 2019-ratio of MIN 7.00 percent.

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 capital requirements 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 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, a 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 capital requirements for market risks in line with the legislation, without using internal models. Capital requirements for operational risks are calculated by the Bank according to the simple approach.

In 2014, the Bank complied with the requirements for capital adequacy. In accordance with the CRD IV Directive / CRR Regulation, the prescribed minimum common tier1 capital ratio is 4.0 percent, the minimum tier1 capital ratio is 5.5 percent and a minimum capital adequacy ratio is 8.00 percent.

The following hybrid instruments are included in the calculation of common tier1 capital as at 31 December 2014:

in thousands of EUR

	Currency	Maturity date	Interest rate	31 December 2014	31 December 2013
Deposits included in additional tier1 capital					
Nova KBM	EUR	no maturity	10.00%	9,000	9,000
TOTAL				**9,000**	**9,000**

Subordinated deposit holds the right to exchange for capital.

The deposit has no fixed maturity date and represents hybrid instruments by nature, which may be included in the calculation of the Bank's common tier1 capital. Depositor's receivables under contracts may not be withdrawn at the depositor's request and without a 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 converting a hybrid deposit into Bank's capital occurs when the common tier1 capital ratio falls to 5.125 percent.

The new CRR Regulation sets out that during the transitional period from 1 January 2014 to 31 December 2017, a certain percentage of an individual deductible item is subtracted from components of common tier1 capital (CET1) and of additional tier1 capital (AT1). Intangible fixed assets in their entirety are a deductible item from tier1 capital. A part is deducted from CET1, and the remaining part from AT1.

Applicable percent items to deduct **intangible fixed assets** from CET1:
(a) 20 % in the period of 1 January 2014 to 31 December 2014,
(b) 40 % in the period of 1 January 2015 to 31 December 2015,
(c) 60 % in the period of 1 January 2016 to 31 December 2016
(d) 80 % in the period of 1 January 2017 to 31 December 2017.

The Bank shall deduct the remaining amount from AT1.
When calculating capital, the Bank also takes into account unrealised profits or losses measured at fair value (surplus or deficit resulting from revaluation of AFS financial assets) and accumulated other comprehensive income, respectively.

1) Applicable percent items of unrealised profits, which the Bank has to **exclude from CET1 calculation**:
(a) 60 % in the period of 1 January 2015 to 31 December 2015
(b) 40 % in the period of 1 January 2016 to 31 December 2016
(c) 20 % in the period of 1 January 2017 to 31 December 2017.

In 2014, the Bank shall exclude them from CET1 entirely.

2) Applicable percent items of unrealised losses measured at fair value, which the Bank has to **take into account as a deductible item of CET1**:
(a) 20 % in the period of 1 January 2014 to 31 December 2014
(b) 40 % in the period of 1 January 2015 to 31 December 2015
(c) 60 % in the period of 1 January 2016 to 31 December 2016
(d) 80 % in the period of 1 January 2017 to 31 December 2017.

3) The Bank does not include in capital components unrealised gains or losses arising from exposures to central governments classified as AFS, until the Commission adopts regulations pursuant to the Regulation (EC) No. 1606/2002 aimed at replacing the international accounting standard 39.

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. 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 2014	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, other receivables from the Central Bank and sight deposits with banks	76,851	8.5	0	0.0	0.0
Property, plant and equipment	7,308	0.8	0	0.0	0.0
Financial assets held for trading	282	0.0	0	0.0	0.0
Available-for-sale financial assets	198,376	21.8	0	0.0	0.0
Held-to-maturity financial investments	116,591	12.8	0	0.0	0.0
Loans and receivables	443,813	48.8	127,131	97.7	28.6
Assumed liabilities	66,155	7.3	2,939	2.3	4.4
TOTAL	**909,376**	**100.0**	**130,070**	**100.0**	**14.3**

Exposure does not cover intangible assets in the amount of EUR 4,012 thousand and a discount of EUR 9,000.

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, other receivables from the Central Bank and sight deposits with banks	62,336	6.5	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	529,712	55.4	112,101	96.5	21.2
Assumed liabilities	72,045	7.5	4,082	3.5	5.7
TOTAL	**955,599**	**100.0**	**116,183**	**100.0**	**12.2**

Exposure does not cover intangible assets in the amount of EUR 4,189 thousand and a discount of EUR 10,000.

Distribution of exposure by industry

31 December 2014 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	198,793	21.9	83	0.1
Financial and insurance activities	140,452	15.4	5,389	4.1
Retail	113,992	12.5	2,226	1.7
Manufacturing	101,332	11.1	29,394	22.6
Wholesale and retail trade; repair of motor vehicles	79,294	8.7	21,018	16.2
Foreign legal entities	76,316	8.4	3	0.0
Construction	66,250	7.3	34,730	26.7
Real estate activities	27,841	3.1	12,017	9.2
Professional, scientific and technical activities	24,683	2.7	6,579	5.1
Other activities	20,144	2.2	2,867	2.2
Accommodation and food service activities	13,461	1.5	5,130	3.9

Agriculture, forestry and fishing	11,736	1.3	4,256	3.3
Water supply; sewerage, waste management and remediation activities	11,165	1.2	588	0.5
Transport and warehousing	9,631	1.1	1,647	1.3
Information and communication	7,203	0.8	2,246	1.7
Electricity, gas, steam and air conditioning supply	2,948	0.3	1,604	1.2
Human health and social work activities	2,591	0.3	192	0.1
Arts, entertainment and recreation	1,544	0.2	101	0.1
TOTAL	**909,376**	**100.0**	**130,070**	**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 over one-fourth 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 almost three-fourths are also made in these sectors. The Bank mitigates exposures in risky activities by limits – recommended exposure amounts by sector of activity.

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	5,268	4.5
Retail	114,919	12.0	3,097	2.7
Manufacturing	111,499	11.7	28,186	24.3
Wholesale and retail trade; repair of motor vehicles	85,005	8.9	15,628	13.5
Construction	70,669	7.4	31,562	27.2
Foreign legal entities	34,183	3.6	243	0.2
Professional, scientific and technical activities	32,011	3.3	7,121	6.1
Real estate activities	27,808	2.9	9,066	7.8
Accommodation and food service activities	16,534	1.7	5,115	4.4
Other activities	15,401	1.6	1,372	1.2
Water supply; sewerage, waste management and remediation activities	12,558	1.3	487	0.4
Agriculture, forestry and fishing	12,141	1.3	3,639	3.1
Information and communication	9,444	1.0	2,276	2.0
Transport and warehousing	8,260	0.9	700	0.6
Electricity, gas, steam and air conditioning supply	5,182	0.5	769	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	**955,599**	**100.0**	**116,183**	**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 2014		31 December 2013	
	Gross exposures	Impairments	Gross exposures	Impairments
Republic of Slovenia	75,865	0	64,241	0
Banks	78,175	0	121,757	0
Foreign legal entities	18,176	3	2,764	243
Non-bank clients	435,422	127,128	465,713	111,858
TOTAL	**607,638**	**127,131**	**654,475**	**112,101**

By credit rating groups for non-bank clients and foreign entities (excluding the Republic of Slovenia)

in thousands of EUR

	31 December 2014				31 December 2013			
	Gross exposures	Share (in %)	Impairments	Share (in %)	Gross exposures	Share (in %)	Impairments	Share (in %)
A	140,955	31.1	450	0.4	149,933	32.0	1,165	1.0
B	68,276	15.1	1,357	1.1	82,908	17.7	1,027	0.9
C	19,721	4.3	2,309	1.8	26,652	5.7	2,472	2.2
D	15,902	3.5	6,960	5.5	5,621	1.2	2,810	2.5
E	16,164	3.6	16,164	12.7	15,407	3.3	15,407	13.7
P	192,580	42.5	99,891	78.6	187,956	40.1	89,220	79.6
TOTAL	**453,598**	**100.0**	**127,131**	**100.0**	**468,477**	**100.0**	**112,101**	**100.0**

The table is divided into the individual rating category (P) and collective rating categories (A – E) without taking into account insurance.

The Bank individually reviews all individually significant assets, and if there is objective evidence of impairment, the Bank estimates the recoverable amount of the financial asset and impairs it individually.

At the end of 2014, the Bank had 226 clients individually estimated in total exposure value of EUR 192.6 million, which was at the level of 2013. For this exposure EUR 99.9 million of impairments were made as at 31 December 2014. The average share of coverage was 51.5 percent and increased compared to the previous year by 4 percent points.

In 2014, the structure of exposure by credit rating categories worsened, which means that the previous year's trend continued, mainly as a result of continued financial and economic crisis at home and abroad. The share of D Group increased from 1.2 percent to 3.5 percent due to the changed methodology for classification of clients with a delay of 90 days in D, and as a consequence, the share of C Group has decreased from 5.7 percent to 4.3 percent. The Bank is safeguarded against credit risks by establishing impairments, the share of which in total exposure amounted in 2014 to 28 percent and exceeds the figure for 2013 by 4.1 percent points.

Past due but not impaired receivables from non-bank clients by maturity, 2014

in thousands of EUR

31 December 2014		Past due but not impaired			
	Neither past due nor impaired	Total past due but not impaired	Up to 30 days	More than 30 days up to 90 days	Over 90 days
A	140,502	3	1	1	1
B	66,919	0	0	0	0
C	17,218	194	162	23	9
D	8,641	301	14	45	242
E	0	0	0	0	0
P	37,017	55,672	2,712	3,241	49,719
TOTAL	**270,297**	**56,170**	**2,889**	**3,310**	**49,971**

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, 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	More than 30 days 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**

Collateral value by type

in thousands of EUR

No.		Non-bank clients 31 December 2014	Non-bank clients 31 December 2014
1	**Collateral for individually impaired receivables**	**154,676**	**212,010**
	- property	129,965	165,244
	- equity securities	997	3,358
	- other	23,714	43,408
2	**Collateral for collectively impaired receivables**	**336,490**	**386,380**
	- property	222,801	238,638
	- equity securities	1,374	5,993
	- other	112,315	141,749
TOTAL (1+2)		**491,166**	**598,390**

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 spite of that, total property-backed collateral was in 2014 lower by 12.7 percent, primarily due to decrease in real estate prices in 2014.

The Bank held as at 31 December 2014 for individually impaired receivables a collateral in the amount of EUR 154.7 million, of which EUR 95.3 million were commercial mortgages, EUR 34.7 million were residential mortgages, EUR 7.4 million were irrevocable guarantees, and EUR 1 million were shares and stakes. Other collateral amounted to EUR 16.3 million, but they are not taken into account in the calculation of individual impairments.

Property evaluation

Valuation of property is governed by the methodology on evaluating the values of property, which follows the provisions of the CRR Regulation and the decisions adopted by the Bank of Slovenia, the rules of financial reporting, and the applicable international evaluation standards.

Estimates of the property values in accordance with international valuation standards are carried out by an independent property appraiser who has been appointed by the Slovenian Institute of Auditors or by the Ministry of Justice.

Before making business decisions and during the whole period of exposure, the Bank monitors the quality and value of property-backed collaterals. Monitoring is carried pout by acquiring new appraisals and by statistical methods.

Monitoring of values by using statistical methods, in the form of revaluating estimated values of property, is carried out by the Bank at least once a year in case of commercial property, and once in three years for residential property. In the event of significant changes in market conditions, the Bank monitors values of the property more frequently.

When assessing the value of simple residential property, the value of which does not exceed EUR 500 thousand, the Bank may use a generalised market value that is determined by using the methods of mass valuation as published by the Surveying and Mapping Authority of the Republic of Slovenia.

In accordance with the new methodology of the Nova KBM Group, the Bank carried out in 2014 a review and revaluation of property-backed collateral.

(c) Restrictions to exposure

	Allowed % of capital	Achieved %
Exposure to an entity	25.0	8.0
Exposure to institution	100.0	18.0

Without taking into account impairments, the maximum exposure to a company amounts to EUR 8,002 thousand. Exposure is secured by commercial property worth EUR 11,393 thousand. Taking into account the impairments and provisions, net exposure amounts to EUR 7,686 thousand. Maximum financial guarantee issued by the Bank is EUR 1,246 thousand, it is secured by commercial property in the amount of EUR 3,667 thousand. Taking into account provisions, net exposure amounts to EUR 1,197 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 conducted at the end of 2014 collection procedures for 366 high-risk investments in the amount of EUR 113.3 million. The average impairment was 70.5 percent.

In the period of January to December 2014, receivables from 89 corporate debtors amounting to EUR 41.48 million were transferred to the Judicial Recovery Department on the basis of decisions adopted by the Credit Committee. The Bank succeeded to collect EUR 3.7 million in all collection procedures with an effect on income statement in the amount of EUR 2.1 million.

Based on the decision No. 23–24 adopted at the 17th meeting of the Assets and Liabilities Management Committee as at 22 April 2014, the Management Board of the Bank adopted a decision on receivable write-offs in corporate clients in total amount of EUR 384 thousand.

The Bank set up relevant off-balance sheet records for receivables written-off.

In retail banking, the Bank conducted at the end of 2014 collection procedures for 815 high-risk investments against 748 debtors in the amount of EUR 1.62 million. Of these, 615 were personal accounts and 200 were consumer loans. The average impairment was 88.96 percent.
In 2014, 73 personal accounts and 66 consumer loans for 116 debtors totalling EUR 504 thousand were transferred to judicial recovery. In the same period, collection totalled EUR 208 thousand. A debt of 39 debtors totalling EUR 121 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.

Property repossessed as recovery of receivables in court proceedings

The state of property acquired as recovery of receivables as at 31 December 2014 was EUR 6.5 million.

In September 2014, the Bank took over the property – the residential building Divača with 61 residential units, including a covered parking space in the garage and 12 external parking spaces. The Bank met conditions for sale in November 2014.
In December, the Bank sold one apartment, the value of which was EUR 95,000.00 (without parking lots) and one parking lot in the garage in the amount of EUR 8,000.00.

In 2014, there were no other sales of the property repossessed as recovery of receivables in court proceedings.

Movement in overdue receivables

in thousands of EUR

Type of receivable and investment	As at 1 January 2014	%	Net increase/ decrease	Receivable write-offs	As at 31 December 2014	%
Loans to non-bank clients	**143,044**	30.87	30,127	-3,496	**169,675**	39.36
Other financial assets	**175**	2.96	238	-137	**276**	4.66
TOTAL	**143,219**		**30,365**	**-3,633**	**169,951**	

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**	

The Table contains overdue receivables with no regard to days of delay and default amount.
In 2014, the Bank wrote off the 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 2014		31 December 2013	
	Total	Overdue amount	Total	Overdue amount
Gross exposure	186,797	146,882	168,275	122,112
Impairments	112,576	96,918	93,563	74,152
NET EXPOSURE	**74,221**	**49,964**	**74,712**	**47,960**

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 2014	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	320,077	35.2	0	0.0	320,077	41.2	326,826
Exposure to regional or local government units	3,004	0.3	41	0.0	2,963	0.4	2,672
Exposure to public sector entities	485	0.1	9	0.0	476	0.1	7,972
Exposure to institutions	36,702	4.0	0	0.0	36,702	4.7	36,516
Exposure to companies	169,230	18.6	15,425	11.9	153,805	19.8	180,427
Retail exposure	148,670	16.3	1,937	1.5	146,733	18.9	147,800
Unpaid exposures	191,603	21.1	112,656	86.6	78,947	10.2	190,794
Exposures associated with very high risks	211	0.0	0	0.0	211	0.0	211
Shareholders' equity	1,684	0.2	0	0.0	1,684	0.2	1,621
Other items	37,710	4.1	2	0.0	37,708	4.8	36,309
TOTAL	**909,376**	**100.0**	**130,070**	**100.0**	**777,622**	**100.2**	**931,148**

Maximum exposure at the end of 2014 was to central government units and central banks with a share of 35.2 percent gross or 41.2 percent net. This exposure is followed by unpaid exposures, 21.1 percent gross and 10.2 percent net. The Bank established for them as many as 86.6 percent of total impairments and provisions. Unpaid exposure is an individual exposure where the debtor has defaulted on payment of the total exposure or any part thereof in excess of 2 percent of the amount drawn of this exposure or EUR 50,000, but not less than EUR 200, for more than 90 days. Share of impairments and provisions to companies is 11.9 percent.

Distribution of exposure by country

31 December 2014 State	Gross exposures (in thousands of EUR)	Share (in %)	Impairments and provisions (in thousands of EUR)	Share (in %)
Slovenia	832,436	91.5	130,067	100.0
Austria	35,498	3.9	0	0.0
France	17,525	1.9	0	0.0
Belgium	17,204	1.9	0	0.0
The Netherlands	5,303	0.6	0	0.0
Croatia	785	0.1	3	0.0
Germany	624	0.1	0	0.0
Poland	1	0.0	0	0.0
TOTAL	**909,376**	**100.0**	**130,070**	**100.0**

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

in thousands of EUR

31 December 2014 State	Exposure to central governments and central banks	Exposure to institutions	Exposure to companies	Other	Total
Slovenia	244,547	36,078	168,444	383,367	**832,436**
Austria	35,498	0	0	0	**35,498**
France	17,525	0	0	0	**17,525**
Belgium	17,204	0	0	0	**17,204**
The Netherlands	5,303	0	0	0	**5,303**
Croatia	0	0	785	0	**785**
Germany	0	624	0	0	**624**
Poland	0	0	1	0	**1**
TOTAL	**320,077**	**36,702**	**169,230**	**383,367**	**909,376**

Most of exposures are to Slovenia, 91.5 percent; it is followed by exposure to Austria with 3.9 percent.

3.3 Market risks

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

The Bank's portfolio structure indicates a conservative approach to trading in securities. The Bank allocates a minor portion of its securities to trading. The Bank calculates capital requirement for market risk in the context of capital requirements for credit risk, which complies with applicable regulations.

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 prices. 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.

In its Strategy and policy on trading, the Bank has established a specific structure of investment in securities, and its Portfolio Management Service has defined specific limits regarding individual types of investment in securities.

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

10-day VaR in 2014

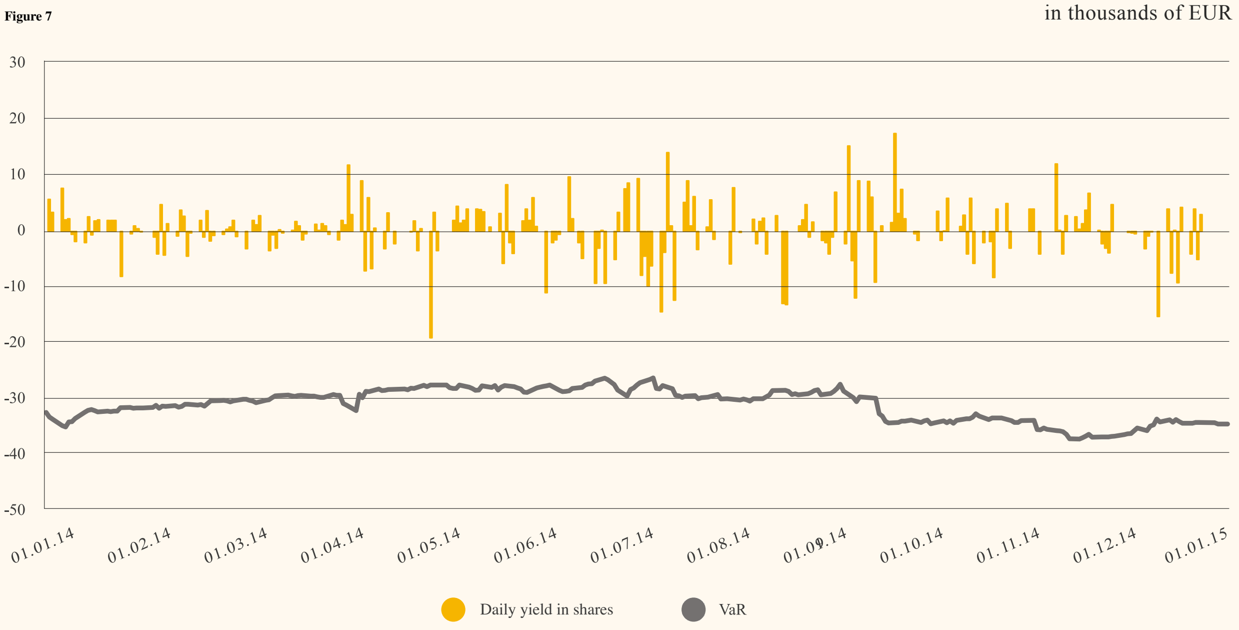
in thousands of EUR

	Highest	Lowest	Mean
VaR	37.81	26.72	31.62

The trading portfolio's 10-day VaR indicates that at the highest exposure to position risk in 2014, 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 37.81 thousand, which was the highest VaR in 2014.

In 2014, a slight movement was noticed in VaR, but there were no major deviations upwards or downwards. VaR was EUR 33.0 thousand at the beginning of the year, and after oscillations during the year, it stood at EUR 35.1 thousand on the last day in the year.

Figure 7



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 capital. The Bank owns the above securities for liquidity management purposes. In the reporting period, the Bank sold securities in the amount of EUR 36,736 thousand and compensated them almost entirely, namely in the amount of EUR 32,345 thousand.

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 from 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 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 national 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 2014						
Cash, cash balances with the Central Bank and sight deposits with banks	76,851	74,509	288	1,188	259	607
Financial assets held for trading	282	282	0	0	0	0
Available-for-sale financial assets	198,376	198,376	0	0	0	0
Loans	309,882	309,861	20	0	0	1
Held-to-maturity financial investments	116,591	116,591	0	0	0	0
Other assets*	18,120	18,120	0	0	0	0
Total assets: (1)	**720,102**	**717,739**	**308**	**1,188**	**259**	**608**
Financial liabilities measured at amortised cost	662,068	660,604	453	962	8	41
- deposits	616,398	614,950	447	953	8	40
- loans	30,662	30,662	0	0	0	0
- subordinated debt	9,900	9,900	0	0	0	0
- other financial liabilities	5,108	5,092	6	9	0	1
Other liabilities*	7,731	7,722	7	0	2	0
Total equity	50,303	50,303	0	0	0	0
Total liabilities and equity: (2)	**720,102**	**718,629**	**460**	**962**	**10**	**41**
Mismatch (1) less (2)	**0**	**(890)**	**(152)**	**226**	**249**	**567**
Off-balance sheet liabilities (B.1–B.4)	**66,155**	**65,686**	**336**	**0**	**133**	**0**
As at 31 December 2013						
Total assets: (1)	775,642	773,143	444	1,023	223	809
Total liabilities and equity: (2)	775,642	773,837	526	1,060	12	207
Mismatch (1) less (2)	**0**	**(694)**	**(82)**	**(37)**	**211**	**602**

* 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) amounted in 2014 to EUR 2 thousand, while in 2013, losses amounted to EUR 95 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 2014						
Cash, cash balances with the Central Bank and sight deposits with banks	76,851	76,851	0	0	0	0
Financial assets held for trading	282	282	0	0	0	0
Available-for-sale financial assets	198,376	140,236	58,140	58,140	0	0
Loans	309,882	308,473	1,409	1,409	0	0
Held-to-maturity financial investments	116,591	99,201	17,390	17,390	0	0
Other assets*	18,120	18,119	1	1	0	0
Total assets: (1)	**720,102**	**643,162**	**76,940**	**76,940**	**0**	**0**
Financial liabilities measured at amortised cost	662,068	660,765	1,303	599	639	65
- deposits	616,398	615,103	1,295	598	639	58
- loans	30,662	30,662	0	0	0	0
- subordinated debt	9,900	9,900	0	0	0	0
- other financial liabilities	5,108	5,100	8	1	0	7
Other liabilities*	7,731	7,709	22	5	0	17
Total equity	50,303	50,303	0	0	0	0
Total liabilities and equity: (2)	**720,102**	**718,777**	**1,325**	**604**	**639**	**82**
Mismatch (1) less (2)	**0**	**(75,615)**	**75,615**	**76,336**	**(639)**	**(82)**
Off-balance sheet liabilities (B.1–B.4)	66,155	66,146	9	2	7	0
As at 31 December 2013						
Total assets: (1)	775,642	741,458	34,184	34,184	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**

* 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 2014, 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

Balance sheet items	Total	Non-interest bearing	Interest bearing	Sight	Up to 1 month	Over 1 to 3 months	3 – 12 months	1 – 5 years	Over 5 years
As at 31 December 2014									
Cash, cash balances with the Central Bank and sight deposits with banks	76,851	23,509	53,342	0	53,342	0	0	0	0
Financial assets held for trading	282	282	0	0	0	0	0	0	0
Available-for-sale financial assets	198,376	1,894	196,482	0	6,001	0	0	147,494	42,987
Loans	309,882	66,339	243,543	0	139,078	55,112	29,850	17,244	2,259
- loans to banks	3	0	3	0	0	0	3	0	0
- loans to non-bank clients	304,056	60,516	243,540	0	139,078	55,112	29,847	17,244	2,259
- other financial assets	5,823	5,823	0	0	0	0	0	0	0
Held-to-maturity financial investments	116,591	0	116,591	0	0	11,090	38,610	62,150	4,741
Other assets*	18,120	18,120	0	0	0	0	0	0	0
Total assets: (1)	**720,102**	**110,144**	**609,958**	**0**	**198,421**	**66,202**	**68,460**	**226,888**	**49,987**
Financial liabilities measured at amortised cost	662,068	5,109	656,959	0	420,896	80,705	116,137	28,315	10,906
Other liabilities*	7,731	7,731	0	0	0	0	0	0	0
Total equity	50,303	50,303	0	0	0	0	0	0	0
Total liabilities and equity: (2)	**720,102**	**63,143**	**656,959**	**0**	**420,896**	**80,705**	**116,137**	**28,315**	**10,906**
Net exposure to interest rate risk (1) less (2)	**0**	**47,001**	**(47,001)**	**0**	**(222,475)**	**(14,503)**	**(47,677)**	**198,573**	**39,081**
Cumulative exposure	0	47,001	(877,191)	0	(222,475)	(236,978)	(284,655)	(86,082)	(47,001)
Interest rate risk as at 31 December 2013									
Total assets: (1)	775,642	112,310	663,332	0	224,784	72,480	120,485	189,628	55,955
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)

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

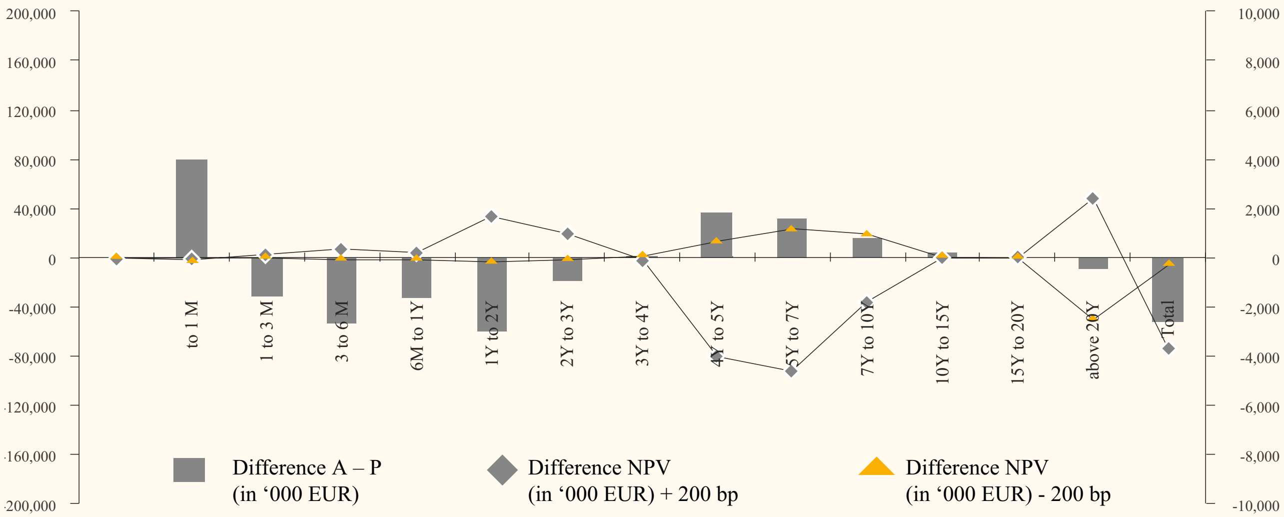
Parallel shift in the yield curve by 200 basis points and impact on equity and profit or loss

Assumptions considered by the Bank in calculations made on the parallel shift in the yield curve are as follows:

- When assessing 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 national currency,
- In line with its internal methodology, the Bank classifies sight deposits into time categories of up to 5 years,
- In calculations, the Bank does not take into account 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.

Figure 8:

Capital net present value (NPV) +/- 200 basis points as at 31 December 2014 (in thousands of EUR)



Impact on net present value of capital and profit or loss as at 31 December 2014 in thousands of EUR

in thousands of EUR

	+ 200 basis points	- 200 basis points
Bank's capital	44,867	44,867
20 % of capital	8,973	8,973
Capital net present value	-3,387	-171
% of capital	7.55 %	0.38 %
IMPACT ON ONE-YEAR PROFIT OR LOSS	**1,673**	**-1,673**

In 2014, the impact on net present value of capital at + 200 basis points was EUR -3,387 thousand, while the impact on profit or loss accounted for EUR +1,673 thousand. At –200 basis points, the net present value of capital decreased by EUR –171 thousand, while the impact on profit or loss was negative and stood at EUR –1,673 thousand.

Gaps by currency

The share of interest-sensitive assets in national currency is 99.68 percent and the respective share in liabilities is 99.78 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. 25.52 percent.

Reference interest rates	31 December 2014		
Structure (in %)	ASSETS	LIABILITIES	NET
EURIBOR	31.03	5.59	25.44
Other reference interest rates	2.43	0.11	2.32
Fixed interest rate	66.53	94.30	-27.77
TOTAL			

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**

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	Over 1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
As at 31 December 2014							
Cash, cash balances with the Central Bank and sight deposits with banks	76,851	76,851	0	0	0	0	0
Financial assets held for trading	282	0	282	0	0	0	0
Available-for-sale financial assets	198,376	0	198,376	0	0	0	0
Loans	309,882	64,582	11,803	9,803	64,782	92,484	66,428
Held-to-maturity financial investments	116,591	0	0	12,654	38,732	60,546	4,659
Other assets*	18,120	0	18,120	0	0	0	0
Total assets: (1)	**720,102**	**141,433**	**228,581**	**22,457**	**103,514**	**153,030**	**71,087**
Financial liabilities measured at amortised cost	662,068	358,614	66,845	67,419	113,120	44,450	11,620
Other liabilities*	7,731	604	4,825	67	902	1,081	252
Equity	50,303	0	246	0	0	0	50,057
Total liabilities and equity: (2)	**720,102**	**359,218**	**71,916**	**67,486**	**114,022**	**45,531**	**61,929**
Mismatch (1) less (2)	**0**	**(217,785)**	**156,665**	**(45,029)**	**(10,508)**	**107,499**	**9,158**
Off-balance sheet liabilities	66,155	909	19,269	5,148	28,618	8,352	3,859
As at 31 December 2013							
Total assets: (1)	775,642	120,375	240,216	25,521	140,370	170,611	78,549
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**

* 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	Over 1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
As at 31 December 2014							
Financial liabilities measured at amortised cost	683,599	358,614	66,900	67,694	114,309	49,357	26,725
Other liabilities	7,731	604	4,825	67	902	1,081	252
Total financial liabilities	**691,330**	**359,218**	**71,725**	**67,761**	**115,211**	**50,438**	**26,977**
Off-balance sheet liabilities	66,155	909	19,269	5,148	28,618	8,352	3,859
As at 31 December 2013							
Financial liabilities measured at amortised cost	754,338	331,895	74,942	83,481	139,259	93,455	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

In the scope of liquidity management strategy and policy, the Bank pursues the goal of minimising liquidity risk, this being 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 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.

The Bank has established the Methodology of Opportunity Interest rates, which is obtained from the parent bank. In accordance with this methodology, it is possible to define a contribution of each transaction to the result for each investment or resource based on the opportunity interest rate in such way that liquidity costs adjusted to the transaction type and maturity are taken into account.

In accordance with the effective regulations, the Bank calculates liquidity ratios on a 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), while the second-class liquidity ratio (the remaining maturity of 0 to 180 days is taken into consideration in the computation) is provided for information purposes only.

In 2014, the Bank, as always, complied with the requirements of the Bank of Slovenia regarding a minimum liquidity position. The 2014 liquidity ratio movement is shown in the Table below.

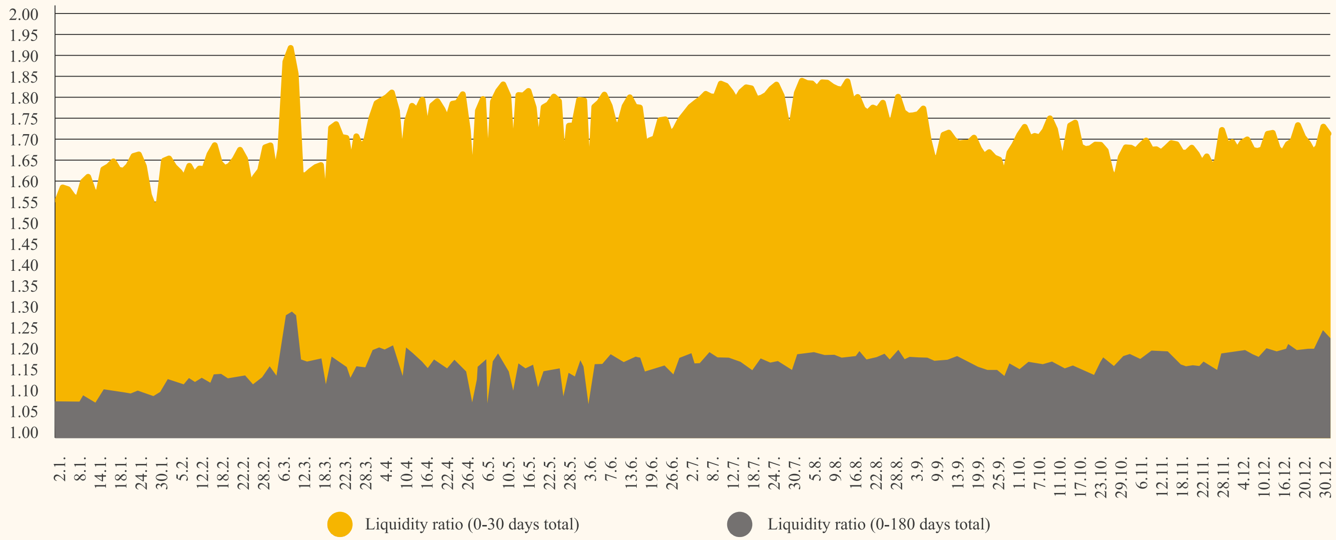
Achieved liquidity ratios

in %

	As at 31 December 2014	As at 31 December 2013	Average 2014	Average 2013
Up to 30 days' maturity	1.71	1.51	1.71	1.37
Up to 180 days' maturity	1.23	1.05	1.16	0.96

Figure 9:

Movement of liquidity ratios January – December (in percent)



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 are also monitored by the Risk Management Department.

In 2014, the Bank conducted a stress test concerning worsening of liquidity position – a liquidity shock using the Bank of Slovenia's scenario. The Bank recorded a liquidity deficit in the amount of EUR 5,600 thousand only in accordance with the second, more stringent scenario; however, in case of actual needs, this deficit could be covered through sales of liquid securities.

Liabilities as at 31 December 2014 with maturity period over 5 years

in thousands of EUR

	Maturity year	Principal
Deposits		
- hybrid deposits	no maturity	9,000
- other deposits	2020	250
	2021	317
	2022	143
	2023	259
	2024	41
	2025	0
TOTAL deposits		**10,010**
Loans raised	2020	486
	2021	486
	2022	133
	2023	133
	2024	133
	2025	133
	2026	0
	2027	0
TOTAL loans raised		**1,506**

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 trading strategy and policy comply 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.