

ANNUAL REPORT 2016

NOVA KBM GROUP AND NOVA KBM d.d.

TOGETHER WE ARE CLOSER.

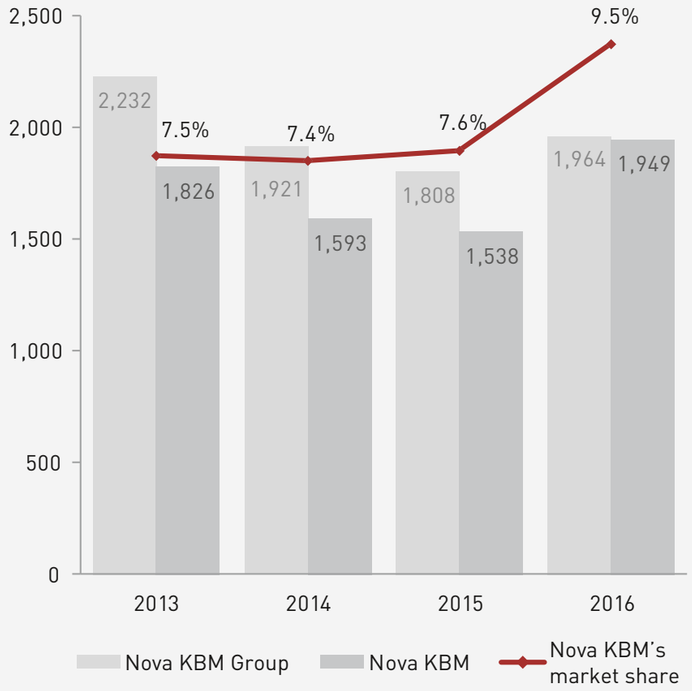
Nova KBM
READY FOR TOMORROW

ANNUAL REPORT 2016

Our year 2016 was marked by several strategic projects, with our merger with Poštna banka Slovenije, preparations for the merger with KBS banka, and a change in our ownership being the most important among them. In addition, we continued our efforts to improve our performance, placing customers at the heart of our business.

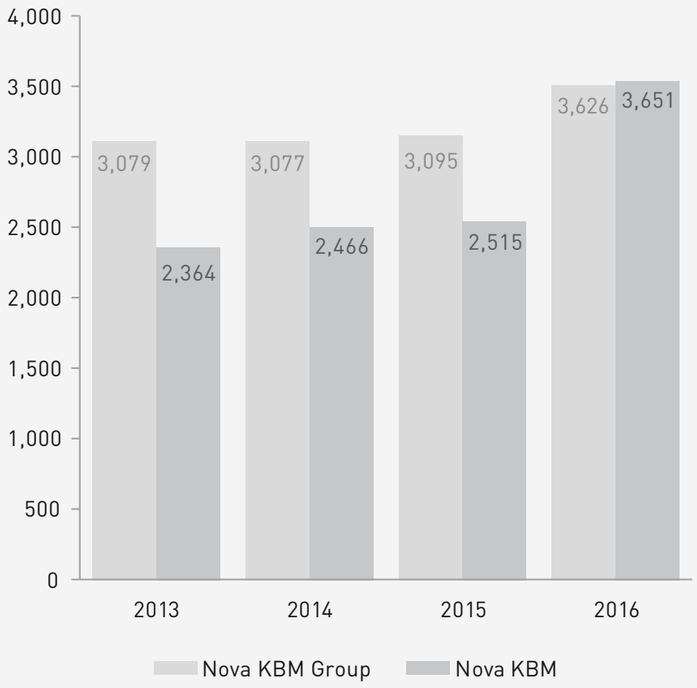
Now we are TOGETHER, under one roof. We are going forward enriched by the expertise of employees of three banks, the international experience of our new owners and new Management Board members, as well as an even more extensive branch network. It is a pleasure for us to see that the steps we have taken have brought us CLOSER to our customers and all our partners.

Loans and advances to customers (€mln)



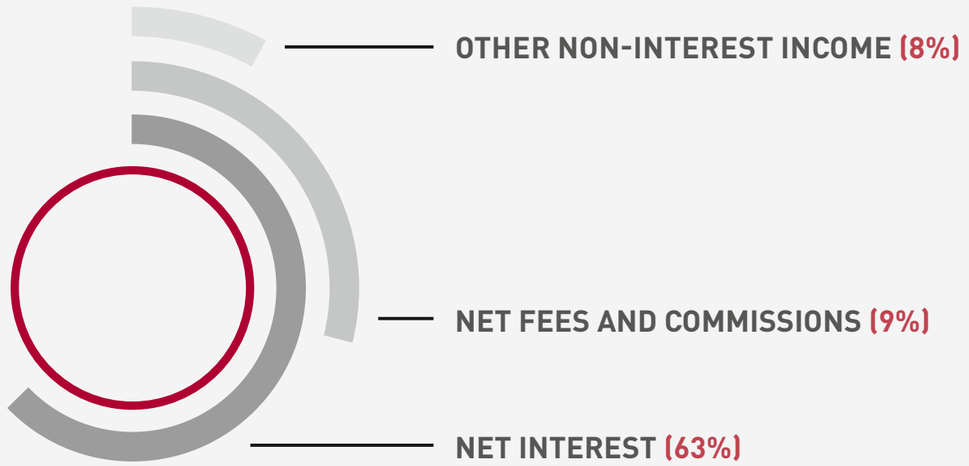
Nova KBM's market share in terms of loans and advances to customers saw an increase in 2016.

Customer deposits (€mln)



Customer deposits placed with the Nova KBM Group rose by 17% in 2016.

Structure of the 2016 income of the Nova KBM Group



Net interest income accounted for the largest proportion of the total income earned by the Nova KBM Group in 2016.

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BUSINESS REPORT

LIST OF ACRONYMS AND TERMS USED IN THE ANNUAL REPORT

ALCO	Nova KBM's Assets and Liabilities Committee
Apollo	Apollo Global Management, LLC, a global investment manager, its affiliates and funds managed by its affiliates
ATVP	Securities Market Agency of the Republic of Slovenia
BAMC	Bank Assets Management Company
BoS	Bank of Slovenia
BRRD	Bank Recovery and Resolution Directive
CIR	Cost-to-Income Ratio
CRD IV	Capital Requirements Directive
CRR	Capital Requirements Regulation
CRS	Common Reporting Standard
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EFQM	European Foundation for Quality Management
EU	European Union
EWS	Early Warning System
FATCA	Foreign Account Tax Compliance Act
FMA	Austrian Financial Market Authority (Österreichische Finanzmarktaufsicht)
FURS	Financial Administration of the Republic of Slovenia
ICAAP	Internal Capital Adequacy Assessment Process
IFRSs	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMAD	Institute of Macroeconomic Analysis and Development
IRB	Internal-Ratings Based (approach)

KDD	Slovene Central Securities Clearing Corporation
Management Board	Management Board of Nova KBM, unless explicitly stated otherwise or if the context indicates otherwise
MiFID (II)	Markets in Financial Instruments Directive
NPLs	Non-Performing Loans
OECD	Organisation for Economic Cooperation and Development
POS	Point-of-Sale
SEPA	Single Euro Payments Area
SID Banka	Slovene Export and Development Bank
SSH	Slovene Sovereign Holding
SSM	Single Supervisory Mechanism of the ECB
Supervisory Board	Supervisory Board of Nova KBM, unless explicitly stated otherwise or if the context indicates otherwise
VaR	Value-at-Risk
ZBan-1	Banking Act
ZBan-2	the amended Banking Act (effective from May 2015)
ZDavP-2	Tax Procedure Act
ZDDPO-2	Corporate Income Tax Act
ZDIJZ	Public Information Access Act
ZDR-1	Employment Relationship Act
ZFPPIPP – F	Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
ZGD-1	Companies Act
ZJN-2	Public Procurement Act
ZPPDFT	Prevention of Money Laundering and Terrorist Financing Act
ZTFI	Financial Instruments Market Act
ZUDDob	Financial Participation Act
ZUKSB	Act Regulating Measures of the Republic of Slovenia to Strengthen Bank Stability

Name of the parent bank:	Nova Kreditna banka Maribor d.d.
Short name of the parent bank:	Nova KBM d.d. (Nova KBM Plc)
Registered office:	Ulica Vita Kraigherja 4, 2000 Maribor
BIC (SWIFT):	KBMASI2X
Reuters Dealing Code:	KBMS
IBAN:	SI56 0100 0000 0400 014
Account No.:	01000-0000400014
Registration No.:	5860580
Entry No. in the register of companies kept by the Maribor District Court:	062/10924200
VAT ID No.:	SI94314527
Share capital:	€150,000,000

1. KEY PERFORMANCE INDICATORS

1.1 Key performance indicators of the Nova KBM Group[1]

ITEM DESCRIPTION	2016	2015	2014	Index
1	2	3	4	5 = 2/3
Statement of financial position (€000)	**31.12.**	**31.12.**	**31.12.**	
Balance sheet total	**4,823,450**	4,246,167	4,369,010	114
Total deposits from the non-banking sector measured at amortised cost	**3,626,247**	3,095,356	3,076,875	117
Total loans and advances to the non-banking sector measured at amortised cost	**1,963,849**	1,808,373	1,920,875	109
Financial assets	**1,762,581**	1,820,439	1,708,358	97
- of which available for sale	**1,584,514**	1,675,907	1,482,120	95
- of which held to maturity	**90,216**	129,548	206,540	70
Total equity	**683,361**	623,073	616,357	110
Total impairments and provisions	**597,815**	748,186	754,972	80
Off-balance-sheet items	**722,610**	670,722	718,120	108
Income statement (€000)	**1.1. – 31.12.**	**1.1. – 31.12.**	**1.1. – 31.12.**	
Net interest income	**92,300**	98,144	110,726	94
Net non-interest income (including profit or loss before tax from discontinued operations)	**54,420**	64,158	55,996	85
- of which net fee and commission income	**42,431**	54,477	55,959	78
Staff, general and administrative costs	**(97,686)**	(84,752)	(89,146)	115
Depreciation and amortisation	**(11,863)**	(12,663)	(14,462)	94
Net impairments and provisions	**(10,501)**	(39,138)	(44,514)	27
Profit before tax from continuing and discontinued operations	**26,670**	25,749	18,600	104
Income tax on continuing and discontinued operations	**3,805**	(8,789)	4,681	
Net profit	**30,475**	16,960	23,281	180
Statement of comprehensive income (€000)	**1.1. – 31.12.**	**1.1. – 31.12.**	**1.1. – 31.12.**	
Other comprehensive income/(loss) before tax	**5,032**	(12,233)	40,255	
Income tax related to other comprehensive income	**(1,153)**	2,169	(7,047)	
	31.12.	**31.12.**	**31.12.**	
Number of employees	**1,512**	**1,591**	**1,751**	**95**
Shares				
Number of shareholders	**1**	1	1	100
Number of shares	**10,000,000**	10,000,000	10,000,000	100
Accountable par value of one share (€)	**15.00**	15.00	15.00	
Book value per share (€)	**68.05**	62.00	61.34	
Ratios (%)				
a) Equity				
- total capital adequacy ratio	**23.98**	25.13	23.30	
- Tier 1 capital ratio	**23.98**	25.13	23.30	
- Common Equity Tier 1 capital ratio	**23.98**	25.13	23.30	
b) Asset quality				
- impairments of financial assets measured at amortised cost and provisions for commitments/classified on- and off-balance-sheet items	**13.64**	20.55	19.35	
- risk premium	**0.32**	2.45	2.71	
- net NPLs/net loan portfolio	**12.76**	17.01	23.47	
- loan impairments/NPLs	**66.91**	68.20	59.12	
c) Profitability				
- interest margin	**2.04**	2.29	2.38	
- non-interest margin	**1.20**	1.50	1.21	
- margin of financial intermediation	**3.24**	3.79	3.59	
- ROAA before tax	**0.59**	0.60	0.40	
- ROAA after tax	**0.67**	0.40	0.50	
- ROAE before tax	**3.98**	4.11	3.07	
- ROAE after tax	**4.55**	2.70	3.85	
d) Operating costs				
- operating costs/average total assets	**2.42**	2.27	2.23	
- cost-to-income ratio (CIR)	**74.67**	60.02	62.14	
- operating costs (excluding extraordinary items)/income (CIR 2)	**70.80**	57.51	59.46	
e) Net loans and advances to customers/customer deposits (net LTD ratio)	**54.16**	58.42	62.43	
f) Gross loans and advances to customers/customer deposits (gross LTD ratio)	**67.51**	78.47	82.54	

1 All references in this Annual Report to the 'Nova KBM Group' relate to Nova KBM d.d. and its subsidiaries. The 2016 results of the Nova KBM Group presented in this table include the results of KBS banka for the period from 1 July 2016 to 31 December 2016.

1.2 Key performance indicators of the Nova KBM Group[2]

ITEM DESCRIPTION	2016	2015	2014	Index
1	2	3	4	5 = 2/3
Statement of financial position (€000)	**31.12.**	**31.12.**	**31.12.**	
Balance sheet total	**4,267,803**	4,246,167	4,369,010	101
Total deposits from the non-banking sector measured at amortised cost	**3,203,550**	3,095,356	3,076,875	103
Total loans and advances to the non-banking sector measured at amortised cost	**1,749,063**	1,808,373	1,920,875	97
Financial assets	**1,685,409**	1,820,439	1,708,358	93
- of which available for sale	**1,574,858**	1,675,907	1,482,120	94
- of which held to maturity	**90,216**	129,548	206,540	70
Total equity	**632,647**	623,073	616,357	102
Total impairments and provisions	**550,688**	748,186	754,972	74
Off-balance-sheet items	**663,990**	670,722	718,120	99
Income statement (€000)	**1.1. – 31.12.**	**1.1. – 31.12.**	**1.1. – 31.12.**	
Net interest income	**89,206**	98,144	110,726	91
Net non-interest income (including profit or loss before tax from discontinued operations)	**47,121**	64,158	55,996	73
- of which net fee and commission income	**39,825**	54,477	55,959	73
Staff, general and administrative costs	**(89,976)**	(84,752)	(89,146)	106
Depreciation and amortisation	**(11,322)**	(12,663)	(14,462)	89
Net impairments and provisions	**(16,141)**	(39,138)	(44,514)	41
Profit before tax from continuing and discontinued operations	**18,888**	25,749	18,600	73
Income tax on continuing and discontinued operations	**3,612**	(8,789)	4,681	
Net profit	**22,500**	16,960	23,281	133
Statement of comprehensive income (€000)	**1.1. – 31.12.**	**1.1. – 31.12.**	**1.1. – 31.12.**	
Other comprehensive income/(loss) before tax	**5,253**	(12,233)	40,255	
Income tax related to other comprehensive income	**(1,174)**	2,169	(7,047)	
	31.12.	**31.12.**	**31.12.**	
Number of employees	**1,294**	**1,591**	**1,751**	**81**
Shares				
Number of shareholders	**1**	1	1	100
Number of shares	**10,000,000**	10,000,000	10,000,000	100
Accountable par value of one share (€)	**15.00**	15.00	15.00	
Book value per share (€)	**62.98**	62.00	61.34	
Ratios (%)				
a) Equity				
- total capital adequacy ratio	**25.01**	25.13	23.30	
- Tier 1 capital ratio	**25.01**	25.13	23.30	
- Common Equity Tier 1 capital ratio	**25.01**	25.13	23.30	
b) Asset quality				
- impairments of financial assets measured at amortised cost and provisions for commitments/classified on- and off-balance-sheet items	**14.63**	20.55	19.35	
- risk premium	**0.80**	2.45	2.71	
- net NPLs/net loan portfolio	**12.54**	17.01	23.47	
- loan impairments/NPLs	**67.77**	68.20	59.12	
c) Profitability				
- interest margin	**2.10**	2.29	2.38	
- non-interest margin	**1.11**	1.50	1.21	
- margin of financial intermediation	**3.22**	3.79	3.59	
- ROAA before tax	**0.45**	0.60	0.40	
- ROAA after tax	**0.53**	0.40	0.50	
- ROAE before tax	**2.92**	4.11	3.07	
- ROAE after tax	**3.48**	2.70	3.85	
d) Operating costs				
- operating costs/average total assets	**2.39**	2.27	2.23	
- cost-to-income ratio (CIR)	**74.31**	60.02	62.14	
- operating costs (excluding extraordinary items)/income (CIR 2)	**70.15**	57.51	59.46	
e) Net loans and advances to customers/customer deposits (net LTD ratio)	**54.60**	58.42	62.43	
f) Gross loans and advances to customers/customer deposits (gross LTD ratio)	**68.29**	78.47	82.54	

2 This table presents the results of the Nova KBM Group for 2016 (as well as 2015 and 2014) without taking into account the results of KBS banka.

1.3 Key performance indicators of Nova KBM[3]

ITEM DESCRIPTION	2016	2015	2014	Index
1	2	3	4	5 = 2/3
Statement of financial position (€000)	**31.12.**	**31.12.**	**31.12.**	
Balance sheet total	**4,831,767**	3,563,355	3,608,215	136
Total deposits from the non-banking sector measured at amortised cost	**3,650,858**	2,514,527	2,466,097	145
- of which from legal and other entities that carry out economic activity	**929,375**	626,978	590,033	148
- of which from households	**2,721,483**	1,887,549	1,876,064	144
Total loans and advances to the non-banking sector measured at amortised cost	**1,948,737**	1,538,283	1,593,294	127
- of which to legal and other entities that carry out economic activity	**905,652**	766,328	830,681	118
- of which to households	**1,043,085**	771,955	762,613	135
Financial assets	**1,759,275**	1,484,391	1,383,207	119
- of which available for sale	**1,582,095**	1,442,288	1,275,213	110
- of which held to maturity	**90,216**	28,566	89,950	316
Total equity	**670,581**	606,729	580,347	111
Total impairments and provisions	**541,980**	526,307	525,531	103
Off-balance-sheet items	**722,761**	605,487	640,600	119
Income statement (€000)	**1.1. – 31.12.**	**1.1. – 31.12.**	**1.1. – 31.12.**	
Net interest income	**90,728**	79,101	93,591	115
Net non-interest income (including profit or loss before tax from discontinued operations)	**55,281**	51,785	54,364	107
- of which net fee and commission income	**37,885**	40,536	42,122	93
Staff, general and administrative costs	**(92,067)**	(63,157)	(63,179)	146
Depreciation and amortisation	**(10,409)**	(9,504)	(10,866)	110
Net impairments and provisions	**(14,465)**	(15,974)	(43,079)	91
Profit before tax from continuing and discontinued operations	**29,068**	42,251	30,831	69
Income tax on continuing and discontinued operations	**3,936**	(7,816)	5,085	
Net profit	**33,004**	34,435	35,916	96
Statement of comprehensive income (€000)	**1.1. – 31.12.**	**1.1. – 31.12.**	**1.1. – 31.12.**	
Other comprehensive income/(loss) before tax	**1,562**	(9,801)	32,311	39
Income tax related to other comprehensive income	**(1,135)**	1,741	(5,592)	
	31.12.	**31.12.**	**31.12.**	
Number of employees	**1,464**	**1,056**	**1,124**	**139**
Shares				
Number of shareholders	**1**	1	1	100
Number of shares	**10,000,000**	10,000,000	10,000,000	100
Accountable par value of one share (€)	**15.00**	15.00	15.00	
Book value per share (€)	**67.06**	60.67	58.03	
Ratios (%)				
a) Equity				
- total capital adequacy ratio	**23.26**	28.07	25.75	
- Tier 1 capital ratio	**23.26**	28.07	25.75	
- Common Equity Tier 1 capital ratio	**23.26**	28.07	25.75	
b) Asset quality				
- impairments of financial assets measured at amortised cost and provisions for commitments/classified on- and off-balance-sheet items	**12.72**	18.03	17.13	
- risk premium	**0.42**	1.31	2.26	
- net NPLs/net loan portfolio	**12.44**	15.85	22.42	
- loan impairments/NPLs	**65.94**	65.23	54.59	
c) Profitability				
- interest margin	**2.01**	2.22	2.48	
- non-interest margin	**1.22**	1.45	1.44	
- margin of financial intermediation	**3.23**	3.67	3.92	
- ROAA before tax	**0.64**	1.18	0.82	
- ROAA after tax	**0.73**	0.97	0.95	
- ROAE before tax	**4.41**	7.06	5.57	
- ROAE after tax	**5.01**	5.76	6.49	
d) Operating costs				
- operating costs/average total assets	**2.27**	2.04	1.96	
- cost-to-income ratio (CIR)	**70.18**	55.51	50.05	
- operating costs (excluding extraordinary items)/income (CIR 2)	**66.87**	54.07	48.21	
e) Net loans and advances to customers/customer deposits (net LTD ratio)	**53.38**	61.18	64.61	
f) Gross loans and advances to customers/customer deposits (gross LTD ratio)	**65.67**	78.13	81.31	
g) Liquidity				
- liquid assets/current financial liabilities to the non-banking sector measured at amortised cost	**68.93**	74.62	99.13	
- liquid assets/average total assets	**44.98**	35.22	42.62	

3 All references in this Annual Report to 'Nova KBM' relate to Nova KBM d.d. (Nova KBM Plc). The 2016 results of Nova KBM include the results of PBS for the period from 1 January 2016 to 31 December 2016 and the results of KBS banka for the period from 1 July 2016 to 31 December 2016.

WORKING TOGETHER TOWARDS CUSTOMER EXCELLENCE

From strict adherence to the commitments made to the European Commission, through consistent implementation of our restructuring programme and consolidation of the Nova KBM Group, to the restoration of sustainable profitability.

The extensive work we have done provides a strong foundation for accomplishing the ambitious objective of our new owners – to make Nova KBM the leading bank in Slovenia. Developing EXCELLENT services for our valuable customers will remain at the forefront of our endeavours.

2. STATEMENT BY THE MANAGEMENT BOARD

Dear Sirs,
The year 2016 was a landmark year in the history of Nova KBM and its group. On 21 April, the government of the Republic of Slovenia sold its 100% shareholding in Nova KBM to Biser Bidco S.à r.l., a company set up jointly by Apollo, a global investment manager, and the EBRD, thus giving additional momentum to the process of Nova KBM's restructuring and transformation. The results of this process have been reflected not only in Nova KBM's operations and development activities, but also in positive changes in its corporate culture.

Both Nova KBM and the Nova KBM Group ended the financial year 2016 with a profit. The implementation of the adopted restructuring programme continued throughout last year, along with the actions taken with the aim of consolidating Nova KBM's position in the Slovene financial market. To make this happen, Nova KBM merged with Poštna banka Slovenije (PBS), its wholly-owned subsidiary, on 1 September, fully integrating PBS's operations into its own, followed by the merger with KBS banka, which officially took place on 3 January 2017. Today, Nova KBM is the bank with the largest and most accessible branch network of any bank in Slovenia, comprising 70 branch offices, in addition to more than 500 post offices where certain banking services of Nova KBM may also be provided.

Nova KBM's corporate governance structure was enhanced last year through the appointment to the Management Board of three senior executives with vast international experience. From the date of their appointment by the Supervisory Board until taking up their respective roles on the Management Board at the beginning of 2017 when they received the necessary regulatory approvals, the appointed executives acted as authorised representatives of Nova KBM. While the Management Board had two members in 2016, this was extended to four members at the beginning of 2017, and then to five with effect from 1 March 2017 when John Denhof took over as the President of the Management Board, replacing Robert Senica, who became his deputy.

The favourable performance and positive developments reported for last year, the details of which are set out on the following pages, are the result of our well-thought-out planning process, the consistent accomplishment of set business objectives, and the devoted work of our staff, both at Nova KBM and the Nova KBM Group as a whole. Moreover, they indicate increased confidence of our customers, business partners and other stakeholders.

All this represents an encouraging foundation for the further transformation of Nova KBM into the leading Slovene bank, as well as its sustainable growth and development.


Photo: Aljoša Rebolj, Studio Bomba

Summary of our results for 2016
The 2016 results presented in this report include the relevant results of both banks that we have integrated into Nova KBM over the past few months. PBS, a former member of the Nova KBM Group and a wholly-owned subsidiary of Nova KBM, was integrated into our operations on 1 September 2016. However, given that the accounting date of this acquisition was set as 31 December 2015, its results for the full year 2016 are included in Nova KBM's results. KBS banka's results included in the 2016 results of Nova KBM cover the period from 1 July 2016 to 31 December 2016. While the accounting date of the merger between Nova KBM and KBS banka was set as 30 June 2016, the latter remained a standalone bank run independently of Nova KBM until 3 January 2017.

For the financial year 2016, Nova KBM posted a net profit of €33 million, while the net profit of the Nova KBM Group hit €30.47 million. The after-tax return on equity reported by Nova KBM and the Nova KBM Group for the end of 2016 stood at 5.01% and 4.55%, respectively. The operations of Nova KBM and the Nova KBM Group were underpinned by their strong liquidity and capital positions, with their total capital adequacy ratio reaching 23.26% and 23.98%, respectively.

Apart from the work related to the strategic acquisitions undertaken by Nova KBM, efforts continued to streamline the operations of the Nova KBM Group across all of its business lines, and to make them more cost-efficient.

Our performance continued to be monitored and assessed by several rating agencies, with Moody's and Fitch Ratings both upgrading Nova KBM's credit rating last year, reflecting its improved financial strength, its adequate capital buffer, and its robust liquidity position. At the end 2016, Nova KBM's credit rating assigned to it by Moody's and Fitch Ratings stood at 'B2' (positive outlook) and 'BB-' (stable outlook), respectively.

Considerable attention was devoted last year to the proper management of risks Nova KBM is exposed to in its operations, separately by type of risk, individual organisational units, business lines, and employees. The management of NPLs was also given close attention, resulting in a 3.41 percentage points decline in the total volume of NPLs on the books of Nova KBM, while the Nova KBM Group's portfolio of NPLs declined by 4.25 percentage points.

Operations with customers

The merger with KBS banka and PBS helped us further consolidate and increase our market share in key segments in both corporate and retail banking. In terms of total assets, Nova KBM's market share rose from 11.5% of the Slovene banking system at the end of 2016 to 13% after merging with KBS banka. We are particularly proud of the growth achieved in household deposits and loans. The increase in household loans can, among other factors, be ascribed to our improved lending conditions. Aside from overhauling our loan offering for retail customers, we provided this customer segment with a number of new and upgraded products and services, mainly in the area of contemporary distribution channels (upgrade of our website, new product packages for contemporary users of banking services, etc). The efforts we made to take our service to a whole new level were properly recognised by our customers. According to several customer satisfaction surveys conducted last year, Nova KBM was once again ranked among the most likable banks in Slovenia.

In the area of corporate banking, we continued to pursue our objective of being a vital and reliable partner to Slovene companies. Compared to 2015, we managed to increase the level of corporate deposits placed with Nova KBM, while the volume of corporate lending remained roughly the same, as did our market share in both segments. We further developed our corporate customer custody system and strengthened relationships with corporate customers through a direct, personal approach.

The numerous on-site customer visits we undertook last year, as well as the hosting of several business events and conferences, helped us not only to better understand the requirements of our customers, but also to strengthen relationships with them.

Strengthening our role in the deleveraging and recovery of Slovenia's economy remained one of our priorities in 2016. Over the last two years, in addition to actively monitoring the operations of our customers, we have participated as an important member in several bank syndicates and projects that have been set up to ensure short- and long-term restructuring of companies. Our activities in this area are focused mainly on helping companies that are believed to have a healthy operating basis and good business prospects to ensure their repayment capabilities and future operations.

Nova KBM has embarked on a path towards becoming the leading bank in Slovenia

Under the auspices of our new owners, we started taking steps towards making Nova KBM the leading bank in Slovenia. Achieving excellence in all areas of our operations, along with reinforcing our customer focus, are among the core targets of our emerging strategy for the next five-year period.

Nova KBM entered the year 2017 strengthened by the knowledge and skills of the workforce of the former PBS and KBS banka that we have recently integrated into our business.

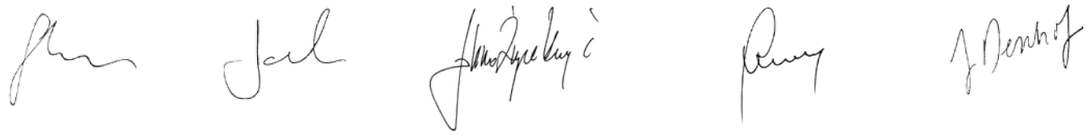
The results and achievements presented in this annual report were only made possible by the dedicated work of all our employees and outside contractors, as well as the effective cooperation with our Supervisory Board. Together with our colleagues, we want to thank all those who collaborated with us last year and are continuing to do so in 2017. We regard the trust you have placed in us as a valuable gift and an excellent motivation for our future work.

Going forward, we will continue to introduce positive changes in our operations, to thoughtfully upgrade our processes, services and products, and meet, or even exceed the expectations of our customers and business partners. Despite the storms faced lately by the entire Slovene banking system, Nova KBM has preserved its position as a systemically important and socially responsible financial institution. Concern for the professional growth of our workforce and contributing to the development of our wider social and economic environment remain among our core values.

We are prepared for the challenges lying ahead of us, and we would be pleased and honoured to have your support on our ongoing journey towards transforming Nova KBM into the best bank for customers.

Management Board of Nova KBM d.d.

Josef Gröblacher	Jon Locke	Sabina Župec Kranjc	Robert Senica	John Denhof
Member	Member	Member	Deputy President	President



3. REPORT OF THE SUPERVISORY BOARD

Introduction

The Supervisory Board pursued its activities during 2016 in two different ways. In the period from 1 January to 21 April 2016, the Supervisory Board comprised the following members: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Andrej Fatur, Miha Glavič and Peter Kavčič. All of these members resigned from their positions with effect from 21 April 2016, the same day on which Nova KBM changed its ownership and Nova KBM's Shareholders' Meeting appointed a new Supervisory Board consisting of the following six members: Andrej Fatur (Chair), Manfred Puffer (Deputy Chair), Michele Rabá, Gernot Lohr, Andrea Moneta and Alexander Saveliev.

The Supervisory Board carried out its function of assuring efficient supervision over the management of Nova KBM and the Nova KBM Group, and its duty of careful and scrupulous performance, on the basis of its competences as laid down by the applicable law and other regulations as well as by internal acts of Nova KBM. The Corporate Governance Code for Public Limited Companies was also observed by the Supervisory Board in performing its duties. Based on a review of performance of the Supervisory Board, we are of the opinion that the Supervisory Board carried out its work of supervising the Management Board as well as the operations of Nova KBM and the Nova KBM Group in compliance with its powers and responsibilities and in an appropriate manner.

Method and scope of supervising the management of Nova KBM and the Nova KBM Group

The work of the Supervisory Board was adequately organised and was carried out in accordance with the Rules of Procedure of the Supervisory Board and the newly-adopted Rules for Managing Conflicts of Interest of Supervisory Board Members. In 2016, the following Supervisory Board committees carried out their work in accordance with the ZGD-1 and the ZBan-2: the Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee and, from April 2016, the newly-established Credit Committee.

The Supervisory Board members received professionally prepared materials from the Management Board and other relevant senior managers of Nova KBM, which enabled them to be well-informed on the matters on which they had to decide.

We believe that the Supervisory Board had sufficient and transparent reports along with timely and accurate management information available to responsibly and prudently control the operations of Nova KBM and, in particular, the work of its Internal Audit Centre. The Supervisory Board and its committees actively participated in the creation of the Governance Policy, the Code of Conduct, the new Remuneration Policy, and the Policy on the Assessment of the Suitability of Members of the Management Bodies and Key Function Holders (the Fit and Proper Policy). The Supervisory Board was furnished with additional commentary or explanations when this was found necessary.

The Supervisory Board members took all precautionary measures to avoid any conflicts of interest that might have influenced their decisions, in accordance with the newly-adopted Rules for Managing Conflicts of Interest of Supervisory Board Members. While any potential conflicts of interest for individual Supervisory Board members were only provisional and were not a reason for ending the respective member's term of office, they were properly recorded and reported to Nova KBM's Compliance Office.

The Chair of the Supervisory Board performed his work in accordance with the competences and the Rules of Procedure of the Supervisory Board, and also communicated and cooperated with the Management Board


Photo: Mediaspeed

during the Supervisory Board meetings. He regularly monitored the developments related to the operations of Nova KBM and promptly and consistently responded to any action that required his involvement. The Chair of the Supervisory Board encouraged other Supervisory Board members to perform their duties efficiently and actively, and involved them in the communication with the Management Board and the heads of the internal control functions outside the regular meetings. The Chair of the Supervisory Board chaired the meetings in such a way as to provide for responsible, transparent and prudent decision-making by the Supervisory Board.

While the members of the Supervisory Board have proper and complementary knowledge, experience and skills to perform their duties, they all have different professional, national and educational backgrounds. The current composition of the Supervisory Board is such that any potential lack of specific knowledge by any of its members can be fully compensated for by the professional expertise of other members. All the members of the Supervisory Board have the necessary personal integrity and professional ethics to hold their positions, as also confirmed by their positive fit-and-proper assessment prior to their appointment in 2016, which provides the assurance that they can carry out their supervisory roles in a responsible manner and make decisions to the benefit of Nova KBM.

The members of the Supervisory Board came to meetings well prepared, and meetings were regularly attended by the majority of its members. The Supervisory Board members were adequately prepared for discussing relevant topics and important issues; they presented constructive proposals, regularly requested the Management Board to provide additional explanations and, on the basis of professionally prepared and comprehensive management information, reached decisions in compliance with the adopted rules and their competences. The Rules of Procedure of the Supervisory Board are harmonised with the applicable principles of good corporate governance and specific banking-related international guidelines. To comply with the commitments made to the EC, the Supervisory Board invited the Monitoring Trustee to all of its meetings. All Supervisory Board meetings were recorded, and transcripts and minutes were made of each of them, highlighting/summarising the most important positions and issues raised at the meetings, which ensured complete transparency of the work of the Supervisory Board as well as traceability of its discussions and decisions.

The Supervisory Board believes that its members carried out their work with great responsibility, professionalism and commitment. In addition to materials prepared for the Supervisory Board, the Management Board also provided all the necessary explanations on individual issues. Beside detailed arguments of the Management Board given directly at the meetings, the members of the Management Board were also prepared to discuss in detail any questions from the Supervisory Board members. The communication and cooperation between the Management Board and the Supervisory Board was adequate and correct.

In 2016, the self-assessment of the Supervisory Board was carried out using questionnaires drafted by the Slovene Supervisors' Association. Based on an evaluation and detailed analysis of the completed questionnaires, it was established that, as regards the preparation for the meetings, their participation in and activity at the meetings, and their contribution to formulating individual decisions reached, the Supervisory Board members performed their supervisory function during 2016 in a reliable, responsible and effective manner and had acted in accordance with the interests of Nova KBM. The Supervisory Board achieved a high overall level of governance, which enabled its members to perform their work and duties effectively.

Furthermore, the evaluation of the aforementioned questionnaires affirmed that the work carried out by the Supervisory Board committees provided effective support to the Supervisory Board, and the Supervisory Board was regularly and promptly informed about the issues discussed by the committees as well as of any proposals and initiatives given by the committees.

Supervisory Board committees

The newly-appointed Supervisory Board was supported in its work by five committees, the composition and tasks of which are presented below.

The composition of the Audit Committee was as follows: Andrej Fatur (Chair), Gernot Lohr (Deputy Chair), Manfred Puffer and Michele Rabà. In December 2016, Andrea Moneta was appointed as a new member of the committee in the capacity of its Chair, replacing Andrej Fatur, who remained on the committee as a member.

The Audit Committee focused in 2016 on the tasks imposed on it by the relevant legislation, such as:

- controlling the correctness of financial-accounting information provided by the company to its shareholders and other external users
- approving the proposals of the Management Board on nomination, engagement and payment of an independent external auditor and the preparation of a proposal for the Supervisory Board, whereas the Supervisory Board shall submit the proposal for nomination to the Shareholders' Meeting for approval
- cooperating in defining major areas of audit and special care in assessing the auditor's findings
- directly controlling the independent, unbiased, efficient and effective performance of the external auditor, and solving potential disputes between the Management Board and external auditor regarding the financial reporting and related auditing
- assessing the structure of the annual report of the company, including the preparation of a proposal for the Supervisory Board
- supervising the systems of risk management, internal controls and internal auditing
- monitoring the financial reporting procedures, and monitoring the efficiency of the company's internal control, internal audit and risk management systems
- reviewing and monitoring the independence of the auditor appointed for the review of the company's annual report, particularly the provision of additional non-audit services
- making proposals to the Supervisory Board regarding the appointment of auditor of the company's annual report
- participating in drafting the agreement between the auditor and the company
- cooperating with the auditor in auditing the company's annual report, particularly through mutual notification on major audit-related issues
- cooperating with the internal auditor, especially in the mutual notification about the main issues in respect of internal auditing

The composition of the Risk Committee was as follows: Manfred Puffer (Chair), Andrea Moneta (Deputy Chair), Michele Rabà and Alexander Saveliev. The committee focused in 2016 on the tasks imposed on it by the relevant legislation, such as:

- advising on general current and future risk appetite of the company and on its risk management strategy
- assisting in carrying out the supervision of senior management regarding the implementation of the risk management strategy
- verifying, without encroaching on the tasks of the Remuneration Committee, whether the forms of stimulation provided for by the remuneration system take into account the risks, capital, liquidity and likelihood and allocation of the company's revenue, with the aim of formulating prudent remuneration policies and practices
- verifying whether the prices of the company's products are fully compatible with the adopted business model and risk management strategy, and to propose measures for the elimination of identified discrepancies and to submit those proposals to the Management and Supervisory Boards

The composition of the Remuneration Committee was as follows: Gernot Lohr (Chair), Alexander Saveliev (Deputy Chair) and Michele Rabà. The committee focused in 2016 on the tasks imposed on it by the relevant legislation, such as:

- preparing proposals for decisions by the Management Board concerning remunerations, including those impacting the risks and risk management of the company
- providing expert and independent assessment of remuneration policies and practices and developing initiatives for measures aimed at improving the management of risk, capital and liquidity of the company
- controlling the remuneration of senior management responsible for performing the functions of risk management and compliance
- drafting proposals for general principles of remuneration policies, including the determination of positions regarding individual aspects of remuneration policies
- assessing the adequacy of methodologies in place, on the basis of which the remuneration system stimulates adequate management of risks, capital and liquidity
- making recommendations to the Supervisory Board relating to the implementation of the remuneration policies
- preparing proposals for decisions on employee remunerations, including those impacting the risks and risk management of the company
- reviewing adequacy of external advisor whose services have been used by the Supervisory Board in defining the remunerations policies of the company

The composition of the Nomination Committee was as follows: Andrea Moneta (Chair), Gernot Lohr (Deputy Chair) and Alexander Saveliev. The committee focused in 2016 on the tasks imposed on it by the relevant legislation, such as:

- identifying and recommending to the Supervisory Board the candidates for the members of the Management Board, taking into consideration the policies regarding the selection of appropriate candidates (Nova KBM's Policy on the Selection of Suitable Candidates for a Management Body)
- defining the tasks and required conditions for a specific nomination, including the assessment of the duration of the term of office
- defining the objective of gender parity within the Management and Supervisory Boards
- assessing, at least once a year, the structure, size, composition and performance of the Management and Supervisory Boards and making recommendations for potential changes
- assessing, at least once a year, the knowledge, skills and experience of individual members of the Management and Supervisory Boards, and of the governing system as a whole, and reporting thereon to the Supervisory and Management Boards
- reviewing, on a regular basis, the Management Board's selection and nomination policy concerning suitable candidates for the senior management of the company and making recommendations for potential changes
- actively contributing to the implementation of responsibilities of the company concerning the adoption of relevant policies on the assessment of suitability of members of governing bodies

The composition of the Credit Committee was as follows: Manfred Puffer (Chair), Andrea Moneta (Deputy Chair), Michele Rabà and Alexander Saveliev. The Credit Committee is an expert advisory body of the Supervisory Board, with its primary responsibility being to provide prior written consent (approval) to the Management Board for concluding any legal transaction (according to the applicable list of such transactions) in respect of which the Supervisory Board has adopted a special resolution. In 2016, the Credit Committee dealt with the matters falling within its competence, as described above.

The Supervisory Board committees performed their work in accordance with their powers, in accordance with decisions and duties adopted by the Supervisory Board, or in accordance with the duties imposed on the Supervisory Board directly by the ZBan-2 in respect of the implementing regulations of the Bank of Slovenia. The Supervisory Board committees provided support to the Supervisory Board in controlling the management of Nova KBM and the Nova KBM Group companies. The committees carried out their work in accordance with the relevant law, Nova KBM's Articles of Association and the respective rules of procedure defining the areas and the method of work of individual committees. While, in accordance with the ZBan-2, committees are composed only of Supervisory Board members, they have, in cases where this proved necessary because of the specifics or nature of work, engaged external advisers who have extensive knowledge of the area for which a particular committee is responsible or of the operations of Nova KBM that require specific skills.

In 2016, the Supervisory Board met at nine regular meetings and twenty-nine meetings by correspondence. The most important issues discussed at the Supervisory Board meetings in 2016 were related to the implementation of the Restructuring Programme and commitments made to the EC, and, in particular, the final stage of Nova KBM's privatisation. As regards the latter, on 30 June 2015, the agreement concerning the sale of the Republic of Slovenia's 100% shareholding in Nova KBM was signed between the SSH, acting as the seller on behalf of the Republic of Slovenia, and Biser Bidco S.à r.l. of Luxembourg, a company set up jointly by Apollo and the EBRD, as the buyers. After all the relevant closing conditions related to the sale had been satisfied, Nova KBM shares were transferred to Biser Bidco S.à r.l. with effect from 21 April 2016.

Immediately after its appointment, the new Supervisory Board focused on strengthening Nova KBM's corporate governance system. To that effect, it decided to expand the Management Board by appointing to it three additional members: Josef Gröblacher as the Chief Operating Officer (COO), Jon Locke as the Chief Risk Officer (CRO) and John Denhof as the Chief Executive Officer (CEO) and the future President of the Management Board. Although the newly-appointed Management Board members had to obtain the relevant approvals from the ECB to take their respective offices, they had already joined Nova KBM as authorised representatives before they received these approvals (in September, October and December 2016, respectively) to allow them to start working as early as possible on the strategic priorities of Nova KBM, such as effective management of its operations, information technology and risk management, as well as the development of an even more efficient corporate governance system. At the end of 2016, the Management Board consisted of two members, with Robert Senica acting as the President (future Deputy CEO) and Sabina Župec Kranjc as the member (future Chief Financial Officer – CFO). Jon Locke and Josef Gröblacher took up their respective roles on 1 January 2017, after they had received the relevant approvals from the ECB.

On 28 February 2017, the Supervisory Board appointed John Denhof as the new President and CEO of Nova KBM for a five-year term starting on 1 March 2017, the same day on which Robert Senica, the then President of the Management Board, was appointed as a Management Board member in the capacity of Deputy President (Deputy CEO).

The Supervisory Board dealt with the following key affairs and issues in 2016:

- its formation and organisation of its work, as well as the formation and functioning of its five committees
- the process of integrating PBS
- the process of merging with KBS banka
- a new organisational structure of Nova KBM
- the arrangement of Nova KBM's internal control mechanisms
- the Nova KBM Group's investment strategy for 2017
- adoption of the new Remuneration Policy
- the strategy for managing the Nova KBM Group's non-performing exposures
- the completion of liquidation proceedings against Adria Abwicklungs (former Adria Bank)
- Nova KBM's Risk Appetite Framework (RAF), along with its Risk Appetite Statement (RAS), the Nova KBM Group Risk Measurement Methodology, and the Nova KBM Group's ICAAP Stress Testing Methodology
- adoption of Nova KBM's new Code of Conduct and Compliance Programme 2016
- adoption of the amended Business Policy and Financial Plan of the Nova KBM Group and the 'Merged Bank' (Nova KBM and KBS banka) for 2017 and Forecast for 2018–2019
- strengthening of Nova KBM's corporate governance system by adopting the Rules of Procedure of the Supervisory Board, the Rules for Managing Conflicts of Interest of Supervisory Board Members, and the Policy on the Selection of Suitable Candidates for a Management Body

In addition to the above stated key issues, the Supervisory Board discussed the following important matters:

- the Guidelines for the Restructuring of Micro, Small and Medium-Sized Companies
- the implementation of Nova KBM's data leakage prevention system and information system
- it gave its consent to the annual plan of work of the Internal Audit Centre for 2016
- it considered the Compliance Office's Annual Report
- it was informed of the letters of the BoS and the ECB to the Management and Supervisory Boards, and of the decisions, resolutions and recommendations of the BoS and the ECB and the explanations of the Management Board in respect of these documents
- it considered Nova KBM's Recovery Plan
- it regularly took part in meetings with representatives of the ECB's Joint Supervisory Team assigned to Nova KBM

Based on the aforementioned, and Articles 272 and 281 of the ZGD-1, the Supervisory Board asserts and establishes that it regularly and thoroughly monitored the operations of Nova KBM and the Nova KBM Group in 2016 within its competences, thus adequately supervising the management and operations of Nova KBM and the Nova KBM Group and the work of the Internal Audit Centre.

Review and approval of the 2016 Annual Report and consideration of the proposal of the Management Board with regard to the distribution of the 2016 profit available for appropriation (as provided for under Article 282 of the ZGD-1)

The Management Board submitted to the Supervisory Board the audited 2016 Annual Report of the Nova KBM Group and Nova KBM, together with the auditor's report, within the legal deadline. It also submitted the annual report on the internal audit of the Nova KBM Group for the year 2016.

The Supervisory Board deliberated on the audited 2016 Annual Report of the Nova KBM Group and Nova KBM. It established that the annual report gave a complete and comprehensive overview of Nova KBM's and the Nova KBM Group's operations in 2016. The Supervisory Board was also informed of the opinion of the certified auditor Deloitte Revizija. As stated in this opinion, the financial statements of Nova KBM and the consolidated financial statements of the Nova KBM Group present fairly, accurately and transparently, in all material respects, the financial position of Nova KBM and the Nova KBM Group as of 31 December 2016, and their financial performance and their cash flows for the year ending 31 December 2016 in accordance with the IFRSs as adopted by the EU, and in accordance with the requirements of the ZGD-1 and the ZBan-2 relating to the drafting of the financial statements.

Having considered the proposal of the Management Board regarding the amount and allocation of Nova KBM's 2016 profit available for appropriation, the Supervisory Board has proposed to the Shareholders' Meeting that the 2016 profit available for appropriation, totalling €63,851,281.43, be used as follows:

- €30,166,516.53 for the payment of dividends
- €33,684,764.90 to be allocated to retained earnings

The Supervisory Board notes that the external auditor is of the opinion that the business part of the annual report is in compliance with the audited financial statements.

Review of the Report on Related Party Relationships

Pursuant to Article 546 of the ZGD-1, the Supervisory Board has examined the Report on Related Party Relationships (hereafter: the Report) and has taken note of the opinion expressed by the auditing company Deloitte Revizija concerning the Report. As stated in the opinion of Deloitte Revizija, based on the procedures carried out and evidence obtained, there is no reason to believe:

- that the information for the year ending 31 December 2016, included in the Report, is not accurate, in all material respects
- that, in view of the circumstances known at the time the legal transactions listed in the Report were made, the scope of the company's involvement in these transactions was disproportionally high
- that there are circumstances which, in relation to other actions disclosed in the Report, indicate a significantly different assessment of disadvantage than that made by the management, taking into consideration the criteria listed in the Report

Based on the above-described review, the Supervisory Board is convinced that Nova KBM delivered a successful performance in 2016.

The Supervisory Board is not aware of any breach of the legislation and/or Nova KBM's internal regulations.

Maribor, 16 March 2017

Supervisory Board of Nova KBM d.d.
Andrej Fatur, Chair



4. PROGRAMMES AND PROJECTS AIMED AT ACHIEVING SUCCESSFUL TRANSFORMATION OF THE NOVA KBM GROUP AND NOVA KBM

In 2016, Nova KBM and the Nova KBM Group continued implementing the adopted restructuring programme (hereafter: the Restructuring Programme), which the EC approved in 2013, in addition to focusing on a number of other ongoing key programmes and projects that were being undertaken with the aim of improving their future performance, strengthening their competitive positions, and enhancing their values and relationships with their core stakeholders. After Nova KBM passed into the hands of its new owners (Apollo and the EBRD) on 21 April 2016, efforts were made to restructure its operations, as well as those of the Nova KBM Group as a whole.

4.1 Privatisation of Nova KBM

2016 was a landmark year for both Nova KBM and the Nova KBM Group, as this was the year when the sale of Nova KBM was successfully completed. The most important milestones in the sale process, which was officially concluded on 21 April 2016, are presented below.

December 2013	22 May 2014	Autumn 2014	30 June 2015	21 April 2016
Upon the adoption of the Restructuring Programme, the Republic of Slovenia binds itself to sell its 100% shareholding in Nova KBM.	On behalf of the Republic of Slovenia, the SSH starts the process of selling Nova KBM.	Start of the second phase of the sale process (presentation of binding offers for the acquisition of Nova KBM).	Signing of the agreement concerning the sale of Nova KBM to Apollo and the EBRD.	All precedent conditions related to the acquisition of Nova KBM are met. Through their joint venture called Biser Bidco, Apollo and the EBRD pay a purchase consideration of €250 million and thereby gain full control of Nova KBM.

4.2 Strategic workstreams

One of the main novelties introduced under the new owners was the establishment of five strategic workstreams across various areas of Nova KBM's operations, with their main task being the effective implementation of the changes necessary to ensure the accomplishment of set objectives. The establishment of the workstreams and their implementation will make it possible to gradually build a platform for the future development strategy of Nova KBM, which is expected to help it (as well as the entire Nova KBM Group) perform successfully in the long run.

Strategic workstreams	Strategic purpose
Workstream for financial, sales and product reporting (Chief Financial Office)	• to further develop the financial, sales and product reporting systems at all levels of Nova KBM's operations
Workstream for business operations (COO Office)	• to further develop the business operations of Nova KBM and to lead the overhaul of its information technology systems
Workstream for treasury, investments and liquidity (Investment Office)	• to properly manage Nova KBM's balance sheet, liquidity and investment strategy
Workstream for risk management (Risk Office)	• to further develop Nova KBM's risk management system
Workstream for corporate issues (Corporate Office)	• to provide continuous and effective technical, staffing and communication support to corporate changes and to the work of the other four workstreams

4.3 Implementation of the Restructuring Programme

Nova KBM continued to implement its Restructuring Programme despite its change in ownership. Some of a total of 16 commitments applicable to Nova KBM, such as the one concerning the downsizing of its balance sheet total, were no longer relevant in 2016.

Among the most important commitments that Nova KBM continued to pursue in 2016 are the following:

1. Reduction in operating costs and streamlining of business processes, including the optimisation of Nova KBM's branch office network.
2. Divestment and sale of non-strategic assets and focus of the Nova KBM Group on the principal banking services.
3. Overhaul of the risk management system and lending processes.
4. Enhancement of corporate governance structures.

Consistent and accurate implementation of all the commitments and obligations set out in the Restructuring Programme is continuously monitored and verified by a qualified Monitoring Trustee, an entity that is independent of Nova KBM and the Republic of Slovenia. The Monitoring Trustee has the qualifications necessary to execute the mandate, and is not, or will not become, exposed to any conflicts of interest. It was selected by Nova KBM on the basis of a call for tender, with the EC giving its consent to the selection.

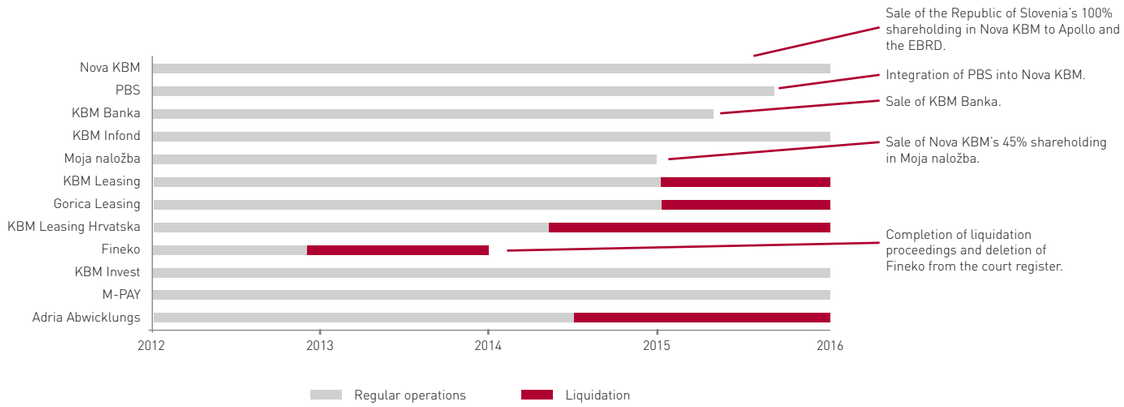
Reduction in operating costs and streamlining of business processes

Last year, Nova KBM further optimised its branch network, closing three of its branch offices: Mestna Hranilnica in Nova Gorica, Podbrdo and Most na Soči. However, its total number of branch offices increased as a result of its acquisition of PBS[4] and, at the end of 2016, Nova KBM had four branches, under which a total of 60 branch offices were operating. Certain banking services of Nova KBM may also be provided at more than 500 locations (post offices) of Pošta Slovenije. The distribution network of Nova KBM further expanded following the acquisition of KBS banka, bringing the total number of Nova KBM branch offices to 70 as of 3 January 2017.

4 All references in this Annual Report to 'PBS' relate to Poštna banka Slovenije d.d., an ex-subsidiary bank of Nova KBM that ceased to exist as an independent legal entity after being integrated into the latter in 2016.

Going forward, Nova KBM may consider opening new branch offices in locations where this would prove to be advantageous to its business. Any decision in this regard will be based on an appropriate cost-benefit analysis, taking into consideration Nova KBM's concern for customers and all the consequences of such a decision, including consequences for the local environment. Customers and the public in general are informed in a timely fashion on any decision reached by Nova KBM with respect to changes in its branch office network. Both Nova KBM and the Nova KBM Group continued to place particular focus on proper management of operating costs, while simultaneously strengthening the culture of effective asset management and continuous cost-efficiency improvement.

Restructuring of the Nova KBM Group



The most important strategic projects undertaken by Nova KBM in 2016 as part of the Restructuring Programme and with the aim of implementing the ambitious strategy of its new owners were the merger with PBS and the start of preparatory work towards the merger with KBS banka[5], which was effected at the beginning of 2017.

Liquidation proceedings against the Nova KBM Group leasing companies were continued last year. The liquidation proceedings against KBM Leasing Hrvatska[6] are expected to be completed by the end of 2017, while those against KBM Leasing[7] and Gorica Leasing[8] are set for completion by the end of 2019, with the plan being to shorten this deadline to the end of 2018.

After Adria Bank returned its licence for providing banking services to the FMA in March 2015, it changed its legal form from a joint-stock company to a limited liability company (GmbH) named 'Adria Abwicklungs' in June of the same year. Adria Abwicklungs[9] filed for liquidation on 26 June 2015, and the liquidation proceedings against the company continued throughout 2016.

The process of selling KBM Banka[10], which started in 2015, was successfully brought to an end on 17 February 2016, when (based on the prior consent of its Supervisory Board) Nova KBM signed an agreement concerning the sale of its 546,683 shares in KBM Banka, which represented 89.53% of all outstanding KBM Banka shares.

5 All references in this Annual Report to 'KBS banka' relate to KBS banka d.d., a bank that ceased to exist as an independent legal entity after being acquired by Nova KBM at the beginning of 2017.
6 All references in this Annual Report to 'KBM Leasing Hrvatska' relate to KBM Leasing Hrvatska d.o.o., a subsidiary of Nova KBM undergoing liquidation.
7 All references in this Annual Report to 'KBM Leasing' relate to KBM Leasing d.o.o., a subsidiary of Nova KBM undergoing liquidation.
8 All references in this Annual Report to 'Gorica Leasing' relate to Gorica Leasing d.o.o., a subsidiary of Nova KBM undergoing liquidation.
9 All references in this Annual Report to 'Adria Abwicklungs' relate to Adria Abwicklungs GmbH, an ex-subsidiary of Nova KBM that ceased to exist at the end of January 2017 after completing its liquidation.
10 All references in this Annual Report to 'KBM Banka' relate to KBM Banka a.d.

Nova KBM is overhauling its risk management system, lending processes and the management of distressed loans

Among the priority tasks of Nova KBM and the Nova KBM Group in the area of lending are to effectively manage credit risk and non-performing loans and to participate actively in customer restructurings.

Since it was recapitalised in December 2013, Nova KBM has strengthened its role in the deleveraging and recovery of the Slovene economy. Over the last three years, in addition to actively monitoring the operations of its customers, Nova KBM has participated as an important member in several bank syndicates and projects that have been set up to ensure short- and long-term restructuring of companies, always taking into consideration the Slovene Principles of the Financial Restructuring of Corporate Debt, and the Guidelines for the Restructuring of Loans Outstanding to Micro Companies and SMEs.

The activities of Nova KBM in this area are focused mainly on helping companies that are believed to have a healthy operating basis and growth potential to ensure their repayment capabilities and future operations. By so doing, Nova KBM demonstrates that it continues to be a vital and reliable partner to many companies in these still uncertain and challenging economic times.



In 2016, Nova KBM started to work on the reorganisation of its Risk Management Division and strengthened its overall risk management function through the appointment of an experienced international banker as the Chief Risk Officer, while continuing to implement the EWS, which is used to identify early any increase in credit risk resulting from the financial difficulties of customers – making it possible to take prompt action to prevent performing loans from becoming non-performing ones.

Nova KBM's distressed loans outstanding to both corporate and retail customers are managed centrally by one organisational unit, the purpose of which is to accelerate efforts to reduce the level of NPLs. The centralised loan recovery system enables Nova KBM to resolve NPLs in an efficient and comprehensive manner, while at the same time ensuring centralised reporting.

Preparations started in 2016 to sell a certain proportion of NPLs on Nova KBM's books, including through public notices that were issued with the purpose of attracting buyers for individual NPLs.

The total volume of NPLs and restructured loans recovered in 2016 was above that of a year ago. Further details in this regard are set out in the section 'Active management of distressed loans'.

Enhancement of corporate governance structures

Nova KBM and the Nova KBM Group were encouraged last year by their new owners to strengthen their corporate governance structures, including, among other things, by drafting and adopting the Code of Conduct and the Compliance Programme 2016, the latter of which comprises the Anti-Corruption Policy, the Compliance Policy, the Regulations on Managing Conflicts of Interest and the Regulations on Compliance. While these documents are consistent with international business practice and comply with the requirements of Nova KBM's owners, their content was largely developed based on regulations and guidelines that were, and still are, covered in some of Nova KBM's other regulations, recommendations, guidelines and instructions. Through the creation of the Compliance Programme, Nova KBM has managed to substantively update and comprehensively integrate these regulations and guidelines, and align them with international best practice and the policies of its new owners.

The Code of Conduct, adopted in 2016, introduced integrity as Nova KBM's new, sixth value. The value of integrity binds together and complements the other five values pursued by Nova KBM: trust, responsibility, excellence, honesty and loyalty.



In June 2016, Nova KBM issued its new Code of Conduct and launched the Compliance Programme 2016. The Code of Conduct, along with the related documents, outlines the basic ethical standards and rules of conduct to which Nova KBM employees adhere and based upon which the corporate culture of Nova KBM is built. The introduction of the Code of Conduct and the Compliance Programme 2016 was supported by an internal communication campaign called 'Ready for Compliance'.

4.4 Merger of Nova KBM with PBS and KBS banka[11]



While the full merger of Nova KBM with PBS and KBS banka is expected to bring advantages in terms of the organisation of work and the synergistic benefits arising from the merger, it will also help Nova KBM gain an even stronger position in the Slovene banking market and will ensure that its customers are provided with an even broader range of high-quality financial services suited to their needs.

Merger of Nova KBM and PBS

The process of integrating PBS into Nova KBM, which took place from the end of 2015 and throughout 2016, was one of the most strategically important projects undertaken as part of the consolidation of the Nova KBM Group. It represented a further step in the implementation of one of the key commitments the Nova KBM Group agreed to in the Restructuring Programme – to concentrate on its principal activity, banking.

The key milestones in this integration process are presented below.

November 2015	29 March 2016	25 July 2016	1 September 2016	4-5 December 2016
Having examined the merger proposal prepared by the Management Boards of both banks, the Supervisory Boards of Nova KBM and PBS give their consent to the merger of Nova KBM and PBS.	Nova KBM acquires a 0.8844% equity stake in PBS from Pošta Slovenije, thereby becoming its 100% owner. On the same day, based on the prior consent of their Supervisory Boards, Nova KBM and PBS sign the merger agreement. The accounting date of the merger is set as 31 December 2015.	The ECB gives approval for the merger by acquisition of PBS by Nova KBM.	The District Court of Maribor issues a decision on entering into the court register the merger by acquisition of PBS by Nova KBM, based upon which the merger between the two banks becomes legally effective.	The customer accounts maintained by the former PBS and the data on transactions performed on these accounts are migrated to Nova KBM's systems in the first-ever single-pass (big bang) migration of data in the history of Nova KBM.

11 Further information about the merger of Nova KBM with PBS and KBS banka is provided in the notes to the financial statements.

Merger of Nova KBM and KBS banka

Preparations started in 2016 to integrate Nova KBM and KBS banka. This integration was undertaken by Apollo and the EBRD – the new joint owners of both banks – as part of their ambitious strategy of growing their market share and further developing their banking operations in Slovenia. KBS banka continued to operate as a standalone bank until 3 January 2017 when it officially merged with Nova KBM. The merger agreement stipulated 30 June 2016 as the accounting date of the merger. Consequently, the 2016 results of the operations of the Nova KBM Group and Nova KBM presented in this report include the results of KBS banka's operations for the period from 1 July 2016 to 31 December 2016. KBS banka ceased to exist as an independent legal entity on 3 January 2017 when the decision on its merger with Nova KBM was registered with the court.

The key milestones in this integration process are presented below.

30 June 2016	28 October 2016	22 December 2016	3 January 2017	2017
Apollo and the EBRD complete the acquisition of Raiffeisen banka Slovenija and rename it to KBS banka.	The Management Boards of Nova KBM and KBS banka sign the merger agreement. The accounting date of the merger is set as 30 June 2016.	The ECB gives approval for the merger by acquisition of KBS banka by Nova KBM.	The District Court of Maribor issues a decision on entering into the court register the merger by acquisition of KBS banka by Nova KBM, based upon which the merger becomes legally effective.	The merger process is continuing with the gradual consolidation of information systems of both banks and the development of a plan for migrating the customer accounts maintained by the former KBS banka to Nova KBM's systems.

4.5 Other key projects undertaken by Nova KBM in 2016 to improve its performance and achieve strategic transformation

Apart from the strategic projects and programmes described above, in 2016 Nova KBM undertook several projects to upgrade its operations across various segments, with some of the most important being as follows (listed alphabetically):

- implementation of an automated fraud detection system
- implementation of business intelligence tools
- implementation of a centralised loan recovery system and the setting up of a loan recovery database and a call centre
- implementation of necessary measures to prevent any attempt of money laundering or terrorist financing
- implementation of restrictive measures to properly identify any foreign politically exposed persons
- implementation of the ICAAP
- implementation of the IRB project
- improvement in the sales efficiency of branch offices
- introduction of automated branch offices
- introduction of the PRONAL-supported lending process
- launch of a process to select the core banking system and a system to support financial market transactions
- preparation for changes to the IFRSs – in particular, the introduction of IFRS 9
- update of relevant internal rules to comply with the MiFID II
- upgrades to Nova KBM's mobile banking facility
- technological overhaul of the controlling function

Further details about some of the projects listed above are provided in the section 'Internal development'.

5. PROFILE OF THE NOVA KBM GROUP AND NOVA KBM

5.1 Important events and achievements during 2016

JANUARY

- Nova KBM offered its retail customers the option of having the overdrafts on their personal accounts covered by the insurance provided by one of the leading Slovene insurance companies.

FEBRUARY

- On 23 February, as part of the Nova KBM Group's restructuring, and to facilitate the completion of the sale of its investment in the equity of KBM Banka, Nova KBM set up a project company KBM Asco as its wholly-owned subsidiary. Certain assets of KBM Banka, primarily its NPLs and real estate, were transferred to this company at the end of February.

MARCH

- On 29 March, Nova KBM acquired a 0.8844% equity stake in PBS from Pošta Slovenije, thereby becoming its 100% owner. On the same day, based on the prior consent of the Supervisory Boards of both banks, the Management Boards of Nova KBM and PBS signed the agreement concerning the acquisition of PBS by Nova KBM, which became legally effective on the day it was registered with the court, i.e. 1 September 2016.

APRIL

- Nova KBM was privatised. The process of selling Nova KBM was completed on 21 April when the Republic of Slovenia received proceeds of €250 million for the sale of its shares in Nova KBM, representing 100% of Nova KBM's share capital, to Biser Bidco S.à r.l., a company set up jointly by Apollo and the EBRD. The agreement concerning the sale of Nova KBM shares was, on behalf and for the account of the Republic of Slovenia as the seller, signed by the SSH on 30 June 2015. Apollo provided 80% of the funds for the acquisition, with the remaining 20% being provided by the EBRD. The book-transfer of all of the 10,000,000 shares in Nova KBM to the new owners was effected on the same day.
- At the 28th Shareholders' Meeting of Nova KBM, which took place on 21 April, the then members of the Supervisory Board presented their resignation notices, making it possible for the Shareholders' Meeting to appoint new Supervisory Board members. In addition, the Shareholders' Meeting determined the remuneration of Supervisory Board members, and adopted amended Articles of Association for Nova KBM. The term of office of the resigned Supervisory Board members ended with the conclusion of the Shareholders' Meeting session and the appointment of new Supervisory Board members. The following new members were appointed to the Supervisory Board for a period of five years: Gernot Lohr, Manfred Puffer, Andrea Moneta, Michele Rabà (all of them from Apollo), Alexander Saveliev (EBRD) and Andrej Fatur, the latter of whom was elected as their Chair at the constituent meeting of the Supervisory Board that was held on the same day after the Shareholders' Meeting.
- On 22 April, Nova KBM was notified that Biser Bidco S.à r.l. had gained 100% voting rights in it.
- Nova KBM teamed up with its strategic partner, the Institute for Entrepreneurship Research (IRP), to organise 'Start:up Maribor Hackathon 2016', the first event to promote the development of the entrepreneurial ecosystem in the region. More than 60 user experience developers and entrepreneurs from all over Slovenia, who specialise in the areas of mobile applications, virtual reality and enriched reality, joined forces at the event to develop, among other things, innovative solutions for the banking of the future.

MAY

- On 12 May, Fitch Ratings upgraded Nova KBM's Long-Term Issuer Default Rating (IDR) to 'BB-' from 'B+', with the rating being assigned a stable outlook. In addition to upgrading its IDR, Fitch Ratings raised Nova KBM's Viability Rating by one notch, to 'bb-' from 'b+', while the Support Rating and the Support Rating Floor were affirmed at '5' and 'No Floor', respectively.

JUNE

- Nova KBM started offering its customers three life-cycle funds managed by the pension fund company Moja naložba: MOJ Dynamic Fund, MOJ Balanced Fund and MOJ Guaranteed Fund.
- At the 29th Shareholders' Meeting of Nova KBM, which took place on 15 June, Robert Senica, President of the Management Board, Sabina Župec Kranjc, Management Board member, and all members of the Supervisory Board were granted discharge for their work in 2015. The shareholder of Nova KBM was presented with the 2015 Nova KBM Group's Internal Audit Report, along with the opinion of the Supervisory Board, the 2015 Annual Report of the Nova KBM Group and Nova KBM, along with the auditor's report, and the report of the Supervisory Board on verification of the 2015 Annual Report of the Nova KBM Group and Nova KBM. Moreover, information was provided to the shareholder about the amount of remuneration given to members of the management and supervisory bodies in 2015, and the proposed amendments to Nova KBM's Articles of Association were adopted by the shareholder.
- On 30 June, Apollo and the EBRD completed the acquisition of Raiffeisen banka, a subsidiary of Raiffeisen Bank International, thus becoming its new owners. The acquisition was executed through Biser Bidco S.à r.l., a company set up jointly by Apollo and the EBRD. At the Shareholders' Meeting of the bank, which was held on the same day, a new Supervisory Board was appointed for a period of five years, consisting of the following members: Gernot Lohr, Manfred Puffer, Andrea Moneta, Michele Rabà (all of them from Apollo), Alexander Saveliev (EBRD) and Andrej Fatur. Marija Brenk was appointed as a member of the bank's Management Board, replacing Werner Georg Mayer, who stepped down on the same day.

JULY

- Nova KBM offered its retail customers the option of taking out payment card insurance and valuables insurance through Bank@Net, its online banking facility.
- On 1 July, Raiffeisen banka was renamed to KBS banka.
- Also on 1 July, Marija Brenk took up the role of member of the KBS banka Management Board.
- A resolution was passed at the 31st Shareholders' Meeting of Nova KBM, held on 14 July, to earmark €16,567,011.93 of the distributable profit for the financial year 2015 as a dividend payment to the shareholder, with the remaining balance of the distributable profit, totalling €142,836.59, being carried forward as retained earnings.

SEPTEMBER

- On 1 September, the District Court of Maribor issued a decision on entering into the court register the merger by acquisition of PBS by Nova KBM, based upon which the merger between the two banks became legally effective. Consequently, all assets, liabilities and rights of PBS were transferred to Nova KBM, with the result that the latter, as the legal successor to PBS, took over the obligations and rights under all transactions concluded by PBS prior to the merger.
- On 15 September, Josef Gröblacher took up the role of an authorised representative of Nova KBM after the Supervisory Board appointed him as a new Management Board member on 22 July 2016.
- A resolution was passed at the Shareholders' Meeting of KBS banka, held on 26 September, to squeeze out its minority shareholders for a fair cash compensation and to transfer their shares to Biser Bidco S.à r.l., KBS banka's controlling owner.
- Nova KBM extended its offering of bank accounts by introducing the basic payment account.

OCTOBER

- On 15 October, Jon Locke took up the role of an authorised representative of Nova KBM after the Supervisory Board appointed him as a new Management Board member on 19 August 2016.
- On 25 October, Moody's Investors Service upgraded Nova KBM's Long-Term Deposit Rating to 'B2' from 'B3', while at the same time raising its Baseline Credit Assessment (BCA) and the adjusted BCA to 'b3' from 'caa1'. The rating outlook was affirmed as 'positive'.

NOVEMBER

- On 14 November, the Supervisory Board announced the appointment of John Denhof as the new President (CEO) of the Management Board. Until receipt of all customary regulatory approvals to take up this role, John Denhof acted as an authorised representative of Nova KBM.

DECEMBER

- Nova KBM provided its retail customers with the option to have cash delivered to their home by post.

5.2 Significant events after the end of the financial year

JANUARY 2017

- On 1 January, after they had received the relevant approvals from the ECB, Josef Gröblacher and Jon Locke took up the roles of Management Board members, with the first acting as Chief Operating Officer and the latter as Chief Risk Officer.
- On 3 January, the District Court of Maribor issued a decision on entering into the court register the merger by acquisition of KBS banka by Nova KBM, based upon which the merger between the two banks became legally effective. Consequently, all assets, liabilities and rights of KBS banka were transferred to Nova KBM, with the result that the latter, as the legal successor to KBS banka, took over the obligations and rights under all transactions concluded by KBS banka prior to the merger.
- On 9 January, based on the consent of the ATVP received on 23 December 2016, KBM Infond[12] launched Infond 2040, a target-date sub-fund aimed at investors who are either saving for a long-term financial goal or do not intend to withdraw their funds before the period around 2040.
- On 31 January, Adria Abwicklungs was deleted from the court register after the liquidation proceedings against the company had been brought to an end.

FEBRUARY 2017

- At the General Meeting of holders of Nova KBM's KBM10 bonds, held on 17 February, a resolution was passed to delist these bonds from the unregulated (third) market segment of the Vienna Stock Exchange.

MARCH 2017

- On 1 March, after he had received the relevant approval from the ECB, John Denhof took up the role of President of the Management Board (CEO), replacing Robert Senica, who was appointed as the Deputy President of the Management Board (Deputy CEO) on the same day.

5.3 Awards and recognitions in 2016

FEBRUARY

- Nova KBM's marketing campaign called 'Futurist' was awarded the first prize in the Innovative External Advertising category at the advertising competition called 'Outstanding', organised by the company Europlakat.

MARCH

- At an award ceremony for the best investment funds and fund managers, organised by the *Moje Finance* magazine, four of the investment funds managed by KBM Infond were awarded the highest ratings in their respective categories, while three KBM Infond fund managers were ranked among the 15 best fund managers in Slovenia.

APRIL

- At the Slovene Advertising Festival, Nova KBM's marketing campaign called 'Smooth Banking' was awarded the Grand Prize in both the Integrated Digital Communication Campaigns and Marked or Created Content categories, and the Golden Prize in the Digital Communications category.

JUNE

- Strict compliance with the highest standards of data integrity, i.e. accuracy, consistency and completeness of payment transaction data, earned Nova KBM a MasterCard Data Integrity Award.

SEPTEMBER

- Midas Awards, an international competition to recognise excellence in financial marketing and advertising, awarded Nova KBM's marketing campaign called 'Goldie the Goldfish' the Midas Certificate in the Financial Services category.

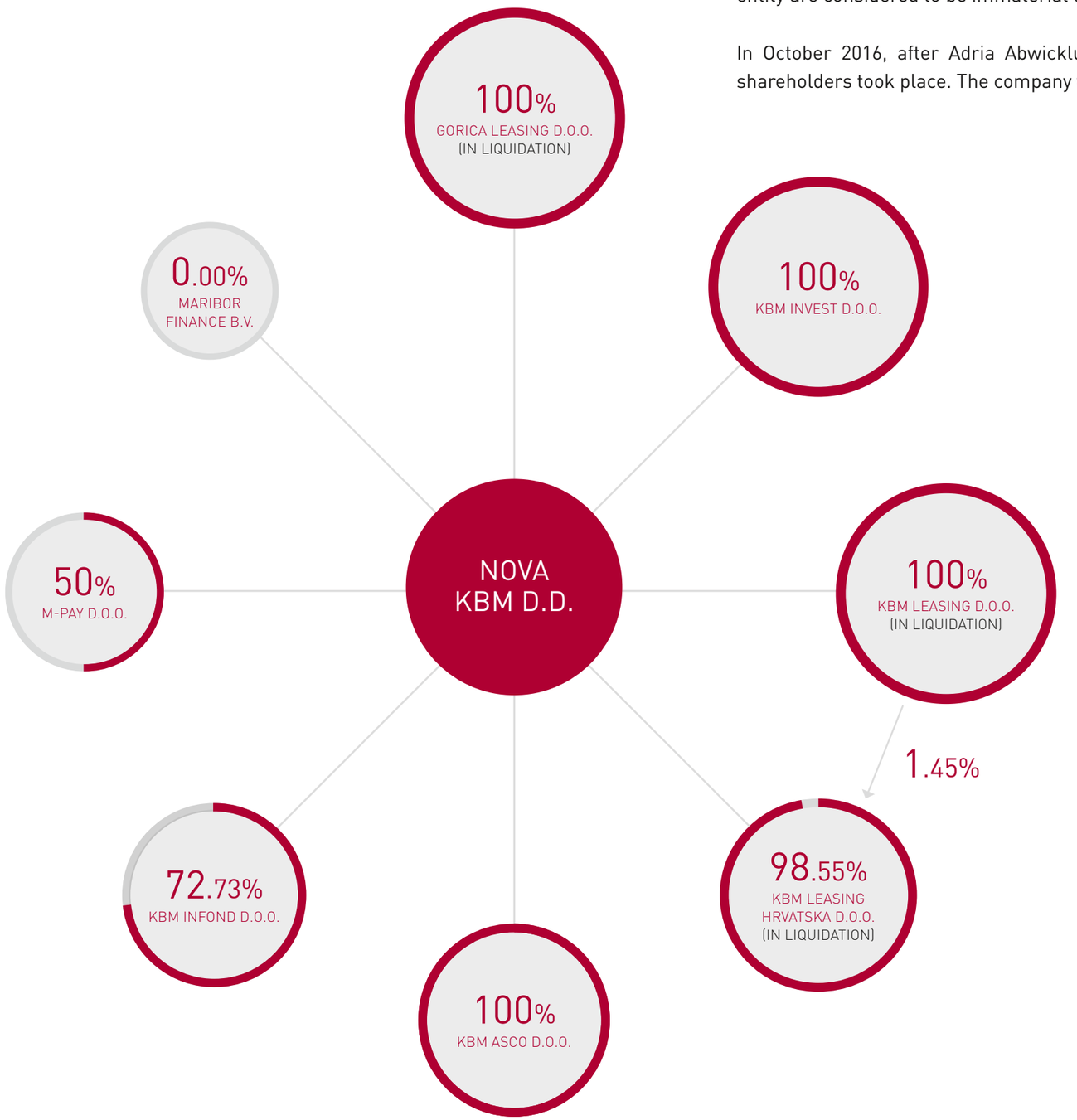
NOVEMBER

- At a competition for the best annual reports published by Slovene companies, organised by Finance Akademija, the 2015 Annual Report of the Nova KBM Group and Nova KBM was commended as the third-best among all of the annual reports. In addition, Nova KBM was awarded for having the best communication of its annual report among all Slovene financial institutions.
- At the 2016 SPORTO International Conference, Nova KBM's marketing campaign called 'Smooth Banking', starring the ski cross world champion Filip Flisar, was awarded the prize for the best personal sponsorship of an athlete.

12 All references in this Annual Report to 'KBM Infond' relate to KBM Infond, družba za upravljanje, d.o.o.

5.4 Governance of the Nova KBM Group and Nova KBM

5.4.1 Organisational structure of the Nova KBM Group

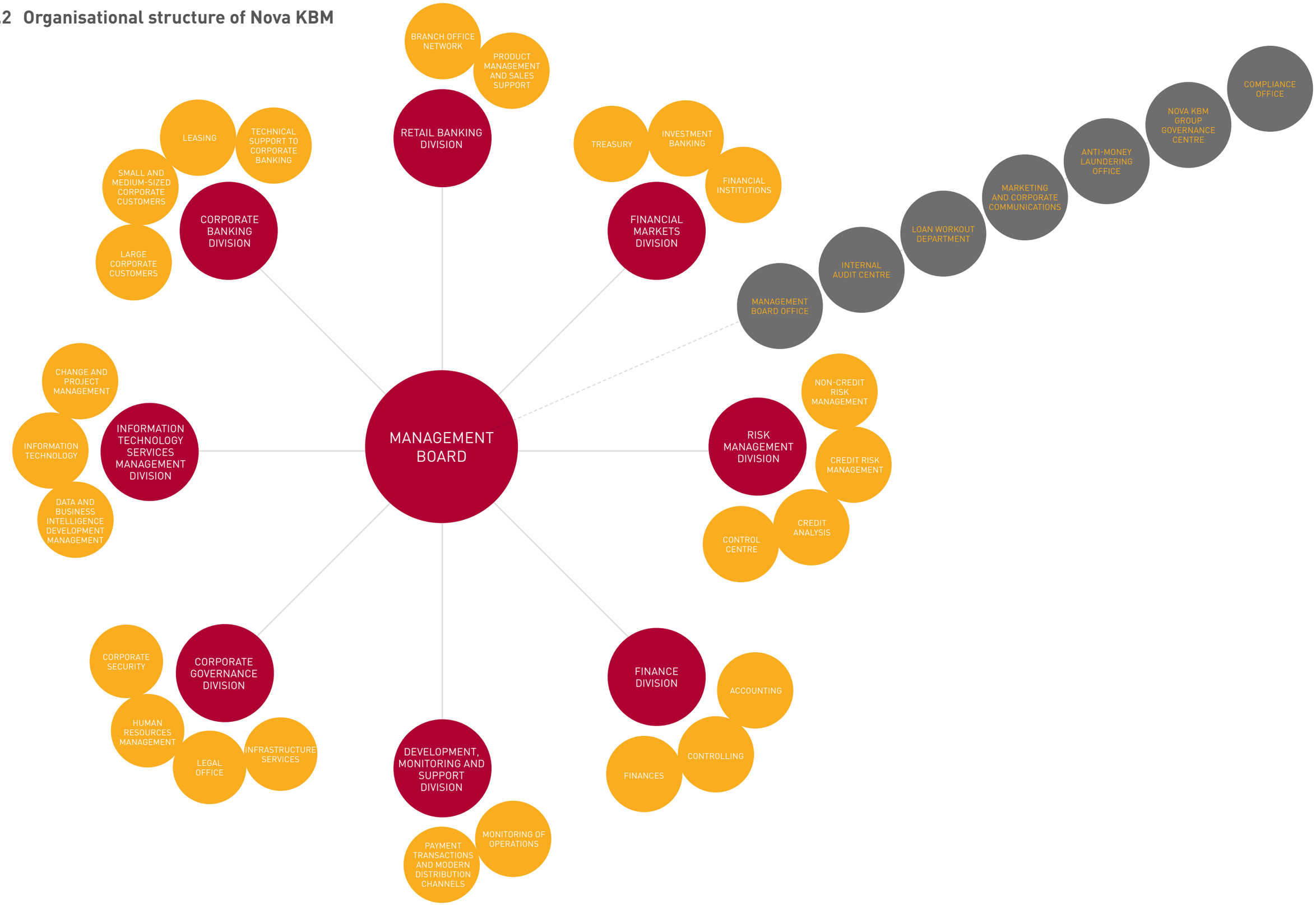


The Nova KBM Group's stake in the share capital of KBM Infond accounts for 72.00%. Because KBM Infond holds a certain number of its own shares, the Nova KBM Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.

In accordance with IFRS 10, MB Finance is regarded as a special purpose vehicle controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Nova KBM Group.

In October 2016, after Adria Abwicklungs had fulfilled all its obligations, the final meeting of its shareholders took place. The company was deleted from the register of companies on 31 January 2017.

5.4.2 Organisational structure of Nova KBM



5.4.3 Corporate governance

The governance of Nova KBM is based on applicable legislation, its Articles of Association, and the rights and responsibilities of Nova KBM's governance and management bodies that follow the principles of responsible running and management of all activities of Nova KBM and the Nova KBM Group.

In compliance with Slovene legislation, Nova KBM has a two-tier management structure under which the relations between individual bodies are founded on mutual division of rights and responsibilities.

With the sale process complete, Nova KBM passed into the hands of new owners on 21 April 2016 when the Republic of Slovenia received proceeds of €250 million for the sale of its 10,000,000 shares in Nova KBM, representing 100% of Nova KBM's share capital, to Biser Bidco S.à r.l., a company set up jointly by Apollo and the EBRD. The agreement concerning the sale of Nova KBM shares was, on behalf and for the account of the Republic of Slovenia as the seller, signed by the SSH on 30 June 2015. Apollo provided 80% of the funds for the acquisition, with the remaining 20% being provided by the EBRD.

After Apollo and the EBRD signed an agreement on 9 December 2015 to acquire all the shares of Raiffeisen banka Slovenija, the latter came under the control of Biser Bidco S.à r.l. on 30 June 2016 when the sale process was officially completed. Consequently, in addition to having full control of Nova KBM, Apollo and the EBRD have been the sole owners of Raiffeisen banka (which was renamed to KBS banka on 1 July 2016) since the end of the first half of 2016. The agreement concerning the merger by acquisition of KBS banka by Nova KBM was signed on 28 October 2016; however, KBS banka remained a standalone bank run independently of Nova KBM until the end of 2016.

The acquisition of KBS banka by Nova KBM became legally effective on 3 January 2017 when it was registered with the relevant court, with the ECB giving its approval to the acquisition on 22 December 2016.

As a consequence of the acquisition referred to above, the Corporate Governance Statement, which forms an integral part of this annual report, includes certain information and data concerning KBS banka.

Nova KBM's corporate governance bodies are as follows: Management Board, Supervisory Board and the Shareholders' Meeting.

Nova KBM Management Board

As of 31 December 2016, the Management Board had the following two members: Robert Senica (President) and Sabina Župec Kranjc (Member).

At the end of 2016, Robert Senica was a member of the Supervisory Boards of the Bank Association of Slovenia and Moja naložba, as well as the Chair of the Supervisory Board of KBM Infond, while Sabina Župec Kranjc was the Deputy Chair of the Supervisory Boards of KBM Infond and the Bank Association of Slovenia, and a member of the Supervisory Board of Terme Olimia.

On 22 July 2016, the Supervisory Board appointed Josef Gröblacher to serve as a Management Board member in the capacity of Chief Operating Officer. After he received the approval from the ECB to act as a Management Board member on 7 December 2016, Josef Gröblacher's term of office started on 1 January 2017, as per a decision reached by the Supervisory Board on 16 December 2016. From 15 September 2016 until taking up the role of member of the Management Board, Josef Gröblacher acted as an authorised representative of Nova KBM.

On 19 August 2016, the Supervisory Board appointed Jon Locke to serve as a Management Board member in the capacity of Chief Risk Officer. After he received the approval from the ECB to act as a Management Board member on 7 December 2016, Jon Locke's term of office started on 1 January 2017, as per a decision reached by the Supervisory Board on 16 December 2016. From 15 October 2016 until taking up the role of member of the Management Board, Jon Locke acted as an authorised representative of Nova KBM.

On 14 November 2016, the Supervisory Board announced the appointment of John Denhof as a new Management Board member, subject to approval by the BoS and/or the ECB. After he received the relevant approval from the ECB on 24 February 2017, the Supervisory Board appointed him as the new President (CEO) of the Management Board for a period of five years starting on 1 March 2017, replacing Robert Senica, who presented his resignation notice to the Supervisory Board on 28 February 2017. From the date of his appointment to the Management Board until taking up the role of its President, John Denhof acted as an authorised representative of Nova KBM. Robert Senica was appointed as a member of the Management Board in the capacity of its Deputy President (Deputy CEO), with effect from 1 March 2017.

Management Board members conduct their duties on the basis of employment contracts that set out the remuneration for their performance and other types of emolument. Until 21 April 2016, when Nova KBM passed into the private hands, as described above, the total amount of remuneration provided to Management Board members had been adjusted according to the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors. Since the change of Nova KBM's ownership on 21 April 2016, the remuneration of Management Board members has been subject to restrictions arising from Decision of the EC on State Aid No. SA.35709 (2013/N) – Slovenia, Restructuring of Nova Kreditna banka Maribor d.d. (NKBM) – Slovenia, and has been regulated in accordance with the commitments made by Nova KBM for the period of its restructuring, i.e. from 2013 to 31 December 2017.

Nova KBM has set up and is implementing an appropriate remuneration policy for employees having specific roles and responsibilities, including members of the Management Board, in accordance with the ZBan-2 and the BoS's Regulation Governing the Internal Governance, the Governing Body and the ICAAP for Banks and Savings Banks. The currently applicable remuneration policy was adopted on 22 September 2016.

Nova KBM discloses the remuneration of its Management Board in compliance with regulations governing that issue. The remuneration of Management Board members is disclosed in the notes to the financial statements.

Further information about the work and powers of the Management Board is set out in the section 'Corporate governance statement'.

Information about the composition of the KBS banka Management Board

In 2016, up until 30 June, the Management Board of Raiffeisen banka (which was later renamed to KBS banka) comprised Gvido Jemenšek as the President and Werner Georg Mayer as a member, the latter resigning on 30 June 2016. To fill the vacancy arising as a result of his resignation, the Supervisory Board appointed Marija Brenk as a Management Board member.

Nova KBM committees

Bank Credit Committee

The Bank Credit Committee makes decisions on granting loans to customers, within its powers and in accordance with Nova KBM's rules governing the powers, procedures and decision-making with respect to loan approvals. The committee had the following members at the end of 2016: Robert Senica (Chair), Jon Locke (Deputy Chair), Darja Hota Mesarič, Jernej Močnik and Cvetka Žirovnik. Helga Kerec, Andrea Berlič and Gregor Ilešič acted as substitute members.
The Bank Credit Committee meets on a weekly basis.

Distressed Loans Committee

Nova KBM also has in place the Distressed Loans Committee. The committee had the following members at the end of 2016: Jon Locke (Chair), Robert Senica (Deputy Chair), Črt Slokan, Darja Hota Mesarič, Suzana Slamek and Cvetka Žirovnik. Damijan Podlesek, Andrea Berlič and Andreja Vezjak acted as substitute members.
The Distressed Loans Committee meets on a weekly basis.

Liquidity Committee

The Liquidity Committee reviews the provision of short-term liquidity. The committee had the following members at the end of 2016: Sabina Župec Kranjc (Chair), Robert Senica (Deputy Chair), Jon Locke, Romana Muraus, Tatjana Skaza, Darja Hota Mesarič, Valerija Pilih Grah, Jernej Močnik, Aleksander Batič and Severin Vičič. Substitute members were Maja Aršič, Petra Erker, Matej Jemenšek, Vojko Kalinić, Helga Kerec, Branka Vujanovič and Janez Stajnko.
The Liquidity Committee meets daily.

Assets and Liabilities Committee (ALCO)

The ALCO reviews the statement of financial position structure, capital adequacy, interest rate risk, structural liquidity, market risks, foreign exchange risk, profitability and the performance of profit centres, financial plans, aggregate credit risk, regulatory requirements, tax aspects of operations and other risks associated with new products and services. The committee had the following members at the end of 2016: Sabina Župec Kranjc (Chair), Jon Locke (Deputy Chair), Robert Senica, Črt Slokan, Romana Muraus, Tatjana Skaza, Darja Hota Mesarič, Jernej Močnik, Aleksander Batič, Valerija Pilih Grah, Suzana Slamek, Matej Jemenšek and Andrea Berlič. Substitute members were Matej Jemenšek, Helga Kerec, Branka Vujanovič, Vojko Kalinić, Damijan Podlesek, Igor Cizerl and Marjetka Šušterič.

The ALCO meets once every month.

Operational Risk Committee

The Operational Risk Committee is responsible for monitoring, measuring, assessing and managing operational risks. The committee had the following members at the end of 2016: Robert Senica (Chair), Sabina Župec Kranjc, Črt Slokan, Darja Hota Mesarič, Severin Vičič, Primož Britovšek, Romana Muraus, Matjaž Jelenič, Aleksander Batič, Jernej Močnik, Matej Jemenšek, Andrea Berlič, Simon Tantegel, Katarina Kolarič, Tatjana Skaza, Robert Šprem, Mateja Hrastelj, Darinka Žuran Rudolf, Cvetka Žirovnik, Mitja Leskovar, Suzana Slamek, Tanja Remškar and Alenka Senčar.
The Operational Risk Committee meets at a minimum on a quarterly basis.

Committee for Active Monitoring and Recovery of Loans Outstanding to Corporate Customers and Sole Proprietors

This committee is responsible for taking measures regarding loan recovery processes, for making decisions with respect to regulating past-due obligations of customers, and for actively monitoring the performance of customers that are subject to special treatment. The committee had the following members at the end of 2016: Darja Hota Mesarič (Chair), Robert Senica, Metka Čretnik Zavec, Irena Lah, Suzana Slamek, Cvetka Žirovnik and Jernej Močnik.
The committee meets at a minimum once a month.

Classification Committee

The Classification Committee is responsible for the review and approval of changes in customer classification. The committee had the following members at the end of 2016: Darja Hota Mesarič (Chair), Andrea Berlič (Deputy Chair), Metka Čretnik Zavec and Irena Lah.
The Classification Committee meets at least every fortnight.

Bank Investment Board

The Bank Investment Board is responsible for discussing and deciding on the debt portfolio investments for Nova KBM's proprietary account. The board had the following members at the end of 2016: Sabina Župec Kranjc (Chair), Jon Locke (Deputy Chair), Darja Hota Mesarič, Romana Muraus, Matej Jemenšek and Valerija Pilih Grah. Maja Aršič, Tadeja Brglez and Aleksandra Vincekovič acted as substitute members.

Fit and Proper Committee

In accordance with the provisions of the ZBan-1, the ZGD-1 and the BoS's regulations, in 2014 the Management Board set up the Fit and Proper Committee, whose task is to assess the suitability of officers holding key positions, including members of the management and supervisory bodies. The committee had the following members at the end of 2016: Simon Tantegel (Chair), France Arhar (Deputy Chair) and Maksimiljan Juder.

Committees set up by KBS banka and operating in 2016

The following committees operated at KBS banka in 2016: the Credit Committee, the Distressed Loans Committee, the Assets and Liabilities Committee (ALCO) and the Compliance Committee.

Nova KBM Supervisory Board

In accordance with Nova KBM's Articles of Association, the Supervisory Board shall consist of no fewer than six and no more than 11 members, who shall be appointed by the Shareholders' Meeting.

In 2016, up until 21 April when Nova KBM passed into the hands of new owners, the Supervisory Board comprised the following members: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Andrej Fatur, Miha Glavič and Peter Kavčič.

On 21 April 2016, the then members of the Supervisory Board presented their resignation notices, making it possible for the Shareholders' Meeting to appoint a new Supervisory Board consisting of the following members: Andrej Fatur, Manfred Puffer, Michele Rabà, Gernot Lohr, Andrea Moneta and Alexander Saveliev.

Andrej Fatur holds a PhD in Law and serves as an attorney for corporate law. He has many years of experience working in both local and international environment, and is currently acting as the Chair of the Public Finance Law Institute. In the past, he served as a member of the Supervisory Board, the Audit Committee and the Risk Committee of Nova KBM, in addition to being a legal adviser to the BoS on banking operations and regulations.

Manfred Puffer has more than 30 years of experience in the finance industry, having held a broad range of investment banking and finance-related leadership positions. Since 2008, he has been employed as an Operating Partner at Apollo Global Management, LLC, focusing primarily on the European banking sector. He has acquired relevant supervisory experience by serving on the board of various companies in Europe and the United States, in particular at regulated banking and insurance companies.

Michele Rabà is a Principal at Apollo Management International, LLP, a leading global private equity company, where he is responsible for originating, executing and managing investments in Europe, in particular the banking sector. In addition to acting as a Non-Executive Director at Biser Bidco S.à r.l, he has acquired relevant supervisory experience by acting as a supervisor at the holding companies for Apollo affiliated funds' investment in various European companies. He previously worked in the Investment Banking Division – Financial Institutions Group of Goldman Sachs International.

Gernot Lohr serves as a Senior Partner of Private Equity, Co-Head of Strategic Planning and Co-Head of Financial Services at Apollo Management International, LLC. He is a financial services professional with 20 years of experience, with particularly deep expertise in banking and insurance. Having worked across Europe, North and Latin America, Gernot Lohr has acquired relevant supervisory experience by serving as a supervisor of various European companies, particularly regulated banking and insurance companies.

Andrea Moneta serves as the President of the Management Board of Amissima, an insurance company owned by funds affiliated with Apollo Global Management, LLC. He has gained relevant supervisory experience by serving as a supervisor of various European companies, particularly in the area of banking and insurance. Andrea Moneta has gained in-depth experience through various senior management positions he has held at leading European financial institutions. He completed post-graduate studies in risk management and financial markets.

Alexander Saveliev serves as the Director of the Financial Institutions Banking Group at the EBRD. Over the last 15 years, he has performed various supervisory, commercial and executive functions, particularly in the area of finance, thereby gaining a broad range of skills and vast experience. As a representative of the EBRD, he has served as a member of the Supervisory Boards of several banks (Bank Kedr in Russia, Megabank in Ukraine and Šiaulių Bankas in Lithuania). He also gained his banking experience while acting as a member of the Management Board of ProCreditBank in Serbia.

Until 21 April 2016, the amount of attendance fees and other remuneration paid to members of the Supervisory Board and Supervisory Board committees, and the method of their payment, was aligned with the Corporate Governance Code of State-Owned Enterprises, adopted by the SSH on 19 December 2014. The total remuneration paid to Supervisory Board members consisted of: a payment for holding the office, and to cover attendance fees and liability insurance, and the reimbursement of costs incurred as a result of performing their duties, as well as participation and membership fees, and the reimbursement of costs related to the payment of training, participation and membership fees.

In accordance with a resolution passed by the Shareholders' Meeting on 21 April 2016, the members of the Supervisory Board, who are employed at or in a contractual relationship with the shareholder of Nova KBM, i.e. the company Biser Bidco S.à r.l., or any of its related parties or shareholders, shall not receive any compensation for their work on the Supervisory Board. Other members of the Supervisory Board shall each receive a lump-sum payment of €6,250.00 gross per month for their work on the Supervisory Board. This amount already includes all costs and expenses incurred by Supervisory Board members in respect of performing their functions, such as travel expenses, daily allowances, accommodation expenses incurred in relation to their work on the Supervisory Board, costs related to computer and communication equipment, costs of training, and other costs.

Name and surname	Position	Term of office	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Andrej Fatur	Chair	2016–2021	Member (Chair until 16 December 2016)			
Manfred Puffer	Deputy Chair	2016–2021	Member			Chair
Michele Rabà	Member	2016–2021	Member		Member	Member
Andrea Moneta	Member	2016–2021	Chair (since 16 December 2016)	Chair		Deputy Chair
Gernot Lohr	Member	2016–2021	Deputy Chair	Deputy Chair	Chair	
Alexander Saveliev	Member	2016–2021		Member	Deputy Chair	Member

Further information about the work and powers of the Supervisory Board is set out in the section 'Corporate governance statement'.

Information about the composition of the KBS banka Supervisory Board

In 2016, up until 30 June, the Supervisory Board of Raiffeisen banka (which was later renamed to KBS banka) comprised the following three members: Kurt Bruckner, Hannes Mösenbacher and Georg Feldscher.

On 30 June 2016, the Shareholders' Meeting of Raiffeisen banka appointed a new Supervisory Board consisting of the following members: Andrej Fatur, Manfred Puffer, Michele Rabà, Gernot Lohr, Andrea Moneta and Alexander Saveliev.

Supervisory Board committees

In 2016, the following Supervisory Board committees carried out their work in accordance with the ZGD-1 and the ZBan-1: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Committee.

In accordance with Nova KBM's Articles of Association, last year the Supervisory Board also set up the Credit Committee, which is responsible for giving consent to the Management Board for concluding any legal transaction in respect of which the Supervisory Board has adopted a special resolution.

Further information about the work and powers of Supervisory Board committees is set out in the section 'Corporate governance statement'.

Information concerning the work of Supervisory Board committees of KBS banka in 2016

The following Supervisory Board committees of KBS banka carried out their work in 2016: the Audit Committee, the Risk Committee and the Transaction Committee.

Nova KBM Shareholders' Meeting

The Shareholders' Meeting is the body of Nova KBM in which shareholders can exercise their rights, i.e. reach decisions on statutory issues, in particular issues in respect of staff decisions (e.g. appointment of Supervisory Board members, election of auditors), profit distribution (appropriation of profit available for distribution), corporate changes (e.g. amendments to the Articles of Association, increase or decrease in share capital) and legal restructurings (e.g. mergers, acquisitions, demergers, etc.) with the aim of accomplishing the fundamental economic objective – maximising the value of Nova KBM.

Information in respect of the convocation of a session of the Shareholders' Meeting, participation in the Shareholders' Meeting, and on the method of decision-making at the Shareholders' Meeting is set out in the section 'Corporate governance statement'.

The Shareholders' Meeting of Nova KBM met four times during 2016.

At its session held on 21 April 2016, having accepted the resignation notices of the then Supervisory Board members, the Shareholders' Meeting appointed a new Supervisory Board. In addition, it adopted the revised Articles of Association for Nova KBM and determined the remuneration of Supervisory Board members.

The second Shareholders' Meeting in 2016 was held on 15 June. On this occasion, information was provided about the 2015 report on the internal audit of the Nova KBM Group and about the opinion given by the Supervisory Board in this regard, the 2015 Annual Report of the Nova KBM Group and Nova KBM, and the auditor's and the Supervisory Board's report on the examination of the 2015 Annual Report of the Nova KBM Group and Nova KBM. Furthermore, information was provided about remuneration paid to the members of the management and supervisory bodies in 2015, and the Shareholders' Meeting decided to grant a discharge to the Management and Supervisory Boards for the year 2015. The Shareholders' Meeting also passed a decision to amend Nova KBM's Articles of Association.

While the Shareholders' Meeting deliberated on the allocation of the 2015 distributable profit of Nova KBM at its session on 30 June 2016, it reached the final decision in this regard on 14 July 2016.

5.4.4 Compliance function

Sustainable and profitable growth of Nova KBM is based on the development of new products, effective solutions and excellent service on one hand, and exemplary and regulatory-compliant business practices on the other. In carrying out its business, Nova KBM faces numerous threats, both internally and in dealings with external parties, including threats arising from non-compliance with the applicable regulations and from the loss of its integrity. Not only are the level and the nature of existing threats changing over time, but the development and changes taking place at Nova KBM constantly give rise to new threats.

Considering the aforementioned, Nova KBM has set up the Compliance Office as a centralised, autonomous and independent organisational unit responsible for the compliance function. The Compliance Office reports directly to the Management Board and has direct access to both the Supervisory Board and the Audit Committee.

In accordance with the adopted Compliance Mission Statement, the Compliance Office works with all business departments of Nova KBM in supporting the implementation of its strategic, business and financial objectives, while at the same time protecting Nova KBM by developing and promoting an organisational culture that encourages ethical conduct and a commitment to compliance with the law, and by building the values of trust, responsibility, excellence, honesty, commitment and integrity, all of which are important components of Nova KBM's Code of Conduct. Furthermore, through effective training programmes, the Compliance Office provides advice to other departments of Nova KBM in identifying any non-compliance, resolving regulatory issues and strengthening institutional compliance, thereby preserving the reputation of Nova KBM. It encourages all those who have reasonable grounds to suspect that any law or regulation, the Code of Conduct or any other internal policy or procedure has been violated to promptly report what they know, or suspect, about the situation, while ensuring that the notifier does not have to fear being subjected to retaliatory measures. Last but not least, the Compliance Office helps to ensure that there is no leakage of information or data from Nova KBM and that the culture of compliance is maintained across all of its departments, as this contributes to achieving competitive advantages.

In 2016, Nova KBM adopted the Compliance Programme, as part of which, among other things, it made a complete revision of its Code of Conduct and the Compliance Policy, in addition to overhauling its system for managing conflicts of interest, all with the aim of reducing the compliance risk and strengthening the corporate culture.

In view of the increasing importance of the prevention of money laundering and terrorist financing, both from the point of view of increasing requirements of the national regulator and the international regulatory environment that requires Nova KBM to strengthen and intensify its activities in this area, Nova KBM has also set up a special department for the prevention of money laundering as an independent organisational unit that reports directly to the Management Board. Further details in this regard are set out in the section 'Prevention of money laundering and terrorist financing'.

Nova KBM is continually upgrading its system for managing compliance risks, including the risk of abuse arising from transactions in financial instruments, the risks posed by new regulations, and the risks related to the prevention of tax evasion and to the obligations with respect to the automatic exchange of financial account information. Throughout last year, Nova KBM consistently implemented FATCA requirements, and as part of this process it carried out and completed a full review of the customer accounts it maintains. Based on amendments to the ZDavP-2, Nova KBM started to implement the OECD's CRS into its processes, with emphasis on the identification of customers for the purpose of being ready for the first reporting to the FURS and, consequently, for the exchange of information between the participating member countries of the OECD, on the provision of relevant training to employees, and on the upgrade of the existing register of customers.

In addition to delivering to its employees regular training on regulatory compliance, Nova KBM ensures that appropriate measures are taken and advice is provided as permanent support to individual organisational units for the purpose of preventing or mitigating its exposure to compliance risk.

5.4.5 Prevention of money laundering and terrorist financing

Activities with respect to the prevention of money laundering and terrorist financing are carried out by Nova KBM in accordance with the ZPPDFT. Given that the implementation of restrictive measures is subject to similar risks and monitoring indicators as the prevention of money laundering and terrorist financing, the risks related to these two areas are managed within Nova KBM centrally by the Anti-Money Laundering Office. The key responsibilities of this office entail: implementation of measures arising from the applicable legislation, monitoring of the system of internal controls, provision of appropriate training for Nova KBM employees, and a constant concern for the efficient functioning of the system put in place to make sure that all duties assigned to the office are executed. In addition, the office constantly seeks new solutions to improve its work, thereby ensuring that Nova KBM and its customers are better protected against potential threats deriving from the possibility the banking system being abused to commit offences related to money laundering, terrorist financing or non-compliance with the restrictive measures adopted by the international community against the sanctioned individuals and entities. Through its proactive work, and by ensuring a high standard of additional measures implemented in the area of the prevention of money laundering and terrorist financing, the Anti-Money Laundering Office aims to raise awareness about potential risks present within Nova KBM and in the process of dealing with customers, thereby setting up an efficient risk management system that can further improve the regulatory compliance of all stakeholders.

5.4.6 Diversity policy

Although Nova KBM has not adopted a formal diversity policy for the selection of members of its management bodies, this area is fully covered in substance by the Policy on the Selection of Suitable Candidates for a Management Body, which was drafted and adopted by Nova KBM in 2016. This policy takes account of the second paragraph of Article 34 of the ZBan-2, according to which a bank must set up and implement an appropriate policy on the selection of suitable candidates that ensures:

- that a management body as a whole takes into account the wide range of knowledge, skills and experience of its members
- initiatives are implemented to achieve diversity within a management body, including the appropriate representation of both genders and policies to achieve these objectives by increasing the number of members of an under-represented gender on the management body
- conditions are defined for the performance of a specific function, including the required profile of members of a management body before they are appointed

The suitability of members of a management body is assessed based on the following criteria: experience (education, work experience and expertise in pivotal areas), personal reliability, reputation and management capability.

Further details about the Policy on the Selection of Suitable Candidates for a Management Body are set out in the document 'Nova KBM's Consolidated Disclosures for the Financial Year 2016'.

6. SHAREHOLDERS' EQUITY OF NOVA KBM

The composition of Nova KBM's shareholders' equity at the end of 2016 and 2015 is presented in the table below.

	31.12.2016	31.12.2015
Share capital	150,000	150,000
Share premium	403,302	360,572
Accumulated other comprehensive income	33,201	25,799
Reserves from profit	20,228	53,648
Retained earnings	30,847	8,527
Net profit for the financial year	33,004	8,183
TOTAL SHAREHOLDERS' EQUITY	**670,581**	**606,729**

Nova KBM's shareholders' equity saw a year-on-year increase of 10.5%, or €63,852,000. As of 31 December 2016, the share capital of Nova KBM totalled €150,000,000 and was split into 10,000,000 ordinary no-par-value shares.

Until 21 April 2016, when it sold its shareholding in Nova KBM to Biser Bidco S.à r.l., a company set up jointly by Apollo and the EBRD, the Republic of Slovenia had been the sole shareholder of Nova KBM.

The 2016 increase of €42,730,000 in Nova KBM's share premium was entirely attributable to the acquisition of KBS banka, the equity of which was included in Nova KBM's accounts for the end of 2016. Nova KBM's accumulated other comprehensive income increased year on year by €7,402,000, mainly due to the revaluation of available-for-sale financial assets.

In accordance with the amendments made to its Articles of Association, in 2016 Nova KBM reclassified €33,420,000 of its statutory reserves from reserves from profit to retained earnings.

Based on the relevant proposal of the Management Board and the opinion of the Supervisory Board, and in order to comply with the commitments made to the EC, a resolution was passed at the 31st Shareholders' Meeting of Nova KBM, held on 14 July 2016, to earmark €16,567,000 of the distributable profit for the financial year 2015 as a dividend payment to the shareholder, with the remaining balance of the distributable profit, totalling €143,000, being carried forward as retained earnings. For 2016, Nova KBM reported a net profit of €33,004,000.

The allocation of the distributable profit, totalling €63,850,000, is subject to a decision of the 2017 Shareholders' Meeting of Nova KBM. Further information concerning the composition of Nova KBM's distributable profit is provided in the notes to the financial statements.

Information about Nova KBM shares

	Nova KBM Group				Nova KBM			
	31.12. 2016	31.12. 2015	31.12. 2014	31.12. 2013	31.12. 2016	31.12. 2015	31.12. 2014	31.12. 2013
Share book value[13] (€)	68.05	62.00	61.34	56.67	67.06	60.67	58.03	51.77
Net earnings/(loss) per share[14] (€)	3.02	1.66	2.19	(63.05)	3.30	3.44	3.59	(65.65)

13 Book value per share on the last day of the reporting period is calculated as the ratio between Nova KBM's total equity (for the Nova KBM Group: equity attributable to owners of the parent) and the total number of Nova KBM shares outstanding at the end of the reporting period.

14 Net earnings or loss per share is calculated as the ratio between Nova KBM's annualised net profit or loss (for the Nova KBM Group: net profit or loss attributable to owners of the parent) and the weighted average number of Nova KBM shares outstanding during the period. The total number of KBMS shares outstanding at the end of the reporting period was taken into account in the calculation of the 2014 net earnings per share and the 2013 net loss per share.

7. DECLARATION ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS

In accordance with Article 435(e) of Regulation (EU) No. 575/2013 of the European Parliament and the European Council on prudential requirements for credit institutions and investment firms (CRR), the governance bodies of Nova KBM consisting of:

the Management Board in the following composition:
John Denhof, President,
Robert Senica, Deputy President,
Sabina Župec Kranjc, Member,
Jon Locke, Member,
Josef Gröblacher, Member,
and the Supervisory Board, represented by **Andrej Fatur, Chair**,

confirm, by signing this declaration, that Nova KBM has in place adequate risk management arrangements and an independent risk management function, providing assurance that the risk management systems of Nova KBM are adequate with regard to its risk profile, strategy and risk-taking capacity.

Nova KBM has determined its risk appetite framework, as part of which it has drafted the Risk Appetite Statement setting out its material risks and other types of risks to which it is or could be exposed, as well as the key risk indicators in respect of its capital adequacy, liquidity position, asset quality and profitability that must be monitored on a regular basis. With the purpose of defining Nova KBM's risk-taking propensity, a forward-looking risk analysis has been conducted to determine both the threshold values for each of these indicators and the relevant risk-response triggers.

In order to properly deal with a situation where a defined threshold value has been reached or exceeded, Nova KBM has put in place an escalation process that enables the Management Board or the Supervisory Board to take appropriate action.

The amount of risk Nova KBM is willing to accept is below its risk-taking capacity.

Operational limits have been set for each type of risk Nova KBM is willing to accept. These limits reflect and define Nova KBM's business strategy. The utilisation of Nova KBM's risk taking-capacity is regularly monitored and reported to the Management and Supervisory Boards on a quarterly basis.

Maribor, 8 March 2017

Management Board of Nova KBM d.d.

Josef Gröblacher, Member
Jon Locke, Member
Sabina Župec Kranjc, Member
Robert Senica, Deputy President
John Denhof, President

Supervisory Board of Nova KBM d.d.
Andrej Fatur, Chair

RISK MANAGEMENT

Nova KBM sees ensuring the SAFETY of its operations as its primary responsibility and a prerequisite for maintaining the confidence of its customers and other stakeholders.

This is why we have set up ROBUST and prudent risk management processes that meet the highest standards of risk management and require the involvement of all our employees. INTEGRITY, which we added to our core values in 2016, plays a crucial role in these processes.

Photo: Aljoša Rebolj, Studio Bomba

8. RISK MANAGEMENT

It is the mission of the Nova KBM Group to ensure the security of its operations, assume risk in a thoughtful and responsible manner, and comply with the highest standards of risk management. The strategy of the Nova KBM Group defines the amount of risk the Nova KBM Group is capable and willing to accept in order to manage it successfully. The Nova KBM Group is aware of all material risks to which it is exposed in its operations, and categorises these according to the type of risk, individual organisational units, business processes, and employees.

The following risk management processes reflect the Nova KBM Group's overall approach to risk:

- the identification of all risks that arise in the operations of the Nova KBM Group
- the measurement or assessment of the amount of risk as well as the evaluation of the method of monitoring individual risk factors
- the continuous monitoring of the Nova KBM Group's exposure to individual risks, and systematic and comprehensive reporting on risk exposure
- learning and adapting in an evolving business environment, which includes regular evaluation of limits, and methodologies for establishing limits in order to ensure stable and prudent operations of the Nova KBM Group in the long run

It is the responsibility of each Nova KBM Group employee to identify risks. The acceptable level and the method of measuring and monitoring the risks are defined by officers who specialise in dealing with each type of risk. The organisational unit responsible for defining the acceptable level of risks and the method of measuring and monitoring the risks is organisationally separate from the units taking risk.

The monitoring and managing of individual types of risk are described in detail in the respective risk management policies that take into account specific characteristics of individual risk types. For each risk management policy, one person is responsible. This person must also take care of adjusting the respective policy to other policies while taking into account the applicable legislation and best banking practice.

The decision-maker in respect of the methodologies for measuring, monitoring, and managing risks in the Nova KBM Group is Nova KBM. All companies within the Nova KBM Group manage risks in accordance with methodologies that reflect their activities and volume of operations, while taking legal requirements into consideration. Persons responsible in Nova KBM for individual risk policies are acquainted with the method of managing respective risks across all Nova KBM Group companies and have the opportunity and obligation to influence the setting up of adequate methods of managing risks in all Nova KBM Group companies. Risk management procedures are conducted independently at the level of each Nova KBM Group company. The Nova KBM Group has set up methods of reporting on individual risks, which stipulate the content, the frequency, and recipients of reports.

Through an assessment of the likelihood of the realisation of threats and occurrence of loss, a critical review is carried out each year of the Nova KBM Group's risk profile and its ability to assume individual types of risk. At the same time, an evaluation is made of the adequacy of controls established to limit individual types of risk.

All of the companies within the Nova KBM Group treat risk management as a continuous process of identifying, measuring and managing the risks that arise in their operations.

In the second half of 2016, as part of its preparations for the merger with KBS banka, Nova KBM ensured that the risk management processes implemented by KBS banka were the same as those of other companies within the Nova KBM Group, in order to provide for accurate reporting on risk exposure at the level of the Nova KBM Group. To ensure that the pending merger between the banks ran as smoothly as possible, the risk policies and methodologies of both banks had been harmonised by the end of last year. In order to further enhance the control and management of risks, Nova KBM upgraded its risk management approaches in 2016, with the following being among the actions taken in this regard:

- it revised its Distressed Asset Management Strategy
- it adopted the Corporate Lending Policy
- it implemented new credit rating models for the corporate and retail segments
- it upgraded its econometric model used for calculating the stability of corporate and retail demand deposits
- it set up an appropriate framework for the implementation of IFRS 9
- it upgraded the ICAAP across the entire Nova KBM Group
- it further improved its systems of limits
- it adopted the Risk-Taking Strategy, including the Risk Appetite Statement
- it adopted a methodology for measuring risk and a methodology for conducting stress tests as part of the ICAAP
- it followed the recommendations of the ECB and revised the Nova KBM Group's Recovery Plan, which was developed at the end of 2014 based on the BRRD (2014/59/EU). The BRRD was implemented in Slovenia through the ZBan-2 in the middle of May 2015, pursuant to Article 74 of the CRD IV (2013/36/EU) and relevant guidelines of the ECB. The BRRD focuses generally on arrangements to deal with the future bank crisis. It has been drafted based on the international standards for recovery and resolution frameworks, designed by the Financial Stability Board, which have introduced new crisis preventive measures in the banking industry

In 2017, Nova KBM's activities concerning risk management will focus mainly on the following:

- improvement of the ICAAP and ILAAP and the implementation of these in all core processes of the Nova KBM Group
- effective management of operational risk
- effective management of interest rate risk
- adjustment of risk management processes to the requirements arising from IFRS 9

Credit risk



In the area of credit risk management, Nova KBM made the following improvements in 2016:

- **it managed to harmonise the credit risk management processes across the entire Nova KBM Group**
- **it upgraded its processes for assessing customer creditworthiness**
- **it set up an appropriate framework for the implementation of IFRS 9**
- **it improved its systems of limits**

Credit risk is the risk of loss resulting from the failure of a counterparty to repay its debts. Nova KBM is primarily exposed to credit risk through its credit portfolio, which comprises:

- risk-bearing assets (financial assets measured at amortised cost, financial assets measured at cost and other financial assets that may be allocated to individual counterparties)
- risk-bearing off-balance-sheet items (undrawn loans, undrawn overdrafts, credit lines, guarantees given, sureties, letters of credit and similar transactions whereunder a payment obligation may be incurred by Nova KBM)

Nova KBM's credit risk management comprises:

- continuous monitoring and analysis of customers' performance and, based on this, their classification into appropriate credit risk categories
- monitoring the concentration and quality of the loan portfolio to determine whether these are in line with set limits
- determining rules for the identification of non-performing exposures and rules applicable to the reclassification of a non-performing exposure into a credit rating category of performing exposures
- developing appropriate credit rating models, and their calibration
- monitoring the risk profile of the loan portfolio using appropriate risk parameters, such as the probability of default (PD) and loss given default (LGD)
- separate managing of the performing loan portfolio and the non-performing loan portfolio
- determining an adequate level of impairments to be recorded on the performing and non-performing loan portfolios
- monitoring the adequacy of collateral provided for securing individual financial assets and commitments
- measuring the concentration of the loan portfolio by industry sectors
- limiting exposure by setting up limits for individual customers and groups of related customers
- systematic early detection of any increase in credit risk using the EWS
- developing stress scenarios for the purpose of calculating Nova KBM's internal capital
- developing stress scenarios for the purpose of complying with the Restructuring Programme, and reporting on the values of certain performance ratios, the defined thresholds of which serve as triggers for the implementation of the action plan
- monitoring of, and reporting on, the values of performance ratios stipulated in the Restructuring Programme, and implementation of necessary measures in the event of non-compliance with the defined thresholds
- participating in decision-making on loan approvals
- ensuring proper functioning of the lending process by providing an adequate assessment of risks for each loan

All of the companies within the Nova KBM Group comply with the requirements regarding the maximum exposure to a customer or a group of related customers, as set out in the Nova KBM Group Methodology for Determining Upper Lending Limits.

The principal goal of credit risk management is to ensure the stable and profitable performance of Nova KBM while assuming the necessary level of credit risk that arises from the nature of banking operations. The Nova KBM Group reduces the impact of accepted risks by complying with the following regulations, documents and rules:

- regulations of the ECB, the EBA and the BoS, which are based on EC directives and regulations
- its own risk management strategy, which sets out in detail the Nova KBM Group's risk management policies and methodologies
- rules of best banking practice

Prior to approving any loan, Nova KBM carries out a thorough verification of a customer and categorises each customer into credit risk categories 0 to 12 based on its customer classification methodology. The Risk Management Division is involved in decision-making on loan approvals.

During the credit relationship with a customer, Nova KBM carries out the following procedures:

- at least once a year, it verifies the adequacy of credit rating assigned to the customer, taking into consideration financial statement data and subjective factors
- it assesses, on a daily basis, whether the credit rating assigned to the customer is compliant with the adopted classification criteria, such as the number of days payments are past due, blocking of current accounts, and the criteria regarding the institution of insolvency proceedings
- it verifies, on a daily basis, whether any adverse credit risk events have occurred, using for this purpose the EWS
- depending on the risk classification of the customer or exposure on a single loan, it promptly records an adequate level of impairments

Nova KBM classifies customers into appropriate credit rating categories using its own credit rating model. Special attention is devoted to the categories of defaulting customers and non-performing exposures. In accordance with the adopted classification rules, a customer that has been classified into one of these categories is classified into the category of cured exposures once its performance improves.

For calculating impairments and provisions, Nova KBM uses its own Methodology for Assessing Credit Risk Losses, which is compliant with the BoS's Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks, the IFRSs and the relevant EC directives.

In 2016, the following upgrades were made to improve Nova KBM's management of credit risk:

- the customer classification process was overhauled and now fully complies with Article 144 of the CRR
- new credit rating models, developed by Nova KBM in 2015, were successfully implemented in the relevant business processes
- the methodology for calculating loss given default (LGD) levels was improved
- a methodology was developed for the calculation of internal capital for credit risk under the Basel Pillar II capital framework and appropriate limits were set up in this regard
- the loan approval process applicable to retail operations was changed in such a way as to strengthen the role of risk management
- work was done to prepare for changes arising from the introduction of IFRS 9 in respect of the method of calculating impairments and provisions

Liquidity risk



In the area of liquidity risk management, in 2016 Nova KBM upgraded its econometric model used to calculate the stability of corporate and retail demand deposits, in addition to improving its model for distributing these deposits across various time buckets.

Liquidity risk management is an integral part of Nova KBM's prudent and secure operations. Liquidity risk is the risk of loss resulting from a company's inability to meet all of its payment obligations, or the risk that it has to provide necessary funding at significantly higher than usual costs. It arises from maturity mismatches between assets and liabilities.

Nova KBM's own methodologies for identifying, measuring, managing and monitoring liquidity risk are applied at the Nova KBM Group level. These methodologies enable the matching of actual and potential liquidity sources with the actual and potential use of liquid assets within the same time periods.

Nova KBM's principal objectives with respect to liquidity risk management are as follows:

- continuous provision of liquidity
- prompt settlement of all on- and off-balance-sheet liabilities that are due, across all currencies
- compliance with all regulatory requirements
- monitoring of compliance with the set liquidity ratio thresholds and of other elements of liquidity risk
- managing an adequate pool of assets used as collateral for the BoS's and ECB's credit operations
- efficient management of daily liquidity surpluses and the creation of an adequate liquidity reserve
- monitoring the liquidity gap
- regular conducting of liquidity stress tests and reporting on the results thereof

Nova KBM regularly carries out various liquidity stress tests, adopts measures to reduce liquidity risk, and regularly checks the adequacy and accuracy of assumptions used in the stress test scenarios. Based on the results of adverse scenario stress tests, Nova KBM has determined the necessary level of liquidity reserves to be used in the periods of most difficult and emergency liquidity situations.

In 2016, Nova KBM managed liquidity risk in accordance with the adopted policy and methodologies. It fully complied with the regulations on minimum requirements concerning liquidity position, which prescribe as obligatory the Category I Liquidity Ratio (0 to 30 days), while the Category II Liquidity Ratio (0 to 180 days) is calculated for informative purposes only. Nova KBM also held a sufficient amount of highly liquid assets to meet the required minimum values of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). All three ratios referred to in this paragraph are identified as key risk indicators and are defined in Nova KBM's Risk Appetite Statement.

The ALCO reviews regular reports on the diversification of funding, on the liquidity ratio values and on the results of the dynamic liquidity gap analysis. The latter takes into consideration the time component of cash flows and is used for the early detection of negative moments in the anticipated liquidity position. The main cash flows are assessed on the basis of a statistical analysis of time-series data on liquidity items. Negative liquidity position may arise very quickly and unexpectedly. In order to be prepared to deal with such situations, Nova KBM has drawn up three different stress scenarios, at two difficulty levels, the aim of which is to support the responsible authorities of Nova KBM to adopt adequate measures for reducing liquidity risk. Liquidity stress tests are carried out on a monthly basis. The main goal of carrying out stress tests is to provide a sufficient level of liquidity reserves in strictly defined future periods, taking into account the limit on the cumulative net liquidity gap depending on the type of stress scenario. The results of stress tests are reviewed by the ALCO on a regular basis.

Market risks



In 2016, Nova KBM enhanced its systems of limits to better control its exposure to market risks.

Market risk is a risk of loss arising due to adverse changes in financial markets (changes in exchange rates or interest rates or in the prices of financial instruments). Nova KBM monitors market risks of trading book items and market risks of banking book items separately. The method of monitoring and reporting as well as of limiting the exposure to market risks is set out in the market risk management policy.

The methodology used for managing market risks is based on the VaR measure and is compliant with the Basel capital requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The volatility is calculated based on historical data. Nova KBM has set up a system of limits to control its exposure to market risks.

Position risk is a risk of loss arising due to a change in the price of a financial instrument that a company holds in its portfolio for the purpose of trading for its proprietary account. Nova KBM manages three trading portfolios: the portfolio of debt securities, the portfolio of equity instruments and the currency portfolio. Position risk is controlled by trading limits that are set for each trader by the head of the Trading Department, in addition to being set for the total trading volume. Trading in securities is limited by the highest risk value of the portfolio and stop-loss limit. In addition, stop-loss limit is defined for each transaction. Limits for foreign exchange trading for Nova KBM's proprietary account are defined as the maximum allowable open position of the Trading Department. The limits are revised at least once a year and adopted by the ALCO. Compliance with limits is controlled on a daily basis by the Non-Credit Risk

Management Department, which also publishes the limits on Nova KBM's intranet site and, in accordance with relevant internal regulations, reports any violation of limits to the responsible authorities.

Foreign exchange risk represents a potential loss arising from an open foreign exchange position and the volatility of foreign exchange rates. The maximum allowable 10-day VaR is established at the individual currency level just as for the entire currency portfolio. The efficiency of maintaining a balanced position by individual foreign currencies is monitored daily, whereas any violation of limits is, in accordance with relevant internal regulations, reported to the responsible authorities.

Interest rate risk is a risk of loss arising due to unexpected changes in market interest rates, and derives from maturity mismatches of interest-sensitive assets and liabilities. Interest rate risk is identified, measured, managed, controlled and monitored in accordance with the methodology for measuring interest rate risk, and the interest rate risk management policy.

To properly manage interest rate risk, Nova KBM calculates monthly the impact on its net interest income and net present value of interest-sensitive items of interest rate changes in the next three months, as well as of eight different shifts in the yield curve, taking the scenario that produces the greatest loss as the basis for calculating the capital requirements for interest rate risk. The impact of changes in interest rates on Nova KBM's profit or loss is measured for a one-year period. In addition, Nova KBM regularly calculates the impact of interest rate changes on its net interest income and net present value of interest-sensitive items to determine whether, under the stress test scenario which takes into account a +/- 200 basis points change in interest rates, as well as the assumption that interest rates cannot go below zero (i.e. the zero-interest-rate floor), this value accounts for more than 20% of its equity. For the purpose of these calculations, demand deposits are distributed across various time buckets in accordance with the relevant internal models.

The exposure to interest rate risk of Nova KBM's portfolios is controlled by the system of limits, which is approved by the ALCO and reviewed at least on an annual basis. Limits have been set for Nova KBM's exposure to interest rate risk across all time buckets for the three most important currencies: euro, US dollar and Swiss franc.

Operational risk



In 2016, Nova KBM started to set up a framework for the comprehensive management of operational risk (OpRisk Framework).

Operational risk, which includes legal risk, is the risk of loss arising from inappropriate or failed implementation of internal processes, the actions of people, the functioning of systems or due to external factors.

Operational risks the Nova KBM Group is exposed to are managed at the second defence line of its risk oversight system, within the following two divisions:

- Risk Management Division
- Corporate Governance Division

The Non-Credit Risk Management Department, set up within the Risk Management Division, ensures that operational risk loss events are registered in a systematic fashion. The reporting on loss events captures all costs centres of Nova KBM and is carried out on a monthly, quarterly, half-yearly and annual basis. While companies within the Nova KBM Group report to Nova KBM on operational risk loss events on a regular basis, the reports on loss events registered across the entire Nova KBM Group are reviewed by the Operational Risk Committee, which meets at least once every quarter.

The committee referred to above works with organisational units at all hierarchical levels of Nova KBM to ensure an appropriate flow of information needed to manage operational risk in a comprehensive manner. Operational risk management reports are discussed by the committee, but also by the Management Board and senior management of Nova KBM, which provides assurance that immediate action can be taken to deal with any operational risk-related issues. The Operational Risk Committee reviews, on a quarterly or more frequent basis, the reports on incidents recorded by all most important business segments. It then adopts necessary measures in this regard, and monitors their implementation.

The Operational Risk Committee is responsible for dealing with the following matters:

- operational risk loss events recorded across the Nova KBM Group
- protection of people and assets
- information security
- business continuity of Nova KBM
- compliance and integrity of operations
- prevention of money laundering and terrorist financing

While both the Nova KBM Group and Nova KBM calculate capital requirements for operational risk in accordance with the Basic Indicator Approach, they also annually calculate these requirements under the Standardised Approach. The latter calculation, however, is made for informative purposes only.

Nova KBM has defined as an operational risk loss event any event that has a negative financial and material effect on its operations and is recorded in its accounts. Operational risk loss events may also be non-financial in nature. Since not all operational risk losses can be measured, an assessment of losses is made when determining the annual risk profile of Nova KBM. The determination of the risk profile with respect to operational risk is of particular importance, given that the operational risk loss events make up the largest proportion of loss events suffered by Nova KBM that cannot be reliably measured; they can only be, and must be, assessed.

Operational risk loss events are classified by Nova KBM by operating segments and type of loss events, in accordance with the guidelines of the Basel capital standards.

Last year, Nova KBM started to set up a framework for the comprehensive management of operational risk (OpRisk Framework), which will be fully implemented in 2017.



In 2016, Nova KBM implemented an automated fraud detection system, while simultaneously starting to work on the upgrade of its business continuity management system and the information security management system.

The work of the Corporate Governance Division related to the management of operational risk concentrated in 2016 on the following tasks: fraud detection, proper treatment of risks arising from Nova KBM's integration with PBS and KBS banka, and improvement of the control environment in the areas of business continuity, information security, the protection of people and assets, as well as the automatic exchange of financial account information.

The management of operational risk in the area of corporate security within Nova KBM comprises the following: (1) prevention of unlawful practices and fraud, (2) business continuity management, (3) information security management, (4) protection of people and assets and (5) implementation of requirements arising from the OECD's CRS and the FATCA.

Ad 1: With its constant desire to adhere to the highest risk management standards, Nova KBM devotes particular attention to the prevention, identification and treatment of unlawful practices, fraud and other illegal actions. Last year, Nova KBM upgraded its system for managing unlawful practices, set up an automated fraud detection system, and started to set up a system for preventing any unauthorised leakage of data, the aim of which is to improve internal controls and bolster the corporate culture. By developing appropriate software and providing relevant training to its employees and partners, Nova KBM seeks to strengthen its position as a prudent organisation and a trustworthy partner.

Ad 2: Nova KBM has in place a business continuity management system to deal with any extraordinary events that might cause disruption to its operations, such as breakdowns of information and communication flows, natural disasters and other undesired impacts from the environment. This system makes it possible for Nova KBM to take effective action to protect its services, business-critical processes, operations and assets. The business continuity system was developed by Nova KBM based on its Business Continuity Management Policy and the related documents, taking into consideration the applicable regulations. As part of the established governance system of Nova KBM, the Corporate Governance Division is required to conduct, on an annual basis, the business impact analysis, in addition to being responsible for risk assessments, maintenance and testing of business continuity plans, and reporting to the Operational Risk Committee on any exceptional events and identified risks. The division also provides assistance to other Nova KBM Group companies. In 2016, Nova KBM teamed up with an outside contractor to start the process of upgrading its business continuity management system.

Ad 3: Nova KBM has set up an information security management system with the aim of protecting the confidentiality (of business information from unauthorised access and interception), integrity (i.e. accuracy and completeness of information and business software) and availability of information (i.e. provision of business information and information technology services to intended users to enable them to carry out their day-to-day operations). In 2016, Nova KBM started to work with several outside contractors towards overhauling its information security management system, as part of its project to improve its control environment. Furthermore, Nova KBM started to implement a centralised security information and event management system.

Ad 4: Services related to the protection of people and assets are carried out in accordance with the applicable regulations and standards. In ensuring technical, mechanical and physical protection, as well as protection of cash transports, Nova KBM cooperates with several contractors that provide a high level of private protection services. In addition to delivering regular internal training on the protection of people and assets, Nova KBM ensures that preventive measures addressed in risk assessment reports are promptly implemented.

Through the provision to the Operational Risk Committee of reports on the work in each of the four above-described areas, Nova KBM has ensured that the reporting on all operational risks to which it is exposed is carried out in an integrated and systematic fashion.

Ad 5: As part of the implementation of requirements arising from the FATCA and the OECD's CRS in respect of the automatic exchange of financial account information, all necessary measures were taken in 2016 to ensure proper customer identification, including through the establishment of controls that reduce to a minimum the risk of improper identification of customers subject to CRS requirements.

Other types of risk

Reputational risk

Reputational risk is a risk of loss resulting from damage to a company's reputation, incurred as a consequence of various factors, such as inadequate management of risk, erroneous or negative actions of employees, bad experience gained by the stakeholders in dealing with the company, or negative opinions and views expressed by the stakeholders with respect to the company.

Nova KBM has defined the method of monitoring the key risk factors impacting its reputation, the procedures for managing reputational risk, and the persons responsible for taking action aimed at ensuring successful management of reputational risk.

At the time of drafting business plans, an assessment is made of the capital requirement for reputational risk, taking into consideration the possibility of a decline in Nova KBM's reputation and the resulting negative effect on its ability to attract the necessary funding. The capital requirement for reputational risk at the level of the Nova KBM Group equals that of Nova KBM.

Strategic risk

Strategic risk is a risk of loss arising from wrong business decisions, improper implementation of adopted decisions, or a lack in responsiveness to changes in the business environment.

Nova KBM has a system in place to monitor the key elements of strategic risk associated with its business strategy, mission and vision, its strategic objectives, and its corporate culture pursued in the implementation of its business strategy. In addition, all challenges emerging from the business environment are properly identified and taken account of in the operations of Nova KBM. While an assessment of the capital requirement for strategic risk is made as part of the business planning process, the capital requirement for strategic risk at the level of the Nova KBM Group equals that of Nova KBM.

Information system risk

Nova KBM devotes particular attention to the management of risks associated with the functioning of its information systems. Being aware that only regular identification and remediation of risks ensures high availability and proper functioning of its core information system, Nova KBM believes that the management of information technology risks should be an ongoing process.

Loss events arising from failures in the functioning of information systems fall within one of the regulatory-defined categories of loss events. Nova KBM has in place business continuity plans for its information technology systems that comply with the applicable regulations. Backup facilities storing copies of data have been set up at a secondary location to ensure the continuous functioning of information systems.

As part of the annual evaluation of Nova KBM's risk profile, the risks related to information systems are treated as operational risks and are thus included in the overall assessment of Nova KBM's risk profile.

Real estate portfolio risk

The Nova KBM Group has defined the real estate portfolio risk as one to which it is exposed due to fluctuations in the market value of its own real estate, comprising the following assets:

- property, plant and equipment (treated in accordance with IAS 16)
- investment property (treated in accordance with IAS 40)
- non-current assets held for sale and discontinued operations (treated in accordance with IFRS 5)

The Nova KBM Group regards its exposure to real estate risk as moderate. While the Nova KBM Real Estate Management Strategy was adopted in 2016 to ensure proper management of the real estate portfolio risk, the exposure to this risk is assessed as part of the ICAAP.

Credit spread risk

Credit spread risk is a risk arising from the possibility of changes in the market value of debt instruments held in the portfolio of available-for-sale financial instruments and results from changes in the credit quality of the debt instrument issuers. Given the volume of its portfolio of available-for-sale debt instruments, Nova KBM has, through the ICAAP, determined that it is exposed to the credit spread risk.

To determine the amount of internal capital required to cover changes in the credit spread risk, Nova KBM uses a risk-sensitive VaR methodology to assess the effects of an unexpected credit spread shock. Based on the results of this assessment, a calculation has to be made of the impact of the shock on the fair value of debt instruments held in the portfolio of available-for-sale financial instruments.

Profitability risk

Profitability risk is a risk that the Nova KBM Group will incur losses in its operations that may have a material impact on its performance and, consequently, may cause a reduction in the level of Nova KBM's and the Nova KBM Group's equity. While the profitability risk is managed by the Nova KBM Group in accordance with carefully developed business plans and the investment strategy, its level is assessed as part of the ICAAP. To be able to assess the Nova KBM Group's exposure to profitability risk through the ICAAP, it is necessary to determine the key factors that have impacted its operations in the past and that will impact the implementation of its business plans.

9. STRATEGIC DIRECTIONS OF THE NOVA KBM GROUP AND NOVA KBM

Following the conclusion of Nova KBM's privatisation process on 21 April 2016, efforts are being made to revise the adopted strategic directions and to adjust them gradually to the development and business strategy of Nova KBM and the Nova KBM Group, taking into consideration the guidelines and suggestions provided by the new Supervisory Board. This strategy concentrates on accomplishing the key objectives related to building up and consolidating Nova KBM's position as a leading provider of high-quality financial services in the Slovene market, while further strengthening customer focus.

Based on its current development and business platform, Nova KBM has started drafting its new strategic commitments (the strategic plan, vision, mission and values) for the period until 2021, with the work scheduled to be completed in 2017.

Mission, vision and values pursued by Nova KBM and the Nova KBM Group in 2016

Mission

Nova KBM, as the leading company within the Nova KBM Group, operates as a modern, stable and safe bank, and has more than 150 years of tradition of providing contemporary banking and other financial services that help it establish successful partnerships with its customers, other stakeholders, and its broader environment. It considers the satisfaction of its customers, owners and all other stakeholders as well as proper management of all types of banking risks to be the core principles of its business.

Vision

Nova KBM will preserve its status as one of the leading, systemically important banks in Slovenia.

- Nova KBM will ensure the stability of the business it conducts in the local area and the region in which it is present, this being supported by strong operational efficiency in all key segments, and by its ability to generate a steady return.
- Nova KBM will favour stability (i.e. ensuring the quality of its loan portfolio and proper management of all types of banking risks) over business growth as this will increase its safety and the safety of all its stakeholders.
- Nova KBM will continue doing business with trustworthy stakeholders to whom it will provide contemporary products and services. It will perform successfully and profitably.

Values

The core values on which Nova KBM builds its operations, its relationships with its stakeholders, and its corporate culture are as follows: trust, responsibility, excellence, honesty, loyalty and integrity.

Principal strategic directions and their implementation in 2016

The table below sets out the principal strategic directions of Nova KBM and the Nova KBM Group, the implementation of which, as well as of the related objectives, is ensured by the provision of adequate resources and the design and implementation of appropriate measures.

STRATEGIC DIRECTIONS	IMPLEMENTATION IN 2016
Focus on customers • Development and strengthening of relationships with retail customers, particularly young people, the most important customers, more demanding customers and users of contemporary banking services. • Development and strengthening of relationships with corporate customers, particularly SMEs. • Development of lasting relationships with customers, and strengthening of their loyalty. • Development and introduction of new and upgraded services and the provision to customers of a wide range of appropriate value-added services.	• Positive trends in retail lending and deposits continued throughout the year (for further details, see the section 'Retail banking operations'). • Strengthening of corporate lending and of Nova KBM's corporate advisory role, including through its proactive approach to customers, which involved more than 6,000 on-site customer visits (for further details, see the section 'Corporate banking operations'). • Nova KBM was ranked as either the second or third most likable bank in Slovenia in a survey conducted by the GfK agency in 2016. As many as 83% of those participating in the survey claimed to be highly satisfied or satisfied with Nova KBM's service. An internal survey showed that 89% of all customers taking out a loan with Nova KBM were satisfied with the service provided. • Introduction of numerous new and upgraded services, particularly in the area of contemporary ones, the use of which saw an increase last year (for further details, see the section 'New and upgraded services and distribution channels').
European orientation and compliance with European banking standards	• Fulfilment of requirements arising from the ECB's implementation of the SSM. • Implementation of the Restructuring Programme. • Compliance with regulations, standards and recommendations on banking in the EU.
Consolidation of the Nova KBM Group and focus on principal activities – mainly banking • Efficient management of strategic equity investments with the aim of maximising the return generated by the Nova KBM Group. • Divestment and liquidation of non-performing investments. • Introduction of Nova KBM's operating standards in investments that are regarded as strategic ones.	• Completion of the merger between Nova KBM and PBS. • Start of preparatory work towards the merger of Nova KBM and KBS banka (the merger was completed on 3 January 2017). • Continuation of liquidation proceedings against the Nova KBM Group leasing companies. • Continuation of liquidation proceedings against Adria Abwicklungs, which were completed on 31 January 2017 when the company was deleted from the court register.
Efficiency, profitability and stability of operations • Attainment of target values set for key performance indicators. • Withdrawal from markets and from the provision of services that do not generate a sufficient return and do not constitute the basis for profitable growth. • Focus on markets and services where Nova KBM can demonstrate competitive advantages and achieve above-average growth. • Increase in non-interest income. • Strengthening of the funding base, with focus on retail and corporate deposits. • Safety and stability of operations and safety of customer deposits. • Strengthening of lending and other investment activities at an acceptable level of risk exposure.	• Nova KBM and the Nova KBM Group delivered profitable performances in every quarter of 2016. • After a project was launched in 2015 to help Nova KBM improve its sales efficiency and introduce a new sales concept, a considerable increase in total sales and a 19% increase in sales productivity of branch offices was registered in 2016 (for further details, see the section 'Retail banking operations'). • Nova KBM's market share in terms of deposits from and loans to customers saw an increase last year, mainly on account of its merger with PBS.
Streamlining of operations and cost efficiency • Concern for cost efficiency and management of costs at all operating levels. • Optimisation and upgrade of Nova KBM's branch office network and opening of new branch offices in market-attractive locations.	• Nova KBM's cost-to-income ratio remained at a competitive level. • While Nova KBM closed three of its less profitable branch offices last year, its merger with PBS added 500 post office locations spread throughout Slovenia to its network of branch offices, with the synergistic effects of this large distribution network being gradually created and demonstrated.
Effective process organisation and information technology infrastructure	• Work started on setting up the target organisational structure of Nova KBM, which will incorporate the advantages and best practices of Nova KBM and of both banks merged with Nova KBM (PBS and KBS banka), and ensure appropriate implementation of the adopted strategy and strategic objectives. • Steps were taken to replace Nova KBM's current information technology infrastructure with a more modern one, thereby enhancing the efficiency of Nova KBM's operations and its competitive position. Furthermore, implementation of the adopted information technology strategy for the period 2015–2018 continued (for further details, see the section 'Development of information technology infrastructure').
Effective management of all types of risk	• Through the implementation of the ICAAP project, the Advanced Approach to assessing internal capital was put in place, making it possible for Nova KBM to measure and define risks more precisely, taking into consideration its own specific risk profile and that of the Nova KBM Group as a whole. Moreover, approaches used to manage and control risk were upgraded to the highest standard (for further details, see the section 'Risk management'). • The proportion of NPLs within the total loan portfolios of Nova KBM and the Nova KBM Group declined in 2016 by 3.41 percentage points and 4.25 percentage points, respectively (for further details, see the sections 'Active management of distressed loans' and 'Risk management').
Concern for development of employees	• Numerous measures were implemented to ensure a good work environment, appropriate remuneration and training of employees, consideration for health at work, professional and personal development of employees, and sound interpersonal relations (for further details, see the section 'Human resources management').
Enhancement of reputation	• Adoption of a new Code of Conduct, adding integrity to the set of values pursued by Nova KBM. • Nova KBM drafted and adopted the Corporate Social Responsibility and Sustainable Development Policy, and signed the UN Global Compact Declaration (for further details, see the section 'Corporate social responsibility and sustainable development'). • The assessed reputation of Nova KBM improved further last year, increasing by 0.55 percentage points in the period from December 2015 to November 2016 and by 1.03 percentage points relative to the end of 2013 (on a one-to-five scale; Interstat; 2013–2016). • Business decisions were made by taking into account their impact on the reputation of Nova KBM. Appropriate actions were taken in the areas of corporate governance, regulatory compliance, reputation risk management and crisis event management. While internal reviews and legal measures were used as means to protect Nova KBM's interests and reputation, any suspicion of illicit conduct was handled with necessary diligence. • Nova KBM took the steps necessary to ensure effective marketing and corporate communication campaigns, the building up of successful relationships with its key stakeholders, and the implementation of its social responsibility programme (for further details, see the sections 'Marketing strategy and marketing activities' and 'Corporate social responsibility and sustainable development').

10. PERFORMANCE OF THE NOVA KBM GROUP AND NOVA KBM

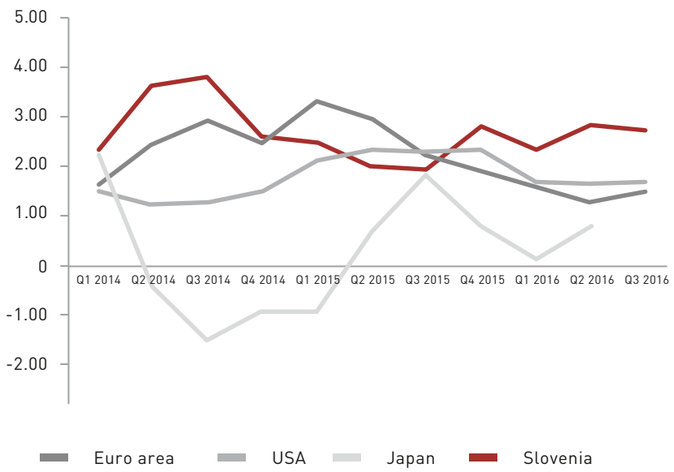
10.1 Macroeconomic environment

International environment

2016 will be remembered as a year in which some tectonic economic and political changes took place at the global level, but these seem to have had no negative consequences for the global economic growth, at least not in the short term. The beginning of the year was marked mainly by devaluation of the yuan in an effort by the Chinese authorities to reinvigorate economic growth that is becoming increasingly fragile, although it still exceeds 6% p.a. In June, voters in the United Kingdom unexpectedly backed the withdrawal of the country from the EU (Brexit), while the results of the November presidential elections in the United States placed additional uncertainty on the economic outlook of the world's largest economy.

At its December 2016 meeting, the Governing Council of the ECB made an assessment that global economic activity improved in the second half of the year and was expected to continue strengthening. The medium-term outlook remains one of strengthening growth, albeit below its pre-crisis pace. Economic activity in the euro area is also continuing to recover, as suggested by a 0.3% increase in real GDP in the third quarter of 2016. Looking further ahead, the Governing Council of the ECB expects the economic expansion to proceed at a moderate but firming pace. Global inflation remains subdued, but is expected to rise slowly going forward. In the OECD countries, the annual consumer price index inflation increased to 1.4% in October, mainly on the back of less negative growth in both energy and food prices. Among the largest economies, headline inflation increased last year in the United States, Japan and China, while it declined in the United Kingdom, India, Brazil and Russia.[15]

Annual GDP growth rates by quarter in selected economies (in %)



Source: International Monetary Fund, January 2017

15 Source: ECB, ECB Economic Bulletin, Issue 8/2016, December 2016.

Economic developments in Slovenia

Favourable economic developments continued in Slovenia as well. According to the BoS, the Slovene GDP increased by 2.7% in the third quarter of 2016, mainly on account of rising exports, but also as a result of strengthened domestic final consumption, which benefited from growth in employment and salaries. Investments particularly remain weak compared with the euro area as a whole, although the outlook is improving. Government investments are also expected to increase in 2017 as the disbursement of EU funds improves.[16] In the January 2017 edition of *Slovene Economic Mirror*, the IMAD stated that the number of registered unemployed persons saw a further decline in 2016. At the end of 2016, there were 99,615 persons registered as unemployed, which was 11.9% less than a year earlier. The number of employed persons increased across most private sector activities, but also in certain public services, such as health, public administration and elementary education services, as a result of the government's easing of recruitment restrictions. The annual rate of inflation stood at 0.5% in December 2016, with the increase in consumer prices being driven mainly by rises in the prices of food and services. With the strengthening of private consumption and more foreign tourist arrivals, higher prices were recorded, particularly for leisure-related services. The prices of durable and semi-durable goods remained down year on year.[17]

Selected macroeconomic indicators for Slovenia

Macroeconomic indicators	2013	2014	2015	2016*	2017*	2018*
GDP (real growth rates; in %)	(1.1)	3.1	2.3	2.3	2.9	2.6
GDP in € million (current prices)	35,917	37,332	38,570	40,004	41,416	42,885
Rate of registered unemployment (in %)	13.1	13.1	12.3	11.2	10.2	9.5
Standardised rate of unemployment (in %)	10.1	9.7	9.0	8.2	7.5	6.8
Inflation**, year average (in %)	1.8	0.2	(0.5)	0.1	1.4	1.5
Inflation**, end of the year (in %)	0.7	0.2	(0.5)	1.1	1.4	1.5
Exchange rate USD against EUR	1.328	1.329	1.110	1.116	1.118	1.118

Source: IMAD, Economic Mirror, No. 1, Vol. XXIII, January 2017
* IMAD, Autumn Forecast, September 2016; ** Consumer price index

Banking system

As stated in the *Economic Bulletin* of the ECB, low interest rates and the effects of the ECB's non-standard monetary policy measures continue to support money and credit dynamics in the euro area. Banks have been passing on their favourable funding conditions, leading to lower interest rates for loans given to non-financial companies and households. Low interest rates have contributed to an increasing demand for loans across most of the euro area. In the third quarter of 2016, the annual growth rate of loans to the private sector saw an increase, while that of loans to households remained unchanged. The ECB's negative deposit facility rate is exerting a positive impact on loan volumes while having a negative impact on banks' net interest income and loan margins. Although banks have made progress in consolidating their balance sheets, the level of NPLs remains high in some countries and may constrain credit origination.[18]

16 Source: BoS, Summary of Macroeconomic Developments, January 2017.
17 Source: IMAD, Economic Mirror, No. 1, Vol. XXIII, January 2017.
18 Source: BoS, Summary of Macroeconomic Developments, January 2017.

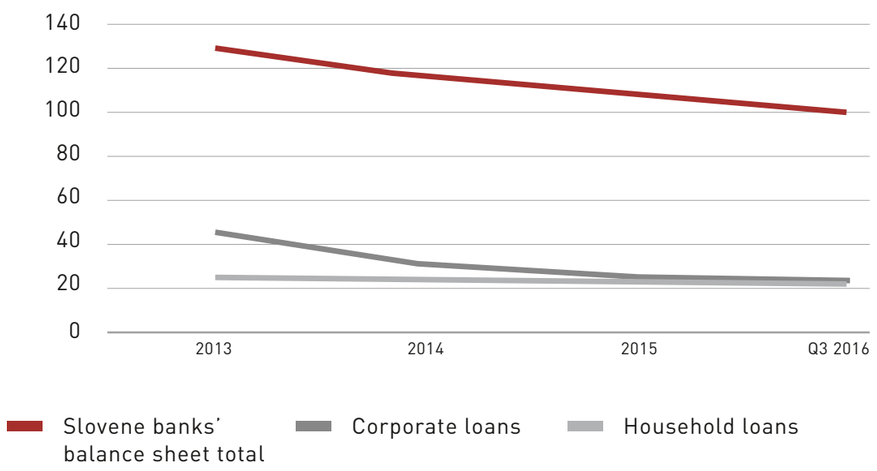
Comparison of interest rates at Slovene banks with those of the euro area as a whole (in %)

		Loans*								Household deposits			
	ECB's interest rate	To households				To non-financial companies							
		Housing loans		Consumer loans		Up to €1 million		Over €1 million		Up to 1 year		Over 1 year	
		€-area	SLO	€-area	SLO	€-area	SLO	€-area	SLO	€-area	SLO	€-area	SLO
December 2012	0.75	2.9	2.9	5.2	4.9	3.8	5.8	2.3	4.9	2.7	2.2	2.4	4.0
December 2013	0.25	2.8	3.3	5.5	5.1	3.8	5.5	2.3	4.5	1.6	1.5	1.8	2.8
December 2014	0.05	2.4	2.9	5.1	4.8	3.1	4.5	1.8	3.4	1.0	0.7	1.2	1.4
December 2015	0.05	2.0	2.2	4.8	4.2	2.6	2.9	1.6	2.2	0.7	0.3	0.8	0.7
October 2016	0.00	1.8	2.0	5.2	4.3	2.4	2.9	1.3	2.2	0.4	0.2	0.6	0.4

Source: BoS, Monthly Information on Bank Performance, December 2016
* Taken into account are euro loans on which the contractual interest rate is variable or fixed for up to one year.

The Slovene banking system saw an increase in household loans in the second half of 2016, while the volume of loans outstanding to the corporate sector continued to shrink. According to the BoS, the annual rate of growth in household deposits reached 3% in October 2016, with consumer and housing loans both registering an increase. Relatively low household debt, improved conditions in the labour market and a gradual recovery of the real estate market contributed the most to this positive trend. Deposits from the non-banking sector continued to grow, comprising an increasing proportion of banks' total funding. With regard to the maturity structure of deposits, customers are shifting away from fixed-term deposits towards savings available on demand, causing demand deposits to account for an increasing proportion of banks' total funding. The proportion of loans past due over 90 days within the Slovene banking system's loan portfolio is declining, pointing to the steadily improving quality of the portfolio. The level of impairments and provisions recorded by Slovene banks in the first nine months of 2016 was below that of the same period a year earlier, with this decline being a key factor in the growth of profits reported by banks for 2016.[19]

Slovene banking system's balance sheet total, corporate loans and household loans (as a % of GDP)



Source: BoS, Summary of Macroeconomic Developments, January 2017

19 Source: BoS, Economic and Financial Developments, January 2017.

10.2 Analysis of performance of the Nova KBM Group and Nova KBM

The merger agreement between Nova KBM and KBS banka stipulated 30 June 2016 as the accounting date of the merger. Consequently, the 2016 results of the Nova KBM Group and Nova KBM presented below include the results of KBS banka's operations for the period from 1 July 2016 to 31 December 2016, despite the latter continuing to operate as a standalone bank until the end of 2016. KBS banka ceased to exist as an independent legal entity on 3 January 2017 when the merger by acquisition of KBS banka by Nova KBM was registered with the court.

10.2.1 Nova KBM Group

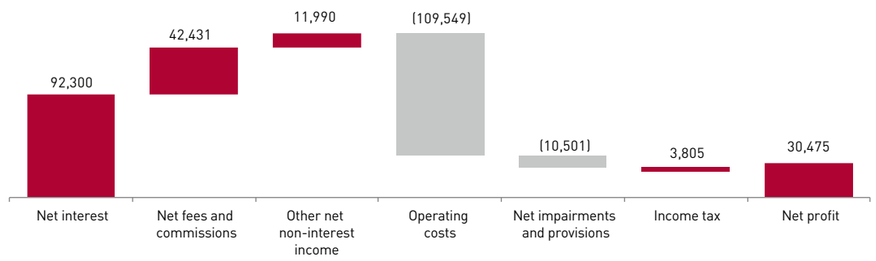
Income statement

For the year ending 31 December 2016, the Nova KBM Group reported a net profit of €30,475,000, compared to €16,960,000 reported for 2015. The 2016 profit of the Nova KBM Group takes into account the results of KBS banka for the six-month period from July through December.

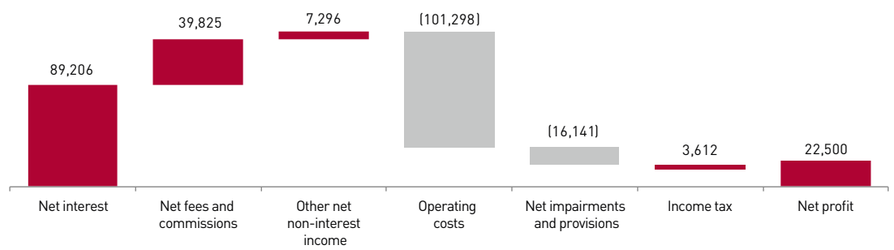
The total income earned by the Nova KBM Group in 2016 amounted to €146,721,000, which was 9.6% less than in 2015, despite taking into account the income of KBS banka reported for the six-month period from July through December. On a standalone basis (without taking into account the effects arising from the merger with KBS banka), the Nova KBM Group generated a total income of €136,327,000, down 16.0% on 2015, of which €92,300,000 was attributable to net interest income and €42,431,000 was attributable to net fee and commission income.

The operating costs incurred by the Nova KBM Group in 2016 totalled €109,549,000, an increase of 12.5% relative to 2015, while net impairments and provisions recorded by the Nova KBM Group in 2016 totalled €10,501,000, down from €39,138,000 reported a year earlier.

Structure of the 2016 net profit of the Nova KBM Group (incl. KBS banka's results) (€000)



Structure of the 2016 net profit of the Nova KBM Group (excl. KBS banka's results) (€000)



Net interest income

The net interest income earned by the Nova KBM Group in 2016 reached €92,300,000, a decline of €5,844,000, or 6.0%, relative to 2015, with interest income and interest expenses registering a year-on-year decline of 13.6% and 44.4%, respectively. Without taking into account the results of KBS banka, the Nova KBM Group's net interest income amounted to €89,206,000. The year-on-year decline in both interest income and interest expenses was attributable mainly to declining interest rates. The structure of interest income and interest expenses by market segment and type of assets and liabilities is presented in the notes to the financial statements.

Net non-interest income

The net fee and commission income generated by the Nova KBM Group in 2016 totalled €42,431,000, a decline of 22.1% relative to 2015. While fee and commission expenses saw an increase last year, fee and commission income registered a drop, with fees earned on payment services declining the most. Without taking into account the results of KBS banka, net fees and commissions earned by the Nova KBM Group totalled €39,825,000. Other non-interest income[20] of the Nova KBM Group amounted to €11,990,000, or €7,296,000 when excluding the results of KBS banka. The net fee and commission income reported by the Nova KBM Group for 2015 totalled €9,681,000.

Operating costs

The operating costs (administration costs, including depreciation and amortisation) incurred by the Nova KBM Group in 2016 totalled €109,549,000, an increase of 12.5% relative to 2015. This figure includes the operating costs of KBS banka. On a standalone basis, the Nova KBM Group incurred operating costs of €101,298,000, up 4.0% on 2015. As regards the composition of operating costs, staff costs accounted for 47.0% of the Nova KBM Group's total operating costs, followed by general and administrative costs (42.2%), and depreciation and amortisation (10.8%). The structure of operating costs is presented in the notes to the financial statements.

Net impairments and provisions

Net impairments and provisions recorded by the Nova KBM Group in 2016 totalled €10,501,000, compared to €39,138,000 reported for 2015, with net impairments of €15,245,000 (2015: €48,780,000) being partially offset by a reversal of €4,744,000 (2015: a reversal of €9,642,000) in provisions. Without taking into account the results of KBS banka, the Nova KBM Group's net impairments and provisions totalled €16,141,000. The structure of impairments and provisions by type of assets is presented in the notes to the financial statements.

20 Other non-interest income includes: dividend income; realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss; net gains or losses on financial assets and liabilities held for trading; gains or losses on financial assets and liabilities designated at fair value through profit or loss; net gains or losses from foreign exchange rate differences; net gains or losses on derecognition of assets other than non-current assets held for sale; other net operating income or loss; share of profits or losses of associates and joint ventures accounted for using the equity method; net gains or losses from non-current assets held for sale and the liabilities associated therewith; and total profit or loss after tax from discontinued operations.

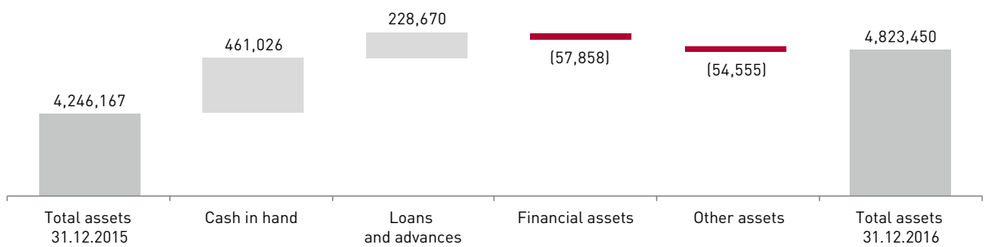
Statement of financial position

Balance sheet total

As of 31 December 2016, the Nova KBM Group's balance sheet total amounted to €4,823,450,000, or €4,267,803,000 when excluding the impact of the merger with KBS banka. Loans and advances made up 44.1% of the Nova KBM Group's total assets, while financial assets accounted for 36.5%. On the funding side of the statement of financial position, customer deposits made up the largest proportion, reaching 75.2%.

The year-on-year increase of 13.6% in the Nova KBM Group's balance sheet total was mainly due to the acquisition of KBS banka. Compared to 2015, balances at central banks and demand deposits held with banks registered an increase, as did the volume of loans and advances outstanding to customers, while investments in securities saw a decline. The most notable increases on the funding side of the statement of financial position were seen in customer deposits, liabilities to banks, and equity.

Movements in the Nova KBM Group's assets in 2016 (€000)



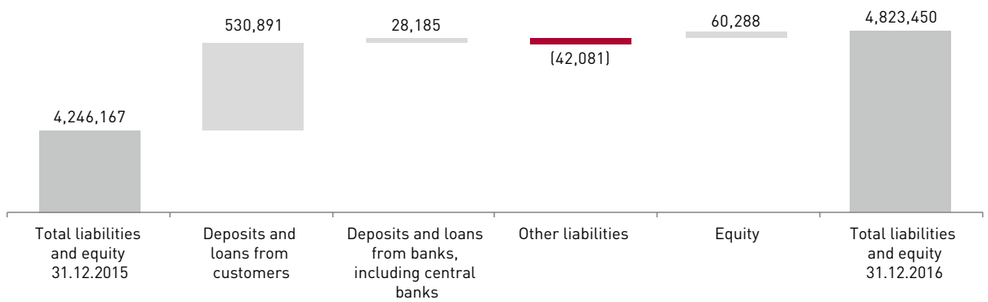
Loans and advances

At the end of 2016, the Nova KBM Group's total lending portfolio amounted to €2,125,058,000, of which €1,963,849,000 was in customer loans. The year-on-year increase of 12.1% in total loans and advances was mainly due to the acquisition of KBS banka. Without taking into account the effects arising from this acquisition, the rate of increase stood at 0.5%.

Financial assets

The balance of the Nova KBM Group's financial assets declined year on year by 3.2%, reaching €1,762,581,000, or €1,685,409,000 when excluding financial assets taken over from KBS banka, with the balance of available-for-sale financial assets registering the largest drop.

Movements in the Nova KBM Group's liabilities and equity in 2016 (€000)



Deposits and loans from customers

Deposits and loans from customers totalled €3,626,247,000 at the end of 2016, up €530,891,000 on a year earlier, mainly on account of the acquisition of KBS banka. Without taking into account the effects arising from this acquisition, the balance of deposits and loans from customers would have stood at €3,203,550,000.

Deposits and loans from banks

Deposits and loans from banks increased year on year by €28,185,000, to €374,195,000, or €299,426,000 when excluding the effects arising from the acquisition of KBS banka.

Equity

At the end of 2016, the Nova KBM Group's total equity was €683,361,000, an increase of €60,288,000 relative to 2015, chiefly on account of the acquisition of KBS banka.

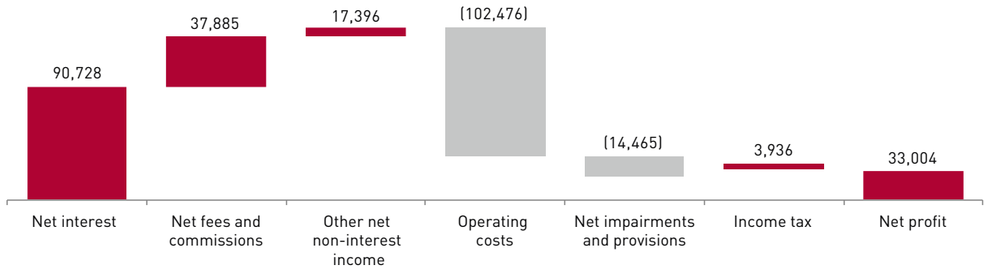
10.2.2 Nova KBM

Income statement

On the day they were acquired by Nova KBM, PBS and KBS banka ceased to exist as independent legal entities, with all their obligations and rights being taken over by Nova KBM, their legal successor. While the income statement of Nova KBM includes the results of PBS for 2016 as a whole, it includes the results of KBS banka only for the period from 1 July 2016 to 31 December 2016.

For the year ending 31 December 2016, Nova KBM reported a net profit of €33,004,000.

Structure of the 2016 net profit of Nova KBM (€000)



Net interest income

The net interest income earned by Nova KBM in 2016 totalled €90,728,000, an increase from €79,101,000 reported for 2015. The latter figure, however, was reported by Nova KBM on a standalone basis and does not include the results of PBS and KBS banka.

Net fee and commission income

The net fee and commission income generated by Nova KBM in 2016 amounted to €37,885,000, compared to €40,536,000 a year earlier, where the latter figure does not include the results of PBS and KBS banka. Fees earned on local payment transactions accounted for the largest proportion of fees earned by Nova KBM in 2016.

Operating costs

The operating costs (administration costs, including depreciation and amortisation) incurred by Nova KBM in 2016 totalled €102,476,000, compared to €72,661,000 reported a year earlier. The 2016 figure takes into account the operating costs of PBS and KBS banka for the relevant periods. At the end of 2016, Nova KBM had 1,246 employees, up from 1,056 at the end of 2015. Employees of the former KBS banka are not included in the 2016 figure.

Net impairments and provisions

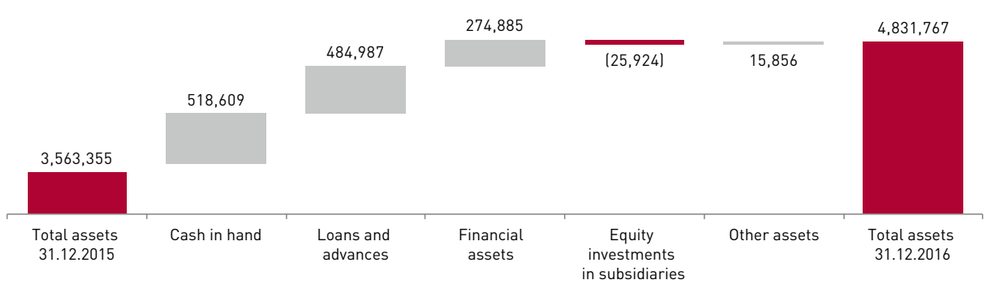
Net impairments and provisions recorded by Nova KBM in 2016 reached €14,465,000, compared to €15,974,000 a year earlier. The latter figure does not include the results of PBS and KBS banka. Net impairments of €16,487,000 recorded by Nova KBM last year were partially offset by a reversal of €2,022,000 in provisions.

Statement of financial position

Balance sheet total

As of 31 December 2016, Nova KBM's balance sheet total amounted to €4,831,767,000 (2015: €3,563,355,000), which gave a market share of 13.0%, according to the most recent data. The year-on-year increase of Nova KBM's balance sheet total derived mainly from the acquisition of PBS and KBS banka.

Movements in Nova KBM's assets in 2016 (€000)



Loans and advances to customers

Nova KBM's loans outstanding to customers increased year on year by €410,454,000 net, or €432,793,000 gross, with loans outstanding to households and non-financial companies increasing the most, mainly on account of the acquisition of PBS and KBS banka.

Available-for-sale and held-to-maturity financial assets

At the end of 2016, the portfolio of Nova KBM's available-for-sale and held-to-maturity financial assets totalled €1,672,311,000, while at the end of 2015, this portfolio totalled €1,470,854,000, but this figure does not include the portfolios of PBS and KBS banka, which Nova KBM acquired in 2016.

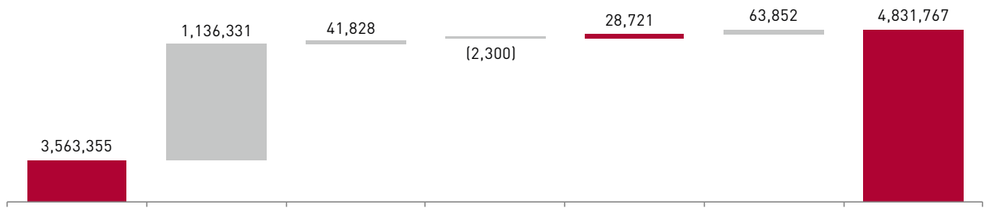
Investments in the equity of subsidiaries, associates and joint ventures

Nova KBM's net investments in the equity of its subsidiaries, associates and joint ventures shrank by €25,924,000 last year, partially as a result of the acquisition of PBS, its former wholly-owned subsidiary, and partially due to the fact that Adria Abwicklungs was no longer regarded as a subsidiary of Nova KBM at the end of 2016 because the liquidation proceedings against the company were completed during the year. Additional impairments recorded on investments in the equity of Nova KBM's subsidiaries also contributed to a decline in the net value of these investments.

As part of the Nova KBM Group's restructuring, and to facilitate the completion of the sale of its investment in the equity of KBM Banka, its ex-subsidiary, Nova KBM has set up a project company KBM Asco, to which, in the first quarter of 2016, it transferred certain assets of KBM Banka, primarily its NPLs and real estate.

Further details with respect to Nova KBM's investments in the equity of its subsidiaries, associates and joint ventures are set out in the notes to the financial statements.

Movements in Nova KBM's liabilities and equity in 2016 (€000)



Deposits from customers and banks, including central banks

The liquidity position of Nova KBM improved further in 2016 on account of a €1,136,331,000 increase in customer deposits, with almost 90% of this figure deriving from the acquisition of PBS and KBS banka. Household deposits saw the largest increase last year.

Loans from banks and central banks

The balance of loans from banks and central banks rose from €332,387,000 at the end of 2015 to €374,195,000 at the end of 2016, with most of this increase coming from the acquisition of KBS banka.

Equity

At the end of 2016, Nova KBM's total equity amounted to €670,581,000, up €63,852,000 on 2015, with the increase resulting from the net profit reported for 2016 and from a rise in share premium arising from the acquisition of KBS banka being partially offset by a decline in reserves from profit. The 2016 figure takes into account the effects arising from Nova KBM's acquisition of PBS and KBS banka.

Further information about Nova KBM's equity is set out in the section 'Shareholders' equity of Nova KBM'.

10.3 Profile of the Nova KBM Group companies[21]

KBM Infond, družba za upravljanje, d.o.o.

Year of establishment: 1993
Website: www.infond.si
E-mail: info@infond.si
Nova KBM's shareholding as of 31 December 2016 (%): 72.73
Management Board members as of 31 December 2016:
Matjaž Lorenčič (President) and Samo Stonič
Supervisory Board members as of 31 December 2016:
Robert Senica (Chair), Sabina Župec Kranjc (Deputy Chair), Mitja Leskovar, Vito Bobek and Borut Celcer

ACTIVITY

At the end of 2016, the company managed the Infond PBGS Mixed Mutual Fund, the Perspektiva Umbrella Fund with six sub-funds, and the Infond Umbrella Fund with eighteen sub-funds, of which thirteen were equity sub-funds, one was a bond sub-fund, one was a money market sub-fund, and three were mixed sub-funds.

According to the most recent data, the total market capitalisation of all mutual funds managed by companies registered in Slovenia was €2,451,242,000 at the end of 2016. Net asset value of all mutual funds managed by KBM Infond totalled €288,665,000, giving the company a market share of 11.78%.

BUSINESS PERFORMANCE IN 2016

For 2016, the company reported a net profit of €1,114,000, a decline of 22% relative to 2015.

As of 31 December 2016, the company's total equity amounted to €10,943,000, down 12% from a year ago, while its balance sheet total stood at €11,725,000, which was 12% less than at the end of 2015.

BUSINESS STRATEGY

The main objectives of KBM Infond for 2017 are as follows: to increase the value of its assets under management, to promote the sale of existing products and to develop new combined products within the Nova KBM Group, to strengthen cooperation with institutional investors, principally pension management companies, to look for new acquisition targets and to explore options of working together with its partners in the area of new distribution channels, to pursue the policy of distributing profits to shareholders (the company plans to distribute to its shareholders an increased proportion of its profits), and to repay in full the subsequently contributed capital.

21 The financial data presented in this section are taken from the standalone financial statements of the Nova KBM Group companies.

KBM Invest d.o.o.

Year of establishment: 1998
Website: www.kbminvest.si
E-mail: kbm-invest@kbminvest.si
Nova KBM's shareholding as of 31 December 2016 (%): 100.00
Management as of 31 December 2016:
Nada Kolmanič (Manager)
Supervisory Board members as of 31 December 2016:
Mitja Leskovar (Chair), Damijan Podlesek and Primož Britovšek

ACTIVITY

In 2016, the company carried out the following activities:

- investment engineering, and maintenance services and management of Nova KBM's large real estate investments, as set out in the adopted annual plan, focusing on investments and investment-maintenance works related to newly-constructed buildings, as well as refurbishment of Nova KBM's business premises
- construction of real estate for the market and the sale of real estate

BUSINESS PERFORMANCE IN 2016

The company's strategy focuses on the divestment process rather than on business growth. In 2016, despite ongoing unfavourable conditions in the real estate market, the company managed to sell the bulk of its inventory and posted a net profit of €34,000. The total revenues earned by the company in 2016 amounted to €4,647,000 and were derived mainly from the sale of the inventory of completed real estate units and from investment engineering services provided to other Nova KBM Group companies, but also from rent received. By selling 44 apartments, 104 parking places and one commercial premises, the company generated a revenue of €4,418,000 in total. The total costs incurred by the company in 2016 amounted to €4,613,000, of which the largest proportion related to the costs of products and services sold, costs incurred in the maintenance of real estate projects, administration costs and financing costs.

The company's balance sheet total was €4,551,000 at the end of 2016, down 42% on the end of 2015, primarily because of a decline in inventory following the sale of a certain number of real estate units. The balance of the company's inventory declined year on year by 64% and totalled €2,160,000 at the end of 2016, which accounted for 47% of the company's total assets. Last year, the company managed to repay in full the loans it had taken from banks in the past to finance real estate projects for the market, using for this purpose the proceeds received from the sale of real estate units. At the start of 2016, the balance of loans taken from banks totalled €3,227,000.

BUSINESS STRATEGY

As part of the process of centralising the management of the Nova KBM Group companies' real estate portfolios, the company has become actively involved in efforts made to find appropriate sales and technical solutions for real estate projects owned by the Nova KBM Group companies. The company plans to take an active role in the provisioning of investment engineering services, in the management and custodianship of real estate owned by the Nova KBM Group companies, and in the provision of financial and construction supervision of real estate projects financed by the Nova KBM Group companies. Furthermore, it intends to take the actions necessary to avoid the unjustified realisation of guarantees provided by Nova KBM with respect to real estate projects.

KBM Leasing d.o.o. (in liquidation)

Year of establishment: 1989
Website: www.kbm-leasing.si
E-mail: leasing@nkbm.si
Nova KBM's shareholding as of 31 December 2016 (%): 100.00
Management as of 31 December 2016:
Stjepan Marinović (Liquidator)

ACTIVITY

KBM Leasing was involved in the provision of services with respect to finance leasing and operating leasing of movable property and real estate.

BUSINESS PERFORMANCE IN 2016

Nova KBM, as the sole shareholder of KBM Leasing, made a decision on 30 December 2014 to initiate liquidation proceedings against KBM Leasing in order to comply with the requirements arising from its Restructuring Programme and the commitments made by the Republic of Slovenia and Nova KBM to the EC regarding the restructuring of the Nova KBM Group.

KBM Leasing ended 2016 with a net profit of €2,706,000 and a total equity of €14,722,000. The profit reported by the company for last year was partially generated from the sale of licences, and partially from the reversal of provisions that the company had set aside in previous years for legal actions brought against it, but which were no longer necessary after these actions had been settled. At the end of 2016, the company's balance sheet total amounted to €18,013,000, up €192,000, or 1%, on 2015. Since the start of its liquidation, the company has been making efforts to sell its assets and claims, depositing proceeds received from sales into its accounts. Year on year, the balance of cash held by the company in its accounts increased by €2,877,000, to reach €11,819,000 at the end of 2016, a figure that equalled 66% of the company's total assets. In 2016, the company sold €646,000 net worth of items seized under lease agreements, thereby reducing the value of its inventory to €781,000. Claims under lease and loan agreements outstanding at the end of 2016 totalled €4,769,000, with impairments recorded on these claims amounting to €673,000. Other assets of the company were mostly made up of fixed assets, claims arising from actions, and other claims.

BUSINESS STRATEGY

KBM Leasing expects to complete the liquidation proceedings by 31 December 2019, after which the remaining assets of the company will be transferred to Nova KBM.

Gorica Leasing d.o.o. (in liquidation)

Year of establishment: 1998
Website: www.gorica-leasing.si
E-mail: info@gorica-leasing.si
Nova KBM's shareholding as of 31 December 2016 (%): 100.00
Management as of 31 December 2016:
Stjepan Marinović (Liquidator)

ACTIVITY

Gorica Leasing was involved in the provision of services with respect to finance leasing and operating leasing of movable property and real estate.

BUSINESS PERFORMANCE IN 2016

Nova KBM, as the sole shareholder of Gorica Leasing, made a decision on 30 December 2014 to initiate liquidation proceedings against Gorica Leasing in order to comply with the requirements arising from its Restructuring Programme and the commitments made by the Republic of Slovenia and Nova KBM to the EC regarding the restructuring of the Nova KBM Group.

Gorica Leasing ended 2016 with a net loss of €547,000 and a total equity of €18,851,000. The company's balance sheet total amounted to €19,629,000 at the end of 2016, down €413,000, or 2%, on 2015. Since the start of its liquidation, the company has been making efforts to sell its assets and claims in the promptest and most effective manner, depositing proceeds received from sales into its accounts. Year on year, the balance of cash held by the company rose by €1,930,000, to reach €9,249,000 at the end of 2016, with the increase being partially attributable to the sale of inventory and investment property, and partially to early and scheduled repayments of customers' obligations. In 2016, the company sold €1,018,000 net worth of items seized under lease agreements. Claims under lease and loan agreements outstanding at the end of 2016 totalled €1,930,000, of which €16,000, or 0.83%, was in past due and unpaid claims. Impairments recorded on these claims totalled €34,000 at the end of 2016. Claims outstanding under terminated lease and loan agreements totalled €13,734,000 at the end of 2016, with impairments recorded on these claims amounting to €9,307,000. Other assets of the company were mostly made up of fixed assets, inventory, investment property, and other claims.

BUSINESS STRATEGY

It is expected that the liquidation proceedings against the company will be completed by the end of 2019, after which the remaining assets of the company will be transferred to Nova KBM.

KBM Leasing Hrvatska d.o.o. (in liquidation)

Year of establishment: 2006
Website: www.kbm-leasing.hr
E-mail: info@kbm-leasing.hr
Nova KBM's shareholding as of 31 December 2016 (%): 98.54
Management as of 31 December 2016:
Branimir Cvitanović (Liquidator)
Supervisory Board members as of 31 December 2016:
Mitja Leskovar (Chair), Lucija Klampfer (Deputy Chair), Damijan Podlesek, Nada Topolovec and Primož Britovšek

ACTIVITY

KBM Leasing Hrvatska offered finance and operating leasing in the territory of the Republic of Croatia. The operations of the company are constantly monitored by the Croatian Financial Services Supervisory Agency (HANFA). As a result of being put into liquidation, the company stopped concluding new deals, focusing its efforts instead on the recovery of its outstanding claims.

BUSINESS PERFORMANCE IN 2016

On 30 April 2015, the Shareholders' Meeting of KBM Leasing Hrvatska made the decision to initiate the liquidation of the company. After being put into liquidation, the company has begun selling its assets and has reduced the number of its employees to two. Last year, it managed to reduce the number of its outstanding lease agreements from 430 to 264, its credit exposure from €23,248,000 to €15,985,000, and its loan obligations from €17,992,000 to €13,942,000.

The company ended 2016 with a net loss of €2,009,000, mainly on account of high impairments recorded during the year.

BUSINESS STRATEGY

The main objectives of KBM Leasing Hrvatska for 2017 are as follows:

- to reduce its exposure to Nova KBM
- to focus on the sale of inventory and on the recovery of distressed loans
- to generate positive cash flow (Nova KBM will not provide any additional liquidity)
- to reduce its operating costs
- to effectively manage the active part of its portfolio until a decision is made by Nova KBM regarding the possible sale of the company

Liquidation proceedings against the company are expected to be completed by the deadline of the end of 2017, provided all prerequisites are met.

M-PAY d.o.o.

Year of establishment: 2004
Nova KBM's shareholding as of 31 December 2016 (%): 50.00
Management as of 31 December 2016:
Janez Stajnko (Manager)
Supervisory Board members as of 31 December 2016:
Tomaž Pernovšek, Samo Jošt, Severin Vičič, Miha Šlamberger and Aleksander Batič

ACTIVITY

M-PAY[22] was set up as a joint venture between Nova KBM and Telekom with the aim of processing payments sent through the mobile payment system which the partners have been developing since the start of their cooperation. Based upon an agreement between its owners, and in accordance with their strategies, M-PAY has not yet taken over the processing of mobile payments, which is why it has no permanent employees and is operating on a small scale.

BUSINESS PERFORMANCE IN 2016

M-PAY acts as a coordinator of the development of the Moneta system. It provides advisory services to both strategic partners pursuant to the agreement entered into, from which all its income is derived.

In 2016, the total revenues of the company equalled €16,000, while its total expenses reached €4,500. The net profit reported by the company for 2016 was €9,000, and the company's balance sheet total stood at €243,000 at the end of the year.

The main activity of the company is content-related and technical coordination of the Moneta system, and the provision of advice on the inclusion of new members into the system and on further development of mobile payment services. The mission of the company is to further develop the Moneta system and, by so doing, to provide its institutional participants in Slovenia with an open business and technical platform that allows payments for contemporary and widely spread financial services to be made using mobile phones.

BUSINESS STRATEGY

With a vision of becoming the leading Slovene organisation in the area of mobile payment services, systems and processing, the company aims to support all key elements of the Moneta system in order to be able to fully cover with its services the market of mobile operators, banks and payment service providers.

22 All references in this Annual Report to 'M-PAY' relate to M-PAY d.o.o.

10.4 Marketing strategy and marketing activities

Marketing strategy and marketing activities executed by Nova KBM in 2016 were formulated on the basis of its business strategy and objectives.

At the corporate level, Nova KBM positioned itself as a stable and sound bank that has more than 150 years of tradition in providing contemporary banking services that help it establish successful partnerships with its customers, other stakeholders, and its broader environment. It considers the satisfaction of its customers, shareholders and all other stakeholders as well as proper management of all types of banking risks to be the core principles of its business.

As a socially responsible institution, Nova KBM is aware of the importance of being integrated into the broader social and local environment. In this spirit, it was actively involved in the organisation of numerous events taking place at the regional and local levels, in addition to boosting its recognition throughout Slovenia by participating in various national events. To improve its visibility, it managed its corporate identity and the overall corporate image in the most prudent way, carefully monitored the physical layout of its branch offices and the neatness of its employees, and ensured that its brand was well presented at all post offices on the occasion of its merger with PBS. Various communication campaigns and other campaign types were used by Nova KBM as tools to build up its reputation, as were the policy and the strategy of corporate social responsibility and sustainable development, which were drafted last year.

Throughout the year, Nova KBM carried out various marketing activities aimed at attracting customers and increasing their satisfaction. All of these activities were carefully planned and executed in a rational manner, helping Nova KBM position itself as:

- a provider of adaptable services that understands and recognises the needs and aspirations of its customers, and helps them to find optimum solutions for their financial matters
- a professional and reliable provider of contemporary and high-quality banking services and distribution channels
- a bank that is accessible all over Slovenia via its own branch office network and the network of post offices

Strengthening and cultivating relationships with the existing customers, as well as acquiring new customers, were at the forefront of planning and conducting marketing activities last year. Special focus was placed on the selected target customer groups, including young people, the communication with whom was frequently carried out employing innovative approaches. A number of different marketing and communication campaigns were launched to draw customers' attention to the range of mainstream and contemporary financial products and services offered by Nova KBM, as well as its product packages (e.g. various types of loans, the package account called 'Futurist', various payments cards), many of which can be provided through its modern distribution channels, including the online and mobile banking facilities. In communicating with customers, Nova KBM used a number of communication tools and channels, with websites and social networks being among them. The organisation of various business events was used by Nova KBM as a tool to further intensify relationships with its key customers and partners.

To ensure that its merger with PBS and KBS banka would run as smoothly as possible, in 2016 Nova KBM devoted particular attention to the customers of these two banks, providing them with all relevant and up-to-date information concerning the merger activities.

The implementation of the marketing strategy and the related actions was systematically monitored through various marketing research analyses, the details of which are presented in the next section.

10.5 Market research

As already discussed in the previous section, customers and their satisfaction are the central focus point of Nova KBM's marketing activities. Customer satisfaction is monitored through various market research studies.

One of the most distinguished market research studies carried out last year was a Slovenia-wide survey on bank customer satisfaction (Bančni Monitor), conducted in April by the GfK agency among 1,000 people aged between 15 and 75.

According to this survey, Nova KBM was ranked either the second or third in the Brand Awareness, Advertising and First-Choice Bank categories. Most notably, it was recognised as an all-Slovene bank, as a bank with an extensive branch network and as a bank providing a broad spectrum of services. As many as 83% (2015: 82%) of those dealing with Nova KBM claimed to be highly satisfied or satisfied with its service.

Even better results were obtained in a customer satisfaction survey conducted in autumn 2016 among customers who had taken a loan with Nova KBM. A total of 89% of these customers claimed to be highly satisfied or satisfied with its service, particularly praising the kindness and expertise of its staff and their ability to provide proper advice.

In 2016, Nova KBM carried out mystery shopping actions in all its branch offices in order to identify additional opportunities to improve and extend good practice in dealing with its customers. The results of these actions pointed to a positive trend, both overall and for most of the observed areas, with improvements in the marketing skills of staff and in customer experience standing out. Mystery shopping actions will be reintroduced in the corporate banking segment.

The reputation of Nova KBM is monitored on a regular basis. In 2016, Nova KBM saw a further improvement in its assessed reputation, as suggested by the IRIS (Intelligent Reputation Information System) survey, conducted by the Interstat agency. The perception of advertising campaigns undertaken by Nova KBM is also subject to regular monitoring. 'Together We Are Closer', a corporate advertising campaign launched by Nova KBM on the occasion of its merger with PBS, received above-average attention and was positively accepted by the public, as were various marketing actions targeting young people, launched by Nova KBM to support its brand 'Ruler of the World'.

10.6 New and upgraded services and distribution channels

Nova KBM offers its customers a wide variety of financial products and services across all key groups, from basic banking services for day-to-day business, through insurance products, to a broad spectrum of investment products. While Nova KBM devotes a great deal of attention to providing contemporary banking services, it maintains its competitive position by actively adjusting its pricing policy and launching various attractive special offerings.

In 2016, much energy was invested by Nova KBM in the upgrade of its contemporary banking services, such as its online (Bank@Net) and mobile (mBank@Net) banking services for retail customers, and in the expansion of options for personal loan insurance coverage, a service provided to Nova KBM customers by Zavarovalnica Triglav.

In addition to getting closer to its customers by constantly upgrading its sales processes and thereby enabling customers to have simple and fast access to its products and services through various distribution channels, Nova KBM continuously develops new sales approaches.

Segment	New products and services, and upgrades of existing ones
Accounts	• Introduction of basic payment accounts. • Option provided to retail customers to have cash delivered to their home by post.
Online banking service: Bank@Net	• Upgrade of the active sales service (option to take out payment card insurance and valuables insurance). • Option to enable a faster log-in process (ePassword). • Option to restore a forgotten password. • Option to enable user self-unlocking.
Mobile banking service: mBank@Net	• Option to activate the security SMS service.
Payment cards	• Upgrade of the security SMS service to include information about the available limits on payment cards.
Loans	• Option to have overdrafts on current accounts covered by the insurance provided by Zavarovalnica Triglav. • Extension of retail loan insurance coverage (the maximum maturity of instant consumer loans, consumer loans and housing loans insured by Zavarovalnica Triglav was extended to five, ten and 20 years, respectively).
Moneta	• Upgrade of Margento terminals.
Asset management	• Management of assets between investment funds.
Pension funds	• Offering of three life-cycle funds managed by the pension fund company Moja naložba: MOJ Dynamic Fund, MOJ Balanced Fund and MOJ Guaranteed Fund.

KBS banka, too, focused on upgrading its technological solutions offered to its customers. Its mobile banking service was subject to continuous improvements to keep pace with the developments taking place in this area. Aside from providing its customers with the option of using their mobile phones to view the balance of assets held in their accounts and invested in securities, it offered them the possibility of receiving so-called push notifications, thereby enabling them to be promptly informed of any news in respect of KBS banka's operations, including any changes to its offerings. The online banking facility of KBS banka was a sales channel designed to enable its users to conduct most of their banking transactions in a swift and secure manner. To promote the use of its modern distribution channels, KBS banka was offering attractive interest rates for deposit accounts opened through its online banking facility, which helped it register a consistent increase in the number of users of its online banking services.

10.7 Modern distribution channels

Nova KBM

Customers may carry out their transactions with Nova KBM in a number of ways and through a variety of distribution channels. Although the bulk of transactions are still made by customers in a traditional manner – i.e. at branch offices of Nova KBM or at post offices that form part of Nova KBM's service distribution network – the use of modern distribution channels is growing, particularly the online banking facility, through which customers may purchase a number of banking products and some basic insurance products.

Customers of Nova KBM may carry out their operations in different ways:

- in person, at counters of Nova KBM and Pošta Slovenije as well as contractual post offices
- by using the online banking service (Bank@Net and Poslovni Bank@Net)
- by using the mobile banking service (mBank@Net)
- by using ATMs of Nova KBM
- via the internet (used by customers to open personal accounts at a distance and to create their own custom-designed payment cards)

The range of alternative distribution channels provided by Nova KBM is expanding, making it possible for customers to carry out an increasing variety of transactions at a distance, including via their mobile phones, or through ATMs, which are being regularly upgraded. Nova KBM aims to transfer the processing of simple transactions to alternative channels, allowing its branch offices to focus on personal advice and the sale of more sophisticated products. In pursuit of this goal, Nova KBM has recognised the counters of Pošta Slovenije (post offices) as an increasingly important channel for the provision of its simple banking services.

Branch offices

At the end of 2016, Nova KBM had four branches, under which a total of 60 branch offices were operating. Certain personal banking services may also be provided at more than 500 locations (post offices) of Pošta Slovenije.

ATMs

The total number of Nova KBM's ATMs at the end of 2016 was 293, giving a market share of 17.6%.

Online and mobile banking services for retail customers: Bank@Net and mBank@Net

The number of retail customers using Nova KBM's online banking service, Bank@Net, has been steadily increasing, partially because of proactive marketing campaigns, and partially due to Nova KBM's constant improvements to the functionality of this service. Various surveys show that the users of Bank@Net, the number of whom increased by 25.82% in a one-year period from the end of 2015 to the end of 2016, report an above-average satisfaction with the service. Nova KBM's mobile banking service, mBank@Net, is also becoming increasingly popular, as evidenced by a 51% year-on-year increase in the number of its users.

Online banking service for corporate customers: Poslovni Bank@Net

The number of Poslovni Bank@Net users at the end of 2016 was 9,374, which was 11.38% more than at the end of 2015. The total number of transactions sent over Poslovni Bank@Net increased year on year by 13.81%.

Payment cards

The total number of Nova KBM's payment cards outstanding to its customers at the end of 2016 was 17.13% above that of a year ago, while the number of payment card transactions registered a year-on-year increase of 37.14%.

Moneta

The number of customers using the Moneta service at the end of 2016 was 20.87% above that of a year ago.

POS terminals

At the end of 2016, Nova KBM had 37% more static and mobile POS terminals in operation than at the end of 2015, with its market share in POS terminals accounting for 11.5% of the Slovene banking system. The number of transactions made at POS terminals increased year on year by 1.8%, while the total number of POS contracts Nova KBM had in place at the end of 2016 was 18% above that of a year ago.

Day-night safes and collection of money at agreed upon places

As of 31 December 2016, Nova KBM had in place 3% more contracts with corporate customers and sole proprietors for the use of cash collection points (day-night safes and agreed-upon sales points) than at the end of 2015. The total volume of daily proceeds accepted through these two channels declined year on year by 5%.

KBS banka

Branch offices

The number of branch offices KBS banka had at the end of 2016 remained flat at 12. In line with its high-standard customer service, involving an individual customer approach and an excellent customer service, KBS banka continued to build long-term partnerships in order to be able to maintain a stable customer portfolio and deliver sound performance in the long run. When it was sold by the RBI Group, KBS banka took all the necessary steps to preserve good relationships with its customers, especially the retail ones, including providing relevant information about operational changes resulting from the change in its ownership structure. By so doing, KBS banka managed to retain the loyalty and trust of its customers.

Mobile banking service: KBS Touch

KBS banka's mobile banking service was a real winner, having seen an increase of 72% in the number of its users last year. This favourable outcome was mainly due to several upgrades made to the service, enabling customers without access to the online banking service to conduct an increasing number of transactions using their mobile phones.

Online banking service: KBS Net

Although the number of customers using KBS banka's online banking service increased last year, the rate of growth was below that registered by its mobile banking service.

10.8 Corporate banking operations

Lending operations

The Corporate Banking Division entered 2016 with increased optimism, not only because the improved capital and liquidity positions of Nova KBM made it possible to significantly grow the lending business, but also because the privatisation of Nova KBM contributed to its positive perception as an institution that has in place clear objectives to pursue its principal mission of supporting its customers.

As regards its lending activity in 2016, Nova KBM still had to comply with the restrictions arising from the Restructuring Programme that affects its lending policy through the established mechanisms.

In the process of economic recovery, Nova KBM adapted its operations to the prevailing market conditions and sought investment opportunities with existing customers as well as through the acquisition of new ones.

Companies were mainly demanding working capital financing, while the demand for investment loans, which could have created conditions for a more conspicuous growth of the loan portfolio, continued to be weak.

Nova KBM strengthened further its corporate advisory role. In partnership with some other institutions (the Slovene Enterprise Fund, the Venture Factory and the Institute for Entrepreneurship Research), it helped existing and new customers get access to advice and information relevant to their operations, and offered them support in obtaining EU grants or other types of funding to finance their projects.

An increase was seen in the volume of business done with companies that were more competitive and oriented towards foreign markets, and whose operations were not hampered by the burden of debt.

Nova KBM continued its cooperation with SID Banka, from which it obtained long-term funds for the financing of corporate customers. Most of these funds were used to finance projects aimed at developing an eco-friendly society and encouraging competitiveness of companies. Funds were also used to finance fixed and working assets. Most funds were granted to SMEs.

Through its proactive approach to customers, which involved more than 6,000 on-site customer visits, Nova KBM managed to increase its market share in corporate lending in 2016.

The strengthening of Nova KBM's market share in corporate lending was also the result of its acquisition of PBS, the customers of which were provided with the entire spectrum of services offered by Nova KBM. Judging by customer responses and the fact that Nova KBM managed to retain the customer portfolio of the former PBS, it can be concluded that the acquisition process had been carried out to the highest standard. One of the key advantages gained by Nova KBM through the acquisition of PBS is further expansion of its network of branch offices and of the range of services provided by some of them. Not only private individuals as was the case before the acquisition, but also micro and small companies may now conduct basic banking transactions at the counters of post offices that form part of Nova KBM's distribution network.

In the second half of 2016, intensive preparations started for the acquisition of KBS banka, focusing on the adoption of good practices and products that the latter inherited from Raiffeisen Group while being its member, in particular its cash management products that Nova KBM plans to add to its offering.

Deposit operations

During 2016, Nova KBM regulated its liquidity policy in such a way as to ensure it had a sufficient level of primary liquidity. The main instrument for adjusting the volume of deposits was the interest rate, which depends on the maturity of deposits. In addition to customer deposits as the main source of funding, Nova KBM occasionally borrowed special-purpose funding to support individual projects.

It is the policy of Nova KBM to attract deposits with longer maturities in order to be able to match the demand for long-term loans.

Other banking products

In 2016, Nova KBM continued to promote the use of its online banking service, which is used daily as a communication and transactional channel by more than 70% of its corporate customers.

For micro and small companies, Nova KBM developed several product packages, and offered them VISA prepaid cards, which are primarily intended for company employees working in the field.

Nova KBM provided the service of local and cross-border payments and improved the quality of overall service, in particular in documentary operations. Also, it developed and offered to its customers several new payment services that facilitate the execution of SEPA transfers.

10.9 Retail banking operations

In 2016, Nova KBM continued to focus on improving its sales activities, product offerings and, consequently, customer satisfaction, which remained at a high level throughout the year. According to a Slovenia-wide survey on bank customer satisfaction (Bančni Monitor) conducted by the GfK agency last year, as many as 83% (2015: 82%) of Nova KBM customers claimed to be highly satisfied or satisfied with the service. Apart from devoting attention to the existing portfolio of loyal customers, which further expanded following the acquisition of PBS, Nova KBM placed particular focus on acquiring new customers, especially in regions in which it is less present.

Taking into account its own branch office network, in addition to the network of post offices where the customers of Nova KBM may use certain banking services, Nova KBM has the widest branch office network of any bank in Slovenia. While some basic banking services, such as withdrawal or deposit of funds, and account balance checking, have been available to Nova KBM customers at post offices for a number of years, since September 2016, they have also been able to use post offices to take out a loan, open a deposit account and use a number of other banking services. By being able to use post offices as its distribution channel, Nova KBM has enhanced its presence in locations where it does not have its own branch offices and has approached new customers, thus ensuring a range of banking services can be provided anywhere in Slovenia.



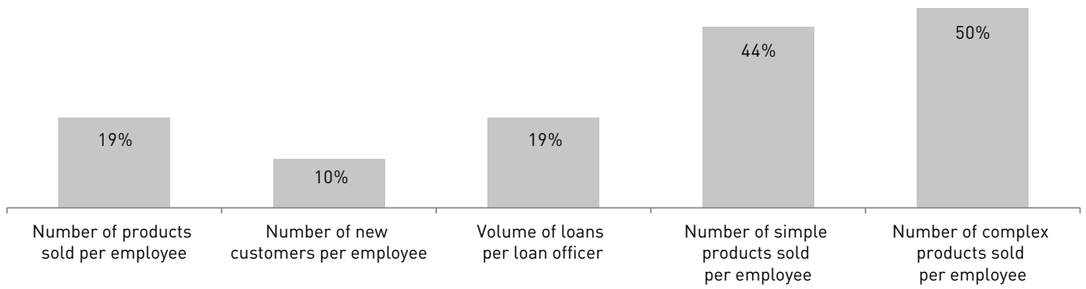
The number of loans sold in 2016 through Bank@Net was 55.79% above that of a year ago.

In addition to providing advice and selling financial products at its branch offices, efforts were made by Nova KBM last year to further develop its alternative distribution channels (e.g. online banking, the call centre and ATMs), and to increase the sales made through them, as was the case in previous years. The number of deposits sold through the Bank@Net online banking facility increased year on year by 5%.

In the middle of last year, Nova KBM offered the users of its online banking service the option of using this service to take out payment card insurance or valuables insurance, which was well received among customers.

To improve its sales efficiency and to enhance the excellence of the departments providing sales support, Nova KBM launched the sales force effectiveness (SFE) project in 2016. The effectiveness of the new sales concept has been confirmed by a remarkable increase in total sales and a 19% increase in sales productivity, as presented in the picture below.

Growth in sales effectiveness in 2016



Through intensive cross-selling of different products, in 2016 Nova KBM managed to increase by 3.9% the average number of products used by its customers.

Lending operations

As was the case a year earlier, the demand for loans from households registered an increase in 2016, reflecting moderate economic growth and a recovery of the real estate market. The total volume of consumer loans granted last year was 17.64% above that of a year ago.

The total number of housing loans approved in 2016 was 16.81% above that of a year ago, with their total value being 7.47% higher than the total value of housing loans approved in 2015.

The volume of loans outstanding to households increased year on year by 17%, while Nova KBM's market share in housing loans increased from 9.8% of the Slovene banking system at the end of 2015 to 10.9% at the end of 2016.

According to an internal survey conducted last autumn, as many as 89% of customers taking out a loan with Nova KBM claimed to be highly satisfied or satisfied with the service.

Deposit operations

Total customer deposits placed with Nova KBM registered a moderate, yet stable, increase last year, with strong growth in demand deposits being partially offset by a slight decline in the volume of fixed-term deposits.

Nova KBM's market share in terms of household deposits stood at 15.5% at the end of 2016, as opposed to 12.3% a year earlier.

Nova KBM offers different types of savings products: short- and long-term deposits with different maturities, deposits at call, deposits with different notice periods, annuity savings, savings for young people of all age ranges, the ZA-TO! gradual savings plan, housing savings accounts, and a combined deposit and investment account called 'Naložbeni duet' (Investment duo) which is a combination of a deposit and an investment into KBM Infond mutual funds. In addition to standard deposit products, Nova KBM offers a wide range of alternative types of savings, such as investment in securities and mutual funds, and investment life insurance products. These products are provided by all branch offices, as are various supplementary pension savings schemes of Moja naložba, each of which has a different investment strategy, giving customers the option to choose between a guaranteed return and schemes that have more high-risk investment strategies, but may potentially provide better returns.

Marketing of other Nova KBM Group products and services and of insurance products

Nova KBM offers its customers a complete spectrum of financial products and solutions, for various life situations, including the products of other companies within the Nova KBM Group, and of some of its other partners. Last year, Nova KBM managed to increase the level of its non-interest income, chiefly by taking a proactive marketing approach and by better management of its pricing policy, but also through constant product upgrades.

With a year-on-year increase of 82.46%, Nova KBM was very successful last year in selling the insurance products of Zavarovalnica Maribor. At branch offices of Nova KBM, customers may take out life insurance policies when taking a loan, arrange travel or accident insurance for themselves and their families, and take out attractive health, payment card or valuables insurance. The amount of insurance brokerage fees earned by Nova KBM in 2016 was 31% above that of a year ago.

Amid uncertain market conditions in 2016, customers were quite reluctant and cautious in investing in mutual funds, resulting in a decline in the total amount of funds collected for KBM Infond mutual funds through Nova KBM branch offices, and, consequently, a decline in fees earned by Nova KBM from this service.

10.10 Active management of distressed loans

Nova KBM's distressed loans outstanding to both corporate and retail customers are managed centrally by the Loan Workout Department. This department takes over the management of each distressed loan once certain criteria are met, including the criteria set for the identification of financial difficulties of customers on the basis of early warning signals. The duties of the department encompass, among others, corporate restructurings, participation in insolvency proceedings, management of real estate projects and the recovery of distressed loans outstanding to households.

Particular attention is devoted by the department to the management of credit risk, effective recovery of distressed loans and constructive participation in the restructuring efforts of Nova KBM customers, with the results of its work being reflected in an improved loan recovery rate and an increased number of restructured loans.

The department has started taking actions to sell a certain proportion of NPLs on Nova KBM's books, particularly those related to the financing of real estate projects in Croatia, in line with the strategy adopted in this regard. In addition, the department worked actively with other institutions in developing initiatives and systemic solutions to deal with the issue of distressed asset management.

The volume of NPLs recovered by Nova KBM is increasing, causing a decline in the total amount of NPLs on the books of both the Nova KBM Group and Nova KBM. Good results achieved in the recovery of NPLs are partially attributable to the introduction of the EWS that promptly identifies any increase in credit risk to which Nova KBM is exposed. In view of the current efforts made to restructure some large Slovene companies, Nova KBM believes that in 2017, some of the NPLs on its books may meet the criteria to be reclassified as performing ones. It must be noted, however, that the recovery of distressed loans outstanding to companies undergoing bankruptcy or insolvency proceedings can only be effected through the liquidation of collateral provided for loans, in which case Nova KBM, despite making every effort to liquidate collateral as quickly as possible, is dependent on external factors, such as the speed of court procedures.

10.11 International operations

In 2016, Nova KBM met all obligations under funding agreements it had signed in previous years, but it did not borrow any additional long-term funds in the local or international markets.

A significant effort was made last year to enhance the international visibility of Nova KBM, including through maintaining existing and establishing new business relationships with foreign financial institutions.

Ratings assigned to Nova KBM by international rating agencies

On 12 May 2016, Fitch Ratings upgraded Nova KBM's Long-Term Issuer Default Rating (IDR) to 'BB-' from 'B+', with the rating being assigned a stable outlook. In addition to upgrading its IDR, Fitch Ratings raised Nova KBM's Viability Rating by one notch, to 'bb-'. The rating upgrade was driven by Nova KBM's improved financial strength, an adequate capital buffer, and its robust liquidity position.

On 25 October 2016, Moody's Investors Service upgraded Nova KBM's Long-Term Deposit Rating to 'B2' from 'B3', while at the same time raising its Baseline Credit Assessment (BCA) and the adjusted BCA to 'b3' from 'caa1'. The rating outlook was affirmed as 'positive'.

As of 31 December 2016, the ratings of Nova KBM were as follows:

Fitch Ratings:	BB-/B (stable outlook)
Moody's Investors Service:	B2/Non-Prime (positive outlook)

10.12 Treasury operations

Nova KBM managed its liquidity in 2016 in such a way as to ensure the settlement of all obligations that became due. By applying a conservative approach, Nova KBM created an adequate secondary liquidity reserve, consisting of ECB-eligible securities and interbank loans that Nova KBM may use for securing claims in borrowings through the instruments of the ECB, while the ECB-eligible securities may also be used for entering into repos in the interbank market.

During the year ending 31 December 2016, Nova KBM fully complied with the regulations on minimum liquidity which require banks to maintain the Category I Liquidity Ratio (up to 30 days). While the prescribed value of the Category I Liquidity Ratio is 1.0, the average ratio value reported by Nova KBM in 2016 was 1.815. Nova KBM also complied with the BoS's regulations on obligatory deposits. The average amount of obligatory deposits that Nova KBM was required to keep in 2016 totalled €30,564,000, while that of KBS banka amounted to €3,761,000.

At the operational level, Nova KBM did not borrow any funds through the Eurosystem's monetary policy operations in 2016, given that it had a surplus of liquidity. Nova KBM also did not place any funds in the marginal deposit facility offered by the ECB, the reason for this being the negative interest rate offered by the ECB. At the end of 2016, the interest rates applicable to the ECB's operations were as follows: for the main refinancing operations 0.0%, for the marginal lending facility 0.25%, while the interest rate for the marginal deposit facility was negative, at minus 0.40%. Since June 2014, the interest rate for the marginal deposit facility has also been applied to banks' average reserve holdings in excess of their minimum reserve requirements.

Portfolio of debt securities held in the banking book

The securities held in the banking book are mainly used for the provision of an adequate liquidity reserve and for managing interest rate risk. Nova KBM has created the portfolio of debt securities in accordance with its Policy of Managing the Banking Book Debt Securities Portfolio. As of 31 December 2016, the total value of debt securities held in the banking book was €1,641,601,000, up 13.31% on 2015, with the increase mainly arising from the acquisition of PBS, which took place on 1 September 2016.

Government securities and securities with state guarantee accounted for 70.0% of the total banking book portfolio, followed by securities issued by prime banks, which had a 28.0% share of the portfolio, and securities issued by other issuers, which accounted for 2.0% of the portfolio.

The composition of the portfolio of debt securities held by Nova KBM in its banking book is presented in the table below.

€000

ITEM DESCRIPTION	31.12.2016	31.12.2015
Available-for-sale financial assets	1,551,388	1,420,193
Held-to-maturity financial assets	90,216	28,566
TOTAL	**1,641,604**	**1,448,759**

The composition of the portfolio of debt securities that KBS banka held in its banking book at the end of June and at the end of December 2016 is presented in the table below.

€000

ITEM DESCRIPTION	31.12.2016	30.6.2016
Financial assets held for trading	4	2,649
Financial assets designated at fair value through profit or loss	67,592	84,184
TOTAL	**67,596**	**86,833**

Certificates of deposit

The total sum represented by the certificates of deposit issued by Nova KBM and outstanding at the end of 2016 was €5,344,000.

KBM10 bonds

Based on decisions made by the Management Board, a total of 38,580 of its own-issued KBM10 bonds were redeemed by Nova KBM in 2015 as part of its corporate campaign to redeem a certain amount of these bonds. All KBM10 bonds that had been redeemed early were deleted from the register kept by the KDD at the end of 2015.

The total number of KBM10 bonds outstanding at the end of 2016 was 6,705, with their nominal value totalling €6,705,000.

Interest rate policy

The interest rate policy of Nova KBM was carried out in accordance with the adopted guidelines and on the basis of its business policy and financial plan for 2016. The policy was adjusted by Nova KBM to reflect current conditions in the local and international financial markets, and developments in the economic environment.

Trading

A total of 2,783 currency trading transactions were concluded by Nova KBM in 2016, while the number of currency trading transactions concluded by KBS banka in the second half of 2016 reached 387. The bulk of trading in foreign exchange markets was in the most important currencies such as the euro, US dollar and Swiss franc. The number of foreign currency cash transactions concluded by Nova KBM in 2016 reached 6,213. KBS banka concluded a total of 236 foreign currency cash transactions in the second half of last year.

Nova KBM entered into a total of 319 derivative transactions in 2016, while the number of derivative transactions concluded by KBS banka in the second half of last year reached six. Neither Nova KBM nor KBS banka concluded any repo or reverse repo transactions last year.

10.13 Trading in financial instruments

Last year, a total of 10,428 transactions were concluded by Nova KBM in domestic and foreign markets, with the value of these transactions being 26% lower than in 2015, mainly as a result of a reduction in the volume of transactions conducted with related persons. On the Ljubljana Stock Exchange, Nova KBM concluded transactions worth €17,645,000 in total, while the total worth of transactions concluded in 2016 in the international stock markets was €32,653,000. In addition, Nova KBM made €4,872,000 worth of transactions in mutual funds and €1,306,000 worth of transactions through unregulated capital markets.

Nova KBM continued to actively promote its asset management products. A total of €967,000 in customer assets was collected by Nova KBM last year, with the total value of customer assets managed by Nova KBM at the end of 2016 amounting to €7,313,000.

10.14 Human resources management

Nova KBM

Employees

All of Nova KBM employees invest in their work considerable personal contributions, which are one of the crucial factors for the successful performance of the institution. Nova KBM believes that its success, growth and development are founded on its well-trained and committed employees. To this end, it endeavours to create an environment that generates opportunities and where employees feel safe and accepted.

The operations of Nova KBM are based on respect for legal norms and rules of ethical conduct towards people and the wider social environment. Nova KBM is committed to high ethical and work standards, as set out in its internal ethical code.

At the end of 2016, Nova KBM had 1,246 employees, up 190 on 2015. A total of 100 employees ended their employment last year, while the number of new employees reached 290. There were 1,235 permanent and 11 fixed-term employees working at Nova KBM at the end of 2016, meaning that 99% of the total number of employees worked on a permanent basis, with the remaining 1% being hired on fixed-term contracts.

The year-on-year increase in the number of employees was largely attributable to the acquisition of PBS. The number of Nova KBM employees in 2016 and 2015 is presented in the table below.

At the end of the year	2016	2015
Total number of employees	1,246	1,056
Number of permanent employees	1,235	1,053
Number of fixed-term employees	11	3
Number of disabled employees	29	29
During the year	**2016**	**2015**
Average number of employees	1,161	1,113
Number of new employees	290	38
Number of employees who left	100	106

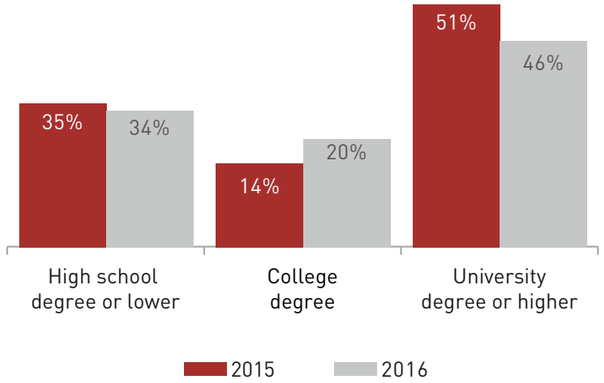
Appointing competent professionals to the correct positions is of vital importance for attaining the business objectives of Nova KBM. In 2016, Nova KBM endeavoured to hire only staff with specific qualifications, for the positions where the failure to fill the vacancy would result in a serious disruption of the work process. All candidates that were subject to the selection process were provided with equal opportunities, irrespective of their gender or other circumstances.

Employee demographics

Of the total number of employees working at Nova KBM at the end of 2016, 77% were women and 23% were men, with the average age of employees being 46.3.

The proportion of employees occupying positions requiring a high school degree or lower was 34%, the proportion of employees occupying positions requiring a college degree was 20%, and as many as 46% of the total workforce held positions requiring a university degree.

Educational level of Nova KBM employees



Remuneration of employees

Nova KBM is capable of recognising employees that deliver above-average work performance and who are successful at work. To motivate employees to continue to do their very best, Nova KBM provides them with various remuneration packages. Employees with the best results are rewarded in financial and non-financial ways, with the former being paid out by Nova KBM in accordance with the provisions of both collective bargaining agreements and its internal regulations. Individual rewards are contingent upon the achievement of objectives set for each employee.

The most loyal employees have for decades been provided with long-service bonuses.

Quality of work and life

Being aware that we live in a time of rapid changes and constant need for adaptation, Nova KBM has for decades been striving to make employees feel good and to foster good interpersonal relationships.

Nova KBM enables its employees to spend their free time in the most satisfying way possible. Employees and their families have the opportunity to spend their holidays at Nova KBM's own leisure facilities across Slovenia. In addition, employees participating in winter or summer banking sports games are entitled to paid leave. A wide variety of recreational, sports and cultural events have been made available to employees for a number of years.

Through informal gatherings, Nova KBM strengthens its values and builds the loyalty of its employees. As a holder of the full 'Family-Friendly Company Certificate', Nova KBM continued last year to create a work environment in which employees, despite their family obligations, could be productive and felt accepted.

Further details in this regard are set out in the section 'Corporate social responsibility and sustainable development'.

Concern for health and safety at work

Nova KBM devotes particular attention to the health of its employees and to safe working conditions. Also last year, Nova KBM offered all of its employees the opportunity to be vaccinated against seasonal flu. The healthy psychophysical condition of employees and a favourable psychosocial environment are encouraged and ensured through free psychological help, which is available to employees every working day, as well as by organising workshops on managing stress in the workplace and providing employees with ergonomic furniture and equipment.

Preventive health check-ups are organised for employees on a regular basis.

By implementing appropriate organisational and safety measures, Nova KBM is constantly striving to reduce risks that may arise from work processes. A total of nine work accidents were recorded by Nova KBM in 2016.

Insurance as an investment in the future and health

Nova KBM gives its employees the option to join a voluntary supplementary pension insurance scheme.

Through Nova KBM, the employees, as well as their family members, may also join the collective accident insurance scheme.

The employees working in places of increased risk, as determined by the risk assessment analysis, are covered for the risk of accident.

Training of employees

The training and professional development of employees are systematically planned through annual staff procedures and are an integral part of Nova KBM's staff policy and of its business and financial plans. With the aim of ensuring that its employees are properly qualified and have the opportunity to grow professionally and personally, Nova KBM seeks to meet its training requirements primarily through internal training programmes, given that in terms of content and time, these can be adjusted to its own requirements or those of employees.

In addition to the regulatory required and regular programmes, in 2016 Nova KBM carried out several training programmes adapted to its business and work requirements. While these training programmes have been developed with the support of all departments, they also take into consideration employee suggestions and the requirements of work processes.

In 2016, a total of 71 internal training programmes were delivered by Nova KBM, with the total number of training participants reaching 6,512. In addition to that, 167 employees took part in 90 external training programmes. Pursuing the objective of providing adequate training to as many employees as possible, Nova KBM involved a total of 83% of its entire workforce in different training programmes last year, up 12% on 2015.

Practical training of pupils and students

Being aware of the importance of combining theoretical knowledge with practical skills, Nova KBM gives pupils and students an opportunity to engage in practical training under the supervision of its experts and thus enables them to become acquainted with its business and work processes, while at the same allowing them to develop and demonstrate their knowledge and capabilities.

KBS banka

This section sets out certain information concerning KBS banka's human resources management. Further details about the reason for including this information in the report are provided in the section 'Programmes and projects aimed at achieving successful transformation of the Nova KBM Group and Nova KBM'.

Staff policy

Through its mission, the staff policy of KBS banka had been interwoven with all business functions of KBS banka, as well as its strategic directions and objectives. KBS banka constantly encouraged its staff to develop entrepreneurial thinking and self-initiative. Compliance with the highest professional standards, flexibility at work and strong ethical values had always been the distinctive qualities of its staff. The principles of loyalty, satisfaction and career development had been properly cultivated, including through team work, which KBS banka considered the basis for successful cooperation. In order to be able to pursue these principles, KBS banka, throughout its history, invested in the professional and personal development of its staff, and provided them with equal opportunities with regard to their capabilities and job performance.

In 2016, KBS banka continued to implement measures arising from its 'Family-Friendly Company Certificate'. For instance, employees who are parents of children enrolling in years one to three (the first triad) of a primary school were allowed to utilise their accrued overtime to take off the first school day, while parents of children attending the last (ninth) year of a primary school were allowed to take off a so-called information day. Psychological help was always available to KBS banka employees, and children of employees were regularly invited to various Christmas and Doors Open Days events organised by KBS banka.

KBS banka had 218 employees at the end of 2016.

At the end of 2016	
Total number of employees	218
Number of permanent employees	211
Number of fixed-term employees	7
Number of disabled employees	4
In the period from 1 July 2016 to 31 December 2016	
Average number of employees	220
Number of new employees	5
Number of employees who left	8

Employee demographics

At the end of 2016, the average age of KBS banka's workforce was 43, and there were 137 (63%) women and 81 (37%) men employed. The employee fluctuation rate, calculated for the period from 1 July 2016 to 31 December 2016, was 3.54%.

Educational level of employees

At the end of 2016	Number of employees	As a % of the total workforce
High school degree or lower (V)	63	28.90
College degree (VI/1)	25	11.47
1st Bologna degree (VI/2)	56	25.69
University degree, 2nd Bologna degree (VII)	62	28.44
Masters degree (VIII/1)	12	0.06

Remuneration of employees

KBS banka had in place a transparent remuneration system, consisting of an appropriate fixed component and a variable component, the latter of which was used to reward employees for strong performance. The adopted remuneration system was applied to all employees, as was the performance management process, which KBS banka had been implementing successfully for a number of years.

Insurance as an investment in the future and health

KBS banka gave its employees the option to join a voluntary supplementary pension insurance scheme. A total of 99% of all its employees were included in this insurance scheme at the end of last year. Employees of KBS banka, as well as their family members, were also provided with the option to join the collective accident insurance scheme.

Training, education and development of employees

As part of its concern for the career development of its staff, KBS banka always enabled and encouraged employees to be involved in training and education, whether delivered internally or externally. Apart from taking part in personal education programmes and function-specific training programmes, KBS banka employees had constantly upgraded their skills at various seminars, language courses and workshops, both at home and abroad, including through e-learning.

10.15 Internal development



The projects undertaken in 2016 helped Nova KBM make a giant step towards accomplishing its strategic objectives.

In 2016, Nova KBM continued to pursue its strategic directions, despite a change in its ownership. However, as a result of this change, several new projects were added to the list of ongoing key projects undertaken by Nova KBM. Successful implementation of individual projects helps Nova KBM further develop and improve its project culture. The key projects implemented by Nova KBM are listed below.

Merger processes

With the aim of making its operations more effective and cost efficient, Nova KBM successfully acquired PBS, its former wholly-owned subsidiary, integrating all operations of the latter into its own by the end of the year. By acquiring PBS, Nova KBM further expanded its country-wide branch office network and gained the opportunity to provide its contemporary banking services through more than 500 locations of Pošta Slovenije and contractual post offices.

Also last year, the preparatory work started on merging with KBS banka, with the ECB having already given its approval to the merger. Necessary preparations for the legal merger of the two banks had been completed by the end of the year, as had the first tasks related to the consolidation of the information technology infrastructure and the organisational functions of both banks.

Regulatory-driven projects in the areas of risk management and reporting

IRB project

In accordance with one of the commitments made to the EC, Nova KBM must upgrade its internal credit rating system for the classification of corporate and retail customers. After several credit risk models were developed last year to be used by Nova KBM's newly set-up internal credit rating system, it is planned that some upgrades and improvements to these models will be made in 2017. The implementation of the internal credit rating system will directly or indirectly contribute to a number of improvements in the loan approval process and in the monitoring of the loan portfolio.

ICAAP project

Through the implementation of the ICAAP project, the Advanced Approach to assessing internal capital was put in place, making it possible for Nova KBM to measure and define risks more precisely, taking into consideration its own specific risk profile and that of the Nova KBM Group as a whole. The ICAAP was integrated into all decision-making processes of Nova KBM. Furthermore, as part of the ICAAP project, comprehensive and reliable risk management strategies were set up, and Nova KBM's risk appetite framework and the Risk Appetite Statement were developed and approved. Both Nova KBM and the Nova KBM Group as a whole were involved in the project implementation.

Implementation of IFRS 9

IFRS 9 covers the classification and measurement of financial assets and methodology for impairment and hedge accounting. It is effective for annual periods beginning on or after 1 January 2018. Since it is necessary to provide comparable data for 2017, work related to the implementation of IFRS 9 started in 2016 with the identification and analysis of changes taking place in the classification and measurement of financial instruments as a result of the introduction of IFRS 9. New impairment models and methodologies were also developed last year, while the necessary process changes and adjustments to the existing information systems, or the implementation of new ones have still to be made.

Implementation of an automated fraud detection system and of restrictive measures

Relevant processes and an information system were set up last year to enable automated detection of fraud. Furthermore, a system of controls, linked with the relevant customer database, was set up in the area of payment processing in order to reduce operational risks and prevent the execution of payments involving persons subject to restrictive measures, or the conclusion of a business relationship with any such person, and the procedure used by Nova KBM to obtain information about politically exposed foreign persons was automated.

Information system overhaul

Nova KBM plans to strengthen its competitive position and efficiency by replacing its current information technology with a more contemporary one. In the middle of 2016, a process was launched to select a new core banking system. The key requirements that the new system must meet are as follows:

- it must be easy to use (it must contain fewer applications than the present system and therefore be less complex to use)
- it must be stable (it must ensure efficient, safe and smooth running of operations)
- it must be modern (it must be capable of satisfying present requirements and the requirements of future business development trends)
- it must be scalable (it must be expandable to accommodate growing business needs)
- it must be flexible (it must be capable of quickly adjusting to any changes in the business process requirements)

Improvement in sales efficiency of branch offices

The sales efficiency of branch offices, which is regularly monitored and measured, was further improved last year, mainly on account of target-oriented sales campaigns, but also as a result of upgrades to proactive sales tools used across all distribution channels. An upgrade was also made to the remuneration system to better reward those achieving the best results. Furthermore, the sale processes were streamlined by removing from them non-selling tasks, and the coaching and training process was reinforced.

Development of information technology infrastructure

Nova KBM develops technological support for its business processes in accordance with its information technology strategy. In-house development of the key components of its information systems, a complete control over the system architecture and systematic management of outsourcers enables Nova KBM to take a focused approach to the design of the entire infrastructure at different levels: from processes and business software to system infrastructure.



The action plan for the implementation of the adopted information technology strategy, the development of which was based on a thorough analysis of Nova KBM's business requirements, was put in place in 2016.

In line with the strategy referred to above, in 2016 Nova KBM continued to work on the optimisation and upgrading of its development procedures, with the purpose of improving the quality of its information solutions.

A decision was made last year to launch a tender for the replacement of the core banking system in order to provide better support to business-critical processes and consolidate individual systems now used by Nova KBM, thereby making its operations more flexible and cost efficient. Nova KBM is aware that in the era of digitisation, it can only remain competitive by having in place systems enabling the rapid development of applications used to support ever-changing products and processes.

With regard to the development of application solutions, a system for recording software performance metrics was set up and an enterprise service bus was implemented.

Consolidation of the information technology infrastructure in the area of virtualisation of branch office servers was successfully completed last year, as was the upgrade of the Microsoft Windows operating system by installing the latest Office software.

In the area of server infrastructure, Intel servers were replaced with more recent models, the virtualisation capacity of back-office servers was increased, and the virtualisation system was upgraded to a more recent version, all of which ensured better availability and quality of service.

The first phase of the server infrastructure overhaul, involving an analysis of the current situation, the development of the overhaul concept and the defining of the target data warehouse system architecture, was also completed last year.

At the end of 2016, after agreeing with the respective supplier to provide the relevant technical support, Nova KBM purchased communication equipment to connect its business premises (branch offices and buildings housing its back-office departments) with both of its data centres. This equipment will be installed in 2017. The active directory was upgraded and overhauled to include additional functionalities needed to manage the latest versions of the Microsoft Windows operating system.

Work related to the review and upgrade of the process for managing licensed software started in 2016, with a relevant gap analysis and the preparation of implementation guidelines for improving the process being successfully completed by the end of the year.

To ensure licence compliance and reduce costs associated with the use of licensed software, a three-year licence agreement was concluded with IBM last year. Furthermore, the procedure for managing information technology changes was enhanced, and the system and procedures for storing software components (applications) were upgraded to ensure better management of software provided to Nova KBM.

Following the acquisition of PBS, work started to integrate its information systems into those of Nova KBM. While retail and corporate accounts maintained by the former PBS had been successfully migrated to Nova KBM's systems by the end of 2016, the archiving of its systems and the physical relocation of its information technology equipment still have to be carried out.

The process of systematic collection, evaluation and prioritisation of requirements (i.e. the demand management process) was introduced last year to improve the efficiency of the business planning process and the process of planning human and financial resources, as well as to monitor the utilisation ratios for these resources.

Investments in property, plant and equipment and intangible assets

Investments in information technology

In 2016, upgrades were made to workstations and the related peripheral hardware equipment installed in the workplaces of employees. Communication equipment and the Intel server infrastructure were also subject to upgrades, and new disk systems were purchased.

Nova KBM is aware that up-to-date software is an essential and necessary part of an information system, as such software reduces information security risks, while at the same time enabling employees to be more productive. To this effect, work started last year to modernise and consolidate Nova KBM's landline telephone system, its videoconferencing systems, and multifunctional devices used for document preparation and handling processes.

Investments in buildings

Investments in buildings are undertaken by Nova KBM in a very cost-efficient manner. The central control system used to regulate the cooling, ventilating and heating systems of Nova KBM was improved last year to ensure these operate even more economically.

Investments in mechanographic and other equipment

Purchases of mechanographic equipment were made in line with the plan, taking into account the actual need and the wear and tear on equipment. The amount of funds spent in 2016 on this equipment was slightly lower than projected, in part reflecting the fact that the requirements for new equipment were not as great as anticipated.

After ten years, Nova KBM partially modernised its vehicle fleet last year. In addition, it replaced all money counting machines at branch offices, purchasing new ones that comply with the requirements of the ECB. Several additional coin processing machines were also purchased last year. These purchases were necessary to satisfy both the growing business volume resulting from the mergers undertaken by Nova KBM last year, and the increasing requirements of commercial customers.

Given that the launch of the new fifty-euro note was postponed and that some software providers had not yet developed the software needed to handle these notes, not all of the cash processing instruments and devices used by Nova KBM were subject to software upgrades last year.

PLANS FOR 2017

We, the employees of the entire Nova KBM Group, are committed to working TOGETHER to implement changes leading to the creation of a new corporate culture.

We will continue to upgrade our work processes, services and products in a thoughtful manner, in order to become even more competitive, while simultaneously strengthening our ability to respond more quickly to the needs of our customers and business partners.

11. PLANS FOR 2017

In 2017, Nova KBM will continue its transformation towards becoming a leading bank in Slovenia for both retail and corporate customers.

Apart from focusing on customer satisfaction and providing its customers with a comprehensive range of first-class financial products and services, Nova KBM, as a systemically important bank in the euro area, will meet all requirements imposed on it as a result of being subject to the SSM, as well as other requirements arising from the applicable regulations or measures implemented by competent authorities. With the exception of one commitment (remuneration restrictions applicable to the Management Board members and other employees working on individual contracts) that remains in place until the end of 2017, all other commitments set out in the Restructuring Programme ceased to have effect as of 31 December 2016. Consequently, this section does not contain a description of measures undertaken by Nova KBM with respect to these commitments.

Strategic priorities for 2017

At the Nova KBM Group level, work will continue on the consolidation of business lines, with the focus being placed on principal activities, particularly banking. Efforts will also continue to strengthen the Nova KBM Group's position in the Slovene financial landscape.

Among the key strategic projects implemented in 2017 will be the work related to the merger with KBS banka. After Nova KBM and KBS banka officially merged on 3 January 2017, work has started on consolidating the banks' information systems in order to ensure the smooth migration of bank accounts maintained by the former KBS banka, as well as the transactions performed on these accounts, to Nova KBM's systems. This merger, once fully implemented, is expected to provide numerous strategic benefits (i.e. the largest distribution network of any bank in Slovenia, enhanced offering of products and improved customer service, optimisation of sales channels, cost reduction and an extensive pool of talent and skills). Particular attention will be devoted to creating and implementing a new corporate culture, taking into consideration the advantages arising from the merger of Nova KBM with both PBS and KBS banka, with its aim being to support the accomplishment of set strategic objectives.

Nova KBM will strive to generate sustainable returns, while simultaneously ensuring the stability and safety of its operations, including through the development of new products, effective financial solutions, and excellent service. Strengthening relationships with both retail and corporate customers, particularly SMEs, will remain its top priority. Nova KBM will seek and exploit growth opportunities by designing more efficient business models, thereby ensuring:

- that its product and service offerings remain competitive
- enhanced user experience and customer satisfaction
- improved return and better utilisation of new business opportunities
- increased lending volumes

As part of the implementation of the adopted growth and development strategy in 2017 and beyond, Nova KBM will continue to pursue good business practices. It will raise awareness among its employees about the importance of adhering to the principles of proper conduct, including through the provision of relevant training, and will regularly monitor whether all of its employees act not only in accordance with the applicable regulations, but also in line with the entire Code of Conduct adopted in 2016, including the core ethical standards, values and rules set out therein. While Nova KBM will ensure it complies with the highest standards applicable to the prevention of money laundering and terrorist financing, it will devote particular attention to the identification and proper treatment of any illicit conduct or fraud, thereby further enhancing the safety of its operations and customer confidence.

Reduction in the level of NPLs on the books of both Nova KBM and the Nova KBM Group remains a priority objective. A significant proportion of Nova KBM's NPLs is outstanding to customers located in Croatia and Serbia. This is due to the fact that, in accordance with the ZUKSB of 2013, the transfer of these loans to the BAMC was not permitted.

In accordance with the adopted risk management strategy and taking into consideration its risk appetite, Nova KBM will strive to ensure the security of its operations, assume risk in a thoughtful and responsible manner, and comply with the highest standards of risk management.

As in previous years, Nova KBM will seek to manage its liquidity in a responsible manner. After it strengthened its relationships with foreign banks in 2016, Nova KBM will strive to further enhance its presence and recognition in international markets, thereby ensuring it has access to favourable funding sources, including through capital markets.

The portfolio of key projects undertaken by Nova KBM with the aim of ensuring compliance with the regulatory requirements and reinforcing its competitive strengths will continue to be managed in a thoughtful manner. One of the strategic priorities for 2017 is the implementation of the information technology strategy, adopted in 2015. As part of this, Nova KBM plans to set up a new core banking system, primarily with a view to improving its competitive position and providing its customers with an even more efficient service. Nova KBM's customer relationship management system is also planned to be upgraded, and work with selected partners regarding setting up automated branch offices will continue. As regards regulatory-driven projects, all the necessary preparations will be made in 2017 to ensure effortless implementation of IFRS 9.

Measures aimed at improving cost efficiency and effectively managing costs across all operating levels will continue to be carried out. Within the scope of these measures, Nova KBM will further optimise and upgrade its branch office network. However, it may also consider opening new branch offices in market-attractive locations.

SUSTAINABLE DEVELOPMENT

We grow and develop TOGETHER. Benefiting from the expertise and experience of employees of both banks that have been recently integrated into Nova KBM, we will build our present and our future on the basis of traditionally close relationships that we have established in the past.

12. CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

The Nova KBM Group has committed itself to the principles of social responsibility and sustainable development by adopting the Code of Conduct. In addition, in order to prove that it is serious about building its business by properly taking into account its socially responsible role, in 2016 it drafted the Corporate Social Responsibility and Sustainable Development Policy. The Nova KBM Group sees this policy, which has introduced a new social responsibility management model, as a self-regulatory mechanism that not only ensures its compliance with the applicable regulations, ethical rules as well as national and international standards, but also helps it satisfy its interests by contributing to the long-term development of the broader social welfare and to the preservation of the natural environment. While senior management of Nova KBM has assumed full responsibility for adhering to the principles of social responsibility and sustainable development, the adopted governance system involves the participation of all key areas of Nova KBM. At the operational level, Nova KBM's social responsibility and sustainable development is managed by the Marketing and Corporate Communications Department through a special working group set up in 2016.



In 2016, Nova KBM drafted the Corporate Social Responsibility and Sustainable Development Policy.

Nova KBM has signed the Declaration on Fair Business, thereby joining several other large Slovene companies working under the auspices of the UN Global Compact Slovenia towards raising awareness, including through appropriate training, of social responsibility and sustainable development, as well as the obligation to prevent corruption, which Nova KBM considers as a lever for sustainable development. The companies signed to this declaration all have in place relevant social responsibility and sustainable development policies and regard sustainable growth as a key driver of development.

Vision of social responsibility and sustainable development

Nova KBM builds its vision of social responsibility and sustainable development by:

- delivering successful performance
- generating substantial value for all its stakeholders
- pursuing high standards of integrity, ethics and compliance
- developing relationships that increase value added in the long run
- properly managing business risks
- creating and identifying business opportunities
- managing continuous improvement processes in an innovative manner

Challenges and opportunities of corporate social responsibility and sustainable development

In light of the global credit crisis and other financial and moral challenges, the banking sector is facing increased regulatory pressure and public control. To restore confidence, banks need to establish clear and transparent business models, taking into consideration the principles of social responsibility and sustainable development.

Nova KBM must take strategic steps towards social responsibility and sustainable development due to the following challenges present at the global level, including Slovenia and the rest of the EU, which have a significant impact on the banking sector:

- digitisation, which is radically changing work processes, services and behavioural patterns
- socio-demographic changes (population ageing, lower fertility, migration trends)
- changes in value patterns and shopping habits (greater awareness of the importance of environmental protection, a different attitude towards banking services, etc.)
- climate change, which has resulted in society at large making changes towards a circular economy, energy efficiency, promotion of renewable energy sources, reduction of carbon and water footprints, etc.

Strategic objectives of social responsibility and sustainable development

Successful long-term growth in Nova KBM's operations and reputation can only be achieved by strengthening social welfare and concern for the natural environment.

The implementation of the Corporate Social Responsibility and Sustainable Development Policy is expected to bring synergistic benefits to the operations of Nova KBM and help it accomplish the following objectives:

- achieve the desired reputation and enhance the trust placed in it
- strategically manage its social responsibility and sustainable development, i.e. to design, set up and control mechanisms necessary for managing social responsibility and sustainable development initiatives in an effective manner
- set up a continuous improvement process (based on the measurement and evaluation of social responsibility and sustainable development initiatives)
- reduce operating costs and increase efficient use of resources, thereby minimising the burden placed on the environment
- utilise the opportunities of sustainable development (gaining competitive advantage in the provision of banking products and services) in a swift and innovative manner
- build long-term, consistent relationships with its stakeholders
- increase concern for the professional development of its employees
- communicate about social responsibility and sustainable development in a transparent and credible manner
- take and manage risks in a responsible manner

Relationships with key stakeholders

Nova KBM incorporates the culture of responsibility into all aspects of its evolution and activities, as well as promoting long-term development and success of all of its stakeholders. Nova KBM's strategic stakeholders include:

- employees
- customers
- suppliers
- owners
- regulators
- the broader natural and social environment of the Republic of Slovenia

Among the important stakeholders of Nova KBM are the business community, the professional public, trade unions and the media.

An integrated stakeholder engagement approach has been implemented by Nova KBM. This involves an ongoing dialogue about its relationships, its role in society, its services, business results and other issues. In addition, Nova KBM cooperates with its stakeholders with the aim of introducing further improvements in its operations.

Nova KBM believes that its relationships and interactions with its strategic stakeholders are crucial in achieving sustainable progress and assessing the impact of its operations, and it also considers it very important to proactively listen to its various stakeholders and respond to their positions. Such two-way communication makes it possible for Nova KBM to efficiently balance its competitive expectations and improve its performance. Cooperation with stakeholders is systematically developed so as to introduce new ways for sustainable progress.

Nova KBM endeavours to constantly develop as an organisation. To make this happen, it must identify and understand the most important economic, social and environmental challenges faced by its stakeholders, responding appropriately.

To better understand the developments taking place in its environment, Nova KBM carries out regular analyses to determine the priorities of its strategic stakeholders and how these priorities impact its operations. The results of these analyses serve as guidelines in making strategic decisions, in determining the order of involvement of stakeholders in the operations of Nova KBM, and in the reporting on social responsibility and sustainable development issues.

The key forms of dialogue Nova KBM uses in communication with its stakeholders are presented in the table below.

Public/key stakeholder	Forms of dialogue
Owners	Supervisory Board meetings Personal communication Annual reports
Regulators	Reciprocal communication and reporting Annual cooperation reviews Annual reports
Employees	Personal communication Annual interviews Surveys on commitment and job satisfaction Intranet, internal newsletters and other communication tools
Trade unions	Personal communication Regular meetings E-communication
Customers	Personal communication Customer satisfaction surveys 'Ask Us' section on the website
Suppliers	Personal communication and meetings Service satisfaction surveys
Business and other professional public	Round tables, focus groups, workshops and annual reports
Media	Personal meetings and communication Press releases and other communication tools

Reporting on social responsibility and sustainable development

Nova KBM understands the provision of information concerning its social responsibility and sustainable development initiatives as a form of responsible communication. This is why it includes this information in its annual reports.

The reports on social responsibility and sustainable development are drafted in such a way as to ensure compliance with the applicable regulations, materiality and completeness of information as well as the involvement of stakeholders, taking into account the sustainability context. Nova KBM ensures that the information included in the reports is balanced, clear, accurate and reliable, knowing that sustainable development is a journey, leading step by step towards the desired objective. Since teamwork is regarded as an important element of socially responsible and sustainable conduct, these reports are prepared with the participation of all relevant departments. Each year, Nova KBM seeks to revise its methodology for managing sustainable development by introducing new performance indicators, new measurements, and other tools that may help it improve its work in this area.

Key areas of social responsibility and sustainable development

Areas of social responsibility and sustainable development	Most important projects undertaken in 2016
Attitude towards owners and investors	• While cooperation between the Supervisory and Management Boards of Nova KBM and KBS banka was adequate and correct, both banks conducted their operations in accordance with the principles of good corporate governance. • Nova KBM further enhanced its relationships with foreign banks and other relevant institutions and provided them with up-to-date information about the changes in its operations.
Concern for the natural environment	• **Steps towards a circular economy** ◦ Delivery to recycling of 1,702 waste toner cartridges and tapes, weighing 798 kg in total, with as many as 23% of the cartridges being refurbished for the second time. The funds received from the sale of these waste materials were dedicated to the Cerebral Palsy Association of Slovenia (Sonček). ◦ KBS banka set up special print rooms in order to have better control over the use of printers and reduce the amount of paper used. ◦ Both Nova KBM and KBS banka made further progress on waste separation. • **Efficient management of energy resources** ◦ KBS banka managed to reduce its use of energy resources by installing time-controlled heating and cooling systems in its Tezno business premises. ◦ In all of its organisational units, KBS banka used only energy-efficient light bulbs, as well as LED-illuminated advertising panels. ◦ Nova KBM and KBS banka further improved the energy efficiency of their buildings. • **Reduction of carbon footprint through modernisation of vehicle fleet** ◦ Nova KBM modernised its vehicle fleet by purchasing vehicles with low carbon dioxide emissions and energy-efficient engines. ◦ KBS banka used only vehicles with low carbon dioxide emissions.
Attitude towards customers, clients and suppliers	• Nova KBM focused on the upgrade of its most advanced services in order to achieve customer excellence. • Nova KBM continued to implement initiatives and training aimed at improving financial literacy of young people and entrepreneurs. • As many as 87.91% of all suppliers Nova KBM used last year were local ones, proving its commitment to the development of the local economy.
Building the loyalty of employees	• Nova KBM continued implementing measures arising from its 'Family-Friendly Company Certificate', enabling employees who are parents of children enrolling in primary school or kindergarten to take off the first day of a child's attendance. • On average, 131 employees took part in each of the six internal initiatives aimed at building loyalty between Nova KBM and its employees. • A corporate volunteering initiative was launched by Nova KBM for the second time last year. Employees were encouraged to spend one day on voluntary projects. • A total of 100 Nova KBM employees took part in a programme called 'Ready for a Meeting', designed to assist employees conducting personal meetings with the President of the Management Board.
Attitude towards the media	• An average positive press publicity of 66.5% was recorded by Nova KBM last year – an increase of just over 13 percentage points on 2015. • As for KBS banka, the average positive press publicity stood at 78% last year, compared to 52.1% in 2015.
Integration into the local environment and broader community	• In cooperation with its local partners, Nova KBM supported the implementation of more than 100 various socially beneficial projects. • A total of 83% of all funds spent by Nova KBM on sponsorships and grants was earmarked for long-term projects. • Nova KBM launched a charity campaign called 'Opportunities to Connect', through which it collected a certain amount of funds for the Talent Development Fund, which operates as part of the charity project called 'Godparentship'. Furthermore, it managed to mobilise and bring together its various stakeholders to help children from socially vulnerable families.

1. Attitude towards owners and investors

Nova KBM

Nova KBM was privatised in 2016. The sale process was completed on 21 April 2016 when the Republic of Slovenia received proceeds of €250 million for the sale of its 10,000,000 shares in Nova KBM, representing 100% of Nova KBM's share capital, to Biser Bidco S.à r.l., a company set up jointly by Apollo and the EBRD. The agreement concerning the sale of Nova KBM shares was, on behalf and for the account of the Republic of Slovenia as the seller, signed by the SSH on 30 June 2015. Apollo provided 80% of the funds for the acquisition, with the remaining 20% being provided by the EBRD. The book-transfer of all of the 10,000,000 shares in Nova KBM to the new shareholder was effected on the same day.

Throughout the sale process, Nova KBM had met all its obligations in this regard on a regular and timely basis: it had provided support necessary to carry out the financial and legal due diligence of its operations, and had furnished potential investors with all relevant information or enabled them access to this information. Upon conclusion of the sale process, a new Supervisory Board of Nova KBM was appointed. Cooperation between members of the Management and Supervisory Boards was adequate and correct and was based on the principles of good corporate governance. Ensuring transparency and integrity of operations was the main focus of both the Management Board and the Supervisory Board.

Last year, Nova KBM re-established relationships with several foreign banks and continued to maintain, or even strengthen, its relationships with several international institutions that monitor the implementation of its Restructuring Programme, as well as other analytical and rating companies. Nova KBM, as a systemically important bank, met all obligations imposed on it as a result of being subject to the SSM, which comprises the ECB and the national supervisory authorities of the euro area, and it maintained a constructive dialogue with the supervisory team appointed to monitor its operations.

During 2016, Nova KBM informed the owners, the holders of its bonds, potential investors and the interested public of all topics relevant to its operations, always in accordance with the applicable legislation and in a transparent manner. It made 66 public announcements (in English and Slovene) through the SEOnet web portal, and promptly responded to enquiries from the interested public regarding its business and investment activities.

KBS banka

KBS banka met all its obligations regularly and on time. Cooperation between members of its Management and Supervisory Boards was adequate and correct and was based on the principles of good corporate governance. Ensuring transparency and integrity of operations was the main focus of both the Management Board and the Supervisory Board of KBS banka. During the year, KBS banka informed the owner, the holders of its bonds, potential investors and the interested public of all topics relevant to its operations, always in accordance with the applicable legislation and in a transparent manner.

2. Concern for the natural environment

Nova KBM

To demonstrate its responsible conduct, Nova KBM continued several projects in 2016, which had previously proved to be efficient while contributing to a reduction of negative effects on the environment. In this regard, Nova KBM pursued the following two objectives:

- reduce consumption of materials and costs
- search for renewable supply sources

Despite adhering to the principles of responsible conduct and concern for the environment, the costs of materials increased in 2016 as a result of growing business volumes, the acquisition of PBS, the introduction of new work processes and the implementation of several strategic projects. Year on year, the costs of office materials increased by 55%, while the costs related to toner cartridges saw growth of 13%. Costs related to the purchase of restroom supplies and cleaning materials remained flat at the 2015 level.

2.1 Steps towards a circular economy

Nova KBM refurbished as many as 23% of its toner cartridges

As a large organisation, Nova KBM leaves its carbon footprint in the natural environment, with a significant proportion of its footprint arising from the use of toner cartridges. With the aim of reducing negative effects on the environment, Nova KBM cooperates with a company specialising in the collection and recycling of waste toner cartridges and the tapes of printer, fax and copy machines that are produced as a result of day-to-day work. In 2016, Nova KBM delivered for recycling 1,702 waste toner cartridges and tapes, weighing 798 kg in total. As many as 23% (397 pieces) of all waste toner cartridges collected by Nova KBM last year were refurbished and prepared for re-use. A portion of funds received from the sale of Nova KBM's waste materials, which may be used for further processing, is donated each year to the Cerebral Palsy Association of Slovenia (Sonček).

KBS banka efficiently controlled the amount of paper used

KBS banka set up special print rooms in order to have better control over the use of printers and reduce the amount of paper used. In all of its organisational units, it used only energy-efficient light bulbs, as well as LED-illuminated advertising panels. Time-controlled heating and cooling systems were installed in KBS banka's business premises in Tezno, thereby ensuring a reduction in the consumption of energy resources.

Both Nova KBM and KBS banka continued to separate their waste

Both banks continued to collect waste separately in an efficient manner and thus directly contributed to the reduction of negative effects on the environment.

2.2 Efficient management of energy resources

Nova KBM monitors the daily consumption of energy resources in several of its buildings

Nova KBM recognises the importance of energy efficiency. The centrally installed energy monitoring systems in its three largest buildings in Maribor and in an additional four buildings located elsewhere in Slovenia make it possible for Nova KBM to monitor the consumption of energy resources and the functioning of machines on a daily basis. A reduction in the consumption of energy resources is a concern of all Nova KBM employees.

Nova KBM continued to purchase equipment that is the most energy efficient and the operation of which has minimum negative effects on the environment, while at the same time widening its paperless operations, particularly in the area of communication with customers that use its modern distribution channels.

KBS banka used energy-efficient light bulbs in all of its organisational units

Last year, KBS banka managed to reduce the consumption of energy resources by installing time-controlled heating and cooling systems in its Tezno business premises. In all of its organisational units, KBS banka used only energy-efficient light bulbs, as well as LED-illuminated advertising panels.

2.3 Reduction in carbon footprint through modernisation of vehicle fleet

Nova KBM modernised its vehicle fleet

Nova KBM modernised its vehicle fleet by purchasing vehicles with low carbon dioxide emissions and energy-efficient engines. In addition, a reduction in the consumption of energy resources was achieved through the implementation of modern videoconferencing systems, making it possible for employees working in remote organisational units to hold meetings via video calls, without having to physically move and use vehicles.

KBS banka used energy-efficient vehicles

KBS banka used vehicles with low carbon dioxide emissions. It also had in place videoconferencing systems to enable employees working in its remote units to communicate with the headquarters via video calls, thereby not having to drive and consume fuel.

3. Attitude towards customers, clients and suppliers

In view of numerous changes taking place in its operations, in 2016 Nova KBM focused even more on communication with its customers, including at numerous events and workshops it held, and conducted various customer satisfaction surveys.

3.1 Attitude towards customers and clients

Nova KBM concentrated on implementing digital, simple and paper-free operations

In 2016, much energy was invested in continuous upgrade of products and services provided by Nova KBM, as well as in the development of new ones, particularly in the area of contemporary banking services and distribution channels.

The following innovations were introduced last year in Nova KBM's online banking facility, Bank@Net:

- option to take out payment card insurance and valuables insurance
- option to automatically activate the security SMS service
- option to set a short password (ePassword) to enable a faster log-in process
- option to restore a forgotten password
- option to enable user self-unlocking

By introducing these innovations, Nova KBM enhanced the user experience of its online banking facility while providing users with the possibility of managing online banking services autonomously. Moreover, it expanded the range of services delivered through its online banking facility and provided locked users with simple access to its online banking service 24 hours a day. All these innovations contributed, among other things, to a reduction in the workload of staff at the Help Centre and branch offices, allowing them to devote more time to online banking users and customers needing advice.

Introduction of a basic payment account for financially weak groups of consumers

In accordance with the applicable regulatory requirements, in September 2016 Nova KBM offered the opening of a basic payment account to financially weak and excluded groups of consumers who had not previously had a payment account. This account is provided at a favourable monthly fee and enables its holder to use a range of most basic banking services, such as receipt of proceeds (income), withdrawal and deposit of funds, and the execution of direct debits, payment transactions and standing orders.

Responsible lending

While it ensured it had in place a competitive offering of consumer loans, Nova KBM acted as a responsible lender, providing its customers with all relevant information and encouraging them to stick to appropriate, not excessive, borrowing levels.

Customer satisfaction analysis

For a number of years, Nova KBM has been carrying out mystery shopping actions to assess the efficiency of selling its products and services to both retail and corporate customers. The long-term objective of these actions is to increase the satisfaction of customers and employees, as well as promoting entrepreneurial thinking and self-initiative. The results of mystery shopping actions carried out in 2016 point to an increase of 2.88 percentage points from the previous analysis in the efficiency of selling products to households, with the largest growth, of 3.81%, being registered in the eastern part of Slovenia.

As many as 83% of all Nova KBM customers claimed to be highly satisfied or satisfied with the service, which was one percentage point above the 2015 level. Further details in this regard are presented in the section 'Market research'.

Concern for the financial literacy of young people and provision of corporate advice

Nova KBM communicates with young people by utilising its brand 'Sveta vladar' (Ruler of the World), while the youngest children are targeted by its mascot, called 'Dindin', both of which have been launched with the aim of teaching children and young people about the responsible handling of money. A survey conducted in 2016 showed that of all customer segments, Nova KBM was most recommended by young customers.

In 2016, Nova KBM strengthened its advisory role, including through free workshops organised in six different locations, in which a total of 160 entrepreneurs and sole proprietors took part. Participants in these events assessed the satisfaction with Nova KBM and the respective relationship officers with an average grade of 3.82 on a one-to-five scale. Last year, Nova KBM participated in the 36th PODIM international conference to encourage the development of original business models and innovative ideas, which are regarded as indispensible in today's competitive economic environment. In cooperation with its strategic partner, the Institute for Entrepreneurship Research (IRP), Nova KBM organised 'Start:up Maribor Hackathon 2016', an event that gave it the opportunity to establish close ties with start-ups, an increasingly evolving segment across all industries, including financial services.

KBS banka customers were satisfied with the service received

In 2016, KBS banka measured customer satisfaction through a mystery shopping action. The results of this action showed that customers were, as in previous years, satisfied with both advice and customer care, praising in particular the expertise of staff and the arrangement of offices.

3.2 Attitude towards suppliers

Nova KBM

Nova KBM continued pursuing the adopted procurement policy guidelines, with the objective being to set up a centralised procurement function by the start of 2017.

Procurement is carried out in accordance with the prescribed procedure and in a transparent manner. Various criteria are used in the selection of suppliers, always taking into consideration the price, quality of service and references of suppliers. While Nova KBM aims to build long-term partner relationships with suppliers that guarantee the stability of supply, it regularly verifies the current supply conditions in the market. All potential suppliers are informed of the selection criteria and are treated equally. Partner relationships with suppliers are strengthened through dialogue and mutual trust.

A system of custody by type of costs has been introduced in the procurement process. All suppliers are subject to a check at the time of the selection process and during Nova KBM's contractual relationships with them. The value of supplies provided by local contractors accounted for 78.91% of Nova KBM's total supplies last year.

The operations of Nova KBM are diversified throughout the territory of Slovenia. Therefore, in cases where the procurement is not fully centralised or involves more than one supplier, Nova KBM tries to contract as many local suppliers as possible, with its Nova Gorica branch standing out in particular in this respect.

The control of procurement is carried out centrally by the Cost Committee, which verifies and approves all procurement agreements worth over €15,000 and monitors the movements in costs and investments on a monthly basis.

4. Building the loyalty of employees

Nova KBM

Nova KBM continued to implement measures arising from its full 'Family-Friendly Company Certificate'. By being a holder of this certificate, Nova KBM demonstrates that it is aware of the importance of complying with high ethical standards in its attitude towards employees and relations between employees, and it also understands the importance of helping employees reconcile their work and private lives, as this contributes to their performance and the performance of Nova KBM as their employer.

As part of its concern for employees, Nova KBM provided employees who are parents of children enrolling in kindergarten or primary school with an entitlement to paid work absence. In collaboration with the trade union, and as in previous years, it presented Christmas gifts to children and organised several events for children during the Christmas period.

Many factors in family and professional lives affect the overall health condition of employees. Nova KBM continued to provide its employees and their family members with the option to take advantage of free anonymous external psychological help, either via phone or in person. Several workshops on personal development were organised by Nova KBM in 2016, as were workshops and training programmes on health and safety at work, a topic that Nova KBM pays close attention to. Further details in this regard are set out in the section 'Human resources management'.

Information about the needs and opinions of employees is received through continuous dialogue and open communication with them, and also through annual interviews, which have been going on for a number of years. These interviews are not meant only to monitor the satisfaction of employees and to determine realistic and measurable goals, but also to provide information about the career wishes and plans of employees and about their desire to acquire additional skills. Last but not least, possibilities and proposals are discussed at interviews regarding how to properly balance professional and family lives.

KBS banka

KBS banka continued to implement measures arising from its 'Family-Friendly Company Certificate'. For instance, employees who are parents of children enrolling in years one to three (the first triad) of a primary school were allowed to utilise their accrued overtime to take off the first school day, while parents of children attending the last (ninth) year of a primary school were allowed to take off a so-called information day. Psychological help was available to KBS banka employees, and children of employees were invited to various Christmas and Doors Open Days events organised by KBS banka.

Internal communication and internal programmes for employees

In the area of internal communication, in 2016 Nova KBM continued implementing measures arising from its focused communication programme operated under the name 'Pripravljeni na...' (Ready for...) with the aim of enhancing the commitment and loyalty of employees, while at the same time creating a productive and pleasant work environment where employees can better cope with changes and enjoy what they do.

As part of the programme referred to above, six different initiatives were carried out in the areas of teamwork, implementation of changes in organisational culture, charity, corporate volunteering, responsibility towards the local and natural environment, and good relations in the workplace. On average, a total of 131 employees took part in each of the initiatives.

In 2016, Nova KBM undertook the following projects for its employees:

- a competition in an entrepreneurial team challenge, which was held on the occasion of the introduction of the Code of Conduct with the aim of strengthening corporate values
- an internal event, called 'Together We Are Closer', aimed at connecting employees of Nova KBM and the former PBS
- corporate volunteering actions in the warehouse of the Slovene Association of Friends of Youth and at the Danica Vogrinec Nursing Home
- an internal charity initiative, called 'Opportunities to Connect', through which the employees collected ten boxes of used sports equipment
- training on responsibility in the workplace, called 'Thin Line of Responsibility'
- a programme called 'Ready for a Meeting' to assist arranging personal meetings with the President of the Management Board

The programme 'Ready for a Meeting', the main purpose of which is to strengthen personal relationships between the Management Board and employees and encourage dialogue about the issues most relevant to Nova KBM's operations, continued to be implemented throughout last year. While the Management Board held personal discussions with about 100 employees from three organisational units during the course of last year, more than half of the total workforce has been involved in this programme since its launch in November 2015. Employees have found these meetings to be useful and welcoming, particularly those held following the sale of Nova KBM (in April and September) where they had a chance to better acquaint themselves with members of the Management and Supervisory Boards. As part of the programme, employees were also given the opportunity to have personal discussions with the President of the Management Board, which they used throughout year.

Creativity in the workplace and effective teamwork were strongly promoted in 2016. A five-month training programme designed to help employees recognise their own creativity profile, learn how to use creative techniques at their work as well as the method of creative problem solving, and all important factors involved in co-creating an innovative organisation, was completed by 12 Nova KBM employees. Within the context of the new Code of Conduct and the overhaul of Nova KBM's values, an entrepreneurial team challenge was introduced as a tool to generate various ideas on how to solve entrepreneurial challenges. Nine teams with a total of 70 employees took part in this challenge, with the winning team presenting more than 200 different ideas.

A total of 107 circulars and Management Board newsletters were received by Nova KBM employees last year. In addition, three issues of the internal newspaper, Med Nami, with a total of 98 various articles were released last year in electronic form.

Nova KBM's charity initiatives

Nova KBM stands by the position that talent is not exclusive to the privileged in society, but is something that everybody has. In this spirit, it endeavoured to create opportunities for gifted children, including the launch of a charity campaign called 'Opportunities to Connect', through which it earmarked a certain amount of funds for the development of sports and music talent of children from socially vulnerable families, thereby taking an active part in the charity project called 'Godparentship', run and coordinated by the Slovene Association of Friends of Youth. Furthermore, being committed to the principle of equal opportunities for all, Nova KBM took a bus of underprivileged children from Murska Sobota to last year's World Cup competition in biathlon at Pokljuka, enabling them to cheer the athletes and enjoy a live sports event. The employees joined this charity campaign by collecting ten boxes of children's used sports equipment.

Corporate volunteering

Nova KBM organised for the second time a corporate volunteering initiative, which is one of the measures to be implemented under the full 'Family-Friendly Company Certificate'. By participating in corporate volunteering, the employees contribute to a brighter future through their own efforts. As part of corporate volunteering, nine Nova KBM employees provided assistance and advice to the Styria Multi-Generational Centre, which is operated as part of the Danica Vogrinec Nursing Home in Maribor, and they helped distribute food in the warehouse of the Slovene Association of Friends of Youth in Moste.

5. Attitude towards the media

Nova KBM

Nova KBM devotes a great deal of attention to its relationship with the media, as part of both corporate and marketing communication. The relevant departments of Nova KBM furnished the media with all relevant information in order to support it in its role as a provider of objective information and to respect the public's right to information. In 2016, Nova KBM continued its well-maintained relationship with the media, both before and after its change of ownership. It responded quickly to journalists' enquiries, participated in discussions on social responsibility and proactively communicated the topics most relevant to its operations, all of which helped it create positive or at least neutral publicity about itself. The topics that attracted the most attention from the media last year were the completion of Nova KBM's sale, the changes to its Management Board, its merger with PBS and KBS banka, as well as the decisions reached by the competent authorities regarding the cancellation of shares and subordinated bonds issued by banks that were subject to a bailout in 2013.

Last year, Nova KBM held two well-attended press conferences, participated in press conferences of several of its business and sponsored partners, communicated regularly with the public, strengthened relationships with key journalists, issued 41 press releases, responded to more than 1,000 requests from journalists, and was mentioned more than 5,250 times in the media, down 23% on 2015. In addition, the President of the Management Board and some other senior managers of Nova KBM gave several interviews to the media or appeared in some other form in the media. The efficiency of Nova KBM's media relations was assessed on the basis of its press coverage, and by conducting daily analyses and regular in-depth analyses of the quality and quantity of news published about Nova KBM. An average positive press publicity of 66.5% was recorded by Nova KBM last year – an increase of just over 13 percentage points on 2015.

KBS banka

KBS banka, too, continued its good relationship with the media. The topics that attracted the most attention from the media last year were Raiffeisen Bank International Group's sale of Raiffeisen banka to Apollo and the EBRD, the change of name from Raiffeisen banka to KBS banka, and the ECB's approval of the merger between Nova KBM and KBS banka.

In 2016, KBS banka issued four press releases, responded to 36 requests from journalists, and was mentioned more than 800 times in the media, down 14% on 2015. An average positive press publicity of 78% was recorded by KBS banka last year, compared to 52.1% in 2015.

6. Integration into the local environment and broader community

Sponsorships and grants provided by Nova KBM

As a socially responsible institution, Nova KBM is aware of the importance of being integrated into the broader social and local environment, including by providing support to the projects that fit its corporate identity and social responsibility strategies. Despite a change in its ownership, Nova KBM continued to actively promote socially responsible initiatives, thereby contributing to the growth of social welfare and the development of the environment, both at the local and national levels.

In 2016, Nova KBM continued to support a number of projects, individuals, non-profit organisations, associations, institutions and clubs operating in the area of sports, culture, education, health, humanitarianism and other socially beneficial services, building partner relationships that contribute to sustainable development.

Movements in the level of funds earmarked by Nova KBM for sponsorships and grants

Of the total amount of funds earmarked for sponsorships and grants, more than 73% was given to projects that Nova KBM has been supporting for a number of years. The largest proportion of funds, 75%, was provided to sports and recreation projects, followed by cultural projects (20%) and educational and humanitarian projects (5%).

Sports

Nova KBM's sports partnerships encompass long-term cooperation with many top athletes, as well as regional and local sports clubs. As a long-term partner and primary sponsor of the Nova KBM Branik Women's Volleyball Club and the Gen-i Women's Volleyball Club, Nova KBM continued to support young female volleyball players. Long-term partnerships with the NK Maribor Football Club and the Nova Gorica Football Club were extended last year. Partnership also continued with Filip Flisar, a ski cross world champion. Furthermore, cooperation continued with the Branik Handball Club and the Ajdovščina Mlinotest Women's Handball Club, two of the largest handball clubs in Slovenia, and Nova KBM remained primary sponsor of the Golden Fox Women's Ski Competition in Giant Slalom. It also continued to support Robert Renner, a promising young pole vault athlete who won a silver medal at the 2016 European Championship. Over the last two years, Nova KBM has become the silver sponsor of the Slovene biathlon team and primary sponsor of the Slovene Basketball Association and the Slovene basketball team. The Ski Flying World Championship in Planica and the Ljubljana Marathon were among the projects supported by Nova KBM last year, while its support provided to the kayak club Soške elektrarne continued to strengthen.

The subsidiaries of Nova KBM also support numerous sports activities in their local environment. In its concern for the health of its employees, Nova KBM supports the activities of the Nova KBM Sports Club, thereby also strengthening the affiliation of employees to the organisation.

Culture

Also last year, Nova KBM supported the Lent Festival as primary sponsor and continued its long-lasting partnership with the Narodni Dom cultural centre. Its long-lasting partnership continued with the Slovene National Theatre in Maribor and the Slovene National Theatre in Nova Gorica. In addition, Nova KBM provided support to the Ljubljana Festival, acted as primary sponsor of the Nova Music Association, and supported some other institutions concerned with art and culture. Sponsorship was also given to Nova KBM women's choir which has been supported by Nova KBM since its formation. By providing financial support, Nova KBM enabled the organisation of numerous cultural activities and events.

Education

With the purpose of ensuring the financial literacy of young people, Nova KBM supported the work of local school associations in all three regions in which it is present, and it participated in the PODIM conference aimed at providing training and advice to young entrepreneurs. It was primary sponsor of a conference organised by the Maribor-based Institute for the Development of Social Responsibility, which works towards integrating all key entities (companies, the government, civil society, etc.) concerned with the development of social responsibility in order to roll out joint campaigns to promote the importance of, and the need for, social responsibility in Slovenia. As part of its cooperation with the Bled School of Management (IEDC), in April 2016 Nova KBM enabled the organisation of the first pan-European conference dedicated to women's leadership, called 'Women Leaders, Agents of Change in Europe', thereby strengthening awareness that women are important drivers of development. About 100 of the most influential women business leaders took part in the conference.

Humanitarianism and charity projects

At the end of last year, Nova KBM decided to earmark funds of €6,000, which otherwise would have been spent on business Christmas gifts, for the Talent Development Fund, set up as part of the charity project called 'Godparentship', which is run by the Slovene Association of Friends of Youth.

Other humanitarian actions supported by Nova KBM are detailed in the table below.

Recipient of the humanitarian aid	Purpose of the aid
Koraki za korakce (charitable association)	Provision of funds to support the arrangement of an exercise room in the Kungota Primary School, as well as for the purchase of equipment for the Sonček Association housing community in Vrtiče.
Adolf Drolc Health Centre	Provision of funds for the purchase of physical and rehabilitation medical equipment.
Humanitarian Race, organised by the *Dnevnik* newspaper	Provision of funds to families who have children with special needs.
The Talent Development Fund of the charity project 'Godparentship'	Provision of funds to support gifted children from socially vulnerable families.
Nova Gorica Retirement Home (Podsabotin unit)	Provision of funds for the purchase of a defibrillator.
7th Congress of Therapeutics	Provision of funds to support family therapy activities, as well as the development of treatment of individuals, couples and families, medical services, education and schooling services, and social security services.

Humanitarian contributions were allocated to projects and entities that endeavour to provide underprivileged groups of people in local communities with better living conditions.

Initiatives implemented in partnerships with local and regional entities

Nova KBM worked with local entities to support the implementation of more than 100 socially beneficial projects.

REGULATORY SECTION

We at Nova KBM are building a transparent, clear and effective management and supervision system that is fully in line with the applicable regulatory provisions and the highest standards of RESPONSIBLE and SOUND corporate governance.

In pursuing our efforts to maximise the value of Nova KBM, we respect the interests of employees, customers, creditors and other stakeholders, as well as our organisation as a whole, thereby strengthening CONFIDENCE in our governance system.

13. CORPORATE GOVERNANCE STATEMENT

1. CORPORATE GOVERNANCE CODE

The Corporate Governance Code comprises:

- **Corporate Governance Code for Public Limited Companies (application and deviation)**
- **Corporate Governance Code of State-Owned Enterprises (application and deviation)**
- **Recommendations and Expectations of the SSH (application and deviation)**

Nova KBM was privatised in 2016. With the sale process complete, Nova KBM passed into the hands of new owners on 21 April 2016 when the Republic of Slovenia received proceeds of €250 million for the sale of its 10,000,000 shares in Nova KBM, representing 100% of Nova KBM's share capital, to Biser Bidco S.à r.l., a company set up jointly by Apollo and the EBRD. The agreement concerning the sale of Nova KBM shares was, on behalf and for the account of the Republic of Slovenia as the seller, signed by the SSH on 30 June 2015. Apollo provided 80% of the funds for the acquisition, with the remaining 20% being provided by the EBRD.

In view of the fact that its bonds (KBM10) are quoted on the Vienna Stock Exchange, Nova KBM is regarded as a public limited company under the provisions of the ZTFI. Article 99 of the ZTFI stipulates that any issuer whose securities have been accepted for trading on the regulated market in the Republic of Slovenia or any other EU country falls within the definition of a public company.

Considering the situation referred to in the previous paragraph, Nova KBM, as a public limited company, fully complies in its governance system with the principles laid down in the Corporate Governance Code for Public Limited Companies (hereafter also referred to as the 'Code'), which, in addition to accomplishing the main objectives of shareholders according to internal and external global orientations, has a significant impact on Nova KBM's business performance and development. The currently applicable Code was adopted on 8 December 2009 and came into being as of 1 January 2010 (the Code is published on the Ljubljana Stock Exchange's website).

In setting up and developing a transparent, clear and successful governance system, during 2016 Nova KBM endeavoured, as far as practicable, to comply with regulatory provisions and the highest standards of responsible and well-thought-out governance, as laid down in the Code, thus further increasing the confidence of domestic and foreign investors, employees, and the wider public in its governance system. In addition to striving to maximise its value, Nova KBM complies with these standards in order to satisfy the interests of its employees, customers, creditors, and other stakeholders, as well as its own interests. Taking into consideration its objectives, this approach shall ensure a successful and long-term growth of Nova KBM's assets.

Nova KBM and its bodies endeavoured to fully observe the provisions of the Code that was in effect and used in 2016. However, in certain instances Nova KBM's operations deviated from individual provisions of the Code. In compliance with the Preamble of the Code, Nova KBM sets out below the reasons for such deviations. The reasons were mainly related to the specific circumstances under which Nova KBM operated due to changed conditions in itself and its environment (market), to payment characteristics of the banking sector, to its specific ownership structure, and to other circumstances which had an impact on its governance and management.

Until the change of its ownership on 21 April 2016, Nova KBM, as a company in which the Republic of Slovenia held an equity investment, also complied with the Corporate Governance Code of State-Owned Enterprises, adopted by the SSH on 19 December 2014 and published on its website on 22 December 2014.

The code referred to in the previous paragraph was partially revised in March 2016, not only to reflect changes in the relevant regulations of the Republic of Slovenia and other autonomous legal sources, but also to take into consideration some practical experience gained in the application of the code over a period of one year from the ongoing development and study of best practices in the area of corporate governance. The revised code came into effect on 2 March 2016. The purpose of the code is to determine the standards on governance and supervision applicable to the companies in which the Republic of Slovenia holds an equity investment, while at the same time helping such companies set up a transparent and comprehensible corporate governance system.

For the purpose of concretising the principles of corporate governance, and in view of the need to regulate separately certain narrow and specific issues related to corporate governance that are not covered by the legal framework applicable to the management of state assets, the SSH has decided to issue its own recommendations and expectations with respect to corporate governance.

In its Corporate Governance Statement, which forms an integral part of its annual report, Nova KBM, as a company in which the state held an equity investment, states the extent to which it complied in 2016 with the rules and good practices set out in the Corporate Governance Code for Public Limited Companies, the Corporate Governance Code of State-Owned Enterprises as well as individual recommendations and expectations of the SSH.

In implementing its corporate governance framework in 2016, Nova KBM also took into consideration the Nova KBM and the Nova KBM Group Companies' Governance Policy, which was adopted in February 2016 and revised in December 2016.

Furthermore, Nova KBM complied in its governance system with the commitments made by the Republic of Slovenia to the EC with respect to the provision of state aid to Nova KBM, in the part relating to corporate governance (the public version of the entire Catalogue of Commitments is available on the EC's website).

After Apollo and the EBRD signed an agreement on 9 December 2015 to acquire all the shares of Raiffeisen banka Slovenija, the latter came under their control on 30 June 2016 when the sale process was officially completed. Consequently, in addition to having full control of Nova KBM, Apollo and the EBRD have been the sole owners of Raiffeisen banka (which was renamed to KBS banka on 1 July 2016) since the end of the first half of 2016. The agreement concerning the merger by acquisition of KBS banka by Nova KBM was signed on 28 October 2016.

The acquisition of KBS banka by Nova KBM became legally effective on 3 January 2017 when it was registered with the relevant court, with the ECB giving its approval to the acquisition on 22 December 2016.

As a consequence of the acquisition referred to above, this Corporate Governance Statement, which forms an integral part of the 2016 Annual Report of the Nova KBM Group and Nova KBM, includes certain information and data concerning KBS banka.

Corporate Governance Code for Public Limited Companies

Point 5.7

Code provision

If the Shareholders' Meeting is to decide on the management remuneration policy, it should adopt it at the proposal of the Supervisory Board and align it substantively with the current market situation and the situation in the company. The management remuneration policy should substantively follow the provisions of the Code, and should define:

- the amount of non-variable remuneration provided to Management Board members
- the possibility of variable remuneration for a member of the Management Board
- criteria used for determining types of variable remuneration
- any potential restrictions with respect to variable remuneration
- the annual dynamics of setting the criteria for variable remuneration
- specification of remuneration given as shares, stock options and other types of financial instruments, along with any restrictions of such remuneration
- the annual assessment of the criteria being fulfilled and of the Supervisory Board's activities in this area

Reason for deviation

In 2016, up until 21 April when the Republic of Slovenia sold its equity investment in Nova KBM, the remuneration of Management Board members complied with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors.

Since 21 April 2016, when Nova KBM shares passed into the private hands, the remuneration of Management Board members has been subject to restrictions arising from Decision of the EC on State Aid No. SA.35709 (2013/N) – Slovenia, Restructuring of Nova Kreditna banka Maribor d.d. (NKBM) – Slovenia, and has been regulated in accordance with the commitments made by Nova KBM for the period of its restructuring, i.e. from 2013 to 31 December 2017.

Point 12.1

Code provision

Aside from attendance fees, Supervisory Board members shall also be entitled to payment for performing their function, in the amount set by the Shareholders' Meeting. Supervisory Board members shall receive strictly cash payments and their remuneration should not be directly related to the company's performance as presented in the company's financial statements.

Reason for deviation

In 2016, up until 21 April when the Republic of Slovenia sold its equity investment in Nova KBM, the amount of attendance fees and other remuneration paid to members of the Supervisory Board and Supervisory Board committees, and the method of their payment, was aligned with the Corporate Governance Code of State-Owned Enterprises, which the SSH adopted on 19 December 2014 and partially revised in March 2016. The total remuneration paid to Supervisory Board members comprised: a payment for holding the office, and to cover attendance fees and liability insurance, and the reimbursement of costs incurred as a result of performing their duties, as well as participation and membership fees, and the reimbursement of costs related to the payment of training, participation and membership fees.

The members of the Supervisory Board, appointed to their positions on 21 April 2016 when Nova KBM shares passed into the private hands, who are employed at or in a contractual relationship with the shareholder of Nova KBM, i.e. the company Biser Bidco S.à r.l., or any of or any of its related parties or shareholders, shall not receive any compensation for their work on the Supervisory Board. Other members of the Supervisory Board shall each receive a lump-sum payment of €6,250.00 gross per month for their work on the Supervisory Board. This amount already includes all costs and expenses incurred by Supervisory Board members in respect of performing their functions, such as travel expenses, daily allowances, accommodation expenses incurred in relation to their work on the Supervisory Board, costs related to computer and communication equipment, costs of training, and other costs.

Point 12.2

Code provision

Members of the Supervisory Board who are also members of Supervisory Board committees shall receive additional payment for their work on the committees, in accordance with a resolution of the Shareholders' Meeting or based on the provisions of the company's articles of association. This additional payment cannot exceed 80% of the remuneration for membership on the Supervisory Board. The resolution of the Shareholders' Meeting or amendment to the articles of association stipulating such payment shall be adopted in advance. External members of Supervisory Board committees shall be paid for their service on the committees from the funds allocated for the services of the Supervisory Board. Pursuant to the Supporting Principle 8.11 of the Code, the company shall provide such remuneration in the scope typical for professional work in the respective field of expertise. The final decision regarding the remuneration of external members of Supervisory Board committees shall be adopted by the Supervisory Board and shall be independent of resolutions of the Shareholders' Meeting.

Reason for deviation

Until 21 April 2016, Nova KBM, as a company in which the Republic of Slovenia held an equity investment, fully complied with this provision of the Code as regards payments provided to members of the Supervisory Board who were also members of Supervisory Board committees.

As regards the remuneration of external members of Supervisory Board committees, Nova KBM was allowed to deviate from this provision. The ZBan-2, which came into effect on 13 May 2015, contains a provision stipulating that, irrespective of the provisions of the ZGD-1, only members of the Supervisory Board can be appointed to Supervisory Board committees. Nevertheless, some committees of the Supervisory Board have, in accordance with the provisions of the ZBan-2, engaged external experts with specific knowledge, but these were not committee members. External experts engaged by the committees performed their work on the basis of advisory agreements made with them by the Management Board.

Since 21 April 2016, when Nova KBM shares passed into the private hands, the remuneration of members of the Supervisory Board, who are at the same time members of Supervisory Board committees, has been regulated in accordance with the explanation of deviation from Point 12.1 of the Code.

Point 22.7

Code provision

The company shall disclose the gross and net remuneration of each member of the Management and Supervisory Boards. Such a disclosure must be clear and comprehensible to an average investor, and must include, aside from statutorily-imposed content:

- an explanation of how the choice of performance criteria contributes to the company's long-term interests
- an explanation of the methods applied to determine whether the performance criteria have been met
- precise information on the deferment periods with regard to variable components of remuneration
- information on the policy regarding termination payments, including the criteria conditioning termination payments and the amounts of termination payments
- information with regard to vesting periods for share-based remuneration
- information on the policy regarding the retention of shares after vesting
- information on the composition of peer groups of companies that have been studied with respect to their remuneration policies in the course of setting up a remuneration policy in the company concerned

Reason for deviation

With respect to the disclosure of remuneration of its Management Board members, Nova KBM fully complies with legal requirements, as evident also from its annual reports and information published on its website. In accordance with the provisions of the ZGD-1 and Nova KBM's Articles of Association, the Management Board informs the shareholders of Nova KBM, at the Shareholders' Meeting at which the resolution on the appropriation of distributable profit is passed, about the remuneration paid to members of the Management and Supervisory Boards for performing their duties in the previous financial year.

The disclosure of remuneration provided to Management Board members in 2016 is compliant with the applicable remuneration policy and follows the recommendations of the Code.

Corporate Governance Code of State-Owned Enterprises – information concerning Nova KBM

Point 6.10

Code provision

External members of Supervisory Board committees shall be paid for their service on the committees from the funds allocated for the services of the Supervisory Board. The resolution of the Shareholders' Meeting on the amount of payments for Supervisory Board members shall not apply to them. The Supervisory Board shall adopt a resolution on the amount of payment provided to external members of Supervisory Board committees and external experts. The payment should be defined in the amount which is usual for the service rendered in a certain professional field. The payment of external members of Supervisory Board committees comprises the payment for their participation in sessions, the payment for the performance of their duties, and the reimbursement of costs. The payment should be such that it ensures the engagement of the necessary top experts, in regard to the special characteristics and justification of an individual case and while considering the rational dealing with the company's funds and the eligibility of the cost.

Reason for deviation

Nova KBM has been deviating from this recommendation since the ZBan-2 came into effect on 13 May 2015. As regards the composition of Supervisory Board committees, the ZBan-2 contains a provision stipulating that, irrespective of the provisions of the ZGD-1, only members of the Supervisory Board can be appointed to Supervisory Board committees. Nevertheless, some committees of the Supervisory Board have, in accordance with the provisions of the ZBan-2, engaged external experts with specific knowledge, but these are not committee members. External experts engaged by the committees perform their work on the basis of advisory agreements made with them by the Management Board.

Point 7.3

Code provision

The Supervisory Board of a company in which the state holds an equity investment should prepare a proposal for the remuneration policy applicable to the management body in accordance with the recommendations and expectations of the SSH, and must submit it to the Shareholders' Meeting for approval.

Reason for deviation

Remuneration of Management Board members complies with the currently applicable Remuneration Policy, which was discussed by the Remuneration Committee and approved by the Supervisory Board. In accordance with the provisions of the ZGD-1 and the ZBan-2, the Supervisory Board of a company must adopt the remuneration policy in cases where the Shareholders' Meeting fails to do so.

Bonuses (e.g. the Christmas bonus), which form part of the fixed remuneration provided to employees pursuant to the ZDR-1 and collective bargaining agreements, are not included in the fixed remuneration provided to Management Board members, in accordance with the applicable legislation, the Collective Bargaining Agreement for the Banking Sector and the Nova KBM Collective Bargaining Agreement.

Point 9.2.3

Code provision

Large companies in which the state holds an equity investment should set up an internal audit function and perform internal audit reviews with employees from their own internal audit departments. Medium-sized companies should occasionally carry out their own internal audit reviews with the external service providers, unless the permanent engagement of an internal auditor is required as a result of the assessed risks. Internal audit reviews should be carried out in accordance with the adopted annual and multiannual internal audit plans. If significant risks are identified, small companies should carry out internal audit reviews of all areas where such risks have been identified, with the external auditors providing necessary assistance.

Reason for deviation
Nova KBM deviates from the provision stipulating that the internal audit reviews shall be carried out in accordance with the adopted multiannual internal audit plans, because, pursuant to the International Standards for the Professional Practice of Internal Auditing and the Nova KBM Rules on Internal Auditing, the internal audit reviews are carried out in Nova KBM in accordance with the adopted annual internal audit plans. While the strategic audit plan will be prepared periodically on the basis of Nova KBM's strategic plan, it will be of an informative nature only and will serve as a basis for preparing annual internal audit plans.

Recommendations and expectations of the SSH – information concerning Nova KBM

Recommendation No. 1 – Three-year business planning by a company/group

Reason for deviation
The explanation of deviation given under Recommendation No. 2 (Quarterly reporting on the performance of a company/group) can be, mutatis mutandis, applied also to this recommendation. Up until now, Nova KBM has not prepared three-year business plans, but has prepared a standard document for each year – Business Policy and Financial Plan of Nova KBM and the Nova KBM Group. The summary of this document is published on Nova KBM's website. The planning is based on the adopted strategy.

In view of its integration with PBS, and to present the effects of this integration on its future performance, in March 2016 Nova KBM prepared the Business and Financial Plan of the Nova KBM Group and Nova KBM for the Period 2016–2020.

Recommendation No. 2 – Quarterly reporting on the performance of a company/group

Reason for deviation
The Management Board prepares quarterly, half-yearly and annual reports, of which the Supervisory Board is informed in accordance with the ZGD-1, the ZBan-2, the ZTFI and the relevant implementing regulations. These reports are publicly available and may be examined by shareholders, and are also published on Nova KBM's website. In its Corporate Governance Policy, Nova KBM has defined the equitable right to information of all shareholders as one of the most important principles of its corporate governance. This principle is exercised based on open and transparent communication with shareholders. Nova KBM fully complies with the Code as regards the part concerning reporting and transparency requirements.

Recommendation No. 3 – Transparency of procedures of making business deals involving company expenditure (ordering goods and services, grants, sponsorships)

Reason for deviation
Nova KBM does not comply with this recommendation as regards the part referring to the transparency of procedures when making business deals in accordance with the ZJN-2, since this act does not apply to banks. Nevertheless, in negotiating and making any business deals, the Management Board and competent departments of Nova KBM act with due care and diligence and according to the highest ethical standards, objectives, strategies and policies of Nova KBM, all in its best interests.

Nova KBM has adopted the Nova KBM Group Procurement Policy, which sets out the guidelines and principles of work of its own procurement function and that of the Nova KBM Group as a whole, in addition to drafting internal regulations and instructions detailing the execution of the procurement process, the procurement activities, the roles and responsibilities of officers involved in procurement, and forms and other procurement documents, with the aim of implementing the procurement process in the most efficient manner.

Until 21 April 2016, Nova KBM, as a company in which the state held an equity investment, had published on its website information with respect to its sponsorship, grant and advisory agreements. It did this in the manner and to the extent required by the ZDIJZ.

Recommendation No. 4 – Optimisation of labour costs in 2016

Reason for deviation
This recommendation was fully taken into consideration in the preparation of the Financial Plan of the Nova KBM Group and Nova KBM for the Period 2016–2020.

To protect confidential information, Nova KBM and other companies within the Nova KBM Group do not publish binding collective bargaining agreements or arrangements with representatives of the trade union that refer to the payment for the work carried out; thereby deviating from this recommendation as regards the part referring to the publishing of such information.

Recommendation No. 5 – Attaining quality and excellence in the operations of a company/group

The fundamental principles of excellence are, in part, incorporated into Nova KBM's organisational culture. Numerous external and internal analyses, carried out by Nova KBM on a regular basis, are to some extent consistent with the assessment principles of the EFQM model (e.g. benchmark analysis, analysis of individual processes, process maturity analysis, internal communication analysis, customer satisfaction analysis, and annual interviews where employees are asked to evaluate their job satisfaction, etc). Based on the results of these analyses, Nova KBM has identified and implemented several measures to improve its performance across all segments.

Following the implementation of necessary changes, and with the aim of achieving continuous improvements towards more efficient, effective and competitive operations, as well as sustainable development, Nova KBM will examine options to upgrade its existing principles of quality and to extend its system of quality and excellence to its entire business as well as that of the Nova KBM Group as a whole.

Recommendation No. 6 – Shareholders' Meetings

Nova KBM fully complies with the provisions of this recommendation.

Deviation from the applicable corporate governance codes – information concerning KBS banka

In carrying out its operations in 2016, KBS banka complied with its own Code of Conduct and internal rules.

2. DESCRIPTION OF MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT IN RELATION TO FINANCIAL REPORTING PROCEDURES

The aim of internal controls is to ensure that the risks to which Nova KBM is exposed are properly managed, that proper accounting principles as well as internal and external financial reporting and communicating are applied, and that Nova KBM's operations are carried out in compliance with law and business ethics. Internal controls are established within all processes and organisational units of the Nova KBM Group and Nova KBM, at all levels.

Risk management is an important part of the management and governance system. It relates to the systematic identification, measurement, and assessment of risks arising from the operations of the Nova KBM Group and its environment. Procedures of risk management, the objectives for risk management, as well as duties and responsibilities for managing risks are set out in the respective risk management policies. Each company within the Nova KBM Group is responsible for identifying and managing all risks to which it is exposed in its operations.

Assessing and managing risks has an important impact on setting up the business and strategic plan of the Nova KBM Group and Nova KBM, and on the decision-making process in commercial transactions, individual agreements, investments and other activities.

Control over risk management is based on monthly reports which are reviewed by the competent bodies of Nova KBM responsible for monitoring the exposure to individual types of risk.

For the purpose of obtaining a complete overview of the risks to which the Nova KBM Group is exposed, the risk profile report is drafted once a year, and this contains an assessment of the key types of risk and of the related controls. This report is discussed and approved by the Management Board and considered by the Risk Committee and the Supervisory Board.

The Nova KBM Group and Nova KBM endeavour to have in place appropriate systems of internal controls and precisely specified accounting procedures (including details regarding powers and responsibilities for individual tasks, automatic and manual controls in all phases of the accounting process, reporting, etc).

The Internal Audit Centre assesses the adequacy and efficiency of applicable internal controls, including the risk management systems and processes and the system of internal controls. The Internal Audit Centre provides support and assistance to the Management Board in protecting the reputation and long-term interests of Nova KBM, and reports on its work to the Management Board, the Audit Committee and the Supervisory Board on a regular basis.

When conducting the annual audit of financial statements, the appointed external auditor carries out a review, at its discretion, of internal controls with respect to the preparation and fair presentation of financial statements. In the management letter, the external auditor summarises the findings regarding the deficiencies, as well as possible improvements, identified during the audit of the financial statements, and reports thereon to the Management Board and the Audit Committee.

3. INFORMATION AND EXPLANATIONS PROVIDED BY COMPANIES THAT ARE SUBJECT TO THE APPLICATION OF THE ACT REGULATING ACQUISITIONS (INFORMATION FROM POINT 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 AND 11 OF THE SIXTH PARAGRAPH OF ARTICLE 70 OF THE ZGD-1)

Explanation regarding the structure of the company's share capital, including all securities, as stipulated by the act regulating acquisitions (Points 1 and 2 of the sixth paragraph of Article 70 of the ZGD-1)

As of 31 December 2016, Nova KBM's share capital totalled €150,000,000 and was split into 10,000,000 ordinary, registered no-par-value shares. Nova KBM has issued only one class of shares which are all freely transferable and bear the same rights. Each ordinary share entitles its holder to one vote at the Shareholders' Meeting. The rights of the holders of ordinary shares are set out in the relevant legislation. The Republic of Slovenia had been a 100% shareholder of Nova KBM until 21 April 2016, when it sold its entire shareholding to Biser Bidco S.à r.l., a company set up jointly by Apollo and the EBRD.

Explanation regarding significant direct and indirect holdership of the company's securities in the sense of achieving a qualified stake as determined by the act regulating acquisitions (Point 3 of the sixth paragraph of Article 70 of the ZGD-1)
Information and explanations regarding this requirement are provided above.

Explanation regarding the holders of securities that carry special control rights (Point 4 of the sixth paragraph of Article 70 of the ZGD-1)
No special controlling rights are attached to Nova KBM shares.

Explanation regarding the employee share scheme, if existing, of shares to which it relates, and an explanation about the method of exercising control over such scheme, if control is not exercised directly by the employees (Point 5 of the sixth paragraph of Article 70 of the ZGD-1)
Nova KBM has not set up a share scheme within the meaning of Article 14 of the ZUDDob.

Explanation regarding restrictions related to voting rights, in particular: (i) restrictions of voting rights to a certain stake or a certain number of votes, (ii) deadlines for executing voting rights, and (iii) agreements in which, on the basis of the company's cooperation, the financial rights arising from securities are separated from the rights of holdership of such securities (Point 6 of the sixth paragraph of Article 70 of the ZGD-1)
In accordance with Nova KBM's Articles of Association, no restrictions apply to the voting rights attached to the issued shares.

Explanation regarding any agreements among shareholders that could result in the restriction of the transfer of securities or voting rights (Point 7 of the sixth paragraph of Article 70 of the ZGD-1)
No agreements exist among shareholders that could result in the restriction of the transfer of securities or voting rights.

Explanation regarding the company's rules on appointment or replacement of members of the management or supervisory bodies (Point 8 of the sixth paragraph of Article 70 of the ZGD-1)

Management Board

In accordance with the provisions of Nova KBM's Articles of Association, the Supervisory Board appoints and recalls the President and other Management Board members. The President of the Management Board may appoint one of the Management Board members as the Deputy President.

Management Board members are appointed for a period of five years and may be reappointed.

The Supervisory Board may recall Management Board members for reasons stipulated in the applicable regulations as well as in internal documents and rules of Nova KBM.

Management Board members may also resign voluntarily.

Supervisory Board

The Supervisory Board is appointed by the Shareholders' Meeting for a period of five years, in accordance with Nova KBM's Articles of Association.

The appointment of Supervisory Board members shall be terminated after the expiry of their terms of office or based on a resolution on removal adopted by the Shareholders' Meeting. Supervisory Board members may resign at any time.

In accordance with the provisions of the ZGD-1 and Article 14 of Nova KBM's Articles of Association, the Shareholders' Meeting is authorised to reach decisions with respect to amendments to Nova KBM's Articles of Association. At least three-quarters of the share capital represented in the voting is required to pass a resolution of the Shareholders' Meeting.

Explanation regarding the authorisation of the members of the management for issuing or purchasing treasury shares (Point 9 of the sixth paragraph of Article 70 of the ZGD-1)

In accordance with Nova KBM's Articles of Association and its other documents, the powers of the Management Board for issuing or purchasing treasury shares are not restricted. Management Board members may make decisions concerning the issue or purchase of treasury shares under the terms and conditions stipulated by law.

Explanation regarding any important agreements to which the company is a party, and which take effect, change or are cancelled on the basis of the change in the control of the company as a result of a takeover bid, as stipulated by the act regulating acquisitions, and the effects of such agreements (Point 10 of the sixth paragraph of Article 70 of the ZGD-1)

No agreements exist to which Point 10 of the sixth paragraph of Article 70 of the ZGD-1 applies.

Explanation regarding any agreements between the company and the members of its management or supervisory bodies or the employees which foresee compensation should such persons, due to a takeover bid as stipulated by the act regulating acquisitions: (i) resign, (ii) be removed without reasonable cause, or (iii) be subject to the termination of their employment relationship (Point 11 of the sixth paragraph of Article 70 of the ZGD-1)

No agreements exist to which Point 11 of the sixth paragraph of Article 70 of the ZGD-1 applies.

4. INFORMATION ABOUT THE FUNCTIONING OF THE SHAREHOLDERS' MEETING AND OF ITS KEY POWERS, AND DESCRIPTION OF SHAREHOLDERS' RIGHTS AND THE METHOD OF THEIR EXERCISING

The Shareholders' Meeting has the powers as laid down in the applicable regulations.

The Shareholders' Meeting shall be convened by the Management Board or the Supervisory Board.

The Shareholders' Meeting shall be convened in the cases provided for in the applicable regulations, or when this is to the benefit of Nova KBM.

The Shareholders' Meeting may also be convened by the Supervisory Board, particularly in cases where the Management Board does not convene the Shareholders' Meeting in due time, or if the convocation of the Shareholders' Meeting is required for the smooth running of Nova KBM's operations.

The sessions of the Shareholders' Meeting shall be held either at the headquarters of Nova KBM or at another location specified in the notice of the Shareholders' Meeting.

The Shareholders' Meeting shall adopt resolutions by a simple majority of the votes cast, unless the law or Nova KBM's Articles of Association provide for a different type of majority.

The voting rights of shareholders shall be exercised in proportion to the number of their shares in the share capital. Each no-par-value share with a voting right entitles its holder to one voting right.

5. INFORMATION ABOUT THE COMPOSITION AND WORK OF THE MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

Management Board

As of 31 December 2016, the Nova KBM Management Board had the following two members: Robert Senica (President) and Sabina Župec Kranjc (Member).

On 22 July 2016, the Supervisory Board appointed Josef Gröblacher to serve as a Management Board member in the capacity of Chief Operating Officer. After he received the approval from the ECB to act as a Management Board member on 7 December 2016, Josef Gröblacher's term of office started on 1 January 2017, as per a decision reached by the Supervisory Board on 16 December 2016. From 15 September 2016 until taking up the role of Management Board member, Josef Gröblacher acted as an authorised representative of Nova KBM.

On 19 August 2016, the Supervisory Board appointed Jon Locke to serve as a Management Board member in the capacity of Chief Risk Officer. After he received the approval from the ECB to act as a Management Board member on 7 December 2016, Jon Locke's term of office started on 1 January 2017, as per a decision reached by the Supervisory Board on 16 December 2016. From 15 October 2016 until taking up the role of Management Board member, Jon Locke acted as an authorised representative of Nova KBM, pursuant to a decision reached by the Supervisory Board.

On 14 November 2016, the Supervisory Board announced the appointment of John Denhof as a new member of the Management Board, subject to approval by the BoS and/or the ECB. After he received the relevant approval from the ECB on 24 February 2017, the Supervisory Board appointed him as the new President (CEO) of the Management Board for a period of five years starting on 1 March 2017, replacing Robert Senica, who presented his resignation notice to the Supervisory Board on 28 February 2017. From the date of his appointment to the Management Board until taking up the role of its President, John Denhof acted as an authorised representative of Nova KBM. Robert Senica was appointed as a member of the Management Board in the capacity of its Deputy President (Deputy CEO), with effect from 1 March 2017.

Functioning of the Management Board

Pursuant to the applicable legislation and Nova KBM's Articles of Association, the Management Board runs operations autonomously and on its own responsibility.

The Management Board shall be composed of at least two members. Management Board members shall be appointed by the Supervisory Board.

One of the Management Board members shall be appointed as the President of the Management Board. The President of the Management Board shall appoint one Management Board member as the Deputy President.

The number of Management Board members shall be determined by the Supervisory Board in a resolution.

Management Board members shall be appointed for a period of five years and may be reappointed.

The Supervisory Board may recall Management Board members for reasons stipulated in the applicable regulations as well as in internal documents and rules of Nova KBM. Management Board members may also resign voluntarily.

The Management Board shall decide on all matters concerning Nova KBM except those decided on by the Shareholders' Meeting or the Supervisory Board in accordance with the applicable regulations and/or Nova KBM's Articles of Association.

The Management Board must obtain the prior consent of the Supervisory Board to conclude any legal transaction for which consent of the Supervisory Board is required by law. To conclude any legal transaction, in respect of which a special resolution is passed by the Supervisory Board, the Management Board must obtain the prior consent of the Supervisory Board or the relevant committee or any other body set up for this purpose by the Supervisory Board. The method and the process of giving consent shall be determined by the Supervisory Board by a special resolution.

The Management Board shall perform its work in accordance with its Rules of Procedure. The Rules of Procedure of the Management Board shall be approved by the Supervisory Board.

The Management Board shall decide by a majority of the votes cast. Where a vote is a tie, the vote of the President of the Management Board shall be the casting vote.

The Management Board shall adopt decisions at regular and extraordinary meetings or meetings by correspondence (through electronic means). The minutes shall be taken of all meetings of the Management Board.

The Management Board shall inform the Supervisory Board about all the matters for which the obligation to inform is prescribed by the applicable regulations. In addition, the Management Board shall inform the Supervisory Board about any other matters determined by the Supervisory Board in a resolution.

Further details regarding the composition and powers of the Management Board are set out in the 2016 Annual Report of the Nova KBM Group and Nova KBM, in the section 'Corporate governance'.

Information about the composition of the KBS banka Management Board

In 2016, up until 30 June, the Management Board of Raiffeisen banka (which was later renamed to KBS banka) comprised Gvido Jemenšek as the President and Werner Georg Mayer as a member, the latter resigning on 30 June 2016. To fill the vacancy arising as a result of his resignation, the Supervisory Board appointed Marija Brenk as a Management Board member. The KBS banka Management Board was dissolved on 3 January 2017 when KBS banka ceased to exist as an independent legal entity.

Supervisory Board

The running of Nova KBM's operations is overseen by the Supervisory Board that, in accordance with Nova KBM's Articles of Association, shall consist of no fewer than six and no more than 11 members.

Functioning of the Supervisory Board

Supervisory Board members shall be appointed by the Shareholders' Meeting.

Supervisory Board members shall elect among themselves the Chair and at least one Deputy Chair of the Supervisory Board.

Supervisory Board members are appointed for a period of five years and may be reappointed. The appointment of Supervisory Board members shall be terminated after the expiry of their terms of office or based on a resolution on removal adopted by the Shareholders' Meeting. Supervisory Board members may resign at any time.

The Supervisory Board may regulate its work in the Rules of Procedure.

Supervisory Board members shall be entitled to remuneration, which shall be determined each time by a resolution of the Shareholders' Meeting.

The Supervisory Board's decisions shall be valid if the majority of its members are present at its meeting. The decisions of the Supervisory Board shall be adopted by a majority of the votes cast. Where a vote is a tie, the vote of the Chair of the Supervisory Board shall be the casting vote.

The Supervisory Board shall adopt decisions at regular and extraordinary meetings or meetings by correspondence (through electronic means). The minutes shall be taken of all meetings of the Supervisory Board.

The meetings of the Supervisory Board shall be convened at least four times a year. The meetings of the Supervisory Board shall be convened by its Chair or Deputy Chair.

The Supervisory Board may appoint other committees, whose appointment is not foreseen or mandatory in accordance with the applicable regulations. The powers of such other committees shall be determined in a resolution adopted by the Supervisory Board.

The composition of the Supervisory Board at the end of 2016 is presented in the 2016 Annual Report of the Nova KBM Group and Nova KBM, in the section 'Corporate governance'.

Further information about the functioning of the Supervisory Board is set out in the 2016 Annual Report of the Nova KBM Group and Nova KBM, in the section 'Report of the Supervisory Board'.

Information about the composition of the KBS banka Supervisory Board
In 2016, up until 30 June, the Supervisory Board of Raiffeisen banka (which was later renamed to KBS banka) comprised the following three members: Kurt Bruckner, Hannes Mösenbacher and Georg Feldscher.

On 30 June 2016, the Shareholders' Meeting of Raiffeisen banka appointed a new Supervisory Board consisting of the following members: Andrej Fatur, Manfred Puffer, Michele Rabà, Gernot Lohr, Andrea Moneta and Alexander Saveliev.

The KBS banka Supervisory Board was dissolved on 3 January 2017 when KBS banka ceased to exist as an independent legal entity.

Supervisory Board committees

In 2016, the following Supervisory Board committees carried out their work in accordance with the ZGD-1 and the ZBan-1: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Committee.

In accordance with Nova KBM's Articles of Association, last year the Supervisory Board also set up the Credit Committee, which is responsible for giving consent to the Management Board for concluding any legal transaction in respect of which the Supervisory Board has adopted a special resolution.

Audit Committee
In 2016, up until 21 April, the Audit Committee consisted of the following three members: Peter Kavčič (Chair), Andrej Fatur (Deputy Chair) and Miha Glavič. Mario Gobo and Jernej Pirc acted as external advisers to the Audit Committee.

On 21 April 2016, the Supervisory Board appointed the following members to the Audit Committee: Andrej Fatur (Chair), Gernot Lohr (Deputy Chair), Manfred Puffer and Michele Rabà.

On 16 December 2016, the Supervisory Board appointed Andrea Moneta as a new member of the Audit Committee. He took up the role of Chair of the committee, replacing Andrej Fatur, who became a committee member.

Pursuant to the ZGD-1, the responsibilities of the Audit Committee are as follows:

- to monitor the financial reporting procedures and make proposals and recommendations to ensure their integrity
- to monitor the efficiency and effectiveness of Nova KBM's internal controls, the internal audit function, if any, and risk management systems
- to monitor the statutory audit of annual and consolidated financial statements, in particular the effectiveness of the statutory audit, taking into account all the findings and conclusions of the competent authority
- to examine and monitor the independence of the auditor appointed for the review of the annual report, especially regarding the provision of additional non-audit services
- to monitor the auditor selection process and propose to the Supervisory Board the appointment of the auditor for the review of the annual report
- to monitor the integrity of financial information provided by Nova KBM
- to assess the composition of the annual report, including drafting the proposal for the Supervisory Board
- to participate in determining the major areas subject to audit
- to participate in the preparation of the agreement between the auditor and Nova KBM, which must not include any provision that would restrict the Shareholders' Meeting's choice regarding the appointment of the auditor. Any such provisions would be null and void
- to report to the Supervisory Board on the results of the statutory audit, including notes on how the statutory audit contributed to the integrity of financial reporting and what the role of the Audit Committee was in the process
- to carry out other tasks as stipulated by Nova KBM's Articles of Association or a resolution of the Supervisory Board
- to cooperate with the auditor in auditing Nova KBM's annual reports, in particular by exchanging information about the major audit-related issues
- to cooperate with the internal auditor, in particular by exchanging information about the major internal audit-related issues

The Audit Committee carries out its activities in accordance with the applicable legislation, Nova KBM's Articles of Association, and the charter which regulates the purpose and the composition of the Audit Committee, methods and conditions of its work as well as powers and responsibilities of its members. The area and the method of work of the Audit Committee, its decision-making process and all other issues deemed important for its work are regulated by the Rules of Procedure of the Audit Committee.

Nomination Committee
In 2016, up until 21 April, the Nomination Committee consisted of the following three members: Peter Kukovica (Chair), Niko Samec (Deputy Chair) and Peter Kavčič. Romana Košorok acted as an external adviser to the Nomination Committee.

On 21 April 2016, the Supervisory Board appointed the following members to the Nomination Committee: Andrea Moneta (Chair), Gernot Lohr (Deputy Chair) and Alexander Saveliev.

Pursuant to the ZBan-2, the responsibilities of the Nomination Committee are as follows:

- to select and recommend to the Supervisory Board candidates for membership of the Management Board, and to select and recommend to the Shareholders' Meeting candidates for membership of the Supervisory Board, taking into account policies on the selection of suitable candidates, as set out in the ZBan-2
- to define the tasks and required conditions for a specific appointment, including an assessment of the time envisaged for the performance of the function in question
- to define the target number of an under-represented gender on the Management Board or the Supervisory Board, and to draw up an associated policy on how to increase the number of members of an under-represented gender to achieve that target
- to assess, at least once a year, the size, structure and performance of the Management and Supervisory Boards, and to draw up a report detailing potential changes
- to assess, at least once a year, the knowledge, skills and experience of individual members of the Management and Supervisory Boards, and of the governing system as a whole, and to report to the Management and Supervisory Boards accordingly
- to regularly review the Management Board's policy on the selection and appointment of suitable candidates for Nova KBM's senior management positions, and to draw up a report detailing potential changes
- to actively contribute to the fulfilment of Nova KBM's obligation to adopt appropriate policies on the assessment of the suitability of members of Nova KBM's governing bodies

The area and the method of work of the Nomination Committee, its decision-making process and all other issues important for its work are regulated by the Rules of Procedure of the Nomination Committee.

Remuneration Committee

In 2016, up until 21 April, the Remuneration Committee consisted of the following three members: Niko Samec (Chair), Peter Kukovica (Deputy Chair) and Miha Glavič.

On 21 April 2016, the Supervisory Board appointed the following members to the Remuneration Committee: Gernot Lohr (Chair), Alexander Saveliev (Deputy Chair) and Michele Rabà.

Pursuant to the ZBan-2, the responsibilities of the Remuneration Committee are as follows:

- to carry out technical and independent assessments of remuneration policies and practices, and to formulate initiatives for measures on the basis thereof with the aim of improving the management of the risks to which Nova KBM is exposed, as well as its capital and liquidity
- to draw up proposals for decisions by the governing bodies regarding the remuneration of employees, including remuneration that impacts the risks to which Nova KBM is exposed, and the management thereof
- to control the remuneration of members of senior management who perform risk management functions and ensure the compliance of operations

The area and the method of work of the Remuneration Committee, its decision-making process and all other issues important for its work are regulated by the Rules of Procedure of the Remuneration Committee.

Risk Committee

In 2016, up until 21 April, the Risk Committee consisted of the following three members: Andrej Fatur (Chair), Peter Kukovica (Deputy Chair) and Peter Kavčič.

On 21 April 2016, the Supervisory Board appointed the following members to the Risk Committee: Manfred Puffer (Chair), Andrea Moneta (Deputy Chair), Alexander Saveliev and Michele Rabà.

Pursuant to the ZBan-2, the responsibilities of the Risk Committee are as follows:

- to provide advice regarding Nova KBM's current and future risk-taking propensity and regarding its risk management strategy, and to provide assistance in the supervision of senior management with respect to the implementation of the risk management strategy
- to verify, without encroaching on the tasks of the Remuneration Committee, whether the forms of stimulation provided for by the remuneration system take into account the risks, capital, liquidity and likelihood and allocation of Nova KBM's revenue, with the aim of formulating prudent remuneration policies and practices
- to verify whether the prices of Nova KBM's products are fully compatible with the adopted business model and risk management strategy, and to propose measures for the elimination of identified discrepancies and to submit those proposals to the Management and Supervisory Boards

The area and the method of work of the Risk Committee, its decision-making process and all other issues important for its work are regulated by the Rules of Procedure of the Risk Committee.

Information concerning the work of Supervisory Board committees of KBS banka in 2016

The following Supervisory Board committees of KBS banka carried out their work in 2016: the Audit Committee, the Risk Committee and the Transaction Committee.

This Corporate Governance Statement forms an integral part of the 2016 Annual Report of the Nova KBM Group and Nova KBM, which will be published on SEOnet, a web portal of the Ljubljana Stock Exchange, and on Nova KBM's website.

Maribor, 8 March 2017

Management Board of Nova KBM d.d.

Josef Gröblacher	Jon Locke	Sabina Župec Kranjc	Robert Senica	John Denhof
Member	Member	Member	Deputy President	President

Supervisory Board of Nova KBM d.d.
Andrej Fatur, Chair

14. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

(pursuant to Article 110 of the ZTFI)

By signing this statement, the Management Board, comprising **John Denhof as the President, Robert Senica as the Deputy President, and Sabina Župec Kranjc, Jon Locke and Josef Gröblacher as members**, **confirms** to the best of its knowledge that:

- the financial statements have been drawn up in accordance with the appropriate accounting framework of reporting and that they provide a true and fair view of the assets, liabilities, the financial position and the profit and loss of Nova KBM and other companies included in the consolidation as a whole, and
- the business report gives a fair view of the development and results of Nova KBM's operations and its financial position, including the description of principal risks Nova KBM and other companies included in the consolidation are exposed to.

Maribor, 8 March 2017

Management Board of Nova KBM d.d.

Josef Gröblacher	Jon Locke	Sabina Župec Kranjc	Robert Senica	John Denhof
Member	Member	Member	Deputy President	President

Supervisory Board of Nova KBM d.d.

Andrej Fatur, Chair

15. TYPE OF SERVICES FOR WHICH NOVA KBM HAS THE AUTHORISATION OF THE BANK OF SLOVENIA

Nova KBM has the authorisation to perform banking services pursuant to Article 5 of the ZBan-2 (Official Gazette of RS, No. 25/15).

Banking services are the acceptance of deposits from the public and the granting of loans for its own account.

Nova KBM also has the authorisation to perform mutually recognised and additional financial services. Pursuant to Article 5 of the ZBan-2, Nova KBM may perform the following mutually recognised financial services:

1. Acceptance of deposits and other repayable funds.
2. Granting of loans, including:
   - consumer loans
   - mortgage loans
   - factoring (with our without recourse)
   - financing of commercial transactions, including forfeiting
3. Financial leasing: lease of assets, where all material risks and benefits that derive from ownership rights over assets are transferred to the lessees, whereby transfer of the ownership rights to lessees is possible but not inevitable.
4. Payment services.
5. Issuance and management of other payment instruments (i.e. travellers' cheques and bankers' drafts) in the part in which this service is not included in service of Point 4 above.
6. Issuance of guarantees and other commitments.
7. Trading for its own account and for accounts of customers in:
   - money market instruments
   - foreign exchange, including currency exchange transactions
   - financial futures and options
   - foreign exchange and interest-rate instruments
   - transferable securities
8. Participation in the issuance of securities and services related to such issues.
9. Advice and services related to mergers and the purchase of undertakings.
10. Portfolio management and advice.
11. Safekeeping of securities and other services related to safekeeping of securities.
12. Renting out of safe deposit boxes.
13. Investment services and operations and ancillary investment services in accordance with the ZTFI.

Nova KBM may perform the following additional financial services in accordance with Article 6 of the ZBan-2:

- insurance brokerage in accordance with the law governing the insurance business
- administration of payment systems
- marketing of investment funds and the sale of investment coupons or shares in investment funds

Furthermore, within additional financial services provided in accordance with Point 6 of the first paragraph of Article 6 of the ZBan-2, Nova KBM may be engaged in the brokerage of voluntary supplementary pension insurance.

16. NOVA KBM BRANCH OFFICE NETWORK

Branch Office Network Department
Razlagova ulica 4
2000 Maribor
Telephone: +386 2 229 20 66

Slovenia-East Branch
Razlagova ulica 4
2000 Maribor
Telephone: +386 2 229 20 66

Centrala Branch Office
Ulica Vita Kraigherja 4
2000 Maribor
Telephone: +386 2 229 21 40

Tyrševa Branch Office
Tyrševa ulica 2
2000 Maribor
Telephone: +386 2 229 20 73

Melje Branch Office
Partizanska cesta 42
2000 Maribor
Telephone: +386 2 229 15 70

Ljubljanska Branch Office
Ljubljanska ulica 1–3
2000 Maribor
Telephone: +386 2 229 15 20

Europark Branch Office
Pobreška cesta 18
2000 Maribor
Telephone: +386 2 229 15 10

Cesta zmage Branch Office
Cesta zmage 98
2000 Maribor
Telephone: +386 2 229 17 20

Koroška vrata Branch Office
Turnerjeva ulica 17a
2000 Maribor
Telephone: +386 2 229 16 60

Pobrežje Branch Office
Cesta XIV. divizije 34
2000 Maribor
Telephone: +386 2 229 15 30

Tezno Branch Office
Ptujska cesta 105
2000 Maribor
Telephone: +386 2 229 16 90

Ruše Branch Office
Jamnikova ulica 2
2342 Ruše
Telephone: +386 2 229 17 50

Hoče Branch Office
Miklavška cesta 63
2311 Hoče
Telephone: +386 2 229 17 40

Lovrenc na Pohorju Branch Office
Gornji trg 20
2344 Lovrenc na Pohorju
Telephone: +386 2 229 18 40

Lenart Branch Office
Partizanska cesta 3
2230 Lenart v Slovenskih goricah
Telephone: +386 2 229 15 80

Novi trg Branch Office
Novi trg 1
2250 Ptuj
Telephone: +386 2 229 19 24

Breg Branch Office
Zagrebška cesta 4a
2250 Ptuj
Telephone: +386 2 229 18 90

Kidričevo Branch Office
Mladinska ulica 10
2325 Kidričevo
Telephone: +386 2 229 18 65

Videm Branch Office
Videm pri Ptuju 43
2284 Videm pri Ptuju
Telephone: +386 2 229 19 75

Gorišnica Branch Office
Gorišnica 61
2272 Gorišnica
Telephone: +386 2 229 17 85

Rogoznica Branch Office
Špindlerjeva ulica 3
2250 Ptuj
Telephone: +386 2 229 17 35

Rabelčja vas Branch Office
Ulica 25. maja 13
2250 Ptuj
Telephone: +386 2 229 17 10

Ormož Branch Office
Ptujska cesta 2
2270 Ormož
Telephone: +386 2 229 18 70

Titova Branch Office
Ljubljanska cesta 11
2310 Slovenska Bistrica
Telephone: +386 2 229 18 15

Zgornja Bistrica Branch Office
Partizanska ulica 61
2310 Slovenska Bistrica
Telephone: +386 2 229 17 90

Poljčane Branch Office
Bistriška cesta 60
2319 Poljčane
Telephone: +386 2 229 18 30

Pragersko Branch Office
Kolodvorska ulica 7
2331 Pragersko
Telephone: +386 2 229 18 50

Oplotnica Branch Office
Ulica Pohorskega bataljona 7
2317 Oplotnica
Telephone: +386 2 229 18 60

Dravograd Branch Office
Meža 10
2370 Dravograd
Telephone: +386 2 229 17 65

Ravne Branch Office
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2390 Ravne na Koroškem
Telephone: +386 2 229 16 40

Murska Sobota Branch Office
Kocljeva ulica 11
9000 Murska Sobota
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Glavni trg 4
9240 Ljutomer
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Partizanska cesta 26
9250 Gornja Radgona
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Trg ljudske pravice 11
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Celje Branch Office
Cankarjeva ulica 1
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Slovenia-Centre Branch
Tržaška cesta 134
1000 Ljubljana
Telephone: +386 1 620 30 00

Ljubljana Branch Office
Tivolska cesta 48
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Telephone: +386 1 620 30 09

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Stritarjeva ulica 2
1000 Ljubljana
Telephone: +386 1 620 30 30

Kranj Branch Office
Koroška cesta 2
4000 Kranj
Telephone: +386 4 620 31 04

Žiri Branch Office
Loška cesta 15
4226 Žiri
Telephone: +386 4 620 31 30

Novo mesto Branch Office
Rozmanova ulica 24
8000 Novo mesto
Telephone: +386 7 620 31 60

Brežice Branch Office
Cesta prvih borcev 6
8250 Brežice
Telephone: +386 7 620 31 47

Krško Branch Office
Cesta krških žrtev 137
8270 Krško
Telephone: +386 7 620 31 70

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Kidričeva ulica 11
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Telephone: +386 5 331 70 00

Centrala Branch Office
Kidričeva ulica 11
5000 Nova Gorica
Telephone: +386 5 331 70 00

Šempeter Branch Office
Cesta Prekomorskih brigad 9
5290 Šempeter pri Gorici
Telephone: +386 5 331 70 60

Solkan Branch Office
Trg J. Srebrniča 2
5250 Solkan
Telephone: +386 5 331 74 80

Brda Branch Office
Trg 25. maja 5
5212 Dobrovo v Brdih
Telephone: +386 5 331 74 85

Kanal Branch Office
Trg svobode 23
5213 Kanal
Telephone: +386 5 331 74 70

Branik Branch Office
Branik 75
5295 Branik
Telephone: +386 5 331 70 86

Miren Branch Office
Miren 125a
5291 Miren
Telephone: +386 5 331 70 80

Deskle Branch Office
Srebrničeva ulica 20
5210 Deskle
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5294 Dornberk
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5292 Renče
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Vipava Branch Office
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5271 Vipava
Telephone: +386 5 331 70 50

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5280 Idrija
Telephone: +386 5 331 70 91

Cerkno Branch Office
Glavni trg 5
5282 Cerkno
Telephone: +386 5 331 71 30

Tolmin Branch Office
Trg maršala Tita 14
5220 Tolmin
Telephone: +386 5 331 71 47

Bovec Branch Office
Trg golobarskih žrtev 47
5230 Bovec
Telephone: +386 5 331 71 65

Kobarid Branch Office
Trg svobode 2
5222 Kobarid
Telephone: +386 5 331 71 70

Koper Branch Office
Ferrarska ulica 12
6000 Koper
Telephone: +386 5 331 71 96

Post Office Banking Branch
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Post Office Bank Counters
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Post Office Banking Services
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Branch offices of the former KBS banka
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2000 Maribor
Telephone: +386 2 229 32 11

Tezno Branch Office
Zagrebška cesta 76
2000 Maribor
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3000 Celje
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Novo mesto Branch Office
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Koper Branch Office
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Telephone: +386 5 662 16 841

FINANCIAL REPORT



An increasing number of satisfied customers trust us.

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP AND NOVA KBM D.D.

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

to the owners of Nova KBM d.d.

Opinion

We have audited the accompanying consolidated financial statements of the company Nova KBM d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and consolidated cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	**How our audit addressed the key audit matter**
Loan portfolio impairment	
Loan portfolio impairment is explained in Note 3.4.6 (accounting policies) and Notes 21 and 30.1 (value, movements and assumptions). The bank management's decision as to when and to what extent loan portfolio impairment should be recognised is • the portfolio of loans outstanding to low-risk customers (public institutions, regional government institutions, associations etc.).	Our audit procedures included an understanding and testing of the design and operating effectiveness of the key controls regarding impairment of loan portfolio. Specifically: • controls over the classification of client; • controls over timely assessment of the individual impairments
Business combinations	
During 2016, Nova KBM d.d. merged KBS banka d.d. based on the decision of owner of both banks as disclosed in Note 8 to the financial statements. *KBS banka d.d. merger:* KBS banka d.d. merger was treated as transaction of entities under common control using the predecessor values method. The book value of KBS banka's assets and liabilities, as presented in the interim consolidated financial statements as of 30 June 2016 of its immediate parent company (Biser Topco Group), were recognised in the separate financial statements of Nova KBM as of 30 June 2016. Consequently, the results of KBS banka's operations for the period from 1 July 2016 to 31 December 2016 were included in the 2016 results of Nova KBM. Because of the significance of these judgments and the significance of impact on statement of financial position, the matter is a key area of focus.	Our audit response in relation to the business combinations recognition included: • Assessment of appropriate recognition of the business combinations, detailed analysis of IFRS 3 application, along with the understanding of transaction under common control and assessment of control exercisable by the Group in accordance with IFRS 10 *Consolidated Financial Statements requirements*. • Assessment of accuracy and appropriateness of the opening balances after merger of KBS banka d.d. from 1 July 2016. We have audited the half-year financial statements of KBS banka d.d. as of 30 June 2016 that were used as the opening balances for the merger. • Evaluation of the merger procedures applied, which included unification of the accounting policies and appropriate treatment/elimination of the transactions between acquiree and acquirer. • Assessment of accuracy and completeness of the underlying accounting records and data transferred from KBS banka to Nova KBM d.d. general records and subledgers.

Other information

The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.
Our opinion on the consolidated financial statements does not cover the other information.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.
Based on the procedures performed, to the extent we are able to assess it, we report that:

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Deloitte revizija d.o.o. - The company is registered with the Ljubljana District Court, registration no. 1647105 - VAT ID SI62560085 - Nominal capital EUR 74,214.30.

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- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, Audit Committee and Supervisory Board for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
Audit Committee and Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With Audit Committee and Supervisory Board we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.
With the Audit Committee and Supervisory Board we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.
We also provide the Audit Committee and Supervisory Board with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.
Among the matters we communicate with the Audit Committee and Supervisory Board, we select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

For signature, please refer to the original Slovenian version.

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

Ljubljana, 15 March 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF NOVA KBM D.D.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

to the owners of Nova KBM d.d.

Opinion

We have audited the accompanying financial statements of the company Nova KBM d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	**How our audit addressed the key audit matter**
Loan portfolio impairment	
Loan portfolio impairment is explained in Note 3.4.6 (accounting policies) and Notes 21 and 30.1 (value, movements and assumptions). The bank management's decision as to when and to what extent loan portfolio impairment should be recognised is subject to judgment/assessment. Due to importance of the judgments and the volume both of the credit portfolio and its impairments for the purposes of financial statements preparation, this accounting estimate is considered as a key audit matter. As at 31 December 2016, the gross exposure of loan portfolio amounted to EUR 2,397,456 thousand, while the relevant impairment loss was recognised in the amount of EUR 448,719 thousand. The basis for the impairment calculation and recognition is determined in the bank's accounting policies, i.e. financial assets such as loans and guarantees are impaired either individually or collectively. For individually assessed financial assets, the amount of loss due to impairment is calculated as the difference between the asset's gross value and the present value of future cash flows discounted to the present value. Cash flows from operations and/or the realisation of collateral is taken into account in the calculation. Impairment rates for the collective impairment are determined based on a model that uses as inputs the following data: • the probability of a customer becoming a defaulting customer within the respective group of financial assets; • the amount of loss incurred by the respective group of defaulting customers; The probability of a customer becoming a defaulting customer and the amount of loss are calculated based on historical data. Collective impairment rates are determined separately for the following portfolios: • the portfolio of household loans; • the portfolio of large corporate loans; • the portfolio of SME loans;	Our audit procedures included an understanding and testing of the design and operating effectiveness of the key controls regarding impairment of loan portfolio. Specifically: • controls over the classification of client; • controls over timely assessment of the individual impairments • controls over the collateral valuation (with focus on having regularly updated valuations as the basis for determining the appropriate value of collateral). In line with our sampling methodology, we determined a sample of clients from the loan portfolio to evaluate whether impairment indicators exist and if impairment was recognized on time and in the appropriate amount. The appropriateness of impairment methodology and policies was independently assessed based on individually impaired exposures from the sample. We assessed the impairment based on the information in respect of individual clients (expected discounted cash flows from the operations or realisation of collateral). If necessary, auditor's experts (certified appraisers) also participated in the assessment of the valuation of collateral. During the procedures, we focused on any indicators of possible management bias or errors. In regards to the exposures subject to collective impairment, we examined if the methodology used to assess credit losses for the discussed portfolio was appropriate. We examined the internal policies, methodologies and manuals. We analysed the sample to find out if the Bank exercised the group impairment policy consistently and if appropriate parameters were used for the individual transactions. The accuracy of overall levels of the collective impairments was evaluated together with the assessment of key credit risk parameters (where applicable). Where accuracy assessment was not possible, regulatory or benchmark parameters were used.

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• the portfolio of loans outstanding to low-risk customers (public institutions, regional government institutions, associations etc.).	
Business combinations	
During 2016, Nova KBM d.d. merged its subsidiary PBS d.d. and KBS banka d.d. based on the decision of owner of both banks as disclosed in Notes 7 and 8 to the financial statements. *PBS d.d. merger:* The transaction was in 2016 treated as a transaction under common control. Consequently, the results of PBS's operations for 2016 as a whole were included in the 2016 results of Nova KBM. *KBS banka d.d. merger:* KBS banka d.d. merger was treated as transaction of entities under common control using the predecessor values method. The book value of KBS banka's assets and liabilities, as presented in the interim consolidated financial statements as of 30 June 2016 of its immediate parent company (Biser Topco Group), were recognised in the separate financial statements of Nova KBM as of 30 June 2016. Consequently, the results of KBS banka's operations for the period from 1 July 2016 to 31 December 2016 were included in the 2016 results of Nova KBM. Because of the significance of these judgments and the significance of impact on statement of financial position, the matter is a key area of focus.	Our audit response in relation to the business combinations recognition included: • Assessment of appropriate recognition of the business combinations, detailed analysis of IFRS 3 application, along with the understanding of transaction under common control and assessment of control exercisable by the Group in accordance with IFRS 10 *Consolidated Financial Statements requirements*. • Assessment of accuracy and appropriateness of the opening balances as of 1.1.2016 after merger of PBS d.d. We have audited the financial statements of PBS d.d. as at 31 December 2015 that were used as the opening balances for the merger. • Assessment of accuracy and appropriateness of the opening balances after merger of KBS banka d.d. from 1 July 2016. We have audited the half-year financial statements of KBS banka d.d. as of 30 June 2016 that were used as the opening balances for the merger. • Evaluation of the merger procedures applied, which included unification of the accounting policies and appropriate treatment/elimination of the transactions between acquiree and acquirer. • Assessment of accuracy and completeness of the underlying accounting records and data transferred from PBS d.d. and KBS banka to Nova KBM d.d. general records and subledgers.

Other information

The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.
Our opinion on the financial statements does not cover the other information.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.
Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, Audit Committee and Supervisory Board for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
Audit Committee and Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With the Audit Committee and Supervisory Board we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.
We also provide the Audit Committee and Supervisory Board with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.
Among the matters we communicate with the Audit Committee and Supervisory Board, we select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

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

For signature, please refer to the original Slovenian version.

Ljubljana, 15 March 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

FINANCIAL STATEMENTS OF THE NOVA KBM GROUP AND NOVA KBM D.D.

1. INCOME STATEMENT

€000

ITEM DESCRIPTION	Notes	Nova KBM Group Year ending 31.12.2016	Nova KBM Group Year ending 31.12.2015	Nova KBM d.d. Year ending 31.12.2016	Nova KBM d.d. Year ending 31.12.2015
Interest income	9	105,787	122,382	104,212	100,926
Interest expenses	9	(13,487)	(24,238)	(13,484)	(21,825)
Net interest income	**9**	**92,300**	**98,144**	**90,728**	**79,101**
Dividend income	**10**	**793**	**1,117**	**793**	**1,033**
Fee and commission income	11	73,967	81,294	68,370	44,699
Fee and commission expenses	11	(31,536)	(26,817)	(30,485)	(4,163)
Net fee and commission income	**11**	**42,431**	**54,477**	**37,885**	**40,536**
Net realised gains on financial assets and liabilities not measured at fair value through profit or loss	12	8,593	13,751	10,120	13,166
Net gains/(losses) on financial assets and liabilities held for trading	13	127	(4,047)	63	(4,281)
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	14	5,491	(4,435)	5,491	(4,435)
Net gains from foreign exchange rate differences	15	311	6,730	264	6,876
Net (losses) on derecognition of assets	16	(2,991)	(18)	(3,040)	(166)
Other net operating income/(loss)	17	3,731	(3,847)	4,118	(3,212)
Administration costs	18	(97,686)	(84,752)	(92,067)	(63,157)
Depreciation and amortisation	19	(11,863)	(12,663)	(10,409)	(9,504)
Provisions	20	4,744	9,642	2,022	10,813
Impairments	21	(15,245)	(48,780)	(16,487)	(26,787)
Share of profits of subsidiaries, associates and joint ventures	22	0	135	457	528
Net profit/(loss) from non-current assets and disposal groups classified as held for sale	-	(870)	712	(870)	1,740
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**-**	**29,866**	**26,166**	**29,068**	**42,251**
Income taxes on continuing operations	23	3,805	(9,030)	3,936	(7,816)
NET PROFIT FROM CONTINUING OPERATIONS	**-**	**33,671**	**17,136**	**33,004**	**34,435**
Total (loss) after tax from discontinued operations		(3,196)	(176)	0	0
NET PROFIT FOR THE FINANCIAL YEAR	**-**	**30,475**	**16,960**	**33,004**	**34,435**
a) Attributable to owners of the parent	-	30,167	16,567	33,004	34,435
– continuing operations	-	33,363	16,743	33,004	34,435
– discontinued operations	-	(3,196)	(176)	0	0
b) Attributable to non-controlling interests	-	308	393	0	0
– continuing operations	-	308	393	0	0
– discontinued operations	-	0	0	0	0
Basic earnings per share (€)	24	3.02	1.66	3.30	3.44
Diluted earnings per share (€)	24	3.02	1.66	3.30	3.44

The accompanying notes form an integral part of these financial statements.

2. STATEMENT OF OTHER COMPREHENSIVE INCOME

€000

ITEM DESCRIPTION	Nova KBM Group Year ending 31.12.2016	Nova KBM Group Year ending 31.12.2015	Nova KBM d.d. Year ending 31.12.2016	Nova KBM d.d. Year ending 31.12.2015
NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX	**30,475**	**16,960**	**33,004**	**34,435**
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX	**3,879**	**(10,064)**	**427**	**(8,060)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(434)**	**497**	**(429)**	**440**
Actuarial gains/(losses) on defined benefit pension plans	(475)	511	(470)	440
Income tax relating to items that will not be reclassified to profit or loss	41	(14)	41	0
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**4,313**	**(10,561)**	**856**	**(8,500)**
Gains/(losses) from foreign currency translation	**(89)**	**20**	**0**	**0**
– translation gains/(losses) taken to equity	(89)	20	0	0
Gains/(losses) in respect of available-for-sale financial assets	**2,400**	**(12,670)**	**2,032**	**(10,240)**
– valuation gains/(losses) taken to equity	4,579	(12,849)	4,338	(10,240)
– gains/(losses) transferred to profit or loss	(2,179)	179	(2,306)	0
Share of (losses) of associates and joint ventures accounted for using the equity method	**0**	**(34)**	**0**	**0**
Gains/(losses) recognised in other comprehensive income in respect of discontinued operations	3,196	(60)	0	0
Income tax relating to items that may be reclassified subsequently to profit or loss	**(1,194)**	**2,183**	**(1,176)**	**1,740**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**34,354**	**6,896**	**33,431**	**26,375**
a) Attributable to owners of the parent	34,044	6,519	33,431	26,375
– continuing operations	34,044	6,750	33,431	26,375
– discontinued operations (Note 55)	0	(231)	0	0
b) Attributable to non-controlling interests	310	377	0	0
– continuing operations	310	382	0	0
– discontinued operations (Note 55)	0	(5)	0	0

The accompanying notes form an integral part of these financial statements.

3. STATEMENT OF FINANCIAL POSITION

€000

ITEM DESCRIPTION	Notes	Nova KBM Group 31.12.2016	Nova KBM Group 31.12.2015	Nova KBM d.d. 31.12.2016	Nova KBM d.d. 31.12.2015
Cash, cash balances at central banks and demand deposits at banks	25	783,915	322,889	779,469	260,860
Financial assets held for trading	26	1,119	1,563	232	116
Financial assets designated at fair value through profit or loss	27	86,732	13,421	86,732	13,421
Available-for-sale financial assets	28	1,584,514	1,675,907	1,582,095	1,442,288
Loans and advances	-	2,125,058	1,896,388	2,108,509	1,623,522
– loans and advances to banks	29	118,916	61,229	118,787	61,439
– loans and advances to customers	30	1,963,849	1,808,373	1,948,737	1,538,283
– other financial assets	31	42,293	26,786	40,985	23,800
Held-to-maturity financial assets	32	90,216	129,548	90,216	28,566
Non-current assets held for sale and discontinued operations	39	1,646	57,449	1,646	1,239
Property, plant and equipment	33	57,314	57,325	56,746	49,908
Investment property	34	37,807	31,184	30,459	28,439
Intangible assets	35	18,463	21,806	13,113	11,908
Investments in the equity of subsidiaries, associates and joint ventures	36	0	0	55,476	81,400
Tax assets	37	9,438	8,981	9,396	8,721
– current tax assets	37	1,109	1,706	1,067	1,446
– deferred tax assets	37	8,329	7,275	8,329	7,275
Other assets	38	27,228	29,706	17,678	12,967
TOTAL ASSETS	**-**	**4,823,450**	**4,246,167**	**4,831,767**	**3,563,355**
Financial liabilities held for trading	40	1,575	270	1,575	270
Financial liabilities measured at amortised cost	41	4,075,892	3,494,287	4,100,131	2,895,029
– deposits from banks and central banks	41	41,107	29,768	41,107	32,833
– deposits from customers	41	3,626,247	3,094,447	3,650,858	2,513,618
– loans from banks and central banks	41	333,088	316,242	333,088	299,554
– loans from customers	41	0	909	0	909
– debt securities issued	41	14,376	12,368	14,376	14,418
– subordinated liabilities	41	0	610	0	0
– other financial liabilities	41	61,074	39,943	60,702	33,697
Liabilities included in disposal groups classified as held for sale and discontinued operations		0	56,941	0	0
Provisions	42	59,220	66,876	56,785	59,085
Tax liabilities	37	233	1,641	8	0
– current tax liabilities	37	120	61	8	0
– deferred tax liabilities	37	113	1,580	0	0
Other liabilities	43	3,169	3,079	2,687	2,242
TOTAL LIABILITIES	**-**	**4,140,089**	**3,623,094**	**4,161,186**	**2,956,626**
Share capital	44	150,000	150,000	150,000	150,000
Share premium	45	403,302	360,572	403,302	360,572
Accumulated other comprehensive income	46	33,571	32,815	33,201	25,799
Translation reserves	-	(95)	(3,230)	0	0
Reserves from profit	47	20,545	54,069	20,228	53,648
Retained earnings (including net profit for the financial year)	48	73,164	25,731	63,850	16,710
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**-**	**680,487**	**619,957**	**670,581**	**606,729**
Equity attributable to non-controlling interests	-	2,874	3,116	0	0
TOTAL EQUITY	**-**	**683,361**	**623,073**	**670,581**	**606,729**
TOTAL LIABILITIES AND EQUITY	**-**	**4,823,450**	**4,246,167**	**4,831,767**	**3,563,355**

The accompanying notes form an integral part of these financial statements.

4. STATEMENT OF CASH FLOWS

€000

Designation	ITEM DESCRIPTION	Nova KBM Group Year ending 31.12.2016	Nova KBM Group Year ending 31.12.2015	Nova KBM d.d. Year ending 31.12.2016	Nova KBM d.d. Year ending 31.12.2015
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**				
a)	**Total profit before tax**	**26,670**	**25,749**	**29,068**	**42,251**
	Depreciation and amortisation	11,863	13,332	10,409	9,504
	Impairments of available-for-sale financial assets	3,395	1,640	3,395	1,639
	Impairments of loans and advances	6,829	44,926	8,813	20,200
	(Reversal of impairments) of held-to-maturity financial assets	0	(419)	(1,657)	0
	Impairments of tangible assets, investment property, intangible assets and other assets	5,021	1,759	6,372	1,353
	Impairments/(reversal of impairments) of investments in the equity of subsidiaries, associates and joint ventures	0	0	(436)	3,595
	Share of (profits) of subsidiaries, associates and joint ventures	0	(135)	(457)	(528)
	Net (gains) from foreign exchange rate differences	(311)	(6,586)	(264)	(6,876)
	Net (gains)/losses from the sale of tangible assets and investment property	(55)	42	469	166
	Net losses from the sale of intangible assets	3,047	0	2,572	0
	Other (gains) from investing activities	(2,213)	(3,309)	(2,243)	(1,697)
	Net unrealised (gains)/losses from non-current assets held for sale and discontinued operations and the liabilities associated therewith	870	(686)	870	(1,740)
	Other adjustments to total profit or loss before tax	(1,540)	(9,747)	(2,022)	(10,813)
	Cash flow from operating activities before changes in operating assets and liabilities	**53,576**	**66,566**	**54,889**	**57,054**
b)	**(Increase)/decrease in operating assets (excluding cash equivalents)**	**155,079**	**(97,797)**	**123,968**	**(117,315)**
	Net decrease in financial assets held for trading	3,093	1,342	2,533	68
	Net decrease in financial assets designated at fair value through profit or loss	10,874	4,436	10,874	4,436
	Net (increase)/decrease in available-for-sale financial assets	97,542	(213,649)	96,484	(178,955)
	Net decrease in loans and advances	11,961	94,900	12,665	51,964
	Net decrease in non-current assets held for sale	26,969	0	0	0
	Net decrease in other assets	4,640	15,174	1,412	5,172
c)	**Increase/(decrease) in operating liabilities**	**21,581**	**(122,582)**	**89,101**	**(63,280)**
	Net increase/(decrease) in financial liabilities held for trading	1,305	(959)	1,305	(900)
	Net increase/(decrease) in deposits and loans taken, measured at amortised cost	80,895	(53,397)	91,489	7,129
	Net increase/(decrease) in debt securities in issue, measured at amortised cost	2,008	(46,761)	1,770	(53,034)
	Net (decrease) in liabilities associated with non-current assets held for sale	(56,941)	0	0	0
	Net (decrease) in other liabilities	(5,686)	(21,465)	(5,463)	(16,475)
d)	**Cash flow from operating activities (a + b + c)**	**230,236**	**(153,813)**	**267,958**	**(123,541)**
e)	**Income taxes (paid)/refunded**	**768**	**(5,776)**	**844**	**(5,007)**
f)	**Net cash flow from operating activities (d + e)**	**231,004**	**(159,589)**	**268,802**	**(128,548)**

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Designation	ITEM DESCRIPTION	Nova KBM Group Year ending 31.12.2016	Nova KBM Group Year ending 31.12.2015	Nova KBM d.d. Year ending 31.12.2016	Nova KBM d.d. Year ending 31.12.2015
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**				
a)	**Receipts from investing activities**	**237,378**	**124,503**	**303,000**	**72,556**
	Receipts from the sale of tangible assets and investment property	2,058	4,619	905	65
	Receipts from the disposal of associates	0	3,982	0	3,982
	Receipts from non-current assets or liabilities held for sale	4,752	186	4,752	186
	Receipts from the sale of held-to-maturity financial assets	43,233	115,716	43,233	63,079
	Cash acquired through a business combination	187,335	0	248,821	0
	Other receipts from investing activities	0	0	5,289	5,244
b)	**Cash payments on investing activities**	**(10,752)**	**(39,529)**	**(22,408)**	**(3,557)**
	(Cash payments to acquire tangible assets and investment property)	(7,357)	(1,185)	(1,499)	(958)
	(Cash payments to acquire intangible assets)	(3,115)	(3,347)	(3,029)	(2,584)
	(Cash payments for the investments in the equity of subsidiaries, associates and joint ventures)	(280)	0	(17,880)	0
	(Cash outflow to non-current assets or liabilities held for sale)	0	(15)	0	(15)
	(Cash payments to acquire held-to-maturity financial assets)	0	(34,982)	0	0
c)	**Net cash flow from investing activities (a + b)**	**226,626**	**84,974**	**280,592**	**68,999**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**				
a)	**Cash payments on financing activities**	**686**	**0**	**686**	**0**
	Other cash proceeds related to financing activities	686	0	686	0
b)	**Cash payments on financing activities**	**(16,682)**	**(766)**	**(16,567)**	**0**
	(Dividends and shares in profits paid)	(16,682)	(126)	(16,567)	0
	(Repayment of subordinated liabilities)	0	(640)	0	0
c)	**Net cash flow from financing activities (a + b)**	**(15,996)**	**(766)**	**(15,881)**	**0**
D.	**Effects of change in foreign exchange rates on cash and cash equivalents**	**(1,635)**	**(3,614)**	**(1,635)**	**(3,668)**
E.	**Net increase/(decrease) in cash and cash equivalents (Af + Bc + Cc)**	**441,634**	**(75,381)**	**533,513**	**(59,549)**
F.	**Opening balance of cash and cash equivalents**	**398,836**	**477,831**	**302,382**	**365,599**
G.	**Closing balance of cash and cash equivalents (D + E + F)**	**838,835**	**398,836**	**834,260**	**302,382**

The statement of cash flows for the years ending 31 December 2016 and 2015 includes cash flows, cash and cash equivalents in respect of discontinued operations. Reconciliation of cash and cash equivalents with the statement of financial position items is presented in Note 25.1.

Cash Flows from Interest, Dividends and Shares in Profits

€000

ITEM DESCRIPTION	Nova KBM Group Year ending 31.12.2016	Nova KBM Group Year ending 31.12.2015	Nova KBM d.d. Year ending 31.12.2016	Nova KBM d.d. Year ending 31.12.2015
Interest paid	(19,579)	(38,452)	(18,890)	(32,325)
Interest received	143,189	139,450	140,915	110,367
Dividends and shares in profits paid	(16,682)	(126)	(16,567)	0
Dividends and shares in profits received	733	1,116	1,190	1,561

The accompanying notes form an integral part of these financial statements.

5. STATEMENT OF CHANGES IN EQUITY

Statement of changes in the equity of the Nova KBM Group for the year ending 31 December 2016

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Translation reserves	Reserves from profit	Retained earnings (including net profit for the financial year)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**32,815**	**(3,230)**	**54,069**	**25,731**	**619,957**	**3,116**	**623,073**
Total comprehensive income for the financial year after tax	0	0	742	3,135	0	30,167	34,044	310	34,354
New share capital subscribed (paid)	0	685	0	0	0	0	685	0	685
Acquisition of KBS banka d.d.	0	42,045	0	0	0	208	42,253	0	42,253
Acquisition of non-controlling interests in the equity of PBS d.d., an ex-subsidiary bank of Nova KBM d.d.	0	0	0	0	0	117	117	(397)	(280)
Appropriation of (accounting for) dividends/profits	0	0	0	0	0	(16,567)	(16,567)	(115)	(16,682)
Transfers between equity components	0	0	0	0	(33,524)	33,524	0	0	0
Other	0	0	14	0	0	(16)	(2)	(40)	(42)
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**403,302**	**33,571**	**(95)**	**20,545**	**73,164**	**680,487**	**2,874**	**683,361**

Statement of changes in the equity of the Nova KBM Group for the year ending 31 December 2015

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Translation reserves	Reserves from profit	Retained earnings (including net profit for the financial year)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**42,841**	**(3,208)**	**27,895**	**35,338**	**613,438**	**2,919**	**616,357**
Total comprehensive income for the financial year after tax	0	0	(10,026)	(22)	0	16,567	6,519	377	6,896
Appropriation of (accounting for) dividends/profits	0	0	0	0	0	0	0	(126)	(126)
Transfer of net profit to reserves from profit	0	0	0	0	26,174	(26,174)	0	0	0
Other	0	0	0	0	0	0	0	(54)	(54)
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**32,815**	**(3,230)**	**54,069**	**25,731**	**619,957**	**3,116**	**623,073**

Statement of changes in the equity of Nova KBM for the year ending 31 December 2016

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including net profit for the financial year)	Total equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**25,799**	**53,648**	**16,710**	**606,729**
Total comprehensive income for the financial year after tax	0	0	427	0	33,004	33,431
New share capital subscribed (paid)	0	685	0	0	0	685
Acquisition of PBS d.d.	0	0	6,975	0	(2,924)	4,051
Acquisition of KBS banka d.d.	0	42,045	0	0	208	42,253
Appropriation of (accounting for) dividends/profits	0	0	0	0	(16,567)	(16,567)
Transfers between equity components	0	0	0	(33,420)	33,420	0
Other	0	0	0	0	(1)	(1)
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**403,302**	**33,201**	**20,228**	**63,850**	**670,581**

Statement of changes in the equity of Nova KBM for the year ending 31 December 2015

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including net profit for the financial year)	Total equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**33,859**	**27,389**	**8,527**	**580,347**
Total comprehensive income for the financial year after tax	0	0	(8,060)	0	34,435	26,375
Transfer of net profit to reserves from profit	0	0	0	26,259	(26,259)	0
Other	0	0	0	0	7	7
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**25,799**	**53,648**	**16,710**	**606,729**

The accompanying notes form an integral part of these financial statements.



Nova KBM involved a total of 83% of its entire workforce in different training programmes last year, up 12% on 2015.

NOTES TO THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP AND NOVA KBM D.D.

1. GENERAL INFORMATION

Nova KBM is the parent company of the Nova KBM Group which, as of 31 December 2016, comprised the parent company and eight subsidiary companies.

Nova KBM is a commercial bank with a tradition of understanding and supporting its retail and corporate customers to whom it provides standard banking products. Its registered office is at Ulica Vita Kraigherja 4, 2000 Maribor, Republic of Slovenia.

As of 31 December 2016, Nova KBM's share capital totalled €150,000,000 and was split into 10,000,000 ordinary no-par-value shares.

On 30 June 2015, the SSH, Apollo and the EBRD signed the agreement concerning the sale of the Republic of Slovenia's 100% shareholding in Nova KBM.

After all conditions precedent stipulated in the sale agreement had been met, the process of selling Nova KBM was completed on 21 April 2016 when the buyers, Apollo and the EBRD, paid the agreed purchase consideration, based upon which Nova KBM shares were registered in the name of the new shareholder. The acquisition of Nova KBM was financed through Biser Topco S.à r.l., a special project company established jointly by the buyers, with Apollo providing 80% of the funds (through the company AIF VIII Euro Leverage, L.P.) and the EBRD the remaining 20%.

The acquisition of a 100% equity stake in Nova KBM (and of all of its subsidiaries within the Nova KBM Group) was executed through Biser Bidco S.à r.l., a wholly-owned subsidiary of Biser Topco S.à r.l.

By disposing of all of the 10,000,000 shares (with the ticker symbol KBMS) in Nova KBM, the SSH's proportion of voting rights in Nova KBM was reduced from 100.00% to 0.00%, while the proportion of voting rights in Nova KBM by Biser Bidco S.à r.l., the purchaser of all of the 10,000,000 Nova KBM shares (with the ticker symbol KBMS), was increased from 0.00% to 100.00%.

Nova KBM is obliged to prepare consolidated financial statements.

The financial statements of the Nova KBM Group are included in the consolidated financial statements of the company Biser Topco S.à r.l.

1.1 Definition of the Nova KBM Group

The Nova KBM Group comprises the parent bank (Nova KBM) and its subsidiary companies.

Company	Position in the Nova KBM Group	Nova KBM Group's voting rights in the company (%)	Registered office (country of incorporation)
Nova KBM d.d.	parent bank		Maribor, Slovenia
KBM Infond d.o.o.	subsidiary company	72.73[1]	Maribor, Slovenia
KBM Leasing d.o.o. (in liquidation)	subsidiary company	100.00	Maribor, Slovenia
KBM Invest d.o.o.	subsidiary company	100.00	Maribor, Slovenia
Gorica Leasing d.o.o. (in liquidation)	subsidiary company	100.00	Nova Gorica, Slovenia
M-PAY d.o.o.	subsidiary company	50.00	Maribor, Slovenia
KBM Leasing Hrvatska d.o.o. (in liquidation)	subsidiary company	100.00	Zagreb, Croatia
KBM Asco d.o.o.	subsidiary company	100.00	Belgrade, Serbia
MB Finance B.V.	subsidiary company	00.00[2]	Netherlands

1 The Nova KBM Group's stake in the share capital of KBM Infond accounts for 72.00%. Because KBM Infond holds a certain number of its own shares, the Nova KBM Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.

2 In accordance with IFRS 10, MB Finance is regarded as a special purpose vehicle controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Nova KBM Group.

In August 2014, the Adria Bank Supervisory Board reached a decision to start the procedures to terminate the operations of Adria Bank. Adria Bank returned its licence for providing banking services to the FMA on 23 March 2015, the same day on which it ceased its banking operations and met the conditions to wind up its business. On 11 June 2015, Adria Bank was legally transformed from a joint-stock company into a limited liability company (GmbH) named 'Adria Abwicklungs', which filed for controlled liquidation on 26 June 2015, in accordance with a ruling made by the relevant court. On 3 September 2015, the Shareholders' Meeting of Adria Abwicklungs took the decision to reduce the share capital of the company by €8,860,000 and to repay this amount to Nova KBM, pursuant to the agreement between the two regarding the repayment of capital. The decision to reduce the share capital was entered into the records kept by the competent Registration Court in Vienna on 18 December 2015. Of the amount specified above, a total of €3,715,000 was repaid in December 2015, while the remaining balance that was to be repaid to Nova KBM is secured by BAMC bonds. In October 2016, after Adria Abwicklungs had fulfilled all its obligations, the final meeting of its shareholders took place, and a request was submitted to the competent Registration Court to delete the company from the register of companies. Adria Abwicklungs was deleted from the register of companies on 31 January 2017.

In accordance with the commitments made to the EC regarding the restructuring of the Nova KBM Group, the controlled liquidation of KBM Leasing and Gorica Leasing started at the end of 2014, while that of KBM Leasing Hrvatska started in April 2015, based on appropriate decisions made by Nova KBM. While these three companies are still controlled by Nova KBM and are therefore fully consolidated in the Nova KBM Group's accounts, their financial statements have been prepared on a non-going concern basis. A non-going concern assumption has been taken into consideration in the valuation of the investments in, and credit exposures to, these companies. The liquidation proceedings against KBM Leasing Hrvatska are expected to be completed by the end of 2017, while those against KBM Leasing and Gorica Leasing are planned to be concluded within the next three years.

On 17 February 2016, based on the prior consent of the Supervisory Board, Nova KBM signed the agreement concerning the sale of its 546,683 shares in KBM Banka to a new investor. The number of shares sold by Nova KBM accounted for 89.53% of the total outstanding shares of KBM Banka. The sale of KBM Banka was completed on 14 April 2016, after all conditions precedent stipulated in the sale agreement had been met.

On 23 February 2016, as part of the Nova KBM Group's restructuring and to facilitate the completion of the sale of its investment in the equity of KBM Banka, Nova KBM set up a project company KBM Asco as its wholly-owned subsidiary. Certain assets of KBM Banka, primarily its NPLs and real estate, were transferred to this company at the end of February 2016. The transfer value of the NPLs was determined based on their (audited) net book value at the end of 2015, while the transfer value of real estate items was determined based on their fair value valuations made for the end of 2015 by a certified real estate appraiser.

In 2015, Nova KBM started taking steps towards fully merging the operations of PBS with its own. The merger between Nova KBM and PBS was one of the strategically most important projects undertaken as part of the restructuring and consolidation of the Nova KBM Group. On 29 March 2016, Nova KBM acquired a 0.8844% equity stake in PBS from Pošta Slovenije, thereby becoming its 100% owner. On the same day, based upon the prior consent of the Supervisory Boards of both banks, the Management Boards of Nova KBM and PBS signed the agreement concerning the acquisition of PBS by Nova KBM. The agreement stipulated 31 December 2015 as the accounting date of the acquisition (i.e. the date from which all transactions made by the acquiree were considered as being made on behalf of, and for the account of, the acquirer). Consequently, the results of Nova KBM for 2016 include the results of PBS's operations for the period from 1 January 2016 to 31 December 2016. Approval of the merger between Nova KBM and PBS was given by the ECB on 26 July 2016, and the merger became legally effective on 1 September 2016, when the District Court of Maribor issued a decision on registering the merger. As a result, PBS ceased to exist as an independent legal entity, and all its assets, liabilities and rights were transferred to Nova KBM, its legal successor, which took over the obligations and rights under all transactions concluded by PBS prior to the merger. Nova KBM, now merged with PBS, continues to operate under its current name, with its headquarters remaining in Maribor.

Istra Plan, a project finance company that is 100% owned by KBM Invest, liquidated all its assets in August 2016 as part of the process of closing its business, so none of its assets are included in the consolidated financial statements of the Nova KBM Group for the end of 2016. The company, which will probably be subject to bankruptcy proceedings, is not regarded as a business entity. Consequently, only its assets were included in the consolidated financial statements for previous reporting periods.

2. BASIS FOR THE PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Nova KBM Group and Nova KBM for the year ending 31 December 2016 were authorised for issue on 25 January 2017 by the Nova KBM Management Board.

The financial statements have been prepared in accordance with regulatory requirements and on the assumption that both Nova KBM and the Nova KBM Group will continue as going concerns in the foreseeable future and that they will be able to meet their liabilities when due.

Because Nova KBM has adopted the accounting policy not to restate the financial statements for previous years to reflect the effects of acquisitions undertaken during the current year, the financial statements of the Nova KBM Group for the year ending 31 December 2016 cannot be compared with those of the previous financial year.

2.1 Statement of compliance and the purpose of financial statements

The separate and consolidated financial statements have been prepared in accordance with the IFRSs as adopted by the EU.

These statutory financial statements are prepared for the purpose of compliance with legal requirements. The Nova KBM Group is legally required to obtain an independent audit of these financial statements. The scope of that audit is limited to an audit of general purpose statutory financial statements to fulfil the legal requirement for audit of statutory financial statements. The audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction. The audited financial statements are not intended for use by any party for purposes of decision making concerning any ownership, financing or any other specific transactions relating to the Nova KBM Group. Accordingly, users of the audited statutory financial statements should not rely exclusively on the financial statements and should undertake other relevant procedures before making decisions.

2.2 Basis of valuation

The financial statements have been prepared under the historical cost convention, except for the following items for which the fair value has been elected:

- financial assets designated at fair value through profit or loss
- available-for-sale financial assets
- derivatives
- investment property

The fair value assessment methods are set out below.

2.3 Use of estimates and judgements

The preparation of financial statements in accordance with the IFRSs requires the use of certain accounting estimates and judgements, which may affect the value of reported assets and liabilities and of potential assets and liabilities as of the reporting date, and income and expenses for the period then ended.

The most important judgements relate to the classification of financial instruments, in particular to the distribution between the held-to-maturity portfolio and the portfolio held for trading. The classification of financial instruments is carried out in line with the Nova KBM Group's policy prior to the initial recognition of a financial instrument.

Estimates are used for: impairments of loans to customers, impairments of available-for-sale financial assets, fair value of financial assets and liabilities, provisions for off-balance-sheet items, depreciation of property, plant and equipment and amortisation of intangible assets, potential tax items, provisions for liabilities to employees and provisions for pending legal issues.

Changes in estimates of impairments have an especially important impact on the financial position and results of operations. These estimates are subject to adjustment in the future as a result of changes in economic conditions, customers' repayment capabilities, and realisation of collateral values for defaulted loans.

2.4 Presentation and functional currency

Items included in the financial statements are presented in euro, which is the functional and presentation currency of both Nova KBM and the Nova KBM Group.

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros, unless stated otherwise. Slight discrepancies in the totals may occur due to rounding adjustments.

2.5 Amendments to Nova KBM's Articles of Association

On 21 April 2016, the Shareholders' Meeting of Nova KBM passed a resolution to amend Nova KBM's Articles of Association.

The amendments to the Articles of Association, which were made to the section 'Annual Reports, Distribution of Net and Accumulated Profits and Creation of Reserves', refer mainly to the creation and use of reserves. According to the amended Articles of Association, share premium, regulatory and other reserves are created as required by the applicable regulations, taking into consideration the following:

- regulatory reserves are created until the aggregate amount of regulatory reserves and share premium reaches 10% of Nova KBM's share capital
- the Management Board may use the net profit remaining after the appropriation of profit for the purposes laid down by the applicable regulations (covering of losses, creation of regulatory reserves and reserves for treasury shares) to create other reserves; however, no more than half of the profit remaining after the appropriation of profit for the purposes referred to above may be used

Pursuant to the provisions of its amended Articles of Association, Nova KBM is no longer obliged to maintain statutory reserves. The release of statutory reserves created by Nova KBM previously is disclosed in Note 47 (Reserves from profit) and Note 49 (Distributable profit).

Some further amendments were made to Nova KBM's Articles of Association on 15 June 2016, but these had no direct impact on the figures presented in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The adopted accounting policies have been consistently applied in both reporting periods presented in these financial statements.

3.1 Consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of Nova KBM and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Nova KBM Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to non-controlling interests even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Nova KBM Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the book value of any non-controlling interest
- derecognises the cumulative translation differences, recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

Business combinations and goodwill/negative goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in other operating expenses.

When the Nova KBM Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If a business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss (negative goodwill).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Nova KBM Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the book value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations of entities under common control

Business combinations of entities under common control that form an economic whole are accounted for using the predecessor values method, according to which the book values of the acquiree's assets and liabilities, as presented in the consolidated financial statements of its immediate parent company that is obliged to prepare consolidated financial statements, are recognised in the separate financial statements of the acquirer on the day a business combination takes place (accounting date). A business combination of entities under common control is treated as a reorganisation (of an economic whole) if the acquiree was already accounted for using the acquisition method, as provided for under IFRS 3, at the time it was included in the consolidated financial statements of its parent company for the first time (at the time when control of the acquiree was obtained).

The effects of a business combination (as recognised on the accounting date), calculated as the difference between:

- the book value of the acquirer's equity investment in the acquiree, and
- the amount of transferred assets, liabilities and accumulated other comprehensive income of the acquiree, as presented in the consolidated financial statements of its immediate parent company that is obliged to prepare consolidated financial statements,

are recognised in the acquirer's equity (as retained earnings or losses), without having an impact on its profit or loss.

In the case of business combinations of entities under common control, the comparable financial data is not restated in the financial statements of the acquirer.

Subsidiaries

Subsidiary entities are entities controlled by the Nova KBM Group. Control exists when the Nova KBM Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity.

Financial statements of subsidiary entities are included in the consolidated financial statements from the date on which effective control is transferred to the Nova KBM Group and are no longer consolidated from the date of disposal. Business combinations achieved in stages are accounted for as separate steps. Any additional acquired share of interest does not affect previously recognised goodwill.

When necessary, accounting policies of subsidiary entities have been changed to ensure consistency with the policies adopted by the Nova KBM Group. The reporting dates are unified across the entire Nova KBM Group. All subsidiary entities are fully consolidated.

In the statement of financial position, non-controlling interests are reported as a separate item within equity. Shares of non-controlling interests are eliminated from all equity items in proportion to the share of non-controlling interests in the share capital.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses and dividends arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from intra-group transactions and recognised in assets are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Investments in the equity of subsidiaries presented in the separate financial statements of Nova KBM

In making decisions on whether it has control over an entity, the Management Board takes into consideration the pre-determined criteria regarding the definition of subsidiaries.

In the separate financial statements of Nova KBM, the investments in the equity of subsidiaries are presented at cost, less any adjustment for impairment.

3.2 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange rate differences are recognised in profit or loss.

Asset and liability items denominated in foreign currency are translated and disclosed in the consolidated financial statements by applying the ECB's reference exchange rates in effect on the reporting date. The effects of translating foreign currency into the euro are recognised in profit or loss as net translation gains or losses.

Translation differences on non-monetary items, such as equity instruments designated at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equity instruments designated as available for sale are included in other comprehensive income, together with the fair value measurement effect.

Financial statements of the Nova KBM Group companies that have functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the rate of exchange prevailing at the reporting date
- profit or loss is translated at the average exchange rate for the period

While translation differences are presented as a separate equity category, they are recognised in profit or loss in the period in which the asset is disposed of.

3.3 Cash equivalents

Cash equivalents are current, highly liquid investments that can be quickly converted into a known amount of cash and for which the risk of changes in value is negligible.

The Nova KBM Group regards the following items as cash equivalents:

- cash in hand and balances in settlement and current accounts
- loans to banks with an original maturity of up to three months
- investments in available-for-sale debt securities with an original maturity of up to three months

Obligatory deposit funds are available to finance day-to-day operations and are therefore considered as cash equivalent.

3.4 Financial assets

3.4.1 Classification of financial assets

Upon initial recognition, the Nova KBM Group classifies financial assets with regard to the purpose of the acquisition, the period held, and the type of the financial asset into one of the following categories:

- Financial assets designated at fair value through profit or loss are classified into financial instruments held for trading and other financial instruments designated at fair value through profit or loss. Financial assets held for trading are those instruments in which the Nova KBM Group intends to actively trade and earn profit from short-term price differences. Equity instruments, debt securities and derivatives, except those held for hedging purposes, are classified into this category. Financial assets are upon initial recognition designated at fair value through profit or loss when doing so provides more relevant information of measurement or recognition.
- Held-to-maturity financial assets are assets with fixed or determinable payments and a fixed maturity, for which the Nova KBM Group attests the purpose and capacity to hold them until maturity.
- Available-for-sale financial assets are assets which the Nova KBM Group did not acquire for the purpose of trading but intends to hold them for an undetermined period of time, and which can be sold for the reason of liquidity requirements, changes in interest rates, exchange rates or the prices of financial instruments.
- Loans and advances are financial assets with fixed or determinable payments which are not traded on an active market.

The Nova KBM Group uses financial instruments to economically hedge against risks arising from other financial instruments. In its accounting, the Nova KBM Group does not apply the rules of hedge accounting because gains and losses resulting from the hedged item and the hedging instrument are recognised simultaneously in profit or loss.

The Nova KBM Group does not hold instruments for which hedge accounting would be required.

3.4.2 Recognition and derecognition of financial assets

Purchases and sales of financial assets other than loans and advances are recognised on the trading date (the day when the contract is made). Loans and advances are recognised when funds are advanced to borrowers.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition (the Nova KBM Group has transferred all rights and risks under the financial asset). Should the Nova KBM Group transfer the financial asset, but retain practically all risks and rights, derecognition of the asset is not carried out.

If a financial asset is derecognised in full, the difference between the book value of the asset and the sum of any consideration received (including any new assets obtained less any new liabilities assumed), together with any cumulative gain or loss that had been recognised directly in other comprehensive income, is recognised in profit or loss.

3.4.3 Measurement of financial assets

Financial assets, other than those carried at fair value through profit or loss, are initially measured at fair value plus any transaction costs.

Financial assets carried at fair value through profit or loss are initially measured at fair value, and the transaction costs are expensed in profit or loss on the purchase date.

After they are initially recognised, financial assets held for trading and available-for-sale financial assets are measured at fair value. Fair value of financial assets is based on current bid prices as valid on the reporting date or, if such are not available, closing prices. If a quoted market price is not available, the fair value of the financial instrument is estimated using comparative pricing models or discounted cash flow techniques.

Derivatives, including foreign currency forward transactions, interest rate swaps, currency options and forward transactions in securities, are used by the Nova KBM Group for trading and hedging purposes, and are measured at their fair value. The fair value of derivatives equals unrealised gains or losses on the valuation of derivatives at market prices or at contractual forward prices.

Available-for-sale equity instruments for which the fair value cannot be reliably estimated are measured at cost (acquisition cost plus transaction costs and reduced by appropriate impairments).

Loans and advances are measured at amortised cost using the effective interest rate method.

Loans and advances are reported at their outstanding principal balances plus any accrued interest and fees and reduced by appropriate impairments.

Held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated as the amount at which the financial asset is measured at initial recognition less principal repayments and any reduction for impairments, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount.

3.4.4 Gains and losses

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

Gains and losses arising from the change in fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for losses due to impairment and foreign exchange gains and losses, until the financial asset is derecognised at which time the effect previously included in other comprehensive income is recognised in profit or loss. Interest on available-for-sale debt securities, calculated using the effective interest rate method, is recognised directly in profit or loss.

'Day-one profit'

Where the transaction price of an instrument in a non-active market is different to the fair value from other observable market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets, the Nova KBM Group immediately recognises the difference between the transaction price and fair value in profit or loss as the 'day-one profit or loss'. In cases where the data used for valuations are not 'fully marketable', the difference between the transaction price and the price based on the valuation technique is recognised in profit or loss only after the market becomes relevant, or if the instrument is disposed of.

3.4.5 Reclassification of financial assets

During the years ending 31 December 2016 and 2015, the Nova KBM Group did not reclassify any of its financial assets into another category.

3.4.6 Impairments of financial assets

Available-for-sale financial assets

At each reporting period the Nova KBM Group assesses whether there is objective evidence that available-for-sale financial assets are impaired.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its acquisition cost may represent objective evidence of impairment.

When assessing whether an available-for-sale debt instrument is impaired, the Nova KBM Group examines the following information:

- information about any significant financial difficulties of the issuer
- information about any failure of the issuer to meet the agreed contractual provisions
- information about any late payments of principal and/or interest by the issuer
- information about the commencement of the bankruptcy or financial reorganisation of the issuer
- information about any deterioration in the issuer's market position
- information indicating that there is a measurable decrease in the estimated future cash flows from the instrument

If an available-for-sale debt instrument is impaired, the cumulative loss recognised within other comprehensive income is transferred to profit or loss. The loss so recognised may be reversed.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurred after the impairment had been recognised, the impairment is reversed through profit or loss.

In case of impairments of available-for-sale equity instruments, the loss due to impairment is recognised in profit or loss. Reversal of impairments of equity instruments is not made through profit or loss, and any subsequent increase in the fair value of such instruments is directly recognised in other comprehensive income.

Held-to-maturity financial assets

At each reporting period the Nova KBM Group assesses whether there is objective evidence that held-to-maturity financial assets are impaired.

When assessing whether a held-to-maturity financial asset is impaired, the Nova KBM Group examines the following information:

- information about any significant financial difficulties of the issuer
- information about any failure of the issuer to meet the agreed contractual provisions
- information about any late payments of principal and/or interest by the issuer
- information about the commencement of the bankruptcy or financial reorganisation of the issuer
- information about any deterioration in the issuer's market position
- information indicating that there is a measurable decrease in the estimated future cash flows from the asset

The amount of impairment is measured as the difference between the asset's book value and the present value of future cash flows discounted by the original effective interest rate. The amount of loss is recognised in profit or loss.

Loans and receivables

The Nova KBM Group classifies each customer into the appropriate credit rating category using an internal methodology. The classification of customers depends on the following criteria:

- their financial standing and performance
- their ability to provide cash flow needed for the repayment of debts
- the regularity of their debt service payments
- the industry sector risk
- subjective criteria

The Nova KBM Group continuously assesses whether impartial evidence exists, or events have occurred since recognition of an asset, and whether these events have an impact on the future cash flows from a financial asset or a group of financial assets which can be reliably assessed.

Taking into consideration the risks associated with a customer or a financial asset, an appropriate impairment of the financial asset is made in accordance with the IFRSs and an internal methodology.

Significant financial assets are assessed individually for impairment. If impairment is established in an individual assessment of an asset, such asset shall be impaired individually, otherwise it shall be classified into the appropriate customer or financial asset risk category and impaired collectively. Individually insignificant financial assets are also assessed collectively for impairment.

For individually assessed financial assets, the amount of loss due to impairment is calculated as the difference between the asset's book value and the present value of future cash flows discounted at the contractual interest rate. Cash flows from operations and/or the realisation of collateral can be taken into account in the calculation.

The collective impairment rates are determined based on a model that uses as inputs the following data:

- the probability of a customer becoming a defaulting customer within the respective group of financial assets
- the amount of loss incurred by the respective group of defaulting customers

The probability of a customer becoming a defaulting customer and the amount of loss are calculated on the basis of historical data.

The collective impairment rates are determined separately for the following portfolios:

- the portfolio of household loans
- the portfolio of large corporate loans
- the portfolio of SME loans
- the portfolio of loans outstanding to low-risk customers (e.g. public institutions, regional government institutions)

The Nova KBM Group calculates impairments separately for prime loans and loans secured by prime collateral, loans secured by eligible collateral, and unsecured loans outstanding to E-rated customers.

The adequacy of collective impairment rates is verified on an annual basis, at which time a back-testing is also carried out of impairments recorded in the previous year.

The book value of an impaired asset is reduced through the allowance account. The amount of impairment is recognised in profit or loss.

If the level of impairment decreases in a subsequent period, the previously recognised amount of impairment shall be reversed. The amount of reversed impairment is recognised in profit or loss.

If a customer is located in a higher-risk country, the sovereign risk also has to be taken into consideration when assessing losses due to impairment.

Nova KBM seeks to implement such scenarios for customers facing financial difficulties that are most favourable for it in terms of economy. The decision about whether to restructure a loan outstanding to a customer in financial difficulties, or to start the procedure to liquidate collateral the customer has provided is largely dependent on the customer's business model.

As an alternative to loan restructuring, the Nova KBM Group may also consider converting into equity the loans outstanding to corporate customers. In such a case, the book value of the loan before its conversion (which has already been appropriately impaired, in accordance with valuation provided for in IAS 39) becomes the acquisition (fair) value of the long-term investment in equity, unless a lower value is determined by an appraisal. However, upon the initial recognition of investments acquired through the conversion of loans, the Nova KBM Group does not recognise any gain resulting from the reversal of impairments of converted loans.

3.5 Write-offs

A financial asset measured at amortised cost is written off (in part or in whole) if, during the recovery proceedings, the Nova KBM Group establishes that it cannot realistically expect to recover the outstanding amount by liquidating collateral.

The amount to be written off is determined as the difference between the net present value of the expected cash flows generated from the liquidation of collateral and the book value of the respective asset.

A write-off is regarded as the financial asset being derecognised.

3.6 Forbearance

A forborne financial asset is a financial asset that is created as a result of the debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original agreement or by signing a new agreement.

Accounting treatment of forborne financial assets depends on the type of restructuring. If the restructuring is carried out by way of changing the contractual terms applicable to a financial asset, such an asset is not derecognised, but its book value is adjusted on the basis of the discounted value of future cash flows that the financial asset is expected to generate after its restructuring. The difference in the book value of the financial asset before and after its restructuring is recognised in profit or loss (as impairment). Where a restructuring is made by way of signing a new agreement, the respective financial asset is derecognised and a new financial asset is recognised.

If the restructuring of a financial asset is carried out by taking over other assets and/or by debt-to-equity swap, the Nova KBM Group derecognises the portion of the financial asset that is subject to restructuring, while the assets taken over are recognised in its statement of financial position at their fair value. The difference between the book value of the derecognised financial asset and the fair value of the acquired assets is recognised in profit or loss.

3.7 Offsetting

Financial assets and liabilities are offset in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.8 Sale and repurchase agreements

Securities purchased under agreements to resell (repurchase agreements – repos) are recognised as loans to customers. Under such agreements, the Nova KBM Group does not assume risks and benefits arising from security ownership. The contractual relationship has the characteristics of loans collateralised with securities that are subject of the reverse repo agreements. The difference between the purchase and selling price is recognised as interest income and is accrued over the contract period using the effective interest method.

3.9 Leases

Assets leased to customers under lease agreements, which transfer substantially all the risks and rewards of ownership of an item of property, plant and equipment, with or without ultimate legal title, are classified as finance leases. Depending on the lease agreement, the asset leased may be bought or returned to the lessor. As a rule, such a lease agreement cannot be unilaterally terminated. For depreciating leased assets, the same accounting policy is applied as for the Nova KBM Group's own assets.

A lease which is not a finance lease is an operating lease.

Nova KBM Group as a lessee

Payments made under operating leases are included in profit or loss on a straight-line basis over the period of the lease.

An asset obtained on the basis of a finance lease is included within property, plant and equipment. Its acquisition cost equals the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. Lease payments are recognised as interest expense. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Nova KBM Group as a lessor

Assets leased under operating lease agreements are included within investment property or property, plant and equipment. Lease income is recognised in profit or loss on a straight-line basis over the period of the lease.

When assets are held subject to a finance lease, the present value of future lease payments is recognised as a receivable under the finance lease. Income from the finance lease, which is disclosed as interest income, is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor.

3.10 Property, plant and equipment

Items of property, plant and equipment are assets which the Nova KBM Group uses for conducting its business. They are recorded at historical cost less accumulated depreciation and any impairment.

Transaction costs directly attributable to the acquisition of an asset are included in the initial cost recognition.

Subsequent costs are included in the asset's book value only when it is probable that future economic benefits associated with the item will flow to the Nova KBM Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss in the financial period in which they are incurred.

The Nova KBM Group starts to depreciate items of property, plant and equipment when these assets are available for use. Depreciation of assets is provided individually on a straight-line basis over their estimated useful lives.

The following depreciation rates were applied by the Nova KBM Group in both 2016 and 2015:

	Depreciation rate
- buildings	1.1% to 5%
- investments in third-party buildings	3% to 10%
- computer equipment	20% to 50%
- motor vehicles	12.5% to 20%
- other equipment	5% to 33.33%

Land is recognised separately from buildings and, as it generally has an unlimited beneficial life, is not depreciated.

For co-divided ownership of commercial space, the value of the associated land is included in the Nova KBM Group's acquisition cost of the respective part of the building.

Items of property, plant and equipment are assessed due to possible impairment each time when there are indicators that, due to events or changes in the circumstances, the book value of an asset may not be recovered. If the estimated recoverable value of an asset is lower than its book value, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in profit or loss. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

An asset is derecognised upon disposal or if the future economic benefits are no longer expected from its use.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the book value of an item of property, plant and equipment, and are recognised net in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

3.11 Investment property

Items of investment property are tangible assets that the Nova KBM Group does not use directly in its operations; they are held with the intention of renting them out commercially.

Upon recognition, they are measured at acquisition cost, and later the Nova KBM Group measures items of investment property using the fair value model.

A licensed real estate appraiser verifies the fair value of items of investment property at the end of each financial year.

Gains or losses arising from changes in fair value are included in profit or loss in the period to which they relate.

3.12 Intangible assets

The Nova KBM Group possesses only intangible assets with a determinable period of useful life.

Initial recognition of an acquisition cost includes costs which are directly linked to the acquisition of an asset and are necessary for the asset to be put into use. The Nova KBM Group depreciates intangible assets on a straight-line basis over their estimated useful lives.

The following amortisation rates were applied by the Nova KBM Group in both 2016 and 2015:

	Amortisation rate
- licences	10% to 33.33%
- other investments	5% to 33.33%
- other long-term property rights	10%

The Nova KBM Group stops amortising intangible assets when they are defined as non-current assets held for sale, or when they are derecognised as the Nova KBM Group no longer expects any further economic benefits.

Intangible assets are tested for impairment when there are indicators that the book value may not be recovered. If the assessed recoverable amount of an asset is lower than its book value, the book value should be reduced to the recoverable amount and the reduction recognised as an impairment in profit or loss. The recoverable amount is the higher of the fair value less costs of sale and the value in use.

3.13 Inventory

Items of inventory are measured at the lower of cost and net realisable value. Net realisable value is the estimated sales price achieved in the ordinary course of business net of estimated costs of completion and costs of sale. An increase in the value of inventory does not result in its revaluation.

Finished goods and work in progress (real estate for sale) are initially measured at direct production costs plus indirect production costs.

Upon initial recognition, the Nova KBM Group measures items of real estate received in settlement of receivables on the basis of an appraiser's report. The Nova KBM Group holds the items of real estate so acquired with the intention of selling them.

The acquisition cost of inventory items seized under lease agreements consists of the debt of the lessee (past due and unpaid as well as outstanding principal, past due and unpaid interest and other costs attributable to the lessee).

3.14 Non-current assets held for sale

Non-current assets are classified as held for sale if their book value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of book and fair value, reduced by the costs of sale. These assets are not depreciated.

3.15 Financial liabilities

Financial liabilities include financial liabilities held for trading and financial liabilities measured at amortised cost.

Financial liabilities held for trading include liabilities arising from the valuation of forward sale of securities, and are measured at fair value.

Financial liabilities measured at amortised cost are deposits and loans from banks (including central banks) and customers, liabilities arising from debt instruments issued, and other financial liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After they are initially recognised, the liabilities are measured at amortised cost, and any difference between net proceeds and the redemption value is recognised in profit or loss using the effective interest rate method.

A financial liability is derecognised only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the book value of a financial liability that is cancelled, or transferred to another party, and the compensation paid is recognised in profit or loss.

3.16 Provisions

The Nova KBM Group recognises non-current provisions for liabilities and expenses due to present obligations (legal or constructive) arising from past events for which it is possible that an outflow of resources will be required to settle the obligation and a reasonable estimate of the obligation can be made. The Nova KBM Group creates provisions for pensions and similar liabilities, for off-balance-sheet liabilities, for pending legal issues, for the costs of restructuring, and other provisions.

The Nova KBM Group recognises provisions for pensions and similar liabilities that reflect the present value of liabilities for severance benefits and loyalty bonuses. When calculating the present value, a discount interest rate is used that is equal to the market rate of return on 10-year euro area corporate bonds with a high credit rating; the discount rate used for 2016 was 1.3% (2015: 1.72%). The Nova KBM Group recognises provisions for each employee by taking into account severance benefits at retirement provided for by the employment contract, as well as the costs of expected loyalty bonuses for the total years of service at the company until retirement. In making the calculation, the Nova KBM Group takes into consideration, among other factors, the employee fluctuation rate in the range of 0.0% to 6% (2015: 0.0% to 7.5%) and the projected increase in salaries in the range of 1.4% to 1.5% (2015: 0.8% to 1.4%). The calculation of these liabilities is carried out by a certified actuary.

Recognition and derecognition of provisions for employee benefits are recognised in profit or loss, except for actuarial gains or losses related to severance benefits that are recognised in comprehensive income. The Nova KBM Group recognises provisions for off-balance-sheet liabilities on the basis of risk classification of the customer and transaction concerned, taking into consideration similar criteria as for the impairment of loans.

The level of provisions for pending legal issues is determined on the basis of a reliable assessment of liabilities arising from these issues at the reporting date. These provisions are estimated based on known facts of the legal proceeding, previous experience with similar proceedings, and opinions provided by legal experts.

Provisions for the costs of the Nova KBM Group's restructuring have been recognised based on the adopted Restructuring Programme. These provisions cover only expenses that are directly attributable to the restructuring of the Nova KBM Group.

3.17 Equity

Share capital of Nova KBM is split into ordinary no-par-value shares.

Treasury shares are deducted from equity.

Nova KBM shares are freely transferrable and have been issued in book-entry form. All shares issued by Nova KBM are of the same class. Holders of Nova KBM shares have the following rights: participation in the voting at the Nova KBM Shareholders' Meetings in proportion to their stake in Nova KBM's share capital, participation in profits of Nova KBM appropriated for dividends, and pro-rata distribution of residual assets in case of bankruptcy or liquidation of Nova KBM, as stipulated by the applicable legislation. All Nova KBM shares have been fully paid for.

In accordance with Nova KBM's Articles of Association, regulatory reserves are established until the aggregate amount of regulatory reserves and share premium equals 10% of Nova KBM's share capital. Share premium cannot be paid out to shareholders, but can only be used for the purposes and under the conditions as laid down in the ZGD-1.

Nova KBM does not create statutory reserves.

Dividends on shares are recognised as a financial liability in the period in which the Shareholders' Meeting approves the dividend payment.

3.18 Commitments and contingencies

The Nova KBM Group undertakes transactions in financial instruments that carry off-balance-sheet risk, such as financial and service guarantees, letters of credit and credit lines.

Financial guarantees

Off-balance-sheet commitments under guarantees represent irrevocable obligations that the Nova KBM Group will make payments in the event a customer cannot fulfil its obligations vis-à-vis third parties.

Fees received are amortised to profit or loss using the straight-line method.

Risks associated with off-balance-sheet financial commitments and contingent liabilities are assessed similarly as for loans. Any increase in liability as a result of estimated expenses required for the settlement of contractual obligations is taken account of in the creation of provisions.

3.19 Interest income and interest expenses

Income is recognised when a probability of future economic benefits exists, and such benefits can be reliably measured.

Interest income and interest expenses are recognised in accrued amounts at a level, with maturities, and in the manner set out in the Nova KBM Group's decision on interest rates, or as stipulated in the agreement between the Nova KBM Group and the respective customer.

All new loan and deposit agreements made by the Nova KBM Group from 2015 onwards include a provision regarding the minimum reference interest rate (the interest rate floor). Given that the provision of paragraph 11 of IAS 39, which requires that an embedded financial instrument be separated from a host contract, was not implemented according to the requirements of the said standard, an assessment was made of the impact of the embedded interest rate floor on the financial statements of the Nova KBM Group and Nova KBM. For the purpose of calculating the effects of embedded options, the exercise price on the reference interest rate was set at 0% for all loans and deposits. An assessment was also made of the impact of options on the aggregate interest rate, for which case the exercise price was set at 0.01% (which equals the interest rate on demand deposits). The results of these assessments have shown that the effects of the interest rate floor are not material to the 2016 financial statements of the Nova KBM Group and Nova KBM. Following the introduction of IFRS 9, financial instruments with an embedded interest rate floor/cap will be valued separately, provided the interest rate floor/cap is determined to have significant intrinsic value (i.e. on the date a financial instrument is recognised, the interest rate floor is set above the market interest rate, while the interest rate cap is set below the market interest rate).

All interest income and expenses from operations in financial assets are recognised in profit or loss using the effective interest rate method.

The following items are included in interest income: regular, default and accrued interest, as well as prepaid fees for costs of repaying non-current loans given to households. These fees are transferred to profit or loss in line with the loan repayment period.

Income from finance lease is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor; it is disclosed as interest income.

Interest expenses include all interest paid on deposits, securities issued and loans received, as well as other expenses on financial liabilities.

3.20 Dividend income

Dividend income comprises dividends and shares in profits received by the Nova KBM Group from its investments in the equity of companies. Dividend income is recognised in profit or loss when the right to receive payment is established.

3.21 Fee and commission income and fee and commission expenses

Fee and commission income includes fees and commissions received for services rendered by the Nova KBM Group. Fee and commission expenses include amounts paid by the Nova KBM Group for services provided by others.

Fee and commission income and expenses are recognised in profit or loss when the service is rendered.

3.22 Realised gains and losses on financial assets not measured at fair value through profit or loss

Realised gains and losses on available-for-sale financial assets, loans and advances and held-to-maturity financial assets are recognised in profit or loss upon selling the asset, at maturity, or upon other derecognition of the financial asset.

3.23 Net gains and losses on financial assets held for trading

Net gains and losses from trading include realised and unrealised gains and losses on financial assets held for trading, including derivatives, and net gains from buying and selling foreign currency.

3.24 Other net operating income or loss

Other net operating income or loss includes realised gains and losses from non-banking activities (income from leases and from selling inventory, expenses for memberships and contributions, and other expenses).

3.25 Impairments

Impairments comprise impairments of financial assets not measured at fair value through profit or loss, impairments of property, plant and equipment, impairments of intangible assets, and impairments of investment property.

3.26 Taxes

Income tax is recognised at the amount as reported by the Nova KBM Group companies on the basis of the applicable local legislation. Deferred taxes are calculated for all temporary differences between the value of assets and liabilities for tax purposes and their book value. The deferred taxes are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The most significant temporary differences arise from the valuation of financial instruments and provisions.

Deferred taxes are recognised for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which temporary differences can be utilised.

Deferred taxes associated with measurement of available-for-sale financial assets at fair value are recognised directly in comprehensive income.

3.27 Segment reporting

A segment is recognisable as an integral part of the Nova KBM Group engaged in marketing of products or services (operating segment) and is subject to risks and returns different from those in other segments. Reporting by segments for management purposes is the same as presented in the financial statements. With the aim of effectively managing its operations, the Nova KBM Group has divided its business into five operating segments based on products and services provided. These segments are presented in the table below.

Banking	Banking and financial services provided in accordance with the ZBan-2: Acceptance of deposits, granting of loans, factoring and financing commercial transactions, payment transaction services, issuance and management of payment instruments, issuance of guarantees and other commitments.
Fund management	Management of financial funds.
Leasing	Finance and operating leasing of movable property, equipment and real estate.
Real estate activity	Real estate operations, investment engineering and project financing.
Other services	Coordination of the Moneta payment system development.

The management monitors the results of operating segments to make proper investment decisions and to assess the performance of segments. Segment performance is assessed based on operating profit or loss which, in certain respects, is different to operating results disclosed in the consolidated financial statements.

For the purpose of reporting, the operations of the Nova KBM Group are divided into the following three geographical segments: Slovenia, Western Europe and Eastern Europe.

3.28 Standards and interpretations

a) Standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU

The accounting policies used to prepare the financial statements are consistent with those of the previous financial year, except for new and amended standards and interpretations issued by the IASB or the IFRS Interpretations Committee and adopted by the EU, as presented below.

In the current period, the following amendments to the existing standards apply:

- **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 various standards – Improvements to IFRSs (cycle 2010–2012)** resulting from the annual improvement project of IFRSs (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 (effective for annual periods beginning on or after 1 February 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).
- **Amendments to IFRS 11 – Joint Arrangements** – Accounting for Acquisition 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 IFRSs (IFRS 5, IFRS 7, IFRS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2016).

The amendments to the existing standards have not led to any material changes in the Nova KBM Group's accounting policies.

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

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

- **IFRS 9 – Financial Instruments;** adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 15 – Revenue from Contracts with Customers;** adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).

Amendments to the existing standards that are not yet effective have not been early adopted by the Nova KBM Group. The Nova KBM Group estimates that the adoption of these amendments will have no material impact on its financial statements in the period of initial application.

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

At present, the IFRSs as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU at the date of authorisation of the financial statements included in this report:

- **IFRS 14 – Regulatory Deferral Accounts** (effective for annual periods beginning on or after 1 January 2016).
- **IFRS 16 – Leases** (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IFRS 2 – Share-Based Payment** – Classification and Measurement of Share-Based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- **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 (the date of initial application has been postponed for an indefinite period, i.e. until the completion of the research project on the equity method of accounting).
- **Amendments to IFRS 15 – Revenue from Contracts with Customers** – Clarifications to IFRS 15 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IAS 7 – Statement of Cash Flows** – Initiative to disclose additional information (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IAS 12 – Income Taxes** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IAS 40 – Investment Property** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to various standards – Improvements to IFRSs (cycle 2014–2016)** resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018).
- **IFRIC 22 – Foreign Currency Transactions and Advance Consideration** (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 4 – Insurance Contracts** – the amendments address accounting consequences arising from different dates of initial application of IFRS 9 and the amended IFRS 4 (effective for annual periods beginning on or after 1 January 2018).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

The Nova KBM Group estimates that the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39 – Financial Instruments: Recognition and Measurement would not significantly impact its financial statements, if applied as at the statement of financial position date.

The Nova KBM Group has not early adopted any standard or interpretation that has been issued but is not yet effective, and it anticipates that the adoption of these standards, revisions and interpretations will have no material impact on its financial statements in the period of initial application.

The Management Board is aware that ensuring compliance with the new standard on financial instruments (IFRS 9) will require the implementation of changes in various areas of banking operations (such as changes of work processes, information systems and information support systems, methodologies, methods of providing relevant data, etc.) and the strong involvement of employees. Therefore, in order to ensure timely compliance with the standard, the Management Board has decided to take a project approach to the implementation of necessary changes, inviting an external adviser with experience in standard implementation to participate in the project. The project is divided into the following two phases:

- First phase: the performance of gap analysis and impact analysis.
- Second phase: the development of necessary methodologies and their implementation.

As part of the first phase, the Nova KBM Group has carried out the following tasks:

- it has identified the areas that will be significantly affected by the introduction of IFRS 9
- it has drawn up a gap analysis report detailing the classification, measurement and impairment of financial assets. Based on an analysis of its business model and an analysis of the characteristics of its contractual cash flows, as well as a comparison of its current processes and methodologies for calculating impairments with what is required to be implemented, the Nova KBM Group has identified the relevant gaps and has given recommendations and proposals regarding the measures to be taken to deal with and to close these gaps

As soon as the first phase of the project was completed in August 2016, the Nova KBM Group began implementing the necessary changes to its accounting procedures.

At present, the appropriate methodologies for calculating impairments are being developed and implemented in the relevant processes. Testing of the parallel running of systems supporting accounting processes is scheduled for the second half of 2017.

The results of the first phase of the project, involving an assessment of the preliminary impact of the introduction of IFRS 9 on the Nova KBM Group's financial statements, as well as the conclusions of the final gap analysis report, are being used as the basis for the full implementation of IFRS 9.

The preliminary effects of introducing IFRS 9 on the financial statements and capital adequacy of Nova KBM and the Nova KBM Group have been evaluated based on the financial data for the end of 2015 and 2016. Taking into consideration the results of this evaluation, it is expected that the introduction of IFRS 9 will have an impact on the level of impairments and will increase its volatility, mainly as a result of changes made to models for calculating expected credit losses, and to a lesser extent due to changes in the classification and measurement of financial assets.

4. RISK REVIEW

The Nova KBM Group's strategy, which is revised on an annual basis, is the key document in the preparation of annual business plans.

The Management Board delegates risk oversight and management to the senior management (policy holders). The policy holders, together with officers responsible for particular policies, determine the method of measuring individual risks. The responsible officers are specialised in defining, measuring and controlling individual risks. The organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the applicable rules of procedure, each risk management policy has to be approved by the Policy Approval Committee and, in addition, agreed by the President of the Management Board or his deputy. The Nova KBM Group companies may use their own approaches in managing individual risks, taking into consideration the importance of risk and their respective regulatory frameworks.

4.1 Credit risk

Credit risk is the risk of loss arising from the failure of a counterparty to meet its financial obligations to the Nova KBM Group. The Nova KBM Group is exposed to credit risk through its loan portfolio.

The management of credit risk is carried out at the customer level, by individual Nova KBM Group companies, as well as at the Nova KBM Group level.

The Nova KBM Group manages credit risk in several ways, such as by:

- identifying the risk related to customers and recognising impairments of financial assets and provisions for off-balance-sheet liabilities in accordance with the IFRSs
- providing capital to ensure sufficient capital coverage of credit risks
- setting exposure limits for customers, groups of related customers, industry sectors and market segments
- properly securing its financial assets

To ensure that credit risk is properly managed and mitigated at the earliest possible stage, officers working in the Risk Management Division are involved in loan approval processes. Decisions in respect of loans are made based on the four-eyes principle. The Nova KBM Group's exposure to credit risk arising from loans and advances given to banks and customers is described below.

4.1.1 Non-performing exposures

The Nova KBM Group defines as non-performing exposures (NPEs) such exposures for which it reasonably believes that the debtor will not discharge all of its liabilities within the contractual period.

The Nova KBM Group considers as NPEs those exposures that satisfy any of the following criteria:

- exposures classified as 'defaulted' or 'impaired' according to the Nova KBM Group Methodology for Assessing Credit Risk Losses
- material exposures which are more than 90 days past due
- exposures which have been subject to restructuring that caused the Nova KBM Group to incur significant economic losses, or which are unlikely to be repaid (restructured exposures with a low repayment probability)
- NPEs that do not meet the applicable exit criteria

An exposure is reclassified as non-performing after being restructured, if the following criterion is met:

- during the probation period, the exposure is more than 30 days past due or has been restructured once again

The portfolio of customers classified into the credit rating categories D and E is managed by the Loan Workout Department and the Legal Office.

4.1.2 Interest rates and loan approval fees

Interest rates are determined in accordance with the adopted credit policies of the Nova KBM Group companies. Interest rates depend on the basic interest rate, the purpose of a loan, the customer's track record of cooperation with the Nova KBM Group companies, the customer's credit rating, the maturity of a loan, and the type of collateral provided for a loan.

Loan approval fees are determined in accordance with the applicable decisions adopted by the management boards of individual Nova KBM Group companies, taking into consideration their respective lending policies.

4.1.3 Exposure limits

With respect to limiting its exposure, the Nova KBM Group takes into account all applicable regulatory limitations. In compliance with Slovene banking laws and other regulations governing the banking business, exposure to a single customer or to a group of related customers shall not exceed 25% of the Nova KBM Group's equity.

For the purpose of mitigating credit risk, the Nova KBM Group has adopted rules that set maximum allowable exposures to customers and groups of related customers, as well as exposure limits for individual products. These rules are set out in detail in the Nova KBM Group Methodology for Determining Upper Lending Limits for Customers.

4.1.4 Loan collateral policy

As a rule, loans are not granted without the customer providing at least one type of collateral.

Unsecured loans are exception and are approved only to risk-free customers. Loans granted to all other customers are secured by at least one type of collateral. The type of collateral required depends on:

- type of a customer (including its legal status)
- customer's credit rating
- type and maturity of a loan
- customer's repayment capability
- customer's relationship with the Nova KBM Group and with other customers
- customer's track record of cooperation with the Nova KBM Group

The Nova KBM Group has determined eligibility criteria for collateral to be provided in its loan collateral policy. With respect to the adequacy of collateral provided to mitigate credit risk, the following classification has been adopted:

- prime collateral
- eligible collateral
- pledge of movable or immovable property
- other types of collateral

Leasing companies within the Nova KBM Group are legal owners of assets leased out under lease agreements.

Non-banking companies within the Nova KBM Group define the type of collateral to be provided in their risk management policies.

4.1.5 Analysis of exposure to credit risk by taking account of collateral

As of 31 December 2016, the proportion of A- and B-rated loans accounted for 61.95% of the total loan portfolio, compared to 54.99% at the end of 2015.

The following table sets forth, for the periods indicated, the structure of the loan portfolio by credit rating categories:

Credit rating category	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
A	41.43%	44.45%	42.17%	48.37%
B	20.52%	10.54%	20.88%	10.59%
C	9.89%	8.75%	10.00%	8.75%
D	9.08%	10.99%	9.03%	12.22%
E	19.08%	25.27%	17.92%	20.07%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Analysis of exposure to credit risk

Nova KBM Group	Loans to customers 31.12.2016	Loans to customers 31.12.2015	Loans to banks 31.12.2016	Loans to banks 31.12.2015
Individual impairments				
Gross amount	630,553	830,023	1,105	0
Impairment	(409,853)	(532,218)	(1,105)	0
Net amount	220,700	297,805	0	0
Collective impairments				
Credit rating A	821,113	993,030	0	0
Credit rating B	529,489	268,203	0	0
Credit rating C	250,565	197,786	0	0
Credit rating D	32,514	22,257	0	0
Credit rating E	56,908	77,556	0	0
Gross amount	**1,690,589**	**1,558,832**	**0**	**0**
Impairments	**(74,330)**	**(88,431)**	**0**	**0**
Net amount	**1,616,259**	**1,470,401**	**0**	**0**
Net non-impaired loans	**126,890**	**40,167**	**118,916**	**61,229**
Total net outstanding loans	**1,963,849**	**1,808,373**	**118,916**	**61,229**

Nova KBM d.d.	Loans to customers 31.12.2016	Loans to customers 31.12.2015	Loans to banks 31.12.2016	Loans to banks 31.12.2015
Individual impairments				
Gross amount	581,671	560,484	3	5,170
Impairment	(377,341)	(347,573)	(3)	(5,170)
Net amount	204,330	212,911	0	0
Collective impairments				
Credit rating A	825,678	878,222	0	0
Credit rating B	525,241	218,998	0	0
Credit rating C	251,598	177,806	0	0
Credit rating D	32,822	21,395	0	0
Credit rating E	53,696	68,642	0	0
Gross amount	**1,689,035**	**1,365,063**	**0**	**0**
Impairments	**(71,378)**	**(78,807)**	**0**	**0**
Net amount	**1,617,657**	**1,286,256**	**0**	**0**
Net non-impaired loans	**126,750**	**39,116**	**118,787**	**61,439**
Total net outstanding loans	**1,948,737**	**1,538,283**	**118,787**	**61,439**

The Nova KBM Group's total net loans outstanding at the end of 2016 amounted to €1,963,849,000, up 11.40% on the 2015 year-end figure.

Loans of €631,658,000 were individually impaired, with impairments of €410,958,000 being recorded on these loans. Loans totalling €1,690,589,000 were collectively impaired, and the level of impairments recorded by the Nova KBM Group on these loans reached €74,330,000 at the end of 2016.

The following table shows net loans by credit rating category and impairment method, without taking account of the value of collateral provided:

Analysis of net loans without taking account of the effects of credit protection

	Nova KBM Group 31.12.2016	Nova KBM Group 31.12.2015	Nova KBM d.d. 31.12.2016	Nova KBM d.d. 31.12.2015
Individual impairments	**345,603**	**359,034**	**329,104**	**274,350**
Collective impairments				
Credit rating A	863,593	1,028,402	863,368	908,013
Credit rating B	546,928	263,036	546,810	219,596
Credit rating C	285,737	180,212	287,239	162,454
Credit rating D	23,375	15,588	23,515	14,323
Credit rating E	17,529	23,330	17,488	20,986
Total net loans	**2,082,765**	**1,869,602**	**2,067,524**	**1,599,722**

Analysis of exposure to credit risk by market segments

The following tables set forth, for the periods indicated, the volume of loans and loan impairments by market segments:

Analysis of gross loans and loan impairments by market segments

Nova KBM Group	Gross loans 31.12.2016	Loan impairments 31.12.2016	Gross loans 31.12.2015	Loan impairments 31.12.2015
Central banks	4,000	0	0	0
State	93,141	252	45,266	107
Credit institutions (banks)	116,021	1,105	61,229	0
Other financial intermediaries	52,110	8,678	41,947	10,445
Large non-financial companies	899,981	348,158	1,092,953	463,892
Non-financial SMEs	233,449	68,804	244,758	79,385
SMEs (sole proprietors and non-profit associations)	84,979	20,431	90,000	22,084
Individuals	1,084,372	37,860	914,098	44,736
Total	**2,568,053**	**485,288**	**2,490,251**	**620,649**

Nova KBM d.d.	Gross loans 31.12.2016	Loan impairments 31.12.2016	Gross loans 31.12.2015	Loan impairments 31.12.2015
Central banks	4,000	0	0	0
State	92,195	249	37,319	12
Credit institutions (banks)	114,790	3	66,609	5,170
Other financial intermediaries	66,095	19,066	58,660	18,765
Large non-financial companies	878,239	331,137	845,454	322,184
Non-financial SMEs	201,260	45,867	148,186	36,094
SMEs (sole proprietors and non-profit associations)	81,803	17,675	66,326	12,818
Individuals	1,077,864	34,725	808,718	36,507
Total	**2,516,246**	**448,722**	**2,031,272**	**431,550**

Past due and unpaid claims

Nova KBM Group	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	31.12.2016 Total
Banks	0	0	0	2	2
State	219	1	0	235	455
Legal entities	3,585	764	512	374,460	379,321
Households	3,330	641	381	53,582	57,934
Total	**7,134**	**1,406**	**893**	**428,279**	**437,712**

Nova KBM Group	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	31.12.2015 Total
Banks	18	0	0	179	197
State	31	5	5	12	53
Legal entities	15,732	24,353	623	496,217	536,925
Households	1,698	433	306	72,270	74,707
Total	**17,479**	**24,791**	**934**	**568,678**	**611,882**

Nova KBM d.d.	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	31.12.2016 Total
Banks	0	0	0	2	2
State	219	1	0	235	455
Legal entities	3,308	739	504	346,423	350,974
Households	3,300	616	378	46,579	50,873
Total	**6,827**	**1,356**	**882**	**393,239**	**402,304**

Nova KBM d.d.	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	31.12.2015 Total
Banks	0	0	0	179	179
State	26	0	0	0	26
Legal entities	8,848	23,220	128	303,726	335,922
Households	884	358	253	51,415	52,910
Total	**9,758**	**23,578**	**381**	**355,320**	**389,037**

Past due but not impaired claims

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Up to 30 days	7	21	7	21
Over 90 days	0	0	0	0
Total	**50**	**45**	**50**	**45**

Outstanding loan recovery

Nova KBM has a special department in charge of distressed loan recovery. This department, called the Loan Workout Department, is responsible for monitoring and resolving past due and distressed loans in accordance with regulatory requirements as well as internal instructions and documents. The latter determine the method of transferring distressed loans to the Loan Workout Department for recovery. If a debtor is in default on a materially significant amount for more than 90 days, Nova KBM declares such customer as a defaulting customer and undertakes all the necessary steps to collect the debt, or restructures the loan if this might mitigate the loss incurred by it.

Where an obligation is past due for more than 90 days, or if the debtor declares the implementation of an insolvency procedure, the collection of the debt is transferred to the Loan Workout Department or the Legal Office. As long as the past-due period does not exceed 90 days, the collection of debts is managed within the commercial departments, with the professional assistance provided by the Loan Restructuring and Intensive Corporate Customer Monitoring Section. In cooperation with other specialised departments, the Loan Workout Department prepares internal regulations (policies, rules of procedures and instructions) that govern the recovery of distressed loans.

When outstanding loans are transferred to the Loan Workout Department, the department evaluates all available information, particularly collateral coverage of outstanding loans, on the basis of which it assesses the expected loss. The Loan Workout Department also evaluates the underlying reasons for default to prevent other loans from becoming distressed loans.

Together with the debtor, the Loan Workout Department tries to find out the options for restructuring the loan in order to restore the debtor's ability to resume repayments of liabilities to Nova KBM (extension of maturity date, possible grace period on the principal, change of interest rate). In such cases, the Loan Workout Department also tries to obtain additional collateral. If the loan is restructured, the Loan Workout Department monitors the debtor's compliance with the terms of the restructured loan.

Internal regulations governing the management of distressed loans include provisions regarding the preventive restructuring proceedings and other novelties related to the debt collection, as stipulated in the ZFPPIPP – F. If a loan cannot be restructured, or if another solution acceptable to Nova KBM cannot be agreed upon, the Loan Workout Department lodges a request for carrying out appropriate court procedures under which Nova KBM and the debtor try to reach an in-court or out-of-court settlement (e.g. through mediation). The Loan Workout Department might try to reach an agreement with a debtor together with other companies in the Nova KBM Group, or through bank syndicates. Sometimes additional measures can be taken to recover some or all of the given funds, such as selling Nova KBM's claims to third parties.

In carrying out its work, the Loan Workout Department complies with internal rules and applicable legislation and, as needed, collaborates with legal and other experts, both in-house and outside Nova KBM. Distressed loans are written off after the Loan Workout Department has taken all the necessary and sufficient legal measures provided by law and internal regulations to recover the loans.

NPLs as a proportion of total loans

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total gross loans	2,568,053	2,490,251	2,516,246	2,031,272
Total net loans	2,082,765	1,869,602	2,067,524	1,599,722
Net NPLs	265,851	317,945	257,292	253,628
Net NPLs/total net loans (%)	12.76	17.01	12.44	15.85

In 2016, the Nova KBM Group continued to collect the unpaid obligations of customers by liquidating instruments of collateral through regular court proceedings and in out-of-court settlements.

The Nova KBM Group has recorded an adequate level of impairments for NPLs on the basis of anticipated cash flows generated from the liquidation of collateral. The parameters used to calculate individual impairments are verified at least once a year.

If the out-of-court settlement is not successful, the Loan Workout Department assesses the expected cash flow generated from the liquidation of pledged property by generally taking into account 50% of the appraised value of pledged property and the liquidation period of five years.

In cases where the property cannot be sold at auctions, it is purchased by KBM Invest, a subsidiary company engaged in the sale and brokerage of real estate.

Other types of collateral can be taken into account in the calculation of individual impairments only if the expected cash flow generated from the liquidation of collateral and the repayment period can be realistically assessed.

Analysis of restructured loans

	Nova KBM Group		Nova KBM d.d.	
Gross restructured loans	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Restructured loans with uncertain repayment prospects	79,764	79,354	79,721	74,173
Loans restructured at a material economic loss and with a low repayment probability	315,792	356,461	322,846	306,952
Total	**395,556**	**435,815**	**402,567**	**381,125**

As of 31 December 2016, the volume of restructured loans in the Nova KBM Group's loan portfolio totalled €395,556,000, of which €40,273,000 was in retail loans and €355,284,000 was in corporate loans (loans outstanding to companies and sole proprietors).

Analysis of performing loans and NPLs by industry sectors

The following tables set forth, for the periods indicated, the total net loans and net NPLs outstanding to individual industry sectors, and the proportion of net NPLs within net loans:

	31.12.2016			31.12.2015		
Nova KBM Group	Total net loans	Net NPLs	Proportion of NPLs (%)	Total net loans	Net NPLs	Proportion of NPLs (%)
Households	1,046,512	36,162	3.46	869,362	34,953	4.02
Agriculture and hunting, forestry, fishing	19,867	4,830	24.31	23,893	6,419	26.87
Mining	11,874	0	0.00	13,572	233	1.72
Manufacturing industry	262,279	47,596	18.15	268,828	82,916	30.84
Electricity, gas and steam supply	34,651	110	0.32	51,164	912	1.78
Water supply, waste and sewage management, rehabilitation of the environment	19,538	975	4.99	26,887	1,286	4.78
Construction	54,161	27,427	50.64	59,971	34,044	56.77
Trade, maintenance and repair of motor vehicles	136,108	52,336	38.45	179,803	65,371	36.36
Transportation and storage	54,181	15,485	28.58	43,623	3,409	7.81
Accommodation and food service activities	35,286	16,692	47.30	35,400	14,537	41.06
Information and communication activities	13,523	7,489	55.38	17,673	13,385	75.74
Financial intermediation	167,079	6,297	3.77	98,801	8,797	8.90
Real estate activities	35,281	26,733	75.77	27,478	21,792	79.31
Professional, scientific and technical activities	29,485	11,714	39.73	39,292	18,360	46.73
Other various business activities	59,279	1,775	2.99	9,824	2,580	26.26
Public administration and defence services, compulsory social security activities	40,579	0	0.00	43,809	455	1.04
Education	2,143	0	0.00	2,134	0	0.00
Health and welfare security	24,173	8,871	36.70	21,666	6,973	32.18
Arts, entertainment and recreation	32,853	611	1.86	32,449	839	2.59
Other activities	3,913	748	19.12	3,973	684	17.22
Total net loans	**2,082,765**	**265,851**	**12.76**	**1,869,602**	**317,945**	**17.01**

Nova KBM d.d.	Total net loans	Net NPLs	31.12.2016 Proportion of NPLs (%)	Total net loans	Net NPLs	31.12.2015 Proportion of NPLs (%)
Households	1,043,139	34,646	3.32	772,211	32,792	4.25
Agriculture and hunting, forestry, fishing	19,633	4,595	23.40	18,218	2,854	15.67
Mining	11,874	0	0.00	13,294	229	1.72
Manufacturing industry	258,507	44,942	17.39	215,908	61,040	28.27
Electricity, gas and steam supply	33,029	110	0.33	48,740	862	1.77
Water supply, waste and sewage management, rehabilitation of the environment	19,513	975	5.00	21,424	254	1.19
Construction	53,181	26,535	49.90	44,774	27,001	60.31
Trade, maintenance and repair of motor vehicles	132,326	48,658	36.77	132,575	50,823	38.34
Transportation and storage	53,837	15,386	28.58	42,383	3,105	7.33
Accommodation and food service activities	34,465	15,919	46.19	27,494	10,522	38.27
Information and communication activities	13,155	7,245	55.07	13,591	9,975	73.39
Financial intermediation	170,375	9,721	5.71	106,042	17,465	16.47
Real estate activities	33,995	25,665	75.50	19,633	14,673	74.74
Professional, scientific and technical activities	28,863	11,180	38.73	25,216	12,787	50.71
Other various business activities	59,176	1,674	2.83	5,807	1,471	25.33
Public administration and defence services, compulsory social security activities	39,614	0	0.00	36,041	28	0.08
Education	2,143	0	0.00	2,073	0	0.00
Health and welfare security	24,167	8,871	36.71	19,708	6,939	35.21
Arts, entertainment and recreation	32,836	600	1.83	31,550	272	0.86
Other activities	3,696	570	15.42	3,040	536	17.63
Total net loans	**2,067,524**	**257,292**	**12.44**	**1,599,722**	**253,628**	**15.85**

Valuation of real estate

For the purpose of secured lending, financial reporting, purchase or sale of real estate, and renting out of real estate, valuation of real estate is regulated by the Nova KBM Group Methodology for Real Estate Valuation. The Nova KBM Group must obtain the value and assess the quality of real estate collateral to be provided prior to reaching any decision regarding the acceptance of the respective real estate as collateral, and must monitor the movements in the value and quality of real estate collateral during the entire period of its exposure to credit risk.

The assessment of the value of real estate that must comply with the International Valuation Standards (IVSs) must be conducted by an independent real estate appraiser appointed by the Slovene Auditing Institute or the Ministry of Justice of the Republic of Slovenia.

For the valuation of residential properties with a value of up to €500,000, the Nova KBM Group may use the generalised market value as determined in the process of the mass real estate valuation, and published by the Surveying and Mapping Authority of the Republic of Slovenia. The market value of real estate as set out in the applicable sales agreement may also be used for the needs of establishing collateral.

The following two real estate valuation methods are used by the Nova KBM Group:

- Simple valuation method: this method is used for the valuation of real estate whose value does not exceed €1,000,000, in particular for family houses, apartments, building plots, individual agricultural land parcels, individual business premises, and smaller industrial buildings.
- Complex valuation method: this method is used for the valuation of real estate of high value, specialised real estate, investment property under construction, and trade-related property as defined under IVS 310. This method is also used for the valuation of real estate for the purpose of financial reporting.

In the case of complex valuations, the Nova KBM Group selects appraisers to carry out the value assessment. Selection is through a tender process.

Valuation reports requested by the Nova KBM Group are checked by the Credit Analysis Department, which confirms whether the valuation carried out is appropriate for the Nova KBM Group's needs. The Nova KBM Group uses statistical methods for monitoring the value of real estate taken as collateral.

Analysis of collateral – value of collateral for given loans

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
1. Collateral for individually impaired loans	**395,693**	**626,233**	**298,580**	**272,526**
– movable and immovable property	310,450	472,575	256,923	256,829
– equity instruments	8,524	7,061	8,524	6,716
– other	76,719	146,597	33,133	8,981
2. Collateral for collectively impaired loans	**2,311,155**	**1,697,104**	**2,311,155**	**1,523,105**
– movable and immovable property	1,782,595	1,489,360	1,782,595	1,341,209
– debt securities	190	0	190	0
– equity instruments	135,467	596	135,467	476
– other	392,903	207,148	392,903	181,420
3. Collateral for non-impaired loans	**112,779**	**15,132**	**109,873**	**11,407**
– movable and immovable property	25,631	4,547	22,725	1,641
– other	87,148	10,585	87,148	9,766
4. Total	**2,819,627**	**2,338,469**	**2,719,608**	**1,807,038**

As of 31 December 2016, the total value of collateral provided for loans in the form of movable and immovable property was €2,118,676,000, of which 84.14% related to collectively impaired loans, 14.65% related to individually impaired loans, and 1.21% related to non-impaired loans.

Collateral of €143,991,000 was in the form of equity instruments, of which 94.08% related to collectively impaired loans, and 5.92% related to individually impaired loans.

A significant proportion of the Nova KBM Group's loan portfolio is secured by real estate. The estimated value of this collateral, which may have a material effect on the financial statements owing to inactivity of the Slovene real estate market, is based on market data. In addition, a number of equity instruments pledged as security for loans are not quoted on a stock exchange and are not traded in markets. There is uncertainty as to the future economic situation, which may have an impact on the value of collateral and the time needed for its realisation.

Analysis of net loans by market segments and regions

	Loans to customers		Loans to banks	
Nova KBM Group	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
NET BOOK VALUE	**1,963,849**	**1,808,373**	**118,916**	**61,229**
By market segment	**1,963,849**	**1,808,373**	**118,916**	**61,229**
– non-financial companies	685,834	758,902	0	0
– central banks	0	0	4,000	0
– deposit-taking companies, except the central banks	0	0	2	21,929
– investment funds, except money market funds	1	1	0	0
– other financial intermediaries, except insurance companies and pension funds	30,129	4,773	0	0
– auxiliary financial service providers	6,212	8,767	0	0
– captive financial institutions and money lenders	7,081	7,982	0	0
– insurance companies	7	11	0	0
– pension funds	1	1	0	0
– central government	84,607	32,258	0	0
– local government	8,282	12,899	0	0
– households	1,107,802	934,796	0	0
– non-profit institutions serving households	2,975	2,165	0	0
– rest of the world	30,918	45,818	114,914	39,300
By region	**1,963,849**	**1,808,373**	**118,916**	**61,229**
– Slovenia	1,932,931	1,762,555	4,002	21,929
– euro area other than Slovenia	2,077	1,161	113,021	27,037
– non-euro area EU countries	21,575	38,781	1,893	12,263
– republics of the former Yugoslavia	7,266	5,876	0	0

Nova KBM d.d.	Loans to customers		Loans to banks	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
NET BOOK VALUE	**1,948,737**	**1,538,283**	**118,787**	**61,439**
By market segment	**1,948,737**	**1,538,283**	**118,787**	**61,439**
– non-financial companies	679,680	607,132	0	0
– central banks	0	0	4,000	0
– deposit-taking companies, except the central banks	0	0	2	22,305
– investment funds, except money market funds	1	1	0	0
– other financial intermediaries, except insurance companies and pension funds	30,129	4,180	0	0
– auxiliary financial service providers	6,212	8,677	0	0
– captive financial institutions and money lenders	7,081	7,982	0	0
– insurance companies	7	11	0	0
– pension funds	1	1	0	0
– central government	84,467	31,563	0	0
– local government	7,479	5,742	0	0
– households	1,104,322	822,227	0	0
– non-profit institutions serving households	2,944	2,018	0	0
– rest of the world	26,414	48,749	114,785	39,134
By region	**1,948,737**	**1,538,283**	**118,787**	**61,439**
– Slovenia	1,922,323	1,489,534	4,002	22,305
– euro area other than Slovenia	2,077	1,799	113,021	27,037
– non-euro area EU countries	21,755	40,813	1,764	12,097
– republics of the former Yugoslavia	2,582	5,977	0	0
– other regions	0	160	0	0

As of 31 December 2016, the Nova KBM Group's net loans outstanding to banks and to customers totalled €118,916,000 and €1,963,849,000, respectively. Of the latter figure, the largest proportion related to households (56.41%), followed by non-financial companies (34.92%).

Loans outstanding to customers headquartered in the Republic of Slovenia accounted for 98.43% of the total loans to customers. Of the loans outstanding to non-resident non-bank customers, the largest proportion, i.e. 1.10% of the total loans to customers, related to customers residing in the EU.

Loans outstanding to local banks accounted for 3.37% of the total loans to banks. At 95.04%, loans outstanding to banks residing in the euro area (other than Slovenia) accounted for by far the largest proportion of the total loans outstanding to foreign banks.

4.2 Liquidity risk

Liquidity risk is the risk of loss resulting from a company's inability to meet all of its payment obligations, or the risk that it has to provide necessary funding at significantly higher than usual costs. It arises from maturity mismatches between assets and liabilities. The Nova KBM Group companies monitor daily liquidity in accordance with regulatory requirements and methodologies, taking into account their activities and the volume of operations. In its liquidity projections, Nova KBM takes into account liquidity needs of other Nova KBM Group companies. A harmonised method for monitoring structural liquidity is used across the entire Nova KBM Group.

During the year ending 31 December 2016, the Nova KBM Group managed liquidity risk in accordance with the Nova KBM Group Policy of Managing Liquidity Risk which sets out the methods and responsibilities for managing assets and liabilities to provide for sufficient cash inflows within a certain period of time. This policy sets out the measures for assessing, measuring, managing and monitoring liquidity risk. The policy includes liquidity planning for the timely repayment of obligations, measures to be adopted under adverse liquidity conditions, and procedures for checking variables on the basis of which the policy for managing liquidity risk has been formulated.

The Nova KBM Group has drafted a business continuity plan for managing liquidity risk that sets out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position. The Nova KBM Group carries out, on a monthly basis, liquidity stress tests in compliance with the Nova KBM Group Methodology for Implementing Stress Scenarios of Liquidity Risk. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on the Nova KBM Group's liquidity position, and for preparing measures for dealing with any liquidity crisis.

The Nova KBM Contingency Plan for Managing Liquidity Risk sets out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position of Nova KBM. Nova KBM carries out, on a monthly basis, liquidity stress tests in compliance with the Nova KBM Group Methodology for Implementing Stress Scenarios of Liquidity Risk. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on Nova KBM's liquidity position, and for preparing measures for dealing with any liquidity crisis.

Net liquid assets

The Nova KBM Group uses an internal methodology for determining net liquid assets, which represent the difference between the portion of assets that can be converted into liquid funds within a short period of time and the unstable portion of liabilities. The unstable portion of liabilities is the portion of the Nova KBM Group's liabilities that may become due in the same short period of time. According to this methodology, the level of net liquid assets must at least be positive to ensure that the Nova KBM Group maintains adequate operational and regulatory liquidity.

Liquidity gap

The liquidity gap, which is regularly monitored and thoroughly analysed by individual time buckets, is a measure of the level of maturity matching of assets and liabilities. The Nova KBM Group cannot avoid the liquidity gap, but can manage it effectively. A positive gap represents a surplus of funds that can be invested profitably. On the other hand, a negative gap is a sign of a shortage of funds that needs to be provided for.

Liquidity Coverage Ratio (LCR)

The LCR is a measure used to determine whether a bank has sufficient high-quality liquid assets to cover its total net cash outflows within the next 30 days under a financial stress scenario. It has been developed with the aim of ensuring resilience of banks under the conditions of very short-term financial stress. Included in the calculation of the LCR are all on-balance-sheet items (both asset and liability items) due within a period of 30 days, as well as all off-balance-sheet liabilities that could be incurred within a period of 30 days, irrespective of their contractual maturities.

Nova KBM has been monitoring the value of its LCR on a monthly basis since October 2015, when the obligation to calculate the LCR was introduced. According to the applicable internal regulation, the value of the LCR must be maintained above 100%. At the end of 2016, the value of the LCR calculated on a consolidated basis (excluding KBS banka) stood at 1,087%, while for Nova KBM alone it stood at 935%.

Net Stable Funding Ratio (NSFR)

The NSFR is a measure designed to compare a bank's available stable funding to its required stable funding. It has been developed with the aim of ensuring a bank's ability to withstand any long-term liquidity risk. The Basel III capital framework provides that banks will be obliged to maintain the value of this ratio above 100% from 1 January 2018 onwards. Nova KBM undertakes quarterly monitoring of the value of this ratio on a consolidated basis. According to the applicable internal regulation, the value of the NSFR must be maintained above 100%.

Liquidity ratios and obligatory deposits

During the year ending 31 December 2016, Nova KBM complied with the Bank of Slovenia's regulations on minimum liquidity. As of 31 December 2016, Nova KBM's Category I Liquidity Ratio was 1.831, compared to 1.867 a year earlier. The prescribed minimum value of the liquidity ratio is set at 1.0. Nova KBM also complied with the Bank of Slovenia's regulations on obligatory deposits.

Stability of deposits

Nova KBM uses its own econometric model for calculating the proportion of stable demand deposits. This model is based on regression analysis which is used to examine the movements in demand deposits over time. For using the model, the dependent variable and independent variables must be determined. The results derived from the model provide a basis for analysing the predictive power, and for carrying out retroactive testing. For the period from 1 January 2016 to 31 December 2016, the results of this model gave a higher level of stable demand deposits than the one that was taken into account in the calculation of liquidity ratios according to the regulations. The average stability of total demand deposits was 91.9% in 2016, compared to 84.0% a year earlier, while the average stability of household deposits was as high as 94.8%, against 93.6% reported for 2015.

The following tables set forth, for the periods indicated, the distribution of significant statement of financial position items with maturities of up to and over five years:

Analysis of the expected future cash flows

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	31.12.2016 Over 5 years
Assets						
Cash, cash balances at central banks and demand deposits at banks	783,915	783,915	0	0	0	0
Financial assets held for trading	1,119	1,119	0	0	0	0
Financial assets designated at fair value through profit or loss	86,732	19,182	15,266	49,008	3,276	0
Available-for-sale financial assets	1,584,514	50,529	192,219	110,657	784,974	446,135
Loans and advances	1,803,336	191,338	98,989	244,176	814,867	453,966
Held-to-maturity financial assets	90,216	1,182	1,058	444	71,378	16,154
Other assets*	151,896	13,310	241	4,114	22,212	112,019
Total assets	**4,501,728**	**1,060,575**	**307,773**	**408,399**	**1,696,707**	**1,028,274**
Liabilities						
Financial liabilities held for trading	1,575	1,575	0	0	0	0
Financial liabilities measured at amortised cost	4,075,818	396,692	353,427	693,896	1,891,945	739,858
Other liabilities*	745,983	90,169	11,802	60,698	6,378	576,936
Total liabilities and equity	**4,823,376**	**488,436**	**365,229**	**754,594**	**1,898,323**	**1,316,794**
Assets-liabilities (including equity) mismatch	**(321,648)**	**572,139**	**(57,456)**	**(346,195)**	**(201,616)**	**(288,520)**
Guarantees	**8,712**	**1,777**	**763**	**3,085**	**2,976**	**111**

* Assets and liabilities without a direct impact on liquidity.

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	31.12.2015 Over 5 years
Assets						
Cash, cash balances at central banks and demand deposits at banks	322,889	322,889	0	0	0	0
Financial assets held for trading	1,563	1,563	0	0	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0
Available-for-sale financial assets	1,675,907	31,301	106,682	366,891	819,902	351,131
Loans and advances	1,798,627	270,453	104,601	279,350	720,572	423,651
Held-to-maturity financial assets	129,548	1,181	18,958	20,315	72,929	16,165
Other assets*	206,451	78,937	1,057	8,659	19,316	98,482
Total assets	**4,148,406**	**719,745**	**231,298**	**675,215**	**1,632,719**	**889,429**
Liabilities						
Financial liabilities held for trading	270	270	0	0	0	0
Financial liabilities measured at amortised cost	3,483,783	395,605	301,170	568,949	1,514,719	703,340
Other liabilities*	751,610	79,455	3,616	40,578	43,225	584,736
Total liabilities and equity	**4,235,663**	**475,330**	**304,786**	**609,527**	**1,557,944**	**1,288,076**
Assets-liabilities (including equity) mismatch	**(87,257)**	**244,415**	**(73,488)**	**65,688**	**74,775**	**(398,647)**
Guarantees	**36,859**	**3,640**	**2,262**	**8,257**	**18,912**	**3,788**

* Assets and liabilities without a direct impact on liquidity.

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	31.12.2016 Over 5 years
Assets						
Cash, cash balances at central banks and demand deposits at banks	779,469	779,469	0	0	0	0
Financial assets held for trading	232	232	0	0	0	0
Financial assets designated at fair value through profit or loss	86,732	19,182	15,266	49,008	3,276	0
Available-for-sale financial assets	1,582,095	48,235	192,219	110,656	784,851	446,134
Loans and advances	1,803,579	184,985	98,803	252,831	813,522	453,438
Held-to-maturity financial assets	90,216	1,182	1,058	444	71,378	16,154
Other assets*	184,514	5,964	17	2,534	21,335	154,664
Total assets	**4,526,837**	**1,039,249**	**307,363**	**415,473**	**1,694,362**	**1,070,390**
Liabilities						
Financial liabilities held for trading	1,575	1,575	0	0	0	0
Financial liabilities measured at amortised cost	4,100,125	399,836	357,832	699,405	1,900,834	742,218
Other liabilities*	730,061	92,753	11,341	43,554	6,193	576,220
Total liabilities and equity	**4,831,761**	**494,164**	**369,173**	**742,959**	**1,907,027**	**1,318,438**
Assets-liabilities (including equity) mismatch	**(304,924)**	**545,085**	**(61,810)**	**(327,486)**	**(212,665)**	**(248,048)**
Guarantees	**7,807**	**662**	**763**	**3,086**	**2,986**	**310**

* Assets and liabilities without a direct impact on liquidity.

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
						31.12.2015
Assets						
Cash, cash balances at central banks and demand deposits at banks	260,860	260,860	0	0	0	0
Financial assets held for trading	116	116	0	0	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0
Available-for-sale financial assets	1,442,288	27,039	81,696	340,623	695,172	297,758
Loans and advances	1,423,754	160,831	73,022	221,790	607,590	360,521
Held-to-maturity financial assets	28,566	606	0	210	14,975	12,775
Other assets*	194,582	4,273	0	0	18,103	172,206
Total assets	**3,363,587**	**467,146**	**154,718**	**562,623**	**1,335,840**	**843,260**
Liabilities						
Financial liabilities held for trading	270	270	0	0	0	0
Financial liabilities measured at amortised cost	2,837,634	308,999	232,215	454,636	1,300,420	541,364
Other liabilities*	668,056	13,093	2,837	37,886	39,972	574,268
Total liabilities and equity	**3,505,960**	**322,362**	**235,052**	**492,522**	**1,340,392**	**1,115,632**
Assets-liabilities (including equity) mismatch	**(142,373)**	**144,784**	**(80,334)**	**70,101**	**(4,552)**	**(272,372)**
Guarantees	**5,968**	**845**	**673**	**1,811**	**2,396**	**243**

* Assets and liabilities without a direct impact on liquidity.

The following tables set forth, for the periods indicated non-discounted contractual balance-sheet liabilities. A significant proportion of the Nova KBM Group's liabilities falls due within a one-month period, referring to demand deposits. The Nova KBM Group monitors the stability of demand deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in these deposits.

Non-derivative balance-sheet liabilities

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
						31.12.2016
Liabilities						
Financial liabilities measured at amortised cost	4,178,815	2,679,945	318,399	639,197	461,394	79,880
Other liabilities	745,983	90,169	11,802	60,698	6,378	576,936
Total liabilities	**4,924,798**	**2,770,114**	**330,201**	**699,895**	**467,772**	**656,816**
Guarantees	**264,195**	**23,236**	**25,841**	**104,449**	**100,781**	**9,888**

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
						31.12.2015
Liabilities						
Financial liabilities measured at amortised cost	3,649,512	2,098,754	327,980	687,182	439,521	96,075
Other liabilities	751,610	79,455	3,616	40,578	43,225	584,736
Total liabilities	**4,401,122**	**2,178,209**	**331,596**	**727,760**	**482,746**	**680,811**
Guarantees	**257,387**	**33,900**	**28,909**	**81,126**	**100,887**	**12,565**

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
						31.12.2016
Liabilities						
Financial liabilities measured at amortised cost	4,113,754	2,702,424	318,604	639,898	373,386	79,442
Other liabilities	730,061	92,753	11,341	43,554	6,193	576,220
Total liabilities	**4,843,815**	**2,795,177**	**329,945**	**683,452**	**379,579**	**655,662**
Guarantees	**264,338**	**22,424**	**25,841**	**104,489**	**101,099**	**10,485**

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
						31.12.2015
Liabilities						
Financial liabilities measured at amortised cost	2,921,662	1,656,207	274,397	593,498	298,088	99,472
Other liabilities	668,055	13,094	2,837	37,887	39,972	574,265
Total liabilities	**3,589,717**	**1,669,301**	**277,234**	**631,385**	**338,060**	**673,737**
Guarantees	**229,312**	**32,483**	**25,851**	**69,585**	**92,074**	**9,319**

Cash flows from derivatives

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
						31.12.2016
Currency derivatives						
Forwards						
outflow	46,562	18,908	23,299	4,355	0	0
inflow	46,481	18,891	23,234	4,356	0	0
Interest rate derivatives						
Interest rate and currency swaps						
outflow	94	1	(3)	(3)	73	26
inflow	165	1	0	17	117	30
Total outflow	**46,656**	**18,909**	**23,296**	**4,352**	**73**	**26**
Total inflow	**46,646**	**18,892**	**23,234**	**4,373**	**117**	**30**

The table above presents non-discounted cash flows from derivatives. Foreign currency amounts were translated into the euro using the ECB's exchange rate effective on 31 December 2016. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
						31.12.2016
Currency derivatives						
Forwards						
outflow	46,562	18,908	23,299	4,355	0	0
inflow	46,481	18,891	23,234	4,356	0	0
Interest rate derivatives						
Interest rate and currency swaps						
outflow	94	1	(3)	(3)	73	26
inflow	165	1	0	17	117	30
Total outflow	**46,656**	**18,909**	**23,296**	**4,352**	**73**	**26**
Total inflow	**46,646**	**18,892**	**23,234**	**4,373**	**117**	**30**

The table above presents non-discounted cash flows from derivatives. Foreign currency amounts were translated into the euro using the ECB's exchange rate effective on 31 December 2016. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
						31.12.2015
Currency derivatives						
Forwards						
outflow	36,822	17,232	15,531	4,059	0	0
inflow	36,710	17,137	15,523	4,050	0	0
Interest rate derivatives						
Interest rate and currency swaps						
outflow	77	1	2	8	62	4
inflow	104	1	3	11	84	5
Total outflow	**36,899**	**17,233**	**15,533**	**4,067**	**62**	**4**
Total inflow	**36,814**	**17,138**	**15,526**	**4,061**	**84**	**5**

The table above presents non-discounted cash flows from derivatives. Foreign currency amounts were translated into the euro using the ECB's exchange rate effective on 31 December 2015. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
						31.12.2015
Currency derivatives						
Forwards						
outflow	36,822	17,232	15,531	4,059	0	0
inflow	36,710	17,137	15,523	4,050	0	0
Interest rate derivatives						
Interest rate and currency swaps						
outflow	77	1	2	8	62	4
inflow	104	1	3	11	84	5
Total outflow	**36,899**	**17,233**	**15,533**	**4,067**	**62**	**4**
Total inflow	**36,814**	**17,138**	**15,526**	**4,061**	**84**	**5**

The table above presents non-discounted cash flows from derivatives. Foreign currency amounts were translated into the euro using the ECB's exchange rate effective on 31 December 2015. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

4.3 Market risks

The Nova KBM Group monitors market risks of trading book and markets risks of banking book separately. The method of monitoring and reporting as well as of limiting exposure to market risks is set out in the respective risk management policies. The Nova KBM Group companies monitor market risks in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

4.3.1 Position risk

Position risk is a risk of loss arising due to a change in the price of financial instrument that the Nova KBM Group holds in its portfolio for the purpose of trading on its proprietary account.

The trading limit methodology is based on the VaR measure and is compliant with the Basel capital requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The basis for determining trading limits is the capital requirement set out in the financial plan. The Nova KBM Group measures the market value of all trading items on a daily basis. The volume of transactions in each type of financial instruments is defined in detail by the methodology for setting limits.

Nova KBM's portfolio of equity instruments, which was inactive in 2016, is limited by the highest market value, stop-loss limit, and the VaR measure. The portfolio of debt securities is limited by the highest market value and stop-loss limit. The limits determined for specific types of transactions may be changed by a decision of the ALCO. Changes to the structure of limits shall not affect the annual plan of capital adequacy.

A detailed breakdown of financial assets held for trading and their movements is presented in the table 'Financial assets held for trading' in the notes to the financial statements.

Position risk in foreign exchange trading is controlled by Nova KBM by trading limits. Limits for foreign currency trading for Nova KBM's proprietary account are defined as the maximum allowable open position for the Trading Department. The Trading Support Department monitors trading results on a daily basis and reports findings to the responsible authorities.

Nova KBM offers its customers the service of buying and selling derivatives as a broker only and does not take its own positions.

4.3.2 Interest rate risk

Interest rate risk is the risk of loss arising due to changes in interest rates or the structure of interest rates for maturity mismatches of interest-bearing assets and liabilities with regard to interest rate repricing and the remuneration method.

Rules applicable to the management of interest rate risk pertaining to the trading book items are included in the methodology for monitoring trading limits. Interest rate risk management of non-trading book items is carried out in accordance with the Methodology for Managing Interest Rate Risk.

The Nova KBM Group monitors interest-bearing statement of financial position items and off-balance-sheet items with regard to maturity of variable interest rate items, separated by the key currencies and reference interest rates in which it operates. Nova KBM separately monitors interest rate risk for the euro, US dollar and Swiss franc, which, as of 31 December 2016, together made up 99.72% of its entire exposure to interest rate changes applicable to its asset items and 99.70% of its entire exposure to interest rate changes applicable to its liability items.

In 2016, as part of the overhaul of its ICAAP, Nova KBM revised its policy of managing interest rate risk. Both Nova KBM and the Nova KBM Group undertake monthly calculations of the extent to which their equity and net interest income are impacted over a period of one year according to the results of the standardised stress test for interest rate risk resulting from a parallel shift in the interest rate curve. For internal purposes, as well as for the purpose of calculating capital requirements for interest rate risk, the Nova KBM Group regularly calculates the impact on the net present value of its interest-sensitive items, as well as its interest income, of the following shock scenarios:

- a parallel upward shift in the yield curve by 200 basis points
- a parallel downward shift in the yield curve by 200 basis points
- steepening of the yield curve (resulting from a decline in short-term interest rates and an increase in long-term interest rates)
- flattening of the yield curve (resulting from an increase in short-term interest rates and a decline in long-term interest rates)
- an increase in short-term interest rates
- a decline in short-term interest rates

Analysis of sensitivity to yield curve shifts

	31.12.2016			31.12.2015		
Nova KBM Group	Net present value	Interest income	Total	Net present value	Interest income	Total
Standardised stress test						
+200 bps	(5,499)	13,459	7,960	(19,360)	6,459	(12,901)
–200 bps (taking into consideration the interest rate floor of 0%)	4,366	1,044	5,409	(5,154)	(388)	(5,543)
Parallel shift in the yield curve						
+200 bps	(5,858)	2,077	(3,781)	(19,681)	(3,630)	(23,311)
–200 bps	9,570	(2,068)	7,501	20,179	3,627	23,806
Change in the yield curve slope						
Steepening yield curve	(6,123)	(1,830)	(7,953)	3,934	2,324	6,257
Flattening yield curve	5,545	2,234	7,780	(7,524)	(2,849)	(10,373)
Change in short-term interest rates						
Increase in short-term interest rates	3,275	2,769	6,043	(12,399)	(3,539)	(15,938)
Decline in short-term interest rates	(3,382)	(2,766)	(6,148)	12,980	3,531	16,511

Nova KBM d.d.	31.12.2016 Net present value	Interest income	Total	31.12.2015 Net present value	Interest income	Total
Standardised stress test						
+200 bps	(5,328)	13,495	8,168	(1,782)	10,918	9,136
–200 bps (taking into consideration the interest rate floor of 0%)	4,329	1,045	5,375	(9,059)	76	(8,984)
Parallel shift in the yield curve						
+200 bps	(5,687)	2,243	(3,444)	(2,102)	712	(1,390)
–200 bps	9,373	(2,235)	7,138	459	(719)	(260)
Change in the yield curve slope						
Steepening yield curve	(6,125)	(1,962)	(8,088)	4,423	(1,150)	3,274
Flattening yield curve	5,575	2,397	7,972	(5,066)	1,434	(3,632)
Change in short-term interest rates						
Increase in short-term interest rates	3,356	2,973	6,329	(4,803)	1,832	(2,971)
Decline in short-term interest rates	(3,466)	(2,971)	(6,437)	5,039	(1,846)	3,193

Impact of yield curve shifts on net present value of interest-sensitive items

Nova KBM Group	31.12.2016 EUR	USD	CHF	Total	31.12.2015 EUR	USD	CHF	Total
Standardised stress test								
+200 bps	(7,165)	858	808	(5,499)	(21,061)	971	729	(19,360)
–200 bps (taking into consideration the interest rate floor of 0%)	5,387	(1,047)	26	4,366	(3,984)	(1,097)	(74)	(5,154)
Parallel shift in the yield curve								
+200 bps	(7,136)	859	419	(5,858)	(21,035)	971	382	(19,681)
–200 bps	11,028	(1,007)	(451)	9,570	21,761	(1,160)	(422)	20,179
Change in the yield curve slope								
Steepening yield curve	(6,733)	393	218	(6,123)	3,362	331	241	3,934
Flattening yield curve	5,840	(194)	(100)	5,545	(7,259)	(127)	(138)	(7,524)
Change in short-term interest rates								
Increase in short-term interest rates	2,942	200	133	3,275	(12,805)	319	88	(12,399)
Decline in short-term interest rates	(3,036)	(209)	(137)	(3,382)	13,405	(336)	(90)	12,980

Nova KBM d.d.	31.12.2016 EUR	USD	CHF	Total	31.12.2015 EUR	USD	CHF	Total
Standardised stress test								
+200 bps	(6,994)	858	808	(5,328)	(3,481)	970	729	(1,782)
–200 bps (taking into consideration the interest rate floor of 0%)	5,351	(1,047)	26	4,329	(7,889)	(1,097)	(74)	(9,059)
Parallel shift in the yield curve								
+200 bps	(6,965)	859	419	(5,687)	(3,454)	970	382	(2,102)
–200 bps	10,832	(1,007)	(451)	9,373	2,040	(1,158)	(422)	459
Change in the yield curve slope								
Steepening yield curve	(6,736)	393	218	(6,125)	3,851	332	241	4,423
Flattening yield curve	5,869	(194)	(100)	5,575	(4,800)	(128)	(138)	(5,066)
Change in short-term interest rates								
Increase in short-term interest rates	3,023	200	133	3,356	(5,208)	317	88	(4,803)
Decline in short-term interest rates	(3,120)	(209)	(137)	(3,466)	5,463	(334)	(90)	5,039

Impact of yield curve shifts on net interest income

Nova KBM Group	31.12.2016 EUR	USD	CHF	Total	31.12.2015 EUR	USD	CHF	Total
Standardised stress test								
+200 bps	12,321	195	942	13,459	1,766	3,881	813	6,459
–200 bps (taking into consideration the interest rate floor of 0%)	800	21	223	1,044	(457)	(89)	158	(388)
Parallel shift in the yield curve								
+200 bps	1,759	(48)	365	2,077	(7,892)	3,923	339	(3,630)
–200 bps	(1,750)	48	(366)	(2,068)	7,890	(3,924)	(339)	3,627
Change in the yield curve slope								
Steepening yield curve	(1,539)	44	(336)	(1,830)	6,451	(3,810)	(317)	2,324
Flattening yield curve	1,871	(55)	418	2,234	(7,934)	4,692	393	(2,849)
Change in short-term interest rates								
Increase in short-term interest rates	2,307	(69)	531	2,769	(9,906)	5,870	497	(3,539)
Decline in short-term interest rates	(2,304)	70	(532)	(2,766)	9,901	(5,872)	(498)	3,531

Nova KBM d.d.	EUR	USD	CHF	31.12.2016 Total	EUR	USD	CHF	31.12.2015 Total
Standardised stress test								
+200 bps	12,358	195	942	13,495	6,210	3,888	820	10,918
–200 bps (taking into consideration the interest rate floor of 0%)	802	21	223	1,045	6	(91)	161	76
Parallel shift in the yield curve								
+200 bps	1,925	(48)	365	2,243	(3,561)	3,930	343	712
–200 bps	(1,917)	48	(366)	(2,235)	3,555	(3,931)	(343)	(719)
Change in the yield curve slope								
Steepening yield curve	(1,671)	44	(336)	(1,962)	2,988	(3,817)	(320)	(1,150)
Flattening yield curve	2,034	(55)	418	2,397	(3,664)	4,701	397	1,434
Change in short-term interest rates								
Increase in short-term interest rates	2,511	(69)	531	2,973	(4,551)	5,881	502	1,832
Decline in short-term interest rates	(2,509)	70	(532)	(2,971)	4,540	(5,883)	(503)	(1,846)

In addition to the standardised stress test analysis, the Nova KBM Group calculates its exposure to interest rate changes as the change of the net current value of the difference between assets and liabilities subject to a variable interest rate in a given period and the expected interest rate changes in the next three months. The expected interest rate changes are calculated as the difference between current and term interest rates, separated for each currency and maturity handled. Analysis of interest rate risk for both Nova KBM and the Nova KBM Group is included in a monthly risk management report and is subject to a monthly review by the ALCO. The Nova KBM Group companies monitor interest rate risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The interest rate risk analysis treats net positions in individual interest rate repricing periods as fixed-coupon debt securities. A longer interest rate repricing period has a larger impact on net present value of assets and liabilities. The results of the interest rate risk analysis made for the Nova KBM Group for the 2016 and 2015 year end suggested that the aggregate net present value of all interest-sensitive items would most likely decline by €842,900 and €2,622,000, respectively. As for Nova KBM, the results suggested that the aggregate net present value of all of its interest-sensitive items would most likely decline by €849,700 and €348,000, respectively. The main advantage of this analysis when compared to the standardised interest rate stress test lies in anticipation of probable interest rate changes in the observed period. The Nova KBM Group is exposed mainly to interest rates for the euro, US dollar, Swiss franc and Croatian kuna.

The impact of interest rate changes on profit or loss is measured for a one-year period. To calculate the change in interest income, the current interest rate is used for the period until the change of interest rate, after which date and until the end of a one-year period the changed interest rate is taken into consideration. The average interest rate repricing period by individual time buckets is used to calculate interest. Taking into consideration the financial data for the 2016 year end, the anticipated interest rate change in a three-month period would result in an annual decline of €36,800 in the net interest income earned by the Nova KBM Group, while the annual net interest income earned by Nova KBM would decline by €37,500. According to the financial data for the end of 2015, the anticipated interest rate change in a three-month period would cause the annual net interest income of the Nova KBM Group to increase by €34,300, while that of Nova KBM would fall by €23,400.

The Nova KBM Group calculates, on a monthly basis, the extent to which all its interest-sensitive items and interest income are impacted by the results of the standardised stress test of a parallel shift in the yield curve by 200 basis points, taking into consideration the distribution of demand deposits as determined by the applicable internal model. According to the financial data for the end of 2016, the results suggested that a potential profit arising from an increase in interest rates by 200 basis points would equal 1.35% of Nova KBM's regulatory capital, while the potential profit arising from a decline in interest rates by 200 basis points (taking into consideration the interest rate floor of 0%) would equal 0.92% of Nova KBM's regulatory capital. These figures are below the internal limit, which has been set as the lower of 10% of Nova KBM's regulatory capital or €30 million.

A more detailed breakdown of the Nova KBM Group's statement of financial position by maturity of items as of 31 December 2016 and 2015 is presented in the tables 'Analysis of exposure to interest rate risk', which show the distribution of items with regard to the interest rate repricing periods.

Analysis of exposure to interest rate risk

Nova KBM Group	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	31.12.2016 Over 5 years
Assets								
Cash, cash balances at central banks and demand deposits at banks	783,915	77,266	706,649	706,649	0	0	0	0
Financial assets held for trading	1,119	1,115	4	0	0	4	0	0
Financial assets designated at fair value through profit or loss	86,732	19,135	67,597	0	11,182	53,035	3,380	0
Available-for-sale financial assets	1,584,514	33,006	1,551,508	30,350	247,727	90,201	731,496	451,734
Loans and advances	2,125,058	81,208	2,043,850	1,072,746	539,797	267,007	141,153	23,147
Held-to-maturity financial assets	90,216	0	90,216	0	0	0	73,779	16,437
Other assets	27,228	27,228	0	0	0	0	0	0
Total assets	**4,698,782**	**238,958**	**4,459,824**	**1,809,745**	**798,706**	**410,247**	**949,808**	**491,318**
Liabilities								
Financial liabilities held for trading	1,575	1,575	0	0	0	0	0	0
Financial liabilities measured at amortised cost	4,075,892	6,894	4,068,998	2,783,061	311,101	705,602	266,776	2,458
Other liabilities	3,169	3,038	131	131	0	0	0	0
Total liabilities	**4,080,636**	**11,507**	**4,069,129**	**2,783,192**	**311,101**	**705,602**	**266,776**	**2,458**
Assets-liabilities mismatch	**618,146**	**227,451**	**390,695**	**(973,447)**	**487,605**	**(295,355)**	**683,032**	**488,860**

Nova KBM Group	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	31.12.2015 Over 5 years
Assets								
Cash, cash balances at central banks and demand deposits at banks	322,889	69,247	253,642	253,642	0	0	0	0
Financial assets held for trading	1,563	1,563	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0	0	0
Available-for-sale financial assets	1,675,907	26,740	1,649,167	36,810	174,881	365,520	720,058	351,898
Loans and advances	1,896,388	113,830	1,782,558	1,005,696	380,938	290,696	96,993	8,235
Held-to-maturity financial assets	129,548	0	129,548	0	17,787	19,983	64,938	26,840
Other assets	29,706	29,706	0	0	0	0	0	0
Total assets	**4,069,422**	**254,507**	**3,814,915**	**1,296,148**	**573,606**	**676,199**	**881,989**	**386,973**
Liabilities								
Financial liabilities held for trading	270	270	0	0	0	0	0	0
Financial liabilities measured at amortised cost	3,494,287	6,851	3,487,436	2,202,621	337,897	748,803	196,603	1,512
Other liabilities	3,079	3,079	0	0	0	0	0	0
Total liabilities	**3,497,636**	**10,200**	**3,487,436**	**2,202,621**	**337,897**	**748,803**	**196,603**	**1,512**
Assets-liabilities mismatch	**571,786**	**244,307**	**327,479**	**(906,473)**	**235,709**	**(72,604)**	**685,386**	**385,461**

Nova KBM d.d.	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	31.12.2016 Over 5 years
Assets								
Cash, cash balances at central banks and demand deposits at banks	779,469	72,820	706,649	706,649	0	0	0	0
Financial assets held for trading	232	228	4	0	0	4	0	0
Financial assets designated at fair value through profit or loss	86,732	19,135	67,597	0	11,182	53,035	3,380	0
Available-for-sale financial assets	1,582,095	30,707	1,551,388	30,350	247,727	90,161	731,416	451,734
Loans and advances	2,108,509	75,611	2,032,898	1,065,963	538,968	268,734	136,961	22,272
Held-to-maturity financial assets	90,216	0	90,216	0	0	0	73,779	16,437
Other assets	17,678	17,678	0	0	0	0	0	0
Total assets	**4,664,931**	**216,179**	**4,448,752**	**1,802,962**	**797,877**	**411,934**	**945,536**	**490,443**
Liabilities								
Financial liabilities held for trading	1,575	1,575	0	0	0	0	0	0
Financial liabilities measured at amortised cost	4,100,131	5,784	4,094,347	2,806,333	311,435	706,200	267,921	2,458
Other liabilities	2,687	2,687	0	0	0	0	0	0
Total liabilities	**4,104,393**	**10,046**	**4,094,347**	**2,806,333**	**311,435**	**706,200**	**267,921**	**2,458**
Assets-liabilities mismatch	**560,538**	**206,133**	**354,405**	**(1,003,371)**	**486,442**	**(294,266)**	**677,615**	**487,985**

Nova KBM d.d.	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	31.12.2015 Over 5 years
Assets								
Cash, cash balances at central banks and demand deposits at banks	260,860	46,951	213,909	213,909	0	0	0	0
Financial assets held for trading	116	116	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0	0	0
Available-for-sale financial assets	1,442,288	22,096	1,420,192	32,000	151,883	344,670	592,677	298,962
Loans and advances	1,623,522	71,761	1,551,761	872,755	304,587	276,866	85,270	12,283
Held-to-maturity financial assets	28,566	0	28,566	0	0	0	5,189	23,377
Other assets	12,967	12,967	0	0	0	0	0	0
Total assets	**3,381,740**	**167,312**	**3,214,428**	**1,118,664**	**456,470**	**621,536**	**683,136**	**334,622**
Liabilities								
Financial liabilities held for trading	270	270	0	0	0	0	0	0
Financial liabilities measured at amortised cost	2,895,029	66	2,894,963	1,765,813	281,436	663,950	183,023	741
Other liabilities	2,242	2,242	0	0	0	0	0	0
Total liabilities	**2,897,541**	**2,578**	**2,894,963**	**1,765,813**	**281,436**	**663,950**	**183,023**	**741**
Assets-liabilities mismatch	**484,199**	**164,734**	**319,465**	**(647,149)**	**175,034**	**(42,414)**	**500,113**	**333,881**

The tables above show the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

Average interest rates (%)

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Average interest rate on assets	2.77	3.08	2.73	2.95
Average interest rate on liabilities	0.26	0.39	0.27	0.46

4.3.3 Foreign exchange risk

Foreign exchange risk represents a potential loss arising from an open foreign exchange position and the volatility of foreign exchange rates. Nova KBM controls exposure to foreign exchange risk by maintaining neutral position in individual foreign currencies.

In accordance with the resolution adopted by the ALCO, Nova KBM maintains a daily aggregate closed foreign exchange position. The aggregate open position for all currencies is limited by its impact on Nova KBM's capital adequacy. The methodology for monitoring and maintaining a balanced foreign exchange position is based on the VaR method in compliance with the Basel capital requirements. The maximum allowable VaR is established at the individual currency level just as for the entire foreign exchange portfolio. VaR depends on the exposure amount and the volatility of individual pair of currencies.

The open position for each foreign currency is monitored daily, and Nova KBM calculates the daily result due to discrepancies in the foreign exchange position. In case of an increase in volatility, Nova KBM reduces the allowable open position in individual currencies, in accordance with the adopted methodology. Any changes in volatility are reviewed on a monthly basis.

The Nova KBM Group controls its exposure to foreign exchange risk by maintaining target positions in individual currencies. The Nova KBM Group companies monitor currency risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

While the Nova KBM Group regularly monitors the foreign exchange risk of its statement of financial position and off-balance-sheet items by individual currencies, it is exposed to foreign exchange risk against US dollar, Swiss franc and Croatian kuna.

A more detailed breakdown of the open foreign exchange position as of 31 December 2016 and 2015 is presented in the tables 'Analysis of exposure to foreign exchange risk'.

A 10-day VaR of the open foreign exchange position is calculated by Nova KBM on the basis of one-year data and a 99% confidence interval. The results of the calculation made for Nova KBM suggest with a 99% probability that, by holding an unchanged currency positions, the loss over the 10 consecutive working days would not exceed €180,000, taking into account the highest level of exposure to foreign exchange risk during 2016. The VaR of Nova KBM's foreign exchange position is presented in the tables below.

10-day VaR of Nova KBM's foreign exchange position in 2016

Nova KBM d.d.	Maximum	Minimum	Average
	180	18	36

10-day VaR of Nova KBM's foreign exchange position in 2015

Nova KBM d.d.	Maximum	Minimum	Average
	97	7	30

Analysis of exposure to foreign exchange risk

						31.12.2016
Nova KBM Group	**EUR**	**USD**	**CHF**	**HRK**	**Other currencies**	**Total**
Assets						
Cash, cash balances at central banks and demand deposits at banks	760,722	10,840	2,562	1,995	7,796	783,915
Financial assets held for trading	1,119	0	0	0	0	1,119
Financial assets designated at fair value through profit or loss	86,732	0	0	0	0	86,732
Available-for-sale financial assets	1,565,357	19,157	0	0	0	1,584,514
Loans and advances	2,039,837	19,366	58,449	433	6,973	2,125,058
Held-to-maturity financial assets	90,216	0	0	0	0	90,216
Other assets	142,421	0	0	660	8,815	151,896
Total assets	**4,686,404**	**49,363**	**61,011**	**3,088**	**23,584**	**4,823,450**
Liabilities						
Financial liabilities held for trading	1,575	0	0	0	0	1,575
Financial liabilities measured at amortised cost	3,984,512	49,135	29,778	610	11,857	4,075,892
Other liabilities	773,343	0	0	(27,405)	45	745,983
Total liabilities and equity	**4,759,430**	**49,135**	**29,778**	**(26,795)**	**11,902**	**4,823,450**
Assets-liabilities (including equity) mismatch	**(73,026)**	**228**	**31,233**	**29,883**	**11,682**	**0**
Derivatives	30,866	(155)	(30,989)	0	157	(121)
Assets-liabilities (including equity and derivatives) mismatch	**(42,160)**	**73**	**244**	**29,883**	**11,839**	**(121)**

						31.12.2015
Nova KBM Group	**EUR**	**USD**	**CHF**	**HRK**	**Other currencies**	**Total**
Assets						
Cash, cash balances at central banks and demand deposits at banks	304,557	10,327	1,773	1,299	4,933	322,889
Financial assets held for trading	1,563	0	0	0	0	1,563
Financial assets designated at fair value through profit or loss	13,421	0	0	0	0	13,421
Available-for-sale financial assets	1,675,907	0	0	0	0	1,675,907
Loans and advances	1,814,437	23,379	51,971	528	6,073	1,896,388
Held-to-maturity financial assets	129,548	0	0	0	0	129,548
Other assets	148,587	0	0	1,675	56,189	206,451
Total assets	**4,088,020**	**33,706**	**53,744**	**3,502**	**67,195**	**4,246,167**
Liabilities						
Financial liabilities held for trading	270	0	0	0	0	270
Financial liabilities measured at amortised cost	3,429,166	33,828	21,444	750	9,099	3,494,287
Other liabilities	737,485	0	0	(25,355)	39,480	751,610
Total liabilities and equity	**4,166,921**	**33,828**	**21,444**	**(24,605)**	**48,579**	**4,246,167**
Assets-liabilities (including equity) mismatch	**(78,901)**	**(122)**	**32,300**	**28,107**	**18,616**	**0**
Derivatives	32,623	0	(32,735)	0	0	(112)
Assets-liabilities (including equity and derivatives) mismatch	**(46,278)**	**(122)**	**(435)**	**28,107**	**18,616**	**(112)**

Nova KBM d.d.	EUR	USD	CHF	HRK	Other currencies	31.12.2016 Total
Assets						
Cash, cash balances at central banks and demand deposits at banks	757,458	10,840	2,562	1,758	6,851	779,469
Financial assets held for trading	232	0	0	0	0	232
Financial assets designated at fair value through profit or loss	86,732	0	0	0	0	86,732
Available-for-sale financial assets	1,562,938	19,157	0	0	0	1,582,095
Loans and advances	2,025,022	19,357	58,449	0	5,681	2,108,509
Held-to-maturity financial assets	90,216	0	0	0	0	90,216
Other assets	184,514	0	0	0	0	184,514
Total assets	**4,707,112**	**49,354**	**61,011**	**1,758**	**12,532**	**4,831,767**
Liabilities						
Financial liabilities held for trading	1,575	0	0	0	0	1,575
Financial liabilities measured at amortised cost	4,008,858	49,135	29,778	542	11,818	4,100,131
Other liabilities	730,061	0	0	0	0	730,061
Total liabilities and equity	**4,740,494**	**49,135**	**29,778**	**542**	**11,818**	**4,831,767**
Assets-liabilities (including equity) mismatch	**(33,382)**	**219**	**31,233**	**1,216**	**714**	**0**
Derivatives	30,866	(155)	(30,989)	0	157	(121)
Assets-liabilities (including equity and derivatives) mismatch	**(2,516)**	**64**	**244**	**1,216**	**871**	**(121)**

Nova KBM d.d.	EUR	USD	CHF	HRK	Other currencies	31.12.2015 Total
Assets						
Cash, cash balances at central banks and demand deposits at banks	243,853	10,035	1,396	1,111	4,465	260,860
Financial assets held for trading	116	0	0	0	0	116
Financial assets designated at fair value through profit or loss	13,421	0	0	0	0	13,421
Available-for-sale financial assets	1,442,288	0	0	0	0	1,442,288
Loans and advances	1,542,100	23,356	51,971	23	6,072	1,623,522
Held-to-maturity financial assets	28,566	0	0	0	0	28,566
Other assets	194,582	0	0	0	0	194,582
Total assets	**3,464,926**	**33,391**	**53,367**	**1,134**	**10,537**	**3,563,355**
Liabilities						
Financial liabilities held for trading	270	0	0	0	0	270
Financial liabilities measured at amortised cost	2,827,566	34,615	21,318	408	11,122	2,895,029
Other liabilities	668,056	0	0	0	0	668,056
Total liabilities and equity	**3,495,892**	**34,615**	**21,318**	**408**	**11,122**	**3,563,355**
Assets-liabilities (including equity) mismatch	**(30,966)**	**(1,224)**	**32,049**	**726**	**(585)**	**0**
Derivatives	32,623	0	(32,735)	0	0	(112)
Assets-liabilities (including equity and derivatives) mismatch	**1,657**	**(1,224)**	**(686)**	**726**	**(585)**	**(112)**

The tables above present the distribution of the statement of financial position items by currency. The tables only include items in which the Nova KBM Group has significant positions in currencies other than the euro.

Foreign exchange sensitivity analysis

	31.12.2016			31.12.2015		
		Impact on profit or loss			Impact on profit or loss	
	Exchange rate change against EUR	Nova KBM Group	Nova KBM d.d.	Exchange rate change against EUR	Nova KBM Group	Nova KBM d.d.
USD	+11%	8	7	+13%	(16)	(159)
CHF	+10%	24	24	+18%	(78)	(123)
HRK	+4%	1,195	49	+5%	1,405	36
Other currencies	+9%	1,066	78	+10%	1,862	(59)

The impact of foreign exchange rate changes on equity is negligible and is therefore not presented in the table.

4.4 Geographical analysis of assets and liabilities

Nova KBM Group	Total	Slovenia	Total foreign countries	EU	Republics of the former Yugoslavia	31.12.2016 Other
Assets						
Cash, cash balances at central banks and demand deposits at banks	783,915	744,905	39,010	30,314	4,236	4,460
Financial assets held for trading	1,119	1,088	31	31	0	0
Financial assets designated at fair value through profit or loss	86,732	86,732	0	0	0	0
Available-for-sale financial assets	1,584,514	587,371	997,143	872,249	0	124,894
Loans and advances	2,125,058	1,975,456	149,602	141,508	7,858	236
Held-to-maturity financial assets	90,216	73,823	16,393	16,393	0	0
Other assets	151,896	142,339	9,557	660	8,897	0
Total assets	**4,823,450**	**3,611,714**	**1,211,736**	**1,061,155**	**20,991**	**129,590**
Liabilities						
Financial liabilities held for trading	1,575	1,205	370	370	0	0
Financial liabilities measured at amortised cost	4,075,892	3,959,142	116,750	93,465	5,842	17,443
Other liabilities	745,983	623,214	122,769	122,607	162	0
Total liabilities and equity	**4,823,450**	**4,583,561**	**239,889**	**216,442**	**6,004**	**17,443**
Assets-liabilities (including equity) mismatch	**0**	**(971,847)**	**971,847**	**844,713**	**14,987**	**112,147**

Nova KBM Group	Total	Slovenia	Total foreign countries	EU	Republics of the former Yugoslavia	Other
						31.12.2015
Assets						
Cash, cash balances at central banks and demand deposits at banks	322,889	289,157	33,732	23,753	0	9,979
Financial assets held for trading	1,563	1,529	34	34	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0
Available-for-sale financial assets	1,675,907	1,006,313	669,594	621,598	0	47,996
Loans and advances	1,896,388	1,812,187	84,201	83,185	825	191
Held-to-maturity financial assets	129,548	112,648	16,900	16,900	0	0
Other assets	206,451	148,522	57,929	1,683	56,246	0
Total assets	**4,246,167**	**3,383,777**	**862,390**	**747,153**	**57,071**	**58,166**
Liabilities						
Financial liabilities held for trading	270	66	204	204	0	0
Financial liabilities measured at amortised cost	3,494,287	3,420,688	73,599	63,518	4,508	5,573
Other liabilities	751,610	755,350	(3,740)	(43,261)	39,489	32
Total liabilities and equity	**4,246,167**	**4,176,104**	**70,063**	**20,461**	**43,997**	**5,605**
Assets-liabilities (including equity) mismatch	**0**	**(792,327)**	**792,327**	**726,692**	**13,074**	**52,561**

Nova KBM d.d.	Total	Slovenia	Total foreign countries	EU	Republics of the former Yugoslavia	Other
						31.12.2016
Assets						
Cash, cash balances at central banks and demand deposits at banks	779,469	744,904	34,565	30,068	37	4,460
Financial assets held for trading	232	201	31	31	0	0
Financial assets designated at fair value through profit or loss	86,732	86,732	0	0	0	0
Available-for-sale financial assets	1,582,095	584,952	997,143	872,249	0	124,894
Loans and advances	2,108,509	1,963,868	144,641	141,228	3,187	226
Held-to-maturity financial assets	90,216	73,823	16,393	16,393	0	0
Other assets	184,514	166,832	17,682	0	17,682	0
Total assets	**4,831,767**	**3,621,312**	**1,210,455**	**1,059,969**	**20,906**	**129,580**
Liabilities						
Financial liabilities held for trading	1,575	1,205	370	370	0	0
Financial liabilities measured at amortised cost	4,100,131	3,983,561	116,570	93,350	5,777	17,443
Other liabilities	730,061	579,931	150,130	150,012	118	0
Total liabilities and equity	**4,831,767**	**4,564,697**	**267,070**	**243,732**	**5,895**	**17,443**
Assets-liabilities (including equity) mismatch	**0**	**(943,385)**	**943,385**	**816,237**	**15,011**	**112,137**

Nova KBM d.d.	Total	Slovenia	Total foreign countries	EU	Republics of the former Yugoslavia	Other
						31.12.2015
Assets						
Cash, cash balances at central banks and demand deposits at banks	260,860	228,887	31,973	21,994	0	9,979
Financial assets held for trading	116	82	34	34	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0
Available-for-sale financial assets	1,442,288	841,253	601,035	553,039	0	47,996
Loans and advances	1,623,522	1,530,447	93,075	86,911	5,995	169
Held-to-maturity financial assets	28,566	28,566	0	0	0	0
Other assets	194,582	194,524	58	0	58	0
Total assets	**3,563,355**	**2,837,180**	**726,175**	**661,978**	**6,053**	**58,144**
Liabilities						
Financial liabilities held for trading	270	66	204	204	0	0
Financial liabilities measured at amortised cost	2,895,029	2,820,224	74,805	65,327	4,019	5,459
Other liabilities	668,056	667,753	303	271	8	24
Total liabilities and equity	**3,563,355**	**3,488,043**	**75,312**	**65,802**	**4,027**	**5,483**
Assets-liabilities (including equity) mismatch	**0**	**(650,863)**	**650,863**	**596,176**	**2,026**	**52,661**

Available-for-sale financial assets of foreign issuers

Country of issuer	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Australia	13,401	3,003	13,401	3,003
Austria	57,316	62,982	57,316	33,857
Belgium	55,513	57,756	55,513	46,506
Bulgaria	29,041	0	29,041	0
Czech Republic	18,966	14,279	18,966	14,279
Denmark	28,402	10,035	28,402	10,035
Finland	23,336	17,926	23,336	17,926
France	127,243	89,722	127,243	78,178
Ireland	18,038	2,275	18,038	2,275
Italy	18,203	47,014	18,203	43,126
Japan	3,140	0	3,140	0
Canada	23,323	12,936	23,323	12,936
Latvia	10,128	10,019	10,128	10,019
Luxembourg	28,524	23,455	28,524	23,455
Germany	89,776	74,737	89,776	74,737
Netherlands	106,641	87,667	106,641	80,868
Norway	20,404	13,762	20,404	13,762
Poland	57,099	21,289	57,099	21,289
Romania	26,418	5,788	26,418	5,788
Slovakia	14,029	9,352	14,029	9,352
Spain	50,721	10,050	50,721	10,050
Sweden	62,053	24,233	62,053	18,280
Great Britain	50,802	53,019	50,802	53,019
USA	64,626	18,295	64,626	18,295
Total	**997,143**	**669,594**	**997,143**	**601,035**

4.5 Operational risk

Operational risk, which includes legal risk, is the risk of loss arising from inappropriate or failed implementation of internal processes, the actions of people, the functioning of systems or due to external factors.

Both the Nova KBM Group and Nova KBM calculate capital requirements for operational risk in accordance with the Basic Indicator Approach. In 2016, the capital requirements for operational risk were calculated using a model that takes into account all operational risk loss events occurring in the operations of Nova KBM.

The Non-Credit Risk Management Department ensures that operational risk loss events are registered in a systematic fashion. The reporting on loss events captures all costs centres of Nova KBM and is carried out on a monthly, quarterly, half-yearly and annual basis. While companies within the Nova KBM Group report to Nova KBM on operational risk loss events on a regular basis, the reports on loss events registered across the entire Nova KBM Group are reviewed by the Operational Risk Committee, which meets at least once every quarter.

The committee referred to above works with organisational units at all hierarchical levels of Nova KBM to ensure an appropriate flow of information needed to manage operational risk in a comprehensive manner. Operational risk management reports are discussed by the committee, but also by the Management Board and senior management of Nova KBM, which provides assurance that immediate action can be taken to deal with any operational risk related issues. The Operational Risk Committee reviews, on a quarterly or more frequent basis, the reports on incidents recorded by all most important business segments. It then adopts necessary measures in this regard, and monitors their implementation. The Operational Risk Committee is responsible for dealing with the following matters: operational risk loss events recorded across the Nova KBM Group, technical security incidents, information security incidents, operational disruptions and business continuity plans, business compliance and integrity, prevention of money laundering and terrorist financing, and the identification of any new risks to which Nova KBM or the Nova KBM Group could be exposed.

Nova KBM has defined as an operational risk loss event any event that has a negative material effect on its operations and is recorded in its accounts. Operational risk loss events may also be non-financial in nature. Since it is not possible to measure all operational risk losses, a separate assessment of these losses is made when determining the annual risk profile of Nova KBM. The determination of the risk profile with respect to operational risk is of particular importance, given that the operational risk loss events make up the largest proportion of loss events suffered by Nova KBM that cannot be reliably measured; they can only be, and must be, assessed.

Operational risk loss events are classified by Nova KBM by operating segments and type of loss events, in accordance with the guidelines of the Basel capital framework and Article 324 of the CRR.

The companies within the Nova KBM Group report to the Non-Credit Risk Management Department on all operational risk loss events recorded by them. Of the total estimated gross amount of all operational risk losses suffered by the Nova KBM Group in 2016, €5,254,740 was attributable to Nova KBM, with a single large loss event of €3,700,000, which took place in March, accounting for the largest proportion of this figure. Since 1 September 2016, when PBS was acquired by Nova KBM, the operational risk losses suffered by Pošta Slovenije, the distribution network of which is used by Nova KBM to provide its banking services, have been taken into account by Nova KBM when assessing its operational risk gross loss, in the same manner in which they were taken into account by PBS prior to its acquisition by Nova KBM. Pošta Slovenije provides compensation to Nova KBM for any loss arising from operational risk loss events taking place in its distribution network and affecting Nova KBM. Compensation for losses arising from the occurrence of other operational risk loss events recorded by Nova KBM is claimed from the contracted insurance company.

The second-largest operational risk loss recorded in 2016 by the Nova KBM Group, totalling €400,636 gross, was suffered by PBS (prior to its acquisition by Nova KBM). While Pošta Slovenije provided compensation to PBS for any loss arising from operational risk loss events taking place in its distribution network and affecting PBS prior to its acquisition by Nova KBM, any such compensation must now be provided by Pošta Slovenije to Nova KBM.

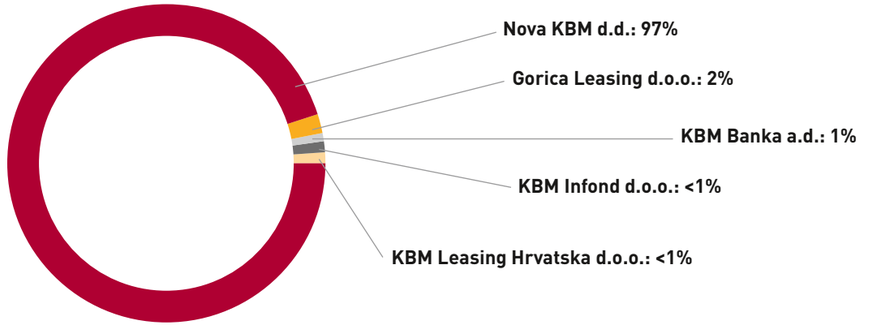
The third-largest operational risk loss recorded last year within the Nova KBM Group was attributable to Gorica Leasing. This loss was estimated at €130,874.

The scope of operational risk losses suffered by the Nova KBM Group companies in 2016 is presented in the following table:

Nova KBM Group company	Nova KBM d.d.	Gorica Leasing d.o.o.	KBM Banka a.d.	KBM Leasing Hrvatska d.o.o.	KBM Infond d.o.o.	Total
Scope of operational risk loss (€)	5,254,740	130,874	27,084	1,927	88	5,414,713
Compensation (€)	1,277,629	1,488	915	1,927	0	1,281,958
Compensation as a % of loss	24	1	3	100	0	24

The total operational risk loss suffered by the Nova KBM Group in 2016 amounted to €5,414,713 gross, of which €1,281,958, or 24%, was covered by compensation.

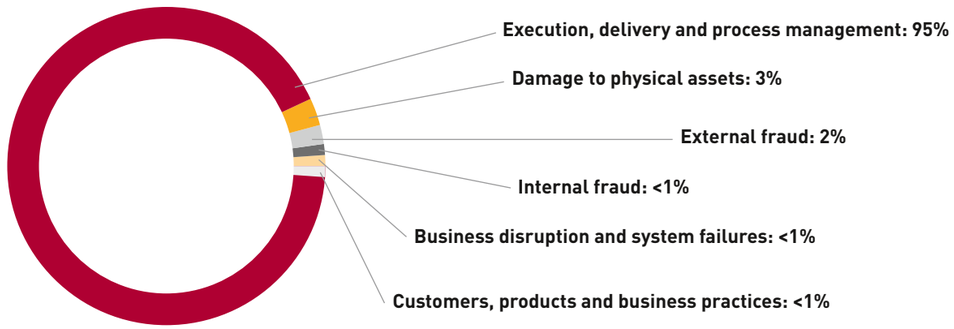
Picture 1: The proportions of operational risk losses suffered by individual Nova KBM Group companies within the total scope of operational risk loss suffered by the Nova KBM Group in 2016



Structure of operational risk loss events recorded by the Nova KBM Group in 2016

In terms of type, the majority of loss events recorded by the Nova KBM Group in 2016 related to (according to the Basel capital framework) 'Execution, Delivery and Process Management' (95%), followed by 'Damages to Physical Assets' (3%), 'External Fraud' (2%) and 'Business Disruption and System Failures' (<1%).

Picture 2: The structure of operational risk loss events recorded by the Nova KBM Group in 2016:



A detailed analysis of operational risk loss events recorded by the Nova KBM Group in accordance with the classification provided by the Basel capital framework is presented in the table below.

€

Operational loss event categories (Basel capital framework)	Nova KBM d.d.	Gorica Leasing d.o.o.	KBM Banka a.d.	KBM Leasing Hrvatska d.o.o.	KBM Infond d.o.o.	Total
1. Internal fraud	0	0	26,229	0	0	26,229
2. External fraud	82,892	0	42	0	0	82,935
3. Employment practices and workplace safety	0	0	0	0	0	0
4. Customers, products and business practices	2,886	0	0	0	0	2,886
5. Damage to physical assets	30,067	130,872	0	1,927	0	162,866
6. Business disruption and system failures	89	0	0	0	0	89
7. Execution, delivery and process management	5,138,806	2	813	0	88	5,139,708
Total operational risk loss	**5,254,740**	**130,874**	**27,084**	**1,927**	**88**	**5,414,713**

4.6 Capital risk

Capital risk arises from inadequate size of capital, inadequate structure of capital with regard to the volume and diversity of business conducted by the Nova KBM Group, or from difficulties in acquiring new capital. The Nova KBM Group has adopted the Risk Management Strategy, as part of which it has drafted the Risk Appetite Statement and set up an appropriate system of limits, as well risk management policies, methodologies, procedures and mechanisms to ensure adequate structure and size of its capital.

The Nova KBM Group manages its capital by:

- managing, monitoring and measuring actual and potential capital requirements
- monitoring the level of regulatory capital and examining options to increase its additional capital through recapitalisation or by raising subordinated instruments, taking into account regulatory restrictions
- monitoring movements in its capital adequacy ratios
- monitoring the key performance indicators related to the management of capital
- monitoring and assessing its risk-taking propensity and risk-taking capacity

Capital requirements under the Basel Pillar I capital framework

Capital requirements for credit risk are calculated by the Nova KBM Group using the Standardised Approach. As a reference Export Credit Agency (ECA) for the category 'Exposure to Central Governments or Central Banks', the Nova KBM Group has nominated SID Banka. As a reference External Credit Assessment Institution (ECAI) for the classification of assets into the category 'Exposure to Institutions', the Nova KBM Group has nominated the rating agency Moody's.

The Nova KBM Group calculates capital requirements for market risks in accordance with the applicable regulations and does not use internal models for the time being. The capital requirement for operational risk is calculated according to the Basic Indicator Approach.

Pursuant to the option provided in accordance with the CRR, since 1 January 2016 the Nova KBM Group has included the following two additional deduction items in the calculation of its regulatory capital:

- deduction in respect of the net impact of credit risk adjustments (this deduction applies to cases where the unaudited and unapproved current profit or profit for the financial year is reported)
- deduction in respect of the prudent valuation of fair-valued financial instruments or commodities held in the banking and trading books

The Nova KBM Group has built up the capital conservation buffer and the institution-specific countercyclical capital buffer, both of which have been taken into account in the calculation of its capital adequacy since 1 January 2016, pursuant to the provisions of the CRR.

Capital requirements under the Basel Pillar II capital framework

The Nova KBM Group's internal capital is calculated by taking into account additional capital requirements for covering risks that are not covered, or not sufficiently covered, within the minimum capital requirements under the Basel Pillar I capital framework. Internal capital is calculated using the going-concern approach. A harmonised method for calculating internal capital, including a relevant stress-testing methodology, has been implemented across the entire Nova KBM Group.

Composition of regulatory capital and capital requirements

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Tier 1 capital	**593,663**	**569,394**	**582,429**	**559,245**
Paid-in capital instruments	150,000	150,000	150,000	150,000
Paid-in share premium	403,302	360,572	403,302	360,572
(-) Own CET1 capital instruments	0	0	0	0
Retained earnings and value adjustments from previous years in respect of investment property	49,719	58,733	31,890	35,836
(-) Loss for the current financial year	0	0	0	0
Accumulated other comprehensive income	101	(4,045)	1,756	1,460
Other reserves	20,545	28,224	20,228	27,389
(-) Intangible assets	(18,463)	(21,806)	(13,113)	(11,908)
(-) Deferred tax assets	(8,087)	(2,284)	(8,087)	(4,104)
(-) Deductions from CET1 capital for the net impact of credit risk adjustments and the fair-valued assets	(3,454)	0	(3,547)	0
Additional Tier 1 capital	**0**	**0**	**0**	**0**
Additional capital	**0**	**0**	**0**	**0**
Total capital	**593,663**	**569,394**	**582,429**	**559,245**
Risk weighted exposure amounts for credit risk	**2,130,379**	**1,969,831**	**2,165,434**	**1,762,717**
Central governments or central banks	5,391	6,155	5,391	6,155
Regional governments or local authorities	11,672	12,604	10,713	5,761
Public sector entities	1,140	5,193	1,140	174
Multilateral development banks	0	0	0	0
International organisations	0	0	0	0
Institutions	276,663	176,065	276,287	149,192
Corporates	498,014	504,131	495,370	440,199
Retail	736,211	640,485	733,979	531,356
Exposures secured by mortgages on immovable property	106,594	79,667	106,595	79,667
Exposures in default	285,657	344,264	266,843	249,614
Items associated with particular high risk	37,821	57,295	117,394	186,046
Collective investment undertakings	7,836	5,836	5,542	2,815
Equity	2,068	937	2,068	869
Other items	161,312	137,199	144,112	110,869
Risk weighted exposure amounts for market risks	**41,847**	**29,697**	**38,298**	**26,791**
Traded debt instruments	0	10	0	0
Equity instruments	41,829	29,663	38,280	26,767
Foreign exchange	0	0	0	0
Credit value adjustment risk	18	24	18	24
Risk weighted exposure amounts for operational risk	**303,350**	**266,496**	**299,996**	**203,088**
Total risk weighted exposure amount	**2,475,576**	**2,266,024**	**2,503,728**	**1,992,596**
Total capital adequacy ratio	23.98%	25.13%	23.26%	28.07%
Tier 1 capital ratio	23.98%	25.13%	23.26%	28.07%
CET1 capital ratio	23.98%	25.13%	23.26%	28.07%

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Where possible, the Nova KBM Group determines the fair value of financial instruments on the basis of prices provided by Bloomberg. The Nova KBM Group starts to measure the value of financial assets according to the valuation model once it establishes that the market is not active. In accordance with the IFRSs, the Nova KBM Group divides fair values of financial instruments into three levels.

Classified into Level 1 are financial assets whose fair value is determined entirely on the basis of prices quoted on active markets.

Classified into Level 2 are financial assets whose fair value is estimated on the basis of valuation models which take into account variables derived from public market data, such as yield curves, market interest rates, and the volatility of currency exchange rates and interest rates. In most cases, the Nova KBM Group uses the Bloomberg information system as its source of information about market parameters. Included in Level 2 are also investments in bonds valued based on the Bloomberg Generic Price (BGN) or Bloomberg Valuation (BVAL).

Classified into Level 3 are financial assets whose fair value is estimated on the basis of valuation models which take into account subjective variables that are not publicly available.

Analysis of fair value hierarchy

	31.12.2016				31.12.2015			
Nova KBM Group	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets								
Derivatives	228	0	228	0	116	0	116	0
Financial assets held for trading	891	887	4	0	1,447	1,447	0	0
– debt securities	4	0	4	0	0	0	0	0
– equity instruments	887	887	0	0	1,447	1,447	0	0
Available-for-sale financial assets	1,584,514	4,766	1,576,658	3,090	1,675,907	7,384	1,662,515	6,008
– debt securities	1,551,512	124	1,551,388	0	1,649,171	2,301	1,646,870	0
– equity instruments	33,002	4,642	25,270	3,090	26,736	5,083	15,645	6,008
Financial assets designated at fair value through profit or loss	86,732	19,140	67,592	0	13,421	13,421	0	0
– debt securities	67,592	0	67,592	0	0	0	0	0
– equity instruments	19,140	19,140	0	0	13,421	13,421	0	0
Financial liabilities								
Derivatives	1,575	0	1,575	0	270	0	270	0

Nova KBM d.d.	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
			31.12.2016				31.12.2015	
Financial assets								
Derivatives	228	0	228	0	116	0	116	0
Financial assets held for trading	4	0	4	0	0	0	0	0
– debt securities	4	0	4	0	0	0	0	0
Available-for-sale financial assets	1,582,095	2,347	1,576,658	3,090	1,442,288	2,052	1,434,439	5,797
– debt securities	1,551,388	0	1,551,388	0	1,420,193	0	1,420,193	0
– equity instruments	30,707	2,347	25,270	3,090	22,095	2,052	14,246	5,797
Financial assets designated at fair value through profit or loss	86,732	19,140	67,592	0	13,421	13,421	0	0
– debt securities	67,592	0	67,592	0	0	0	0	0
– equity instruments	19,140	19,140	0	0	13,421	13,421	0	0
Financial liabilities								
Derivatives	1,575	0	1,575	0	270	0	270	0

The following table presents for each type of financial instrument the triggers that lead to the transfer of a financial instrument between the fair value hierarchy levels.

Transfer	Financial instruments	Reason for transfer between levels
From Level 2 to Level 1	bonds	Re-availability of the market price of the financial instrument. The price of a bond is considered to be available if the published market price is the result of the actual turnover in the period of less than one month.
From Level 3 to Level 1	shares and funds	Re-availability of the market price of the financial instrument. The price of a share or an investment fund is considered to be available if the published market price is the result of the actual turnover in the period of less than one month.
From Level 1 to Level 2	bonds	Valuation of bonds that have been previously valued according to the market price. The reason for the valuation of a bond and for changing its level is either the withdrawal of a bond from the regulated market or its illiquidity (no transaction has been concluded in a one-month period).
From Level 1 to Level 3	shares and funds	Valuation of shares and investment funds that have been previously valued according to the market price. The reason for the valuation of a share or an investment fund and for changing its level is the withdrawal of a share or an investment fund from the regulated market.
From Level 2 to Level 3	derivatives	The underlying instrument to which the derivative refers has been reclassified from Level 1 to either Level 2 or Level 3. The market price of the underlying instrument is no longer available.
From Level 3 to Level 2	derivatives	The underlying instrument to which the derivative refers has been reclassified to Level 1. The market price of the underlying instrument is available.

Analysis of transfers between fair value hierarchy levels

No transfers of financial instruments between the fair value hierarchy levels were made in 2016.

Determining the fair value of financial assets classified in Level 2

The Nova KBM Group classifies into Level 2 of the fair value hierarchy those debt financial instruments that are valued based on the BGN or BVAL, as well as financial instruments and derivatives that are valued on the basis of models that use data derived from the market.

Debt securities with determinable cash flows and without an available market price are valued at the end of each month using the discounted cash flow method. The interest rate applicable to the discounting is the sum of the interest rate on a risk-free instrument of comparable maturity, plus a margin for credit risk.

For valuing interest rate derivatives, the Nova KBM Group uses models that take into consideration the market interest rate curve and the forward interest rate curve. The models used to value currency derivatives are based on market exchange rates for individual pairs of currencies. Derivatives on securities are valued using models that take into account market prices of underlying securities. If the market price is not available, the valuation of a derivative is based on the price of the underlying security determined using a fair value model. Whichever model is used to determine the value of derivatives, the future cash flows are discounted to the present value on the basis of risk-free yield curves.

If the fair value of stocks and shares of companies cannot be determined on the basis of current prices on an active market, the Nova KBM Group recognises and discloses the fair value of an asset within Level 2 – fair value determined on the basis of valuation models that take into consideration variables derived from publicly available market data (e.g. market or quoted prices of comparable companies).

Stocks and shares of such companies are valued by the Nova KBM Group using a value assessment methodology that is based on three hierarchical levels – approaches, methods and procedures used for value assessment. For the purpose of assessing values, the Nova KBM Group uses the market comparison approach, and within this approach it uses the comparable listed companies method.

The comparable listed companies method is the most appropriate method used to assess the value of assets classified in Level 2 of the fair value hierarchy. The market comparison approach is designed on the assumption that the quoted (market) prices of assets similar to those being valued provide satisfactory information and empirical proof regarding the value of the asset that is subject to the value assessment. This concept is based on the use of market value, meaning that a market category (quoted or market price) is used as the numerator, while as the denominator, various categories from financial statements are used. When using the comparable listed companies method, the basic financial categories of the assessed company are multiplied by market multiples derived from listed comparable companies.

Determining the fair value of financial assets classified in Level 3

If the fair value of stocks and shares of companies cannot be determined either on the basis of current prices on an active market, or on the basis of valuation models that take into consideration variables derived from publicly available market data, the Nova KBM Group recognises and discloses the fair value of an asset within Level 3 – fair value determined on the basis of valuation models that take into consideration subjective variables that are not publicly available on markets.

Stocks and shares of such companies are valued by the Nova KBM Group using a value assessment methodology that is based on three hierarchical levels – approaches, methods and procedures used for value assessment. For the purpose of assessing values, the Nova KBM Group uses the following three value assessment approaches: the return-based valuation approach, and within this approach the discounted cash flow model; the market comparison approach, and within this approach the comparable transactions method; and the asset-based valuation approach.

The return-based valuation approach is the most commonly used approach to value assessment, and within this the discounted cash flow model is used. According to definition, the value of an asset is the sum of all future returns to the owner of that asset, whereby each return is discounted to the present value using the discount rate that reflects the time value of money and the level of risk associated with the realisation of return. Thus, it takes into consideration the inflow of expected future returns, the distribution of these returns over time, and the risks borne by the asset owner. The bases for the prediction of expected future returns are performance projections (the income statement and the statement of financial position) for at least the next five years. Using these projections, the net cash flows are calculated for the discrete projection period. The net cash flows for the discrete projection period are then discounted at a discount rate to arrive at the present value of net cash flows generated in the discrete projection period. The weighted average cost of capital (WACC) is taken as the discount rate. The present value of expected cash flows generated after the discrete projection period (i.e. when the company enters the mature stage of operations) is determined by calculating the remaining value, usually by applying the Gordon growth model. When calculating the remaining value, the normalised net cash flow is taken into consideration (calculated on the basis of individual assumptions – profitability of operations, depreciation and amortisation, gross investments, tax rate, and changes in the operating working capital), as is the expected constant long-term rate of growth of net cash flows (between 2% and 2.5%).

Use of unobservable inputs

The assessment of the fair value of stocks and shares classified in Level 3 is made on the basis of inputs for which market information and data are not available and which are developed using the best available information and assumptions that the market participants would use in determining the price of an asset. When assessing the fair value of stocks and shares classified in Level 3, the Nova KBM Group uses, as the values of unobservable inputs, the projections of performance (income statement, net cash flows) made on the basis of a reasonable and potential volume of operations, but selects those inputs that are in line with the expectations of other market participants.

Sensitivity analysis

Using a sensitivity analysis, a simulation is made of the impact of changes in key parameters (market input data), such as a change in the discount rate (WACC) and a change in the expected constant long-term rate of growth of normalised net cash flows (g), on the estimated value or fair value. The sensitivity analysis aims to present changes in fair values of stocks and shares (classified in Level 3) deriving from the range increase or decrease in the value of key parameters.

Movements in financial assets classified in Level 3

Available-for-sale financial assets	Nova KBM Group			Nova KBM d.d.		
	Total	Shares	Stocks	Total	Shares	Stocks
Balance at 1 January 2015	**3,167**	**2,553**	**614**	**3,026**	**2,540**	**486**
Change due to debt-to-equity conversions	362	362	0	362	362	0
Change in the portfolio of Adria Abwicklungs GmbH in Liqu.	(4)	0	(4)	0	0	0
Impairment of investment in the equity instruments of Polzela d.d. (ticker symbol: PTNR)	(362)	(362)	0	(362)	(362)	0
Change due to the revaluation of the investment in Visa Europe	2,908	2,908	0	2,908	2,908	0
Balance at 31 December 2015	**6,008**	**5,318**	**690**	**5,797**	**5,310**	**487**
Change due to the revaluation of the investment in Visa Europe	(2,132)	(2,132)	0	(2,132)	(2,132)	0
Impairment of investment in the equity instruments of Intereuropa d.d. (ticker symbol: IEKN)	(834)	(834)	0	(834)	(834)	0
Change due to the acquisition of KBS banka d.d.	47	0	47	47	0	47
Change due to the acquisition of PBS d.d.	0	0	0	211	8	203
Rounding adjustments – reconciliation of balances with the statement of financial position	1	1	0	1	1	0
Balance at 31 December 2016	**3,090**	**2,353**	**737**	**3,090**	**2,353**	**737**

All of the Nova KBM Group's investments classified in Level 3 of the fair value hierarchy at the end of 2016 were attributable to the portfolio of Nova KBM. The 2016 changes in Level 3 of the fair value hierarchy were mainly due to the revaluation of investments.

Fair value of financial instruments measured at amortised cost

					31.12.2016
Nova KBM Group	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash, cash balances at central banks and demand deposits at banks	783,915	783,915	783,915	0	0
Loans and advances to banks	118,916	118,916	0	118,916	0
Loans and advances to customers	1,963,849	1,974,484	0	0	1,974,484
Other financial assets	42,293	42,293	0	0	42,293
Held-to-maturity financial assets	90,216	99,298	0	99,298	0
Financial liabilities					
Deposits from banks	41,107	41,107	0	41,107	0
Deposits from customers	3,626,247	3,629,199	0	3,629,199	0
Loans from banks	333,088	333,524	0	333,524	0
Debt securities	14,376	14,738	0	14,738	0
Other financial liabilities	61,074	61,074	0	0	61,074

Nova KBM Group	Book value	Fair value	Level 1	Level 2	31.12.2015 Level 3
Financial assets					
Cash, cash balances at central banks and demand deposits at banks	783,915	783,915	783,915	0	0
Loans and advances to banks	118,916	118,916	0	118,916	0
Loans and advances to customers	1,963,849	1,974,484	0	0	1,974,484
Other financial assets	42,293	42,293	0	0	42,293
Held-to-maturity financial assets	90,216	99,298	0	99,298	0
Financial liabilities					
Deposits from banks	41,107	41,107	0	41,107	0
Deposits from customers	3,626,247	3,629,199	0	3,629,199	0
Loans from banks	333,088	333,524	0	333,524	0
Debt securities	14,376	14,738	0	14,738	0
Other financial liabilities	61,074	61,074	0	0	61,074
Subordinated liabilities	610	610	0	610	0
Other financial liabilities	39,943	39,943	0	0	39,943

Nova KBM d.d.	Book value	Fair value	Level 1	Level 2	31.12.2016 Level 3
Financial assets					
Cash, cash balances at central banks and demand deposits at banks	779,469	779,469	779,469	0	0
Loans and advances to banks	118,787	118,787	0	118,787	0
Loans and advances to customers	1,948,737	1,959,372	0	0	1,959,372
Other financial assets	40,985	40,985	0	0	40,985
Held-to-maturity financial assets	90,216	99,298	0	99,298	0
Financial liabilities					
Deposits from banks	41,107	41,107	0	41,107	0
Deposits from customers	3,650,858	3,653,810	0	3,653,810	0
Loans from banks	333,088	333,524	0	333,524	0
Debt securities	14,376	14,738	0	14,738	0
Other financial liabilities	60,702	60,702	0	0	60,702

Nova KBM d.d.	Book value	Fair value	Level 1	Level 2	31.12.2015 Level 3
Financial assets					
Cash, cash balances at central banks and demand deposits at banks	260,860	260,860	260,860	0	0
Loans and advances to banks	61,439	67,375	0	67,375	0
Loans and advances to customers	1,538,283	1,546,673	0	0	1,546,673
Other financial assets	23,800	23,800	0	0	23,800
Held-to-maturity financial assets	28,566	34,212	29,529	4,683	0
Financial liabilities					
Deposits from banks	32,833	33,044	0	33,044	0
Deposits from customers	2,513,618	2,517,084	0	2,517,084	0
Loans from banks	299,554	299,996	0	299,996	0
Loans from customers	909	910	0	910	0
Debt securities	14,418	15,245	0	15,245	0
Other financial liabilities	33,697	33,697	0	0	33,697

The Nova KBM Group determines fair values of financial instruments according to the following hierarchy:

i.) market value
ii.) value determined using a market interest rate model
iii.) book value

The tables above present fair values of individual statement of financial position items. The fair value of held-to-maturity financial assets has been, where possible, determined on the basis of market prices of financial instruments. The fair value of items measured at amortised or acquisition cost is determined on the basis of a model that takes into account market interest rates. The fair value is calculated for items with a fixed interest rate and residual maturity of over one year. The fair value of each item is established on the basis of discounted cash flows, taking into consideration the market interest rates prevailing at the reporting date. The same amount of credit risk is taken into account to determine the fair value of an asset as is used to determine its amortised or book value. As for other items, Nova KBM considers there is no material difference between their book and fair values.

6. REPORTING BY OPERATING AND GEOGRAPHICAL SEGMENTS

6.1 Analysis of results by operating segments

	Banking	Leasing	Fund management	Real estate	Other	Total	2016 Inter-segment relationships	2016 Relationships with third parties
A. Net income/(expenses)	**146,422**	**(937)**	**4,854**	**461**	**117**	**150,917**	**131**	**150,786**
Interest income	104,212	1,415	14	9	498	106,148	361	105,787
Interest expenses	(13,484)	(690)	0	(58)	(3)	(14,235)	(748)	(13,487)
Net interest income	**90,728**	**725**	**14**	**(49)**	**495**	**91,913**	**(387)**	**92,300**
Dividend income	793	0	0	0	0	793	0	793
Fee and commission income	68,370	2	5,792	0	0	74,164	197	73,967
Fee and commission expenses	(30,485)	(37)	(1,190)	(9)	(11)	(31,732)	(196)	(31,536)
Net fee and commission income	**37,885**	**(35)**	**4,602**	**(9)**	**(11)**	**42,432**	**1**	**42,431**
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	10,120	(1,059)	214	0	(340)	8,935	342	8,593
Net gains on financial assets and liabilities held for trading	63	0	63	0	0	126	(1)	127
Net gains on financial assets and liabilities designated at fair value through profit or loss	5,491	0	0	0	0	5,491	0	5,491
Net gains/(losses) from foreign exchange rate differences	264	50	(1)	0	(2)	311	0	311
Net gains/(losses) on derecognition of assets	(3,040)	28	(3)	24	0	(2,991)	0	(2,991)
Other net operating income/(loss)	4,118	(646)	(35)	495	(25)	3,907	176	3,731
B. Other items by segments	**(117,354)**	**1,101**	**(3,512)**	**(427)**	**349**	**(119,843)**	**1,077**	**(120,920)**
Administration costs	(92,067)	(2,791)	(2,279)	(419)	(351)	(97,907)	(221)	(97,686)
Depreciation and amortisation	(10,409)	(352)	(1,106)	(5)	0	(11,872)	(9)	(11,863)
Provisions	2,022	2,329	(12)	(3)	454	4,790	46	4,744
Impairments	(16,487)	1,915	(115)	0	246	(14,441)	804	(15,245)
Share of profits of associates and joint ventures accounted for using the equity method	457	0	0	0	0	457	457	0
Total (loss) from non-current assets and disposal groups classified as held for sale	(870)	0	0	0	0	(870)	0	(870)
C. Profit or loss								
PROFIT FROM CONTINUING OPERATIONS	29,068	164	1,342	34	466	31,074	1,208	29,866
Income taxes on continuing operations	3,936	(14)	(228)	0	(104)	3,590	(215)	3,805
NET PROFIT FROM CONTINUING OPERATIONS	33,004	150	1,114	34	362	34,664	993	33,671
Total (loss) after tax from discontinued operations	(3,196)	0	0	0	0	(3,196)	0	(3,196)
NET PROFIT FOR THE FINANCIAL YEAR	29,808	150	1,114	34	362	31,468	993	30,475
D. Segment assets and liabilities								
Total assets	4,831,767	42,531	11,725	4,551	17,928	4,908,502	85,052	4,823,450
– non-current assets held for sale and discontinued operations	1,646	0	0	0	0	1,646	0	1,646
– investments in the equity of associates and joint ventures accounted for using the equity method	55,476	0	0	0	0	55,476	55,476	0
Liabilities (excluding equity) by segments	4,161,186	18,904	782	156	17,782	4,198,810	58,721	4,140,089
Total equity	670,581	23,627	10,943	4,395	146	709,692	26,331	683,361
Increase in property, plant and equipment and intangible assets	6,778	0	114	2	0	6,894	0	6,894

The column 'Inter-segment relationships' includes the following items: intra-group income and expenses, income from dividends from subsidiaries, additional impairments/reversal of impairments as a result of changing over to a harmonised customer classification across the Nova KBM Group, impairments of loans given to subsidiaries and of investments in subsidiaries, intra-group assets and liabilities, investments in subsidiaries and the proportional share of equity of subsidiaries, and other consolidation entries.

	Banking	Leasing	Fund management	Real estate	Other	Total	2015 Inter-segment relationships	2015 Relationships with third parties
A. Net income/(expenses)	**155,020**	**1,190**	**5,060**	**460**	**547**	**162,277**	**405**	**161,872**
Interest income	121,828	2,346	16	1	364	124,555	2,173	122,382
Interest expenses	(25,187)	(832)	0	(282)	(67)	(26,368)	(2,130)	(24,238)
Net interest income	**96,641**	**1,514**	**16**	**(281)**	**297**	**98,187**	**43**	**98,144**
Dividend income	1,117	0	0	0	0	1,117	0	1,117
Fee and commission income	75,223	74	6,532	0	200	82,029	735	81,294
Fee and commission expenses	(25,799)	(60)	(1,565)	(7)	(17)	(27,448)	(631)	(26,817)
Net fee and commission income	**49,424**	**14**	**4,967**	**(7)**	**183**	**54,581**	**104**	**54,477**
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	14,072	(173)	18	0	13	13,930	179	13,751
Net gains/(losses) on financial assets and liabilities held for trading	(4,127)	0	77	0	3	(4,047)	0	(4,047)
Net (losses) on financial assets and liabilities designated at fair value through profit or loss	(4,435)	0	0	0	0	(4,435)	0	(4,435)
Net gains/(losses) from foreign exchange rate differences	6,841	(112)	(2)	0	1	6,728	(2)	6,730
Net gains/(losses) on derecognition of assets	(140)	77	5	40	0	(18)	0	(18)
Other net operating income/(loss)	(4,373)	(130)	(21)	708	50	(3,766)	81	(3,847)
B. Other items by segments	**(115,360)**	**(14,534)**	**(3,333)**	**(427)**	**(2,840)**	**(136,494)**	**(788)**	**(135,706)**
Administration costs	(77,111)	(2,696)	(2,254)	(415)	(2,540)	(85,016)	(264)	(84,752)
Depreciation and amortisation	(11,125)	(367)	(1,067)	(6)	(108)	(12,673)	(10)	(12,663)
Provisions	12,503	(2,533)	(12)	(2)	(358)	9,598	(44)	9,642
Impairments	(41,895)	(8,938)	0	(4)	166	(50,671)	(1,891)	(48,780)
Share of profits of associates and joint ventures accounted for using the equity method	528	0	0	0	0	528	393	135
Total profit from non-current assets and disposal groups classified as held for sale	1,740	0	0	0	0	1,740	1,028	712
C. Profit or loss								
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	39,660	(13,344)	1,727	33	(2,293)	25,783	(383)	26,166
Income taxes on continuing operations	(8,288)	0	(299)	0	(443)	(9,030)	0	(9,030)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	31,372	(13,344)	1,428	33	(2,736)	16,753	(383)	17,136
Total (loss) after tax from discontinued operations	(176)	0	0	0	0	(176)	0	(176)
NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR	31,196	(13,344)	1,428	33	(2,736)	16,577	(383)	16,960
D. Segment assets and liabilities								
Total assets	4,293,648	48,406	13,345	7,810	9,371	4,372,580	126,413	4,246,167
– non-current assets held for sale and discontinued operations	57,427	22	0	0	0	57,449	0	57,449
– investments in the equity of associates and joint ventures accounted for using the equity method	81,400	0	0	0	0	81,400	81,400	0
Liabilities (excluding equity) by segments	3,647,099	24,855	951	3,447	8,575	3,684,927	61,833	3,623,094
Total equity	646,549	23,551	12,394	4,363	796	687,653	64,580	623,073
Increase in property, plant and equipment and intangible assets	4,764	0	339	0	0	5,103	0	5,103

The column 'Inter-segment relationships' includes the following items: intra-group income and expenses, income from dividends from subsidiaries, additional impairments/reversal of impairments as a result of changing over to a harmonised customer classification across the Nova KBM Group, impairments of loans given to subsidiaries and of investments in subsidiaries, the effects of valuation of the associated company using the equity method, intra-group assets and liabilities, investments in subsidiaries and the proportional share of equity of subsidiaries, and other consolidation entries.

6.2 Analysis of results by geographical segments

Business activity/ Name of the company	Turnover	Non-current assets	Number of employees	Profit/ (loss) before tax	Income tax	2016 Public subsidies received
Slovenia – total	**152,848**	**169,409**	**1,275**	**32,627**	**3,595**	**26**
Banking – total	**146,009**	**155,794**	**1,229**	**29,068**	**3,936**	**26**
Nova KBM d.d.	146,009	155,794	1,229	29,068	3,936	26
Leasing – total	**1,609**	**1,043**	**5**	**2,173**	**(14)**	**0**
KBM Leasing d.o.o. (in liquidation)	1,012	96	2	2,720	(14)	0
Gorica Leasing d.o.o. (in liquidation)	597	947	3	(547)	0	0
Fund management – total	**4,854**	**5,886**	**33**	**1,342**	**(228)**	**0**
KBM Infond d.o.o.	4,854	5,886	33	1,342	(228)	0
Real estate – total	**361**	**6,686**	**8**	**33**	**(97)**	**0**
KBM Invest d.o.o.	461	893	8	34	0	0
KBM Asco d.o.o.	(100)	5,793	0	(1)	(97)	0
Other activities – total	**15**	**0**	**0**	**11**	**(2)**	**0**
M-PAY d.o.o.	15	0	0	11	(2)	0
Western Europe – total	**202**	**0**	**0**	**456**	**(5)**	**0**
Other activities – total	**202**	**0**	**0**	**456**	**(5)**	**0**
Adria Abwicklungs GmbH in Liqu.	202	0	0	456	(5)	0
Eastern Europe – total	**(2,546)**	**68**	**2**	**(2,009)**	**0**	**0**
Banking – total	**0**	**0**	**0**	**0**	**0**	**0**
Leasing – total	**(2,546)**	**68**	**2**	**(2,009)**	**0**	**0**
KBM Leasing Hrvatska d.o.o. (in liquidation)	(2,546)	68	2	(2,009)	0	0
Total	**150,504**	**169,477**	**1,277**	**31,074**	**3,590**	**26**

Business activity/ Name of the company	Turnover	Non-current assets	Number of employees	Profit/ (loss) beforetax	Income tax	2015 Public subsidies received
Slovenia – total	**164,204**	**191,999**	**1,334**	**36,520**	**8,589**	**0**
Banking – total	**157,288**	**181,692**	**1,279**	**39,660**	**8,288**	**0**
Nova KBM d.d.	130,886	171,655	1,060	42,251	7,816	0
PBS d.d.	26,402	10,037	219	(2,591)	472	0
Leasing – total	**1,380**	**2,247**	**15**	**(4,912)**	**0**	**0**
KBM Leasing d.o.o. (in liquidation)	267	102	6	(2,638)	0	0
Gorica Leasing d.o.o. (in liquidation)	1,113	2,145	9	(2,274)	0	0
Fund management – total	**5,060**	**6,997**	**33**	**1,727**	**299**	**0**
KBM Infond d.o.o.	5,060	6,997	33	1,727	299	0
Real estate – total	**460**	**1,063**	**7**	**33**	**0**	**0**
KBM Invest d.o.o.	460	1,063	7	33	0	0
Other activities – total	**16**	**0**	**0**	**12**	**2**	**0**
M-PAY d.o.o.	16	0	0	12	2	0
Western Europe – total	**531**	**0**	**11**	**(2,305)**	**441**	**0**
Other activities – total	**531**	**0**	**11**	**(2,305)**	**441**	**0**
Adria Abwicklungs GmbH in Liqu.	531	0	11	(2,305)	441	0
Eastern Europe – total	**4,045**	**2,688**	**255**	**(11,940)**	**(242)**	**0**
Banking – total	**4,235**	**2,546**	**249**	**(3,508)**	**(242)**	**0**
KBM Banka a.d.	4,235	2,546	249	(3,508)	(242)	0
Leasing – total	**(190)**	**142**	**6**	**(8,432)**	**0**	**0**
KBM Leasing Hrvatska d.o.o. (in liquidation)	(190)	142	6	(8,432)	0	0
Total	**168,780**	**194,687**	**1,600**	**22,275**	**8,788**	**0**

In accordance with the recommendation provided by the EBA under question ID 2014_1045, the category 'Turnover' comprises net banking income before consolidation adjustments and elimination of transactions with subsidiaries. Included in turnover are the following items: net interest income, net fee and commission income, dividend income, realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net gains or losses on financial assets and liabilities held of trading, gains or losses on financial assets and liabilities designated at fair value through profit or loss, net foreign exchange rate differences, net gains or losses on derecognition of assets, other net operating income or loss, net profit or loss from investments in the equity of subsidiaries, associates and joint ventures, and total profit or loss from non-current assets and disposal groups classified as held for sale.

The item 'Non-current assets' comprises property, plant and equipment, intangible assets, investment property, and investments in the equity of subsidiaries, associates and joint ventures.

The number of employees is expressed in full-time equivalent terms.

6.3 Reconciliation of operating segments

Income	2016	2015
Segment income – turnover	150,504	168,780
Elimination of inter-segment items	(1,136)	(2,721)
Consolidation adjustments	548	(3,340)
Consolidated segment income	149,916	162,719

Profit from continuing operations	2016	2015
Profit from continuing operations	31,074	22,275
Consolidation adjustments	(1,208)	3,891
Consolidated profit from continuing operations	29,866	26,166

Assets	2016	2015
Segment assets	4,908,502	4,388,757
Consolidation adjustments	(9,345)	(88,550)
Elimination of inter-segment items	(75,707)	(54,040)
Consolidated segment assets	4,823,450	4,246,167

Liabilities	2016	2015
Segment liabilities	4,198,810	3,684,927
Consolidation adjustments	16,986	(7,793)
Elimination of inter-segment items	(75,707)	(54,040)
Consolidated segment liabilities	4,140,089	3,623,094

7. ACQUISITION OF PBS

On 29 March 2016, the Management Boards of Nova KBM and PBS signed the agreement concerning the acquisition of PBS (acquiree) by Nova KBM (acquirer). The agreement stipulated 31 December 2015 as the accounting date of the acquisition. Consequently, the results of PBS's operations for 2016 as a whole were included in the 2016 results of Nova KBM.

A decision regarding the acquisition of PBS by Nova KBM was entered into the court register on 1 September 2016. Based on this, PBS ceased to exist as an independent legal entity, while Nova KBM, as its legal successor, was required to recognise in its books the assets and liabilities taken over from PBS, as well as to account for the effects of the acquisition.

Nova KBM (merged with PBS) continues to operate under its current name, with its headquarters remaining in Maribor.

Nova KBM's acquisition of PBS, being a business combination of entities under common control, was accounted for using the predecessor values method. The book value of PBS's assets and liabilities, as presented in the consolidated financial statements of its immediate parent company that was obliged to prepare consolidated financial statements (Nova KBM Group), were recognised in the separate financial statements of Nova KBM on the accounting date of the acquisition, i.e. 31 December 2015. This was done in order to ensure that the operations of Nova KBM and PBS continued to be treated in the same way as before the merger. The transaction was treated as a reorganisation, given that PBS was already accounted for using the acquisition method, as provided for under IFRS 3, at the time it was consolidated in the Nova KBM Group's financial statements for the first time.

The effects of the business combination, calculated as the difference between the book value of Nova KBM's investment in the equity of PBS and the value of the transferred assets, liabilities and accumulated other comprehensive income, were recognised in Nova KBM's equity (in retained earnings or losses), without any impact on its profit or loss.

Given that the value of Nova KBM's investment in the equity of PBS, as presented in the separate financial statements of Nova KBM, exceeded the value of net transferred assets and accumulated other comprehensive income, the acquisition of PBS resulted in a reduction of €2,924,000 in Nova KBM's retained earnings.

The effects of PBS's acquisition on Nova KBM's statement of financial position as of 1 January 2016

ITEM DESCRIPTION	Nova KBM d.d. (before the acquisition of PBS d.d.)	Effects of PBS d.d.'s acquisition	Nova KBM d.d. (after the acquisition of PBS d.d.)
Cash, cash balances at central banks and demand deposits at banks	260,860	61,485	322,345
Financial assets held for trading	116	0	116
Financial assets designated at fair value through profit or loss	13,421	0	13,421
Available-for-sale financial assets	1,442,288	225,688	1,667,976
Loans and advances	1,623,522	255,129	1,878,651
– loans and advances to banks	61,439	(9,900)	51,539
– loans and advances to customers	1,538,283	260,187	1,798,470
– other financial assets	23,800	4,842	28,642
Held-to-maturity financial assets	28,566	100,982	129,548
Non-current assets held for sale and discontinued operations	1,239	0	1,239
Property, plant and equipment	49,908	6,459	56,367
Investment property	28,439	0	28,439
Intangible assets	11,908	3,578	15,486
Investments in the equity of subsidiaries, associates and joint ventures	81,400	(41,258)	40,142
Tax assets	8,721	0	8,721
– current tax assets	1,446	0	1,446
– deferred tax assets	7,275	0	7,275
Other assets	12,967	5,470	18,437
TOTAL ASSETS	**3,563,355**	**617,533**	**4,180,888**
Financial liabilities held for trading	270	0	270
Financial liabilities measured at amortised cost	2,895,029	609,448	3,504,477
– deposits from banks and central banks	32,833	(2,313)	30,520
– deposits from customers	2,513,618	592,913	3,106,531
– loans from banks and central banks	299,554	16,687	316,241
– loans from customers	909	0	909
– debt securities issued	14,418	(2,049)	12,369
– other financial liabilities	33,697	4,210	37,907
Provisions	59,085	2,343	61,428
Tax liabilities	0	1,265	1,265
– deferred tax liabilities	0	1,265	1,265
Other liabilities	2,242	426	2,668
TOTAL LIABILITIES	**2,956,626**	**613,482**	**3,570,108**
Share capital	150,000	0	150,000
Share premium	360,572	0	360,572
Accumulated other comprehensive income	25,799	6,975	32,774
Reserves from profit	53,648	0	53,648
Retained earnings/(losses)	8,531	(2,924)	5,607
Net profit	8,179	0	8,179
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**606,729**	**4,051**	**610,780**
TOTAL LIABILITIES AND EQUITY	**3,563,355**	**617,533**	**4,180,888**

8. ACQUISITION OF KBS BANKA

On 28 October 2016, the Management Boards of Nova KBM and KBS banka (the latter being owned by Biser Bidco S.à r.l. since 30 June 2016) signed the agreement concerning the acquisition of KBS banka (acquiree) by Nova KBM (acquirer). The agreement stipulated 30 June 2016 as the accounting date of the acquisition. Consequently, the results of KBS banka's operations for the period from 1 July 2016 to 31 December 2016 were included in the 2016 results of Nova KBM.

A decision regarding the acquisition of KBS banka by Nova KBM was entered into the court register on 3 January 2017. Based on this, KBS banka ceased to exist as an independent legal entity, while Nova KBM, as its legal successor, was required to recognise in its books the assets and liabilities taken over from KBS banka, as well as to account for the effects of the acquisition.

Nova KBM (merged with KBS banka) continues to operate under its current name, with its headquarters remaining in Maribor.

Nova KBM's acquisition of KBS banka, being a business combination of entities under common control, was accounted for using the predecessor values method. The book value of KBS banka's assets and liabilities, as presented in the consolidated financial statements of its immediate parent company that was obliged to prepare consolidated financial statements (Biser Topco Group), were recognised in the separate financial statements of Nova KBM on the accounting date of the acquisition, i.e. 30 June 2016. Given that the acquirer and the acquiree had the same owner and were therefore regarded as sister entities, the acquisition was accounted for using the rules applicable to the acquisition of sister entities. Upon the acquisition, the acquiree was not obliged to issue new shares, so the amount of its share capital did not change as a result of the acquisition. In accordance with the provisions of the ZGD-1 and an opinion provided by an independent legal expert, the acquirer recognised the effects of the acquisition on its equity, as presented in its financial statements, by increasing its share premium by €42,045,000, being the net amount of the acquiree's share capital as of 30 June 2016.

The effects of KBS banka's acquisition on Nova KBM's statement of financial position as of 30 June 2016

ITEM DESCRIPTION	Nova KBM d.d. (before the acquisition of KBS banka d.d.)	Effects of KBS banka d.d.'s acquisition	Nova KBM d.d. (after the acquisition of KBS banka d.d.)
Cash, cash balances at central banks and demand deposits at banks	513,666	187,332	700,998
Financial assets held for trading	414	2,615	3,029
Financial assets designated at fair value through profit or loss	13,884	84,185	98,069
Available-for-sale financial assets	1,544,239	12,141	1,556,380
Loans and advances	1,869,647	242,476	2,112,123
– loans and advances to banks	79,518	4,968	84,486
– loans and advances to customers	1,736,167	237,718	1,973,885
– other financial assets	53,962	-210	53,752
Held-to-maturity financial assets	100,228	0	100,228
Non-current assets held for sale and discontinued operations	1,160	0	1,160
Property, plant and equipment	54,730	9,088	63,818
Investment property	30,452	0	30,452
Intangible assets	13,844	1,877	15,721
Investments in the equity of subsidiaries, associates and joint ventures	58,023	0	58,023
Tax assets	7,253	92	7,345
– current tax assets	443	0	443
– deferred tax assets	6,810	92	6,902
Other assets	20,178	1,804	21,982
TOTAL ASSETS	**4,227,718**	**541,610**	**4,769,328**
Financial liabilities held for trading	736	0	736
Financial liabilities measured at amortised cost	3,531,732	497,601	4,029,333
– deposits from banks and central banks	7,586	33,796	41,382
– deposits from customers	3,149,608	405,157	3,554,765
– loans from banks and central banks	296,060	50,000	346,060
– debt securities issued	12,432	0	12,432
– other financial liabilities	66,046	8,648	74,694
Provisions	55,435	1,555	56,990
Tax liabilities	1,198	0	1,198
– deferred tax liabilities	1,198	0	1,198
Other liabilities	2,465	201	2,666
TOTAL LIABILITIES	**3,591,566**	**499,357**	**4,090,923**
Share capital	150,000	0	150,000
Share premium	360,572	42,045	402,617
Accumulated other comprehensive income	38,500	0	38,500
Reserves from profit	53,647	0	53,647
Retained (losses)	(2,926)	208	(2,718)
Net profit	36,359	0	36,359
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**636,152**	**42,253**	**678,405**
TOTAL EQUITY	**636,152**	**42,253**	**678,405**
TOTAL LIABILITIES AND EQUITY	**4,227,718**	**541,610**	**4,769,328**

Presented below are the income statement and the statement of financial position of the Nova KBM Group for the year ending 31 December 2016, without taking into account the effects of KBS banka's acquisition or the results of its operations.

Income statement of the Nova KBM Group (excluding KBS banka)

ITEM DESCRIPTION	Year ending 31.12.2016
Interest income	101,433
Interest expenses	(12,227)
Net interest income	89,206
Dividend income	793
Fee and commission income	70,662
Fee and commission expenses	(30,837)
Net fee and commission income	39,825
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	8,504
Net gains on financial assets and liabilities held for trading	115
Net gains on financial assets and liabilities designated at fair value through profit or loss	5,719
Net (losses) from foreign exchange rate differences	(33)
Net (losses) on derecognition of assets other than non-current assets held for sale	(2,514)
Other net operating (loss)	(1,223)
Administration costs	(89,976)
Depreciation and amortisation	(11,322)
Provisions	4,950
Impairments	(21,091)
Net (loss) from non-current assets and disposal groups classified as held for sale	(870)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**22,083**
Income taxes on continuing operations	3,612
NET PROFIT FROM CONTINUING OPERATIONS	**25,695**
Total (loss) after tax from discontinued operations	(3,195)
NET PROFIT FOR THE FINANCIAL YEAR	**22,500**
a) Attributable to owners of the parent	**22,191**
– continuing operations	25,386
– discontinued operations	(3,195)
b) Attributable to non-controlling interests	**309**
– continuing operations	309
– discontinued operations	0

Statement of financial position of the Nova KBM Group (excluding KBS banka)

ITEM DESCRIPTION	31.12.2016
Cash, cash balances at central banks and demand deposits at banks	536,679
Financial assets held for trading	1,195
Financial assets designated at fair value through profit or loss	19,140
Available-for-sale financial assets	1,574,858
Loans and advances	1,905,319
– loans and advances to banks	114,916
– loans and advances to customers	1,749,063
– other financial assets	41,340
Held-to-maturity financial assets	90,216
Non-current assets held for sale and discontinued operations	1,646
Property, plant and equipment	48,304
Investment property	37,807
Intangible assets	17,300
Tax assets	9,127
– current tax assets	1,104
– deferred tax assets	8,023
Other assets	26,212
TOTAL ASSETS	**4,267,803**
Financial liabilities held for trading	1,575
Financial liabilities measured at amortised cost	3,572,593
– deposits from banks and central banks	16,338
– deposits from customers	3,203,550
– loans from banks and central banks	283,088
– debt securities issued	14,376
– other financial liabilities	55,241
Provisions	57,829
Tax liabilities	233
– current tax liabilities	120
– deferred tax liabilities	113
Other liabilities	2,926
TOTAL LIABILITIES	**3,635,156**
Share capital	150,000
Share premium	360,572
Accumulated other comprehensive income	33,771
Translation reserves	(95)
Reserves from profit	20,545
Retained earnings	45,497
Net profit for the financial year	19,483
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**629,773**
Equity attributable to non-controlling interests	2,874
TOTAL EQUITY	**632,647**
TOTAL LIABILITIES AND EQUITY	**4,267,803**



As of September 2016, Nova KBM and Poštna banka Slovenije have continued their business together.

NOTES TO THE INCOME STATEMENT ITEMS

9. INTEREST INCOME AND INTEREST EXPENSES

9.1 Analysis of interest by type

	Nova KBM Group				Nova KBM d.d.			
	2016		2015		2016		2015	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Regular interest	99,494	13,487	115,685	24,238	97,990	13,484	95,304	21,825
Default interest	6,293	0	6,697	0	6,222	0	5,622	0
Total	**105,787**	**13,487**	**122,382**	**24,238**	**104,212**	**13,484**	**100,926**	**21,825**
Net interest income	**92,300**		**98,144**		**90,728**		**79,101**	

9.2 Analysis of interest by market segments

	Nova KBM Group				Nova KBM d.d.			
	2016		2015		2016		2015	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Non-financial companies	28,794	468	35,168	902	28,387	468	26,858	825
State	28,495	259	38,927	824	28,461	259	32,395	469
Banks	2,520	4,676	1,852	7,217	2,548	4,676	2,297	6,981
Other financial organisations	1,599	1,003	1,781	1,804	1,431	1,004	1,667	1,780
Households	42,291	6,892	41,893	13,114	42,190	6,892	35,484	11,406
Non-residents	2,006	158	2,672	296	1,113	155	2,144	296
Non-profit institutions serving households	82	31	89	81	82	30	81	68
Total	**105,787**	**13,487**	**122,382**	**24,238**	**104,212**	**13,484**	**100,926**	**21,825**
Net interest income	**92,300**		**98,144**		**90,728**		**79,101**	

9.3 Analysis of interest by type of assets and liabilities

	Nova KBM Group				Nova KBM d.d.			
	2016		2015		2016		2015	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Interest income								
Financial assets held for trading	29	0	111	0	29	0	111	0
Financial assets designated at fair value through profit or loss	0	230	0	0	0	230	0	0
Available-for-sale financial assets	25,825	3,601	31,284	7,204	25,661	3,601	31,034	1,703
Loans and deposits (including finance leases and other financial assets)	14,963	58,881	19,455	61,008	14,276	58,127	14,348	52,029
Held-to-maturity financial assets	5	2,208	77	3,232	5	2,239	0	1,697
Other assets	45	0	11	0	44	0	4	0
Total by maturity	**40,867**	**64,920**	**50,938**	**71,444**	**40,015**	**64,197**	**45,497**	**55,429**
Total	**105,787**		**122,382**		**104,212**		**100,926**	
Interest expenses								
Financial liabilities held for trading	0	19	0	108	0	19	0	108
Financial liabilities measured at amortised cost	1,004	10,597	2,261	21,503	1,001	10,597	1,775	19,636
Other liabilities	1,867	0	366	0	1,867	0	306	0
Total by maturity	**2,871**	**10,616**	**2,627**	**21,611**	**2,868**	**10,616**	**2,081**	**19,744**
Total	**13,487**		**24,238**		**13,484**		**21,825**	
Net interest income	**92,300**		**98,144**		**90,728**		**79,101**	

9.4 Average interest rates

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Average interest rate on assets (%)	2.77	3.08	2.73	2.95
Average interest rate on liabilities (%)	0.26	0.39	0.27	0.46

10. DIVIDEND INCOME

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Financial assets held for trading	**1**	**27**	**1**	**8**
– stocks and shares of other issuers	1	27	1	8
Financial assets designated at fair value through profit or loss	**676**	**776**	**676**	**776**
– stocks and shares of other issuers	676	776	676	776
Available-for-sale financial assets	**116**	**314**	**116**	**249**
– stocks and shares of other issuers	116	314	116	249
Total	**793**	**1,117**	**793**	**1,033**

11. FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSES

11.1 Analysis of fees and commissions by type

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Fee and commission income	**73,967**	**81,294**	**68,370**	**44,699**
Guarantees	2,639	3,410	2,640	2,905
Services provided to banks within the Nova KBM Group	0	0	0	380
Services provided to other companies within the Nova KBM Group	0	0	264	428
Local payment transactions	39,648	43,034	39,643	19,206
Transactions on current accounts	11,328	12,606	11,329	9,160
Payment card operations	6,932	8,370	6,932	6,600
Cross-border payment transactions	1,579	1,443	1,580	1,344
Brokerage and agency services	750	658	712	608
Transactions in securities for customers	1,457	450	1,458	450
Lending operations	3,366	4,567	3,364	3,476
Safekeeping of valuables and other items	122	107	122	107
Other services	6,146	6,649	326	35
Fee and commission expenses	**31,536**	**26,817**	**30,485**	**4,163**
Local banking services	3,953	6,056	3,953	2,283
Banking services abroad	2,338	1,042	2,330	1,024
Brokerage and agency services	892	1,078	83	62
Stock exchange transactions and other transactions in securities	461	314	459	305
Payment transactions	22,907	16,975	22,902	230
Services provided by banks within the Nova KBM Group	0	0	10	19
Other services	985	1,352	748	240
Net fee and commission income	**42,431**	**54,477**	**37,885**	**40,536**

The costs related to payment card and ATM operations were reclassified in 2016 from administration costs to fee and commission expenses in order to provide a more consistent matching of expenses with income.

	Nova KBM d.d.	
Type of costs reclassified as fee and commission expenses	**2016**	**2015**
Costs related to the procurement of VISA, MasterCard and other payment cards	301	351
Costs related to ATM operations	961	940
Costs related to payment card operations – processing and administration of payment card transactions	3,558	3,337
Costs related to the production, customisation and dispatch of payment cards	199	154
Costs related to the provision of additional RCA SecurID authentication features	1,005	395
Total reclassified costs	**6,024**	**5,177**

11.2 Analysis of fees and commissions by market segments

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Fee and commission income	**73,967**	**81,294**	**68,370**	**44,699**
Non-financial companies	33,156	37,329	33,171	14,130
State	618	853	618	298
Banks	4,509	5,861	4,510	5,842
Other financial organisations	6,845	7,582	1,271	1,209
Households	27,786	28,344	27,786	22,221
Non-residents	1,039	1,106	1,000	984
Non-profit institutions serving households	14	219	14	15
Fee and commission expenses	**31,536**	**26,817**	**30,485**	**4,163**
Net fee and commission income	**42,431**	**54,477**	**37,885**	**40,536**

11.3 Fee and commission income and fee and commission expenses relating to fiduciary activities

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Income from fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**6,542**	**7,135**	**750**	**698**
Receipt, transmission and execution of orders	824	714	693	596
Management of financial instruments	5,702	6,371	41	52
Investment advice	1	0	1	0
Administration of book-entry securities accounts of customers	15	50	15	50
Expenses for fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**221**	**232**	**221**	**232**
Fees and commissions in connection with the Central Securities Clearing Corporation and similar organisations	205	217	205	217
Fees and commissions in connection with the stock exchange and similar organisations	16	15	16	15

12. NET REALISED GAINS ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016			2015		
Nova KBM Group	**Realised gains**	**Realised losses**	**Net realised gains**	**Realised gains**	**Realised losses**	**Net realised gains**
Available-for-sale financial assets (Note 28.3)	5,106	447	4,659	12,423	3,979	8,444
Loans and advances (including finance leases)	5,683	1,950	3,733	6,672	1,301	5,371
Financial liabilities measured at amortised cost	2	0	2	3	0	3
Other financial assets and liabilities	321	122	199	202	269	(67)
Total	**11,112**	**2,519**	**8,593**	**19,300**	**5,549**	**13,751**

	2016			2015		
Nova KBM d.d.	**Realised gains**	**Realised losses**	**Net realised gains**	**Realised gains**	**Realised losses**	**Net realised gains**
Available-for-sale financial assets (Note 28.3)	5,233	447	4,786	10,936	3,798	7,138
Loans and advances (including finance leases)	5,684	551	5,133	6,510	568	5,942
Financial liabilities measured at amortised cost	2	0	2	0	0	0
Other financial assets and liabilities	321	122	199	197	111	86
Total	**11,240**	**1,120**	**10,120**	**17,643**	**4,477**	**13,166**

13. NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2016			2015		
Nova KBM Group	**Gains**	**Losses**	**Net gains**	**Gains**	**Losses**	**Net (losses)**
Trading in equity instruments	69	6	63	447	478	(31)
Trading in debt securities	20	52	(32)	43	0	43
Trading in foreign exchange (purchase/sale)	2,220	923	1,297	2,248	970	1,278
Trading in derivatives	1,772	2,973	(1,201)	4,150	9,439	(5,289)
– futures/forwards	1,305	1,406	(101)	3,139	9,335	(6,196)
– swaps	240	196	44	124	104	20
– other derivatives	227	1,371	(1,144)	887	0	887
Trading in financial liabilities	0	0	0	0	48	(48)
Total	**4,081**	**3,954**	**127**	**6,888**	**10,935**	**(4,047)**

	2016			2015		
Nova KBM d.d.	**Gains**	**Losses**	**Net gains**	**Gains**	**Losses**	**Net (losses)**
Trading in equity instruments	(1)	0	(1)	103	91	12
Trading in debt securities	20	52	(32)	43	0	43
Trading in foreign exchange (purchase/sale)	2,220	923	1,297	1,942	938	1,004
Trading in derivatives	1,772	2,973	(1,201)	4,147	9,439	(5,292)
– futures/forwards	1,305	1,406	(101)	3,139	9,335	(6,196)
– options	0	0	0	0	0	0
– swaps	240	196	44	121	104	17
- other derivatives	227	1,371	(1,144)	887	0	887
Trading in financial liabilities	0	0	0	0	48	(48)
Total	**4,011**	**3,948**	**63**	**6,235**	**10,516**	**(4,281)**

The Nova KBM Group uses derivatives (futures/forwards) to economically hedge its exposure to foreign exchange risk. The effects of derivatives are linked to the effects arising from foreign exchange rate differences (Note 15).

14. NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Nova KBM Group	Gains	Losses	2016 Net gains	Gains	Losses	2015 Net (losses)
Financial assets designated at fair value through profit or loss	5,847	356	5,491	228	4,663	(4,435)
Total	**5,847**	**356**	**5,491**	**228**	**4,663**	**(4,435)**

Nova KBM d.d.	Gains	Losses	2016 Net gains	Gains	Losses	2015 Net (losses)
Financial assets designated at fair value through profit or loss	5,847	356	5,491	228	4,663	(4,435)
Total	**5,847**	**356**	**5,491**	**228**	**4,663**	**(4,435)**

Gains and losses on financial assets designated at fair value through profit or loss are attributable to the valuation of stocks and shares for which joint-selling agreements have been made by the Nova KBM Group.

15. NET GAINS FROM FOREIGN EXCHANGE RATE DIFFERENCES

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Foreign exchange gains	28,077	29,130	27,649	28,558
Foreign exchange losses	27,766	22,400	27,385	21,682
Net foreign exchange gains	**311**	**6,730**	**264**	**6,876**

16. NET LOSSES ON DERECOGNITION OF ASSETS

Nova KBM Group	Gains	Losses	2016 Net (losses)	Gains	Losses	2015 Net (losses)
Derecognition of items of property, plant and equipment	66	63	3	70	204	(134)
Derecognition of intangible assets	0	3,047	(3,047)	0	0	0
Derecognition of investment property	242	190	52	453	362	91
Derecognition of other assets other than those held for sale	55	54	1	46	21	25
Total	**363**	**3,354**	**(2,991)**	**569**	**587**	**(18)**

Nova KBM d.d.	Gains	Losses	2016 Net (losses)	Gains	Losses	2015 Net (losses)
Derecognition of items of property, plant and equipment	64	533	(469)	29	195	(166)
Derecognition of intangible assets	0	2,572	(2,572)	0	0	0
Derecognition of other assets other than those held for sale	55	54	1	0	0	0
Total	**119**	**3,159**	**(3,040)**	**29**	**195**	**(166)**

17. OTHER NET OPERATING INCOME AND LOSS

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Income	**17,418**	**11,640**	**10,641**	**4,028**
Income from non-banking services	1,030	156	0	0
Income from investment property leased out under operating leases	3,616	3,586	3,141	3,062
Other operating income	12,772	7,898	7,500	966
Expenses	**13,687**	**15,487**	**6,523**	**7,240**
Taxes	419	5,610	180	4,215
Contributions	738	524	704	489
Other charges	8	2	0	0
Membership fees and similar fees	214	204	188	121
Expenses for investment property leased out under operating leases	183	118	142	34
Other operating expenses	12,125	9,029	5,309	2,381
Other net operating income/(loss)	**3,731**	**(3,847)**	**4,118**	**(3,212)**

The largest proportion of other operating income and loss generated by the Nova KBM Group in 2016 related to the income from the sale of real estate, totalling €5,178,000, and the associated expenses of €5,427,000.

The largest proportion of other operating income and loss generated by the Nova KBM Group in 2015 related to the income from the sale of real estate, totalling €5,240,000, and the associated expenses of €5,166,000. Other operating expenses incurred by the Nova KBM Group in 2015 include expenses arising from the making of a contribution to the Single Resolution Fund.

18. ADMINISTRATION COSTS

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Staff costs	**51,493**	**45,362**	**49,264**	**33,105**
Gross salaries	38,250	34,955	36,565	25,905
Social security contributions	2,820	2,798	2,660	1,887
Pension insurance contributions	3,353	2,992	3,244	2,266
Other contributions from gross salaries	0	39	0	0
Transportation allowances	1,067	1,034	1,033	699
Meal allowances	1,811	1,316	1,750	961
Employee bonuses	65	8	65	0
Severance benefits and early retirement payments	109	373	100	31
Supplementary pension insurance premiums	821	452	759	377
Pay for annual leave	2,382	1,124	2,302	895
Solidarity aid and long-service bonuses	45	24	45	21
Other staff costs under employment contracts	770	247	741	63
General and administrative costs	**46,193**	**39,390**	**42,803**	**30,052**
Costs of materials	1,020	1,426	943	928
Costs of energy	1,170	1,096	1,134	983
Costs of professional literature	24	76	18	5
Other costs of materials	202	193	202	166
Costs of renting business premises	3,724	3,983	3,716	3,092
Postal costs	2,958	2,507	2,934	1,903
Transport costs	1,836	1,709	1,836	1,709
Information system costs	1,860	6,337	1,864	5,726
Costs of other services	5,044	4,347	4,538	2,961
Business travel expenses	226	176	195	83
Maintenance costs of fixed assets	8,544	5,912	8,320	3,873
Advertising costs	4,047	3,005	3,844	2,492
Entertainment costs	249	155	234	125
Costs related to consulting, auditing, accounting and other services	12,862	7,039	10,746	5,008
School fees, scholarships and other training costs	450	283	426	234
Cost of insurance	1,277	817	1,237	683
Other administrative costs	700	329	616	81
Total administration costs	**97,686**	**84,752**	**92,067**	**63,157**

Remuneration of auditors

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Audit of the annual report	197	310	186	157
Other audit services	164	253	161	103
Other non-audit services	0	4	0	4
Total	**361**	**567**	**347**	**264**

19. DEPRECIATION AND AMORTISATION

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Depreciation of property, plant and equipment (Note 33)	4,829	5,448	4,431	4,000
Amortisation of intangible assets (Note 35)	7,034	7,215	5,978	5,504
Total	**11,863**	**12,663**	**10,409**	**9,504**

20. PROVISIONS

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Provisions for pensions and similar benefits (Note 42)	185	625	618	249
Provisions for restructuring costs (Note 42)	3,490	1,995	3,490	1,995
Provisions for off-balance-sheet liabilities (Note 42)	(5,195)	(18,885)	(5,241)	(17,276)
Provisions for tax claims and other pending legal issues (Note 42)	(1,963)	4,879	(889)	3,937
Other provisions (Note 42)	(1,261)	1,744	0	282
Total	**(4,744)**	**(9,642)**	**(2,022)**	**(10,813)**

21. IMPAIRMENTS

21.1 Impairment of financial assets not measured at fair value through profit or loss

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Available-for-sale financial assets	3,395	1,639	3,395	1,639
Financial assets measured at amortised cost	6,829	44,298	8,813	20,200
– demand deposits at banks	29	3	29	(19)
– loans and advances to banks (Note 29.1)	7	(2)	7	(6)
– loans and advances to customers (Note 30.1)	5,989	41,551	8,309	19,628
– other financial assets (Note 31.1)	804	2,746	468	597
Held-to-maturity financial assets measured at amortised cost	0	0	(1,657)	0
Total impairments of financial assets not measured at fair value through profit or loss	**10,224**	**45,937**	**10,551**	**21,839**

21.2 Impairment of other assets

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Property, plant and equipment	5,404	117	5,404	0
Investment property (Note 34)	147	272	(4)	207
Investments in the equity of subsidiaries, associates and joint ventures	0	0	(436)	3,595
Other assets (Note 38.1)	(530)	2,454	972	1,146
Total impairments of other assets	**5,021**	**2,843**	**5,936**	**4,948**

22. SHARE OF PROFITS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Moja naložba d.d.	0	135	0	0
KBM Infond d.o.o.	0	0	457	528
Total	**0**	**135**	**457**	**528**

The amount of dividends paid by KBM Infond to Nova KBM in 2016 totalled €457,000 (2015: €528,000).

23. INCOME TAXES ON CONTINUING OPERATIONS

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Income tax on continuing operations	224	(1,365)	573	(1,062)
Deferred tax relating to continuing operations (Note 37.3)	3,581	(7,665)	3,363	(6,754)
Total	**3,805**	**(9,030)**	**3,936**	**(7,816)**

23.1 Reconciliation of effective tax rate

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Profit before tax	29,866	26,166	29,068	42,251
Income tax calculated using the official tax rate of 17%	5,077	4,448	4,942	7,183
Non-taxable income	(1,545)	(946)	(766)	(412)
Non-allowable tax expenses	981	1,354	772	204
Effects of unrecognised deferred taxes in respect of impairments of investment in the equity of a Nova KBM Group company	(10,872)	660	(10,872)	660
Tax reliefs	(40)	(404)	0	(373)
Effects of an increase in tax rate	(276)	(483)	(276)	0
Effects of unrecognised deferred taxes in respect of the current tax loss	3,006	3,764	2,953	0
Taxes in respect of previous years	(582)	0	(582)	0
Other adjustments	446	637	(107)	554
Total income taxes	(3,805)	9,030	(3,936)	7,816
Effective tax rate (%)	/	34.5%	/	18.5%

Most of the companies within the Nova KBM Group, including Nova KBM, reported a tax loss for 2016 (the liability for the 2016 income tax expenses was calculated as €344,000). Net income of the Nova KBM Group and Nova KBM in respect of deferred taxes totalled €3,581,000 and €3,363,000, respectively. Consequently, the effective tax rate for both the Nova KBM Group and Nova KBM has not been calculated.

Non-allowable tax expenses, calculated as the difference between tax non-deductible and tax deductible expenses, were negative in 2016. Tax deductible expenses comprise impairments of equity investments in subsidiaries. These expenses were treated as tax non-deductible in the past, but became tax deductible upon the sale of these investments in 2016.

Other adjustments include the net effect of other tax categories arising from an increase in the applicable tax rate.

In accordance with the ZDDPO-2, the corporate income tax rate increased from 17% to 19%, with effect from 1 January 2017.

IAS 12 provides that deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. In view of this provision, the Nova KBM Group has calculated its deferred tax assets and liabilities at a rate of 19%.

Nova KBM determines the level of its deferred tax assets on the basis of the projections of its future taxable profits in the next five years.

24. BASIC EARNINGS PER SHARE

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Net profit for the financial year (€000)	30,167	16,567	33,004	34,435
Weighted average number of ordinary no-par-value shares	10,000,000	10,000,000	10,000,000	10,000,000
Basic earnings per share (€)	**3.02**	**1.66**	**3.30**	**3.44**

Basic earnings per share is calculated as the ratio between the net profit reported for the period and the weighted average number of ordinary no-par-value shares outstanding during the period.



We made bold business decisions and merged into a modern, nation-wide bank.

NOTES TO THE STATEMENT OF FINANCIAL POSITION ITEMS

25. CASH, CASH BALANCES AT CENTRAL BANKS AND DEMAND DEPOSITS AT BANKS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Cash in hand	75,758	68,702	75,758	46,950
Cash balances at central banks	666,651	215,746	666,650	178,219
Demand deposits at banks	41,506	38,441	37,061	35,691
Total	**783,915**	**322,889**	**779,469**	**260,860**

25.1 Cash and cash equivalents

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Cash, cash balances at central banks and demand deposits at banks	783,915	322,889	779,469	260,860
Loans and advances to banks	54,920	46,706	54,791	41,522
Cash and cash equivalents of discontinued operations	0	29,241	0	0
Total	**838,835**	**398,836**	**834,260**	**302,382**

26. FINANCIAL ASSETS HELD FOR TRADING

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Derivatives	**228**	**116**	**228**	**116**
Equity instruments	**887**	**1,447**	**0**	**0**
– equity instruments issued by other issuers	887	1,447	0	0
Debt securities	**4**	**0**	**4**	**0**
– sovereign bonds	4	0	4	0
Total	**1,119**	**1,563**	**232**	**116**
Unquoted	1,119	1,563	232	116
Total	**1,119**	**1,563**	**232**	**116**

No assets held in the Nova KBM Group's portfolio of financial assets held for trading have been pledged as collateral.

None of the instruments included in the portfolio of financial assets held for trading have the characteristics to qualify as subordinated debt.

26.1 Movements in financial assets held for trading

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**1,563**	**1,841**	**116**	**187**
Increase during the year	**38,960**	**63,804**	**38,774**	**62,966**
– assets acquired through a business combination	2,649	0	2,649	0
– acquisition	36,051	63,387	35,994	62,826
– change in fair value (recovery and reversal of impairment)	222	216	112	0
– other (deferred interest, realised gains)	38	201	19	140
Decrease during the year	**39,404**	**64,082**	**38,658**	**63,037**
– disposal (sale and redemption)	39,337	63,605	38,658	62,879
– change in fair value (impairment and reversal of recovery)	61	390	0	71
– foreign exchange rate differences	0	2	0	2
– other (deferred interest, realised losses)	6	85	0	85
Balance at 31 December	**1,119**	**1,563**	**232**	**116**

27. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Equity instruments	19,140	13,421	19,140	13,421
Debt securities	67,592	0	67,592	0
Total	**86,732**	**13,421**	**86,732**	**13,421**
Quoted	86,732	13,421	86,732	13,421
Total	**86,732**	**13,421**	**86,732**	**13,421**

As of 31 December 2016, the Nova KBM Group had assets of this portfolio worth €50,000,000 in total pledged as collateral with the Bank of Slovenia.

The Nova KBM Group did not receive any financial assets of this portfolio from the realisation of collateral provided as security for loans.

The portfolio of financial assets designated at fair value through profit or loss includes Cinkarna Celje and Petrol shares for which joint-selling agreements have been made by the Nova KBM Group. The debt securities of the portfolio include government bonds worth €60,178,000 and bonds covering obligations in respect of the guaranteed deposits, worth €7,414,000.

None of the instruments included in the portfolio of financial assets designated at fair value through profit or loss have the characteristics to qualify as subordinated debt.

27.1 Movements in financial assets designated at fair value through profit or loss

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**13,421**	**17,857**	**13,421**	**17,857**
Increase during the year	**105,840**	**0**	**105,840**	**0**
– assets acquired through a business combination	84,185	0	84,185	0
– acquisition	15,595	0	15,595	0
– change in fair value (recovery and reversal of impairment)	5,737	0	5,737	0
– deferred interest	323	0	323	0
Decrease during the year	**32,529**	**4,436**	**32,529**	**4,436**
– disposal (sale and redemption)	32,059	0	32,059	0
– change in fair value (impairment and reversal of recovery)	319	4,436	319	4,436
– interest received	151	0	151	0
Balance at 31 December	**86,732**	**13,421**	**86,732**	**13,421**

28. AVAILABLE-FOR-SALE FINANCIAL ASSETS

28.1 Analysis by type and quotation

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Equity instruments measured at fair value	33,002	26,736	30,707	22,095
Debt securities	1,551,512	1,649,171	1,551,388	1,420,193
– issued by the state and the central banks	1,023,455	1,320,329	1,023,455	1,106,992
– issued by banks	421,326	282,552	421,326	274,009
– issued by other issuers	106,731	46,290	106,607	39,192
Total	**1,584,514**	**1,675,907**	**1,582,095**	**1,442,288**
Quoted	1,551,607	1,649,245	1,551,483	1,420,193
Unquoted	32,907	26,662	30,612	22,095
Total	**1,584,514**	**1,675,907**	**1,582,095**	**1,442,288**

As of 31 December 2016, the Nova KBM Group had assets of this portfolio worth €280,864,000 in total pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme, the guaranteed claims of depositors and the Single Resolution Fund. During the year ending 31 December 2016, the Nova KBM Group did not receive any financial assets of this portfolio from the realisation of collateral provided as security for loans.

A total of €1,639,000 was paid by the Nova KBM Group into the Single Resolution Fund in 2016.

None of the instruments included in the portfolio of available-for-sale financial assets have the characteristics to qualify as subordinated debt.

28.2 Analysis by type and market segments

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Equity instruments measured at fair value	**33,002**	**26,736**	**30,707**	**22,095**
– equity investments in other financial organisations	31,064	21,076	28,769	16,646
– equity investments in non-financial companies	1,929	5,652	1,929	5,441
– equity investments in other non-residents	9	8	9	8
Debt securities	**1,551,512**	**1,649,171**	**1,551,388**	**1,420,193**
– issued by the state and the central banks	1,023,455	1,320,329	1,023,455	1,106,992
– issued by banks	421,326	282,552	421,326	274,009
– issued by other issuers	106,731	46,290	106,607	39,192
Total	**1,584,514**	**1,675,907**	**1,582,095**	**1,442,288**
Quoted	1,551,607	1,649,245	1,551,483	1,420,193
Unquoted	32,907	26,662	30,612	22,095
Total	**1,584,514**	**1,675,907**	**1,582,095**	**1,442,288**

28.3 Movements in available-for-sale financial assets

Nova KBM Group	Equity instruments	Debt securities	Total
Balance at 1 January 2016	**26,736**	**1,649,171**	**1,675,907**
Assets acquired through a business combination	12,141	12	12,153
Recognition of additional financial assets	82	441,976	442,058
Interest	0	(9,198)	(9,198)
Net revaluation through equity	(2,572)	4,972	2,400
Net impairments through profit or loss (Note 21.1)	(3,395)	0	(3,395)
Derecognition of financial assets upon disposal	(4,962)	(77,869)	(82,831)
Derecognition of financial assets upon maturity	0	(457,239)	(457,239)
Net gains/(losses) on sale (Note 12)	4,972	(313)	4,659
Balance at 31 December 2016	**33,002**	**1,551,512**	**1,584,514**

Nova KBM Group	Equity instruments	Debt securities	Total
Balance at 1 January 2015	**19,014**	**1,463,106**	**1,482,120**
Recognition of additional financial assets	17,290	684,011	701,301
Interest	0	(269)	(269)
Net revaluation through equity	(3,820)	(8,851)	(12,671)
Net impairments through profit or loss (Note 21.1)	(1,639)	0	(1,639)
Derecognition of financial assets upon disposal	(10,050)	(54,541)	(64,591)
Derecognition of financial assets upon maturity	0	(436,788)	(436,788)
Net gains on sale (Note 12)	5,941	2,503	8,444
Balance at 31 December 2015	**26,736**	**1,649,171**	**1,675,907**

Nova KBM d.d.	Equity instruments	Debt securities	Total
Balance at 1 January 2016	**22,095**	**1,420,193**	**1,442,288**
Assets acquired through a business combination	13,836	224,016	237,852
Recognition of additional financial assets	82	441,976	442,058
Interest	0	(9,362)	(9,362)
Net revaluation through equity	(2,598)	4,630	2,032
Net impairments through profit or loss (Note 21.1)	(3,395)	0	(3,395)
Derecognition of financial assets upon disposal	(4,071)	(77,867)	(81,938)
Derecognition of financial assets upon maturity	0	(452,226)	(452,226)
Net gains on sale (Note 12)	4,758	28	4,786
Balance at 31 December 2016	**30,707**	**1,551,388**	**1,582,095**

Nova KBM d.d.	Equity instruments	Debt securities	Total
Balance at 1 January 2015	**13,778**	**1,261,435**	**1,275,213**
Recognition of additional financial assets	15,891	643,209	659,100
Interest	0	(76)	(76)
Net revaluation through equity	(2,823)	(7,417)	(10,240)
Net impairments through profit or loss (Note 21.1)	(1,639)	0	(1,639)
Derecognition of financial assets upon disposal	(8,189)	(50,632)	(58,821)
Derecognition of financial assets upon maturity	0	(428,387)	(428,387)
Net gains on sale (Note 12)	5,077	2,061	7,138
Balance at 31 December 2015	**22,095**	**1,420,193**	**1,442,288**

29. LOANS AND ADVANCES TO BANKS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Current loans	120,021	56,211	118,790	51,539
Impairment of current loans	(1,105)	0	(3)	0
Non-current loans	0	5,018	0	15,070
Impairment of non-current loans	0	0	0	(5,170)
Total – net amount	**118,916**	**61,229**	**118,787**	**61,439**
Impairments	**1,105**	**0**	**3**	**5,170**
Total – gross amount	**120,021**	**61,229**	**118,790**	**66,609**

29.1 Movements in impairments of loans and advances to banks

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**0**	**3**	**5,170**	**5,013**
Assets acquired through a business combination	2	0	2	0
Impairment/(reversal of impairment) of principals	7	(2)	7	(6)
Additional impairment of interest	0	0	0	163
Write-offs of loans and advances to banks	0	0	(5,177)	0
Foreign exchange rate differences	0	(1)	1	0
Other	1,096	0	0	0
Balance at 31 December	**1,105**	**0**	**3**	**5,170**

The write-offs of bank loans made by Nova KBM in 2016 related to the write-offs of loans outstanding to KBM Banka.

Recognition of additional impairments/reversal of impairments of interest on loans and advances given to banks is reflected in Note 9 (Interest income and interest expenses) to the income statement.

30. LOANS AND ADVANCES TO CUSTOMERS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Current loans	334,113	397,479	313,031	251,756
Impairment of current loans	(100,301)	(130,743)	(84,460)	(52,767)
Non-current loans	2,108,804	2,015,270	2,079,522	1,697,966
Impairment of non-current loans	(380,858)	(477,644)	(361,425)	(362,363)
Claims under guarantees	5,115	16,273	4,903	14,941
Impairment of claims under guarantees	(3,024)	(12,262)	(2,834)	(11,250)
Total – net amount	**1,963,849**	**1,808,373**	**1,948,737**	**1,538,283**
Impairments	**484,183**	**620,649**	**448,719**	**426,380**
Total – gross amount	**2,448,032**	**2,429,022**	**2,397,456**	**1,964,663**

30.1 Movements in impairments of loans and advances to customers

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**620,649**	**618,827**	**426,380**	**411,999**
Assets acquired through a business combination	54,523	0	167,454	0
Additional impairment of principals	5,989	41,551	8,309	19,628
Additional impairment/(reversal of impairment) of interest	(1,115)	11,849	(1,585)	9,365
Additional impairment/(reversal of impairment) of fees	(70)	34	(70)	34
Write-offs of loans and advances to customers	(212,171)	(43,919)	(151,767)	(24,169)
Foreign exchange rate differences	146	16	0	0
Assets received from subsidiaries	0	0	0	12,066
Other	16,232	(7,709)	(2)	(2,543)
Balance at 31 December	**484,183**	**620,649**	**448,719**	**426,380**

The year-on-year increase in write-offs of loans and advances to customers was attributable mainly to a change in the methodology for transferring impaired loans from on-balance-sheet to off-balance-sheet records. The written-off loans transferred to off-balance-sheet records have not been written off for good and will continue to be on the Nova KBM Group's books as long as the legal recovery procedures are under way.

Other increases in impairments recorded by the Nova KBM Group in 2016 resulted mainly from loans purchased by KBM Asco, a subsidiary of Nova KBM.

Reversal of other impairments recorded by the Nova KBM Group in 2015 was attributable mainly to the reclassification from 'Loans and advances to customers' to 'Other financial assets' of value adjustments recorded by the Nova KBM Group leasing companies, and to the conversion of loans outstanding to Cimos TAM AI into the equity of this company.

In 2015, Nova KBM took over loans worth €12,066,000 from its subsidiaries. Loans worth €11,873,000 in total were taken over from PBS, while loans worth €193,000 were taken over from Adria Abwicklungs.

Recognition of additional impairment/reversal of impairment of interest and fees on loans and advances given to customers is reflected in Note 9 (Interest income and interest expenses) and Note 11 (Fee and commission income and fee and commission expenses) to the income statement.

31. OTHER FINANCIAL ASSETS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Cheques	47	30	47	27
Claims for fees and commissions	1,805	1,821	1,295	1,184
Accounts receivables	915	2,618	128	92
Surplus of funds arising from fiduciary operations	9	0	7	0
Other	39,517	22,317	39,508	22,497
Total – net amount	**42,293**	**26,786**	**40,985**	**23,800**
Impairments	**9,962**	**11,674**	**2,069**	**2,170**
Total – gross amount	**52,255**	**38,460**	**43,054**	**25,970**

Other financial assets of the Nova KBM Group in both 2016 and 2015 were mostly made up of the claims accounted for in respect of transactions with households (transactions under credit and charge cards).

31.1 Movements in impairments of other financial assets

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**11,674**	**4,552**	**2,170**	**1,537**
Assets acquired through a business combination	204	0	267	0
Additional impairment of principals	804	2,746	468	597
Additional impairment of interest	15	18	19	19
Additional impairment/(reversal of impairment) of fees	76	(27)	76	(27)
Write-offs of other financial assets	(2,837)	(936)	(930)	(289)
Foreign exchange rate differences	18	1	(1)	2
Other	8	5,320	0	331
Balance at 31 December	**9,962**	**11,674**	**2,069**	**2,170**

Recognition of additional impairment/reversal of impairment of interest and fees on other financial assets is reflected in Note 9 (Interest income and interest expenses) and Note 11 (Fee and commission income and fee and commission expenses) to the income statement.

32. HELD-TO-MATURITY FINANCIAL ASSETS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Debt securities	**90,216**	**129,548**	**90,216**	**28,566**
– current securities issued by the state and the central banks	0	17,495	0	0
– non-current securities issued by the state and the central banks	81,629	98,338	81,629	24,699
– non-current securities issued by banks and savings banks	0	5,114	0	0
– non-current securities issued by other issuers	8,587	8,601	8,587	3,867
Total	**90,216**	**129,548**	**90,216**	**28,566**
Quoted	90,216	129,548	90,216	28,566
Total	**90,216**	**129,548**	**90,216**	**28,566**

As of 31 December 2016, the Nova KBM Group had assets of this portfolio worth €33,979,000 in total pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.

32.1 Movements in held-to-maturity financial assets

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**129,548**	**206,540**	**28,566**	**89,950**
Increase during the year	**2,244**	**38,291**	**104,883**	**1,695**
– assets acquired through a business combination	0	0	100,982	0
– acquisition	0	34,982	0	0
– reversal of impairments	0	0	1,657	0
– other (deferred interest)	2,244	3,309	2,244	1,695
Decrease during the year	**41,576**	**115,283**	**43,233**	**63,079**
– disposal (sale and redemption)	37,657	109,204	39,314	60,000
– other (interest received)	3,919	6,079	3,919	3,079
Balance at 31 December	**90,216**	**129,548**	**90,216**	**28,566**

33. PROPERTY, PLANT AND EQUIPMENT

Nova KBM Group	Land and buildings	Computer equipment	Other equipment	Finance leases	PPE in progress	Total
Cost						
Balance at 1 January 2016	**91,435**	**22,053**	**31,272**	**0**	**815**	**145,575**
Assets acquired through a business combination	14,467	3,172	3,715	129	0	21,483
Transfer between types of assets	(1,707)	501	1,068	0	(2,156)	(2,294)
Additions	3	28	1	0	2,000	2,032
Disposals	(167)	(2,540)	(3,278)	0	0	(5,985)
Foreign exchange rate differences	0	0	4	0	0	4
Balance at 31 December 2016	**104,031**	**23,214**	**32,782**	**129**	**659**	**160,815**
Accumulated depreciation						
Balance at 1 January 2016	**40,704**	**20,187**	**26,930**	**0**	**429**	**88,250**
Assets acquired through a business combination	6,033	2,847	3,384	129	0	12,393
Transfer between types of assets	(988)	(132)	55	0	(428)	(1,493)
Additions	0	0	0	0	0	0
Depreciation (Note 19)	2,174	1,307	1,348	0	0	4,829
Disposals	(154)	(2,540)	(3,190)	0	0	(5,884)
Revaluation	5,404	0	0	0	0	5,404
Foreign exchange rate differences	(1)	0	3	0	0	2
Balance at 31 December 2016	**53,172**	**21,669**	**28,530**	**129**	**1**	**103,501**
Book value at 1 January 2016	**50,731**	**1,866**	**4,342**	**0**	**386**	**57,325**
Book value at 31 December 2016	**50,859**	**1,545**	**4,252**	**0**	**658**	**57,314**

Nova KBM Group	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
Balance at 1 January 2015	**91,029**	**22,592**	**32,668**	**627**	**146,916**
Transfer between types of assets	686	288	383	(1,142)	215
Additions	0	154	73	1,338	1,565
Disposals	(280)	(981)	(1,854)	(8)	(3,123)
Foreign exchange rate differences	0	0	2	0	2
Balance at 31 December 2015	**91,435**	**22,053**	**31,272**	**815**	**145,575**
Accumulated depreciation	**0**	**0**	**0**	**0**	**0**
Balance at 1 January 2015	**38,553**	**19,270**	**27,233**	**429**	**85,485**
Transfer between types of assets	(1)	0	0	0	(1)
Depreciation (Note 19)	2,164	1,887	1,397	0	5,448
Disposals	(128)	(970)	(1,701)	0	(2,799)
Revaluation	117	0	0	0	117
Foreign exchange rate differences	(1)	0	1	0	0
Balance at 31 December 2015	**40,704**	**20,187**	**26,930**	**429**	**88,250**
Book value at 1 January 2015	**52,476**	**3,322**	**5,435**	**198**	**61,431**
Book value at 31 December 2015	**50,731**	**1,866**	**4,342**	**386**	**57,325**

Nova KBM d.d.	Land and buildings	Computer equipment	Other equipment	Finance leases	PPE in progress	Total
Cost						
Balance at 1 January 2016	**80,273**	**14,569**	**25,674**	**0**	**390**	**120,906**
Assets acquired through a business combination	24,586	10,040	6,261	129	0	41,016
Transfer between types of assets	(1,707)	501	1,068	0	(1,728)	(1,866)
Additions	0	2	1	0	2,000	2,003
Disposals	(163)	(2,354)	(2,628)	0	0	(5,145)
Balance at 31 December 2016	**102,989**	**22,758**	**30,376**	**129**	**662**	**156,914**
Accumulated depreciation						
Balance at 1 January 2016	**35,375**	**13,144**	**22,479**	**0**	**0**	**70,998**
Assets acquired through a business combination	10,365	9,326	5,649	129	0	25,469
Transfer between types of assets	(988)	(132)	55	0	0	(1,065)
Depreciation (Note 19)	2,154	1,271	1,006	0	0	4,431
Disposals	(151)	(2,354)	(2,562)	0	0	(5,067)
Revaluation	5,404	0	0	0	0	5,404
Foreign exchange rate differences	(2)	0	0	0	0	(2)
Balance at 31 December 2016	**52,157**	**21,255**	**26,627**	**129**	**0**	**100,168**
Book value at 1 January 2016	**44,898**	**1,425**	**3,195**	**0**	**390**	**49,908**
Book value at 31 December 2016	**50,832**	**1,503**	**3,749**	**0**	**662**	**56,746**

Nova KBM d.d.	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
Balance at 1 January 2015	**79,813**	**15,079**	**26,406**	**193**	**121,491**
Transfer between types of assets	689	288	402	(1,141)	238
Additions	0	0	0	1,338	1,338
Disposals	(229)	(798)	(1,134)	0	(2,161)
Balance at 31 December 2015	**80,273**	**14,569**	**25,674**	**390**	**120,906**
Accumulated depreciation	**0**	**0**	**0**	**0**	**0**
Balance at 1 January 2015	**33,658**	**12,649**	**22,614**	**0**	**68,921**
Depreciation (Note 19)	1,793	1,290	917	0	4,000
Disposals	(77)	(795)	(1,052)	0	(1,924)
Foreign exchange rate differences	1	0	0	0	1
Balance at 31 December 2015	**35,375**	**13,144**	**22,479**	**0**	**70,998**
Book value at 1 January 2015	**46,155**	**2,430**	**3,792**	**193**	**52,570**
Book value at 31 December 2015	**44,898**	**1,425**	**3,195**	**390**	**49,908**

As of 31 December 2016, the acquisition cost of completely depreciated items of property plant and equipment still used by the Nova KBM Group totalled €41,752,000 (2015: €37,687,000).

The Nova KBM Group's liabilities to suppliers of items of property plant and equipment equalled €140,000 at the end of 2016 (2015: €238,000).

No items of property, plant and equipment were pledged by the Nova KBM Group at the end of 2016.

34. INVESTMENT PROPERTY

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**31,184**	**36,759**	**28,439**	**29,188**
Transfer between types of assets	6	(962)	0	(546)
Additions	8,680	3	2,852	4
Disposals	(1,917)	(4,344)	(837)	0
Change in fair value (Note 21.2)	(147)	(272)	4	(207)
Other changes	1	0	1	0
Balance at 31 December	**37,807**	**31,184**	**30,459**	**28,439**

As of 31 December 2016, the Nova KBM Group had in place 67 agreements for renting out investment properties (2015: 83).

The aggregate annual rent amounted last year to €3,941,000, inclusive of VAT (2015: €3,998,000).

Direct operating expenses incurred by the Nova KBM Group in respect of investment property amounted to €185,000 in 2016, compared to €121,000 in 2015.

Items of investment property are not subject to any sale restrictions.

35. INTANGIBLE ASSETS

Nova KBM Group	Computer software	Intangible assets in preparation	Other intangible assets	Total
Cost				
Balance at 1 January 2016	**79,319**	**980**	**9,806**	**90,105**
Assets acquired through a business combination	6,868	0	909	7,777
Transfer between types of assets	3,320	(3,286)	(16)	18
Additions	216	4,646	0	4,862
Disposals	(8,250)	0	0	(8,250)
Foreign exchange rate differences	(1)	0	0	(1)
Balance at 31 December 2016	**81,472**	**2,340**	**10,699**	**94,511**
Accumulated amortisation				
Balance at 1 January 2016	**64,428**	**0**	**3,871**	**68,299**
Assets acquired through a business combination	5,106	0	794	5,900
Transfer between types of assets	31	0	(13)	18
Amortisation (Note 19)	6,048	0	986	7,034
Disposals	(5,203)	0	0	(5,203)
Balance at 31 December 2016	**70,410**	**0**	**5,638**	**76,048**
Book value at 1 January 2016	**14,891**	**980**	**5,935**	**21,806**
Book value at 31 December 2016	**11,062**	**2,340**	**5,061**	**18,463**

The Nova KBM Group may freely dispose of its intangible assets and none of these assets are pledged as collateral.

The acquisition cost of completely amortised intangible assets still used by the Nova KBM Group totalled €47,349,000 at the end of 2016 (2015: €35,201,000).

The Nova KBM Group's liabilities to suppliers of intangible assets totalled €1,781,000 at the end of 2016 (2015: €515,000). Development costs were not capitalised in 2016.

Nova KBM Group	Computer software	Intangible assets in preparation	Other intangible assets	Total
Cost				
Balance at 1 January 2015	**76,592**	**388**	**9,636**	**86,616**
Transfer between types of assets	2,623	(2,623)	0	0
Additions	153	3,215	170	3,538
Disposals	(49)	0	0	(49)
Balance at 31 December 2015	**79,319**	**980**	**9,806**	**90,105**
Accumulated amortisation	**0**	**0**	**0**	**0**
Balance at 1 January 2015	**58,238**	**0**	**2,895**	**61,133**
Amortisation (Note 19)	6,239	0	976	7,215
Disposals	(49)	0	0	(49)
Balance at 31 December 2015	**64,428**	**0**	**3,871**	**68,299**
Book value at 1 January 2015	**18,354**	**388**	**6,741**	**25,483**
Book value at 31 December 2015	**14,891**	**980**	**5,935**	**21,806**

Nova KBM d.d.	Computer software	Intangible assets in preparation	Goodwill	Other intangible assets	Total
Cost					
Balance at 1 January 2016	**69,812**	**760**	**0**	**0**	**70,572**
Assets acquired through a business combination	14,999	34	931	0	15,964
Transfer between types of assets	3,136	(3,102)	0	(16)	18
Additions	178	4,597	0	0	4,775
Disposals	(8,250)	0	0	0	(8,250)
Foreign exchange rate differences	(1)	0	0	0	(1)
Balance at 31 December 2016	**79,874**	**2,289**	**931**	**(16)**	**83,078**
Accumulated amortisation					
Balance at 1 January 2016	**58,664**	**0**	**0**	**0**	**58,664**
Assets acquired through a business combination	9,697	0	0	811	10,508
Transfer between types of assets	31	0	0	(13)	18
Amortisation (Note 19)	5,970	0	0	8	5,978
Disposals	(5,203)	0	0	0	(5,203)
Balance at 31 December 2016	**69,159**	**0**	**0**	**806**	**69,965**
Book value at 1 January 2016	**11,148**	**760**	**0**	**0**	**11,908**
Book value at 31 December 2016	**10,715**	**2,289**	**931**	**(822)**	**13,113**

Nova KBM d.d.	Computer software	Intangible assets in preparation	Total
Cost			
Balance at 1 January 2015	**67,292**	**203**	**67,495**
Transfer between types of assets	2,519	(2,519)	0
Additions	0	3,076	3,076
Foreign exchange rate differences	1	0	1
Balance at 31 December 2015	**69,812**	**760**	**70,572**
Accumulated amortisation			
Balance at 1 January 2015	**53,160**	**0**	**53,160**
Amortisation (Note 19)	5,504	0	5,504
Balance at 31 December 2015	**58,664**	**0**	**58,664**
Book value at 1 January 2015	**14,132**	**203**	**14,335**
Book value at 31 December 2015	**11,148**	**760**	**11,908**

36. INVESTMENTS IN THE EQUITY OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Investments in the equity of banks within the Nova KBM Group	**0**	**0**	**0**	**40,978**
– equity investments in banks within the Nova KBM Group	0	0	0	40,978
– equity investments in non-resident associated banks	0	0	0	0
Investments in the equity of other companies within the Nova KBM Group	**0**	**0**	**55,476**	**40,422**
– equity investments in associated financial organisations	0	0	0	0
– equity investments in other subsidiary financial organisations	0	0	33,586	36,132
– equity investments in non-financial associated companies	0	0	0	0
– equity investments in non-financial subsidiary companies	0	0	21,890	4,290
Total	**0**	**0**	**55,476**	**81,400**

36.1 Movements in investments in the equity of subsidiaries, associates and joint ventures

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**0**	**3,164**	**81,400**	**96,764**
Increase during the year	**0**	**818**	**18,863**	**1,744**
– acquisition	0	0	17,880	0
– reversal of impairments	0	0	983	0
– realised gains	0	717	0	1,744
– other	0	101	0	0
Decrease during the year	**0**	**3,982**	**44,787**	**17,108**
– disposal	0	3,982	0	3,982
– derecognition upon the acquisition of a subsidiary company	0	0	41,258	0
– impairments	0	0	547	3,595
– other	0	0	2,982	9,531
Balance at 31 December	**0**	**0**	**55,476**	**81,400**

Of the 2016 increase in the balance of Nova KBM's investments in the equity of its subsidiaries, a total of €17,600,000 was attributable to the establishment of KBM Asco as a wholly-owned subsidiary of Nova KBM, €280,000 pertained to the acquisition of a 0.8844% minority stake in PBS, while the remaining increase resulted from the reversal of impairments in respect of the investment in the equity of Adria Abwicklungs, which was made upon the completion of its liquidation.

The 2016 decrease in the balance of Nova KBM's investments in the equity of its subsidiaries was attributable to the following factors: a derecognition of €41,258,000 in investments in the equity of subsidiaries upon the acquisition of PBS, additional impairments of €547,000 recorded on the investment in the equity of Gorica Leasing, the repayment by KBM Infond of an additional capital contribution of €2,000,000, and the derecognition of investment in the equity of Adria Abwicklungs, totalling €982,000, which was recorded upon the completion of its liquidation.

In 2015, Nova KBM further impaired its investments in the equity of its subsidiaries by a total of €3,595,000, broken down as follows:

- impairment of equity investment in KBM Leasing: €2,535,000
- impairment of equity investment in Gorica Leasing: €946,000
- impairment of equity investment in KBM Leasing Hrvatska: €114,000

In December 2015, Nova KBM derecognised its investment in the equity of its associated company Moja naložba as a result of this being sold to Sava Re. The proceeds received from the sale totalled €3,982,000, with Nova KBM recording a gain of €1,744,000 on the sale. In the consolidated financial statements of the Nova KBM Group, the investment in the equity of Moja naložba was accounted for using the equity method. Accordingly, the net gain generated by the Nova KBM Group on the sale amounted to €717,000, since the corresponding share of the Nova KBM Group in the profits of Moja naložba had already been recognised in the consolidated financial statements in previous years.

Also in December 2015, Nova KBM's investment in the equity of Adria Abwicklungs was reduced by €8,531,000 gross, based on a decision made by the Shareholders' Meeting of Adria Abwicklungs to reduce the company's share capital. Adria Abwicklungs' share capital reduction was registered with the competent Registration Court in Vienna on 18 December 2015.

Other decreases in Nova KBM's investments in the equity of its subsidiaries in 2015 include the repayment by KBM Infond of additional capital contribution of €1,000,000 in total.

36.2 Information about companies in which Nova KBM holds at least a 20% equity stake

Name and registered address of the company	31.12.2016 Total equity	2016 Net profit/ (loss)	31.12.2016 Equity attributable to Nova KBM	Acquisition cost	Nova KBM's equity stake (%)	Nova KBM's voting rights (%)	31.12.2016 Investment value
Investments in the equity of subsidiary companies							
Gorica Leasing d.o.o. (in liquidation), Nova Gorica	18,851	(547)	18,851	45,954	100.00	100.00	18,852
KBM Infond d.o.o., Maribor	10,943	1,114	8,190	2,660	72.73	72.73	2,660
KBM Invest d.o.o., Maribor	4,395	34	4,395	29,433	100.00	100.00	4,290
KBM Leasing d.o.o. (in liquidation), Maribor	14,722	2,706	14,722	48,613	100.00	100.00	12,016
KBM Leasing Hrvatska d.o.o. (In liquidation), Zagreb	(9,946)	(2,009)	(9,801)	17,323	98.54	98.54	0
M-PAY d.o.o., Maribor	243	9	121	58	50.00	50.00	58
KBM Asco d.o.o., Belgrade	(97)	(98)	(97)	17,600	100.00	100.00	17,600
Total				**161,641**			**55,476**

37. TAX ASSETS AND LIABILITIES

37.1 Tax assets

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Current income tax assets	1,109	1,706	1,067	1,446
Deferred tax assets (Note 37.3)	8,329	7,275	8,329	7,275
Total	**9,438**	**8,981**	**9,396**	**8,721**

The amount of €1,109,000 represents a claim of the Nova KBM Group against the FURS arising from the difference between the amount of tax prepayments made during 2016 and the reported tax liability for the year. Nova KBM's claim against the FURS totalled €1,067,000, of which €1,062,000 was in tax prepayments for 2016 that Nova KBM will be refunded from the FURS because it reported a tax loss for 2016.

37.2 Tax liabilities

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Current income tax liabilities	120	61	8	0
Deferred tax liabilities (Note 37.3)	113	1,580	0	0
Total	**233**	**1,641**	**8**	**0**

37.3 Deferred taxes

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Deferred tax assets	**16,838**	**13,730**	**16,821**	**13,570**
– relating to tax loss	12,434	10,259	12,434	10,259
– relating to available-for-sale financial assets	3,581	2,792	3,581	2,792
– relating to other provisions for pending legal issues	0	2	0	0
– relating to other provisions for employees	815	670	798	519
– relating to other items	8	7	8	0
Deferred tax liabilities	**8,622**	**8,035**	**8,492**	**6,295**
– relating to available-for-sale financial assets	8,622	8,035	8,492	6,295
Net deferred tax assets (Note 37.1)	**8,329**	**7,275**	**8,329**	**7,275**
Net deferred tax liabilities (Note 37.2)	**113**	**1,580**	**0**	**0**
Included in profit or loss (Note 23)	**3,581**	**(7,665)**	**3,363**	**(6,754)**
– relating to tax loss	2,175	(1,498)	2,175	(1,498)
– relating to available-for-sale financial assets	1,395	(5,547)	1,179	(5,170)
– relating to other provisions for pending legal issues	(2)	(181)	(2)	(70)
– relating to other provisions for employees	61	(434)	58	(16)
– relating to other items	(48)	0	(47)	0
Included in equity	**(7,939)**	**(6,723)**	**(7,847)**	**(5,283)**
– relating to available-for-sale financial assets (Note 46)	(7,985)	(6,727)	(7,891)	(5,283)
– relating to provisions for retirement benefits (Note 46)	46	4	44	0

For the year ending 31 December 2016, the Nova KBM Group reported a tax loss of €1,012,058,000, of which €909,010,000 was attributable to Nova KBM. The current tax loss reported by Nova KBM totals €34,747,000 and is attributable mainly to the disposal of its equity investments in its subsidiary companies (the sale of KBM Banka and the liquidation of Adria Abwicklungs), as well as its acquisitions of PBS and KBS banka. Upon disposal of the above investments, Nova KBM was allowed to treat as tax deductible the expenses in respect of the impairments of these investments that were regarded in the past as temporarily non-deductible.

Given that the acquisitions of PBS and KBS banka by Nova KBM were treated as tax-neutral transactions, the uncovered tax loss of Nova KBM increased by €122,190,000.

For a portion of its tax loss, totalling €65,443,000, Nova KBM has recorded deferred tax assets for losses, in the amount of €12,434,000. The remaining tax loss, in respect of which the Nova KBM Group had not established any deferred tax assets, amounted to €946,615,000 (of which €843,567,000 was attributable to Nova KBM), while the unrecognised deferred tax assets totalled €179,857,000 (of which €160,278,000 was attributable to Nova KBM). The total level of deferred tax assets was determined on the basis of the projections of future taxable income in the next five years.

As of 31 December 2016, Nova KBM had no deferred tax assets recognised in respect of the impairment of equity investments in its subsidiaries. The total amount of impairments recognised from 2011 to 2016 amounted to €116,797,000, while the unrecognised deferred tax assets in respect of these impairments totalled €22,191,000. The amount of impairments recorded on investments in the equity of subsidiaries declined in 2016 by €66,428,000 as a result of the disposal of some of these investments.

The negative amount of €4,911,000, included in the line item 'Deferred tax assets relating to available-for-sale financial assets', is the result of Nova KBM disclosing net deferred taxes by individual types. At the end of 2016, the total deferred tax assets and tax liabilities in respect of available-for-sale financial assets (securities) amounted to €3,581,000 and €8,492,000, respectively.

38. OTHER ASSETS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Inventory	25,350	28,119	16,224	12,188
– assets received in settlement of claims	6,930	6,986	16,210	11,893
– other inventory	18,420	21,133	14	295
Claims arising from advance payments	142	130	123	30
Prepayments and accrued income	1,505	1,390	1,282	722
Other claims	231	67	49	27
Total – net amount	**27,228**	**29,706**	**17,678**	**12,967**
Impairments	**43,293**	**48,984**	**34,351**	**33,479**
Total – gross amount	**70,521**	**78,690**	**52,029**	**46,446**

Real estate units held for sale, totalling €14,463,000 (2015: €16,009,000), and movable and immovable items seized under lease agreements and held for the purpose of sale or lease out, totalling €2,462,000 (2015: €3,804,000), accounted for the largest proportion of the Nova KBM Group's inventory at the end of 2016.

38.1 Movements in impairments of other assets

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**48,984**	**48,579**	**33,479**	**32,333**
Assets acquired through a business combination	0	0	762	0
Additional impairment/(reversal of impairment) of principals	(530)	2,454	972	1,146
Write-offs of other assets	(4,975)	(1,810)	(52)	0
Foreign exchange rate differences	35	11	0	0
Other	(221)	(250)	(810)	0
Balance at 31 December	**43,293**	**48,984**	**34,351**	**33,479**

39. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Items of property, plant and equipment held for sale	1,241	1,239	1,241	1,239
Non-current intangible assets held for sale	0	22	0	0
Items of investment property held for sale	405	0	405	0
Assets of discontinued operations	0	56,188	0	0
Total	**1,646**	**57,449**	**1,646**	**1,239**

The Nova KBM Group's assets of discontinued operations at the end of 2015 include assets of KBM Banka, Nova KBM's ex-subsidiary.

40. FINANCIAL LIABILITIES HELD FOR TRADING

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Derivatives	1,575	270	1,575	270
– forwards	243	173	243	173
– options	0	0	0	0
– swaps	151	39	151	39
– other derivatives	1,181	58	1,181	58
Total	**1,575**	**270**	**1,575**	**270**

41. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Deposits (Note 41.1)	3,667,354	3,124,215	3,691,965	2,546,451
Loans (Note 41.2)	333,088	317,151	333,088	300,463
Debt securities (Note 41.4)	14,376	12,368	14,376	14,418
Subordinated liabilities (Note 41.5)	0	610	0	0
Other financial liabilities (Note 41.6)	61,074	39,943	60,702	33,697
Total	**4,075,892**	**3,494,287**	**4,100,131**	**2,895,029**

41.1 Deposits by type of customers and maturity

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Deposits from banks	**41,107**	**29,768**	**41,107**	**32,833**
– demand deposits	16,095	29,435	16,095	32,497
– current deposits	966	333	966	336
– non-current deposits	24,046	0	24,046	0
Deposits from customers	**3,626,247**	**3,094,447**	**3,650,858**	**2,513,618**
– demand deposits	2,307,253	1,807,122	2,329,857	1,408,068
– current deposits	491,268	425,582	492,310	335,784
– non-current deposits	827,726	861,743	828,691	769,766
Total	**3,667,354**	**3,124,215**	**3,691,965**	**2,546,451**

41.2 Loans by type of customers and maturity

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans from banks	**333,088**	**316,242**	**333,088**	**299,554**
– non-current loans	333,088	316,242	333,088	299,554
Loans from customers	**0**	**909**	**0**	**909**
– non-current loans	0	909	0	909
Total	**333,088**	**317,151**	**333,088**	**300,463**

41.3 Deposits and loans by market segments

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Deposits	**3,667,354**	**3,124,215**	**3,691,965**	**2,546,451**
– from banks	41,107	29,768	41,107	32,833
– from non-financial companies	561,409	433,547	562,868	401,599
– from the state	100,610	55,014	100,610	43,821
– from other financial organisations	89,384	74,372	112,531	81,999
– from non-residents	54,600	42,629	54,605	44,692
– from non-profit institutions serving households	69,877	36,947	69,877	29,578
– from households	2,750,367	2,451,938	2,750,367	1,911,929
Loans	**333,088**	**317,151**	**333,088**	**300,463**
– from banks	333,088	316,242	333,088	299,554
– from the state	0	909	0	909
Total	**4,000,442**	**3,441,366**	**4,025,053**	**2,846,914**

41.4 Debt securities by type and maturity

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Non-current securities issued	**6,724**	**6,724**	**6,724**	**6,724**
– bonds	6,724	6,724	6,724	6,724
Certificates of deposit issued	**7,652**	**5,644**	**7,652**	**7,694**
– current	0	(1)	0	0
– non-current	7,652	5,645	7,652	7,694
Total	**14,376**	**12,368**	**14,376**	**14,418**

41.5 Subordinated liabilities

				Nova KBM Group		Nova KBM d.d.	
Issuer	Currency	Date of maturity	Interest rate	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Subordinated debt							
Adria Abwicklungs GmbH in Liqu.	EUR	perpetual; call option on each 28.12.	variable	0	610	0	0
Total				**0**	**610**	**0**	**0**

Subordinated liabilities are included in the calculation of capital adequacy. Capital risk is presented in Note 4.6.

41.6 Other financial liabilities

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Liabilities for fees and commissions	8	8	8	7
Liabilities arising from gross salaries of employees	3,476	3,132	3,316	2,407
Liabilities to suppliers	3,731	4,712	3,318	4,047
Liabilities arising from payment card transactions	23,986	12,978	23,986	12,943
Liabilities arising from ATM transactions	1,416	1,642	1,416	1,485
Liabilities in respect of funds provided by customers for cross-border payments	1,627	378	1,627	378
Liabilities in respect of cash transactions	5,680	2,198	5,680	969
Accruals and deferred income	9,318	7,403	8,701	4,073
Liabilities in respect of the surplus of funds arising from fiduciary operations	0	56	0	56
Other financial liabilities	11,832	7,436	12,650	7,332
Total	**61,074**	**39,943**	**60,702**	**33,697**

The largest proportion of the amount shown in the line item 'Other financial liabilities' arises from the balances held in transitional accounts.

42. PROVISIONS

Nova KBM Group	Provisions for restructuring costs	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance-sheet liabilities	Other provisions	Total
Balance at 1 January 2016	**2,456**	**20,672**	**6,160**	**33,387**	**4,201**	**66,876**
Assets acquired through a business combination	553	297	498	128	79	1,555
Net creation/(reversal) of provisions through profit or loss (Note 20)	3,490	(1,963)	185	(5,195)	(1,261)	(4,744)
– provisions made during the year	3,490	6,181	767	21,007	0	31,445
– provisions (reversed) during the year	0	(8,144)	(582)	(26,202)	(1,261)	(36,189)
Net creation of provisions through equity	0	0	475	0	0	475
Provisions used during the year	(1,639)	(2,550)	(378)	0	(367)	(4,934)
Foreign exchange rate differences	0	258	0	(6)	(258)	(6)
Other	0	0	(2)	0	0	(2)
Balance at 31 December 2016	**4,860**	**16,714**	**6,938**	**28,314**	**2,394**	**59,220**

Legal actions brought against the Nova KBM Group totalled €32,609,000 at the end of 2016 (2015: €46,235,000). Considering legal opinions obtained, the Nova KBM Group had €16,417,000 of provisions set aside for these actions as of 31 December 2016 (2015: €20,672,000).

In 2016, the Nova KBM Group reversed other provisions of €1,247,000, which had been set aside in previous years for legal actions brought against KBM Leasing, but which were no longer necessary after these actions had been settled. A total of €1,505,000 in provisions was set aside in 2015 for potential claims in respect of lease transactions. These provisions are included in 'Other provisions'.

Nova KBM Group	Provisions for restructuring costs	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance-sheet liabilities	Other provisions	Total
Balance at 1 January 2015	**2,028**	**18,753**	**7,334**	**52,272**	**2,624**	**83,011**
Net creation/(reversal) of provisions through profit or loss (Note 20)	1,995	4,879	625	(18,885)	1,744	(9,642)
– provisions made during the year	1,995	11,555	1,187	24,115	1,790	40,642
– provisions (reversed) during the year	0	(6,676)	(562)	(43,000)	(46)	(50,284)
Net (reversal) of provisions through equity	0	0	(511)	0	0	(511)
Provisions used during the year	(1,567)	(2,960)	(1,290)	0	(167)	(5,984)
Foreign exchange rate differences	0	0	1	0	0	1
Other	0	0	1	0	0	1
Balance at 31 December 2015	**2,456**	**20,672**	**6,160**	**33,387**	**4,201**	**66,876**

Nova KBM d.d.	Provisions for restructuring costs	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance-sheet liabilities	Other provisions	Total
Balance at 1 January 2016	**2,456**	**19,054**	**4,318**	**32,949**	**308**	**59,085**
Assets acquired through a business combination	553	352	1,376	1,500	117	3,898
Net creation/(reversal) of provisions through profit or loss (Note 20)	3,490	(889)	618	(5,241)	0	(2,022)
– provisions made during the year	3,490	6,103	746	20,961	0	31,300
– provisions (reversed) during the year	0	(6,992)	(128)	(26,202)	0	(33,322)
Net creation of provisions through equity	0	0	470	0	0	470
Provisions used during the year	(1,639)	(2,550)	(87)	0	(364)	(4,640)
Foreign exchange rate differences	0	0	0	(6)	0	(6)
Balance at 31 December 2016	**4,860**	**15,967**	**6,695**	**29,202**	**61**	**56,785**

Nova KBM d.d.	Provisions for restruc-turing costs	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance-sheet liabilities	Other provisions	Total
Balance at 1 January 2015	**2,028**	**17,508**	**4,651**	**50,225**	**193**	**74,605**
Net creation/(reversal) of provisions through profit or loss (Note 29)	1,995	3,937	249	(17,276)	282	(10,813)
– provisions made during the year	1,995	10,255	364	22,190	285	35,089
– provisions (reversed) during the year	0	(6,318)	(115)	(39,466)	(3)	(45,902)
Net (reversal) of provisions through equity	0	0	(440)	0	0	(440)
Provisions used during the year	(1,567)	(2,391)	(142)	0	(167)	(4,267)
Foreign exchange rate differences	0	0	0	0	0	0
Balance at 31 December 2015	**2,456**	**19,054**	**4,318**	**32,949**	**308**	**59,085**

43. OTHER LIABILITIES

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Liabilities arising from advance payments received	355	289	12	0
Liabilities in respect of taxes and contributions	1,457	1,498	1,336	1,083
Accruals and deferred income	1,357	1,292	1,339	1,159
Total	**3,169**	**3,079**	**2,687**	**2,242**

44. SHARE CAPITAL

Nova KBM Group and Nova KBM d.d.	31.12.2016	31.12.2015
Ordinary shares	**150,000**	**150,000**
– subscribed by the state	0	150,000
– subscribed by non-residents	150,000	0

In 2016 and 2015, the Nova KBM Group did not purchase or sell treasury shares, and no treasury shares were held by Nova KBM at the end of 2016, nor were shares of Nova KBM held by any of the Nova KBM Group companies.

45. SHARE PREMIUM

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Paid-in capital surplus	403,302	360,572	403,302	360,572
Total	**403,302**	**360,572**	**403,302**	**360,572**

Nova KBM's share premium increased year on year by €42,730,000, with the entire increase being attributable to the share capital of KBS banka, which Nova KBM has acquired.

46. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Accumulated other comprehensive income in respect of available-for-sale financial assets	34,041	32,863	33,640	25,792
– revaluation	42,026	39,590	41,531	31,075
– deferred taxes (Note 37.3)	(7,985)	(6,727)	(7,891)	(5,283)
Accumulated other comprehensive income/(loss) in respect of actuarial gains or losses on defined benefit pension plans	(470)	(48)	(439)	7
– revaluation	(516)	(52)	(483)	7
– deferred taxes (Note 37.3)	46	4	44	0
Total	**33,571**	**32,815**	**33,201**	**25,799**

46.1 Movements in accumulated other comprehensive income

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**32,815**	**42,841**	**25,799**	**33,859**
Net change arising from the valuation of available-for-sale financial assets	2,436	(12,634)	2,032	(10,240)
– recognised gains/(losses)	4,556	(12,779)	4,338	(10,240)
– transfer of gains/(losses) to profit or loss	(2,120)	145	(2,306)	0
Net change in accumulated other comprehensive income in respect of actuarial gains or losses on defined benefit pension plans	(464)	499	(470)	440
Net change in deferred taxes	(1,216)	2,109	(1,135)	1,740
Other	0	0	6,975	0
Balance at 31 December	**33,571**	**32,815**	**33,201**	**25,799**

47. RESERVES FROM PROFIT

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Regulatory reserves	3,835	3,939	3,518	3,518
Statutory reserves	0	33,420	0	33,420
Other reserves from profit	16,710	16,710	16,710	16,710
Total	**20,545**	**54,069**	**20,228**	**53,648**

In accordance with amendments to its Articles of Association of 21 April 2016, Nova KBM no longer maintains statutory reserves.

Based on the provisions of the ZGD-1 and taking into account an opinion provided by an independent legal expert, Nova KBM's statutory reserves were released to distributable profit, because the effects of releasing any type of reserves shall be reflected in distributable profit.

47.1 Movements in reserves from profit

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Balance at 1 January	**54,069**	**27,895**	**53,648**	**27,389**
Increase/(decrease) in regulatory reserves	(104)	1,637	0	1,722
Increase/(decrease) in statutory reserves	(33,420)	16,358	(33,420)	16,358
Increase in other reserves	0	8,179	0	8,179
Balance at 31 December	**20,545**	**54,069**	**20,228**	**53,648**

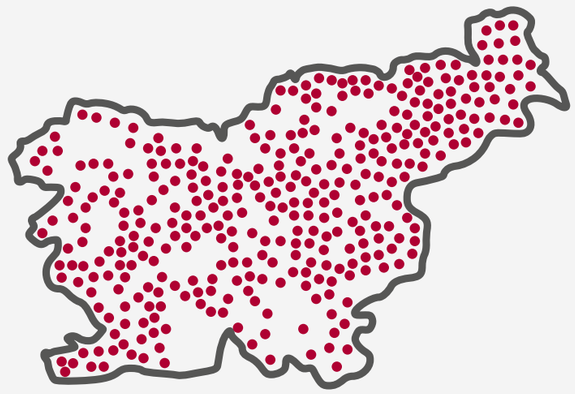
48. RETAINED EARNINGS (INCLUDING NET PROFIT FOR THE FINANCIAL YEAR)

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Retained earnings from previous years	45,705	35,455	30,847	8,527
Net profit/(loss) for the financial year	27,459	(9,724)	33,003	8,183
Total	**73,164**	**25,731**	**63,850**	**16,710**

49. DISTRIBUTABLE PROFIT

	Nova KBM d.d.	
	31.12.2016	31.12.2015
Net profit for the financial year	**33,004**	**34,435**
Retained earnings from previous years	16,710	8,527
Increase/(decrease) in reserves from profit	16,853	(26,259)
– regulatory reserves	0	(1,722)
– statutory reserves (Note 47)	33,420	(16,358)
– other reserves from profit	0	(8,179)
Payment of dividends	(16,567)	0
Other	(2,717)	7
Distributable profit	**63,850**	**16,710**

The allocation of the distributable profit is subject to a decision of the Shareholders' Meeting of Nova KBM. The Management and Supervisory Boards will propose to the Shareholders' Meeting that €30,167,000 of the distributable profit be used for the payment of dividends.



We provide our services through more than 500 branch offices – our own and those of Pošta Slovenije.

OTHER NOTES

50. COMMITMENTS AND CONTINGENT LIABILITIES BY TYPE

	Nova KBM Group 31.12.2016			Nova KBM d.d. 31.12.2016		
	Current	Non-current	Total	Current	Non-current	Total
Financial guarantees	65,386	29,551	94,937	65,386	28,651	94,037
Service guarantees	87,240	82,018	169,258	87,370	82,931	170,301
Total guarantees	**152,626**	**111,569**	**264,195**	**152,756**	**111,582**	**264,338**
Unsecured letters of credit	**189**	**0**	**189**	**189**	**0**	**189**
Approved and undrawn loans	132,282	11,009	143,291	132,282	11,009	143,291
Approved and undrawn overdrafts	240,038	0	240,038	240,046	0	240,046
Total commitments and contingent liabilities	**372,320**	**11,009**	**383,329**	**372,328**	**11,009**	**383,337**
Derivatives	**36,794**	**38,103**	**74,897**	**36,794**	**38,103**	**74,897**
Total	**561,929**	**160,681**	**722,610**	**562,067**	**160,694**	**722,761**

	Nova KBM Group 31.12.2015			Nova KBM d.d. 31.12.2015		
	Current	Non-current	Total	Current	Non-current	Total
Financial guarantees	47,343	27,807	75,150	44,172	25,122	69,294
Service guarantees	96,592	85,645	182,237	83,749	76,269	160,018
Total guarantees	**143,935**	**113,452**	**257,387**	**127,921**	**101,391**	**229,312**
Unsecured letters of credit	**0**	**0**	**0**	**168**	**0**	**168**
Approved and undrawn loans	132,670	12,760	145,430	129,894	12,127	142,021
Approved and undrawn overdrafts	189,417	1,030	190,447	163,914	0	163,914
Approved credit lines	7,386	0	7,386	0	0	0
Total commitments and contingent liabilities	**329,473**	**13,790**	**343,263**	**293,808**	**12,127**	**305,935**
Derivatives	**55,072**	**15,000**	**70,072**	**55,072**	**15,000**	**70,072**
Total	**528,480**	**142,242**	**670,722**	**476,969**	**128,518**	**605,487**

In the past, Nova KBM had provided guarantees, worth US$11.6 million in total (€10,736,000), in favour of the Iraqi Rafidain Bank. These guarantees, issued as per the request of Metalna of Maribor, were covered by Republic of Slovenia bonds. In the period between 1989 and 1990, Rafidain Bank several times called upon Nova KBM to honour the guarantees, which Nova KBM refused to do because of the sanctions against Iraq. In 2013, based on an appropriate risk assessment, Nova KBM set aside provisions to cover any potential payments to be made under these guarantees, given that the respective Republic of Slovenia bonds had expired. In February 2016, Nova KBM received a legal opinion reasoning that the Republic of Slovenia's obligations in respect of these guarantees should have continued to be in effect. Consequently, Nova KBM will request that the state guarantee be provided once again. Provisions set aside for these guarantees are still on Nova KBM's books because it is not clear what the outcome of negotiations with the government will be.

Liabilities under rental agreements

	Nova KBM Group			Nova KBM d.d.		
	Annual amount in 2017	2 to 5 years (2018–2021)	Over 5 years	Annual amount in 2017	2 to 5 years (2018–2021)	Over 5 years
Business premises, parking places and ATMs	1,199	3,855	6,008	1,153	3,689	5,682
Computer software	259	469	1,105	357	860	2,122
Information channels	414	1,655	4,137	516	2,061	5,154
Other equipment	2,093	6,050	21	2,191	6,441	1,019
Total	**3,965**	**12,029**	**11,271**	**4,217**	**13,051**	**13,977**

Liabilities with respect to renting business premises, ATMs and information channels under operating lease agreements account for the largest proportion of the Nova KBM Group's liabilities under rental agreements.

The Nova KBM Group has not entered into any irrevocable rental agreements.

Receivables under rental agreements

	Nova KBM Group			Nova KBM d.d.		
	Annual amount in 2017	2 to 5 years (2018–2021)	Over 5 years	Annual amount in 2017	2 to 5 years (2018–2021)	Over 5 years
Business premises, parking places and apartments	3,972	15,363	20,388	3,950	15,438	20,913
Computer software	0	0	0	102	406	1,017
Information channels	0	0	0	102	406	1,017
Other equipment	19	77	193	121	483	1,210
Total	**3,991**	**15,440**	**20,581**	**4,275**	**16,733**	**24,157**

The most significant rental agreements have been made for renting out business premises and apartments under operating leases.

51. DERIVATIVES

51.1 Analysis of derivatives by type

	Nova KBM Group 31.12.2016			Nova KBM d.d. 31.12.2016		
	Current	Non-current	Total	Current	Non-current	Total
Forwards	**32,462**	**0**	**32,462**	**32,462**	**0**	**32,462**
– trading	32,462	0	32,462	32,462	0	32,462
Other derivatives	**2,647**	**0**	**2,647**	**2,647**	**0**	**2,647**
– trading	2,647	0	2,647	2,647	0	2,647
Swaps	**1,685**	**38,103**	**39,788**	**1,685**	**38,103**	**39,788**
– trading	1,685	38,103	39,788	1,685	38,103	39,788
Total	**36,794**	**38,103**	**74,897**	**36,794**	**38,103**	**74,897**

	Nova KBM Group 31.12.2015			Nova KBM d.d. 31.12.2015		
	Current	Non-current	Total	Current	Non-current	Total
Forwards	**36,822**	**0**	**36,822**	**36,822**	**0**	**36,822**
– trading	36,822	0	36,822	36,822	0	36,822
Other derivatives	**16,254**	**0**	**16,254**	**16,254**	**0**	**16,254**
– trading	16,254	0	16,254	16,254	0	16,254
Swaps	**1,996**	**15,000**	**16,996**	**1,996**	**15,000**	**16,996**
– trading	1,996	15,000	16,996	1,996	15,000	16,996
Total	**55,072**	**15,000**	**70,072**	**55,072**	**15,000**	**70,072**

51.2 Derivatives held for trading purposes

		Nova KBM Group 31.12.2016			Nova KBM d.d. 31.12.2016		
Type of risk	Type of derivative	Assets	Book value taken to the statement of financial position Liabilities	Off-balance-sheet value	Type of derivative	Assets	Book value taken to the statement of financial position Liabilities	Off-balance-sheet value
Interest rate risk	Interest rate swaps	201	151	39,788	Interest rate swaps	201	151	39,788
Equity instrument price risk	Other derivatives	0	1,181	2,647	Other derivatives	0	1,181	2,647
Equity instrument price risk	Options	0	0	0	Options	0	0	0
Foreign exchange risk	Currency forwards	27	243	32,462	Currency forwards	27	243	32,462
Total		**228**	**1,575**	**74,897**		**228**	**1,575**	**74,897**

		Nova KBM Group 31.12.2015			Nova KBM d.d. 31.12.2015		
Type of risk	Type of derivative	Assets	Book value taken to the statement of financial position Liabilities	Off-balance-sheet value	Type of derivative	Assets	Book value taken to the statement of financial position Liabilities	Off-balance-sheet value
Interest rate risk	Interest rate swaps	62	39	16,996	Interest rate swaps	62	39	16,996
Equity instrument price risk	Other derivatives	20	58	16,254	Other derivatives	20	58	16,254
Equity instrument price risk	Options	0	0	0	Options	0	0	0
Foreign exchange risk	Currency forwards	34	173	36,822	Currency forwards	34	173	36,822
Total		**116**	**270**	**70,072**		**116**	**270**	**70,072**

52. FIDUCIARY OPERATIONS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Non-financial companies	6,575	32	6,575	32
State	5,255	3,179	5,255	3,179
Banks and other financial organisations	6,257	5,294	6,257	6,247
Households	13	6	13	6
Non-profit institutions serving households	1,277	1,329	1,277	1,329
Non-residents	2	0	0	0
Liabilities arising from transactions in securities	2,244	1,369	2,244	1,369
Total fiduciary activities	**21,623**	**11,209**	**21,621**	**12,162**

53. BROKERAGE TRANSACTIONS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
ASSETS	**2,097**	**1,343**	**2,097**	**1,343**
Claims of settlement and transaction accounts for customer assets	**327**	**273**	**327**	**273**
– from financial instruments	240	120	240	120
– against the Central Securities Clearing Corporation or Nova KBM's clearing account for sold financial instruments	58	12	58	12
– against other settlement systems and institutions for sold financial instruments (buyers)	29	141	29	141
Customers' cash	**1,770**	**1,070**	**1,770**	**1,070**
– in the settlement account for customer assets	534	416	534	416
– in banks' transaction accounts	1,236	654	1,236	654
LIABILITIES	**2,097**	**1,343**	**2,097**	**1,343**
Liabilities of settlement and transaction accounts for customer assets	**2,097**	**1,343**	**2,097**	**1,343**
– to customers from cash and financial instruments	1,847	1,219	1,847	1,219
– to the Central Securities Clearing Corporation or Nova KBM's clearing account for purchased financial instruments	130	26	130	26
– to other settlement systems and institutions for purchased financial instruments (suppliers)	10	1	10	1
– to Nova KBM or Nova KBM's settlement account for commissions, fees, etc.	110	97	110	97
OFF-BALANCE-SHEET ITEMS	**140**	**27**	**140**	**27**
Customers' financial instruments, itemized by service	**140**	**27**	**140**	**27**
– receipt, transmission and execution of orders	140	27	140	27

54. RELATED PARTY TRANSACTIONS

54.1 Statement of financial position and off-balance-sheet items

	Associates Nova KBM Group		Associates Nova KBM d.d.		Subsidiaries Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Assets						
Deposits and loans given (gross amount)	0	0	0	0	14,651	44,782
– deposits and loans to banks	0	0	0	0	0	15,090
– deposits and loans to customers	0	0	0	0	14,640	24,811
– other financial assets	0	0	0	0	11	4,881
Investments in securities	0	0	0	0	55,476	81,400
– equity instruments	0	0	0	0	55,476	81,400
Liabilities						
Deposits and loans received	0	0	0	0	25,531	15,314
– deposits and loans from banks	0	0	0	0	0	3,066
– deposits and loans from customers	0	0	0	0	24,611	12,079
– other financial liabilities	0	0	0	0	920	169
Securities issued	0	0	0	0	0	2,049
– debt securities	0	0	0	0	0	2,049
Other liabilities	0	0	0	0	0	9
Off-balance-sheet items	**0**	**0**	**0**	**0**	**1,274**	**2,175**

	Key management personnel				Other related persons			
	Nova KBM Group		Nova KBM d.d.		Nova KBM Group		Nova KBM d.d.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Assets								
Deposits and loans given (gross amount)	461	257	461	257	80,303	562	80,169	269
– deposits and loans to banks	0	0	0	0	80,006	0	80,006	0
– loans to customers	461	257	461	257	297	562	163	269
Investments in securities	0	1,527	0	1,527	375	417	375	383
– equity instruments	0	1,527	0	1,527	375	417	375	383
Liabilities								
Deposits and loans received	479	441	479	396	13,067	1,432	12,668	803
– deposits and loans from customers	479	441	479	396	13,053	1,350	12,654	721
– other financial liabilities	0	0	0	0	14	82	14	82
Securities issued	0	0	0	0	1,581	0	1,581	0
– debt securities	0	0	0	0	1,581	0	1,581	0
Off-balance-sheet items	**74**	**57**	**74**	**57**	**84**	**184**	**54**	**117**

Key management personnel of the Nova KBM Group include members of the Management Board, executive directors, and members of the Supervisory Board of Nova KBM.

Other related persons of the Nova KBM Group include:

- immediate families of the key management personnel
- companies whose owners or key management personnel are members of key management personnel of the Nova KBM Group, or of their immediate families
- key management personnel of subsidiaries (management boards and executive directors)
- immediate families of the key management personnel of subsidiaries
- companies whose owners or key management personnel are members of key management personnel of subsidiaries, or of their immediate families

Transactions with related persons are conducted on an arm's length basis.

54.2 Income statement

	Associates		Associates		Subsidiaries	
	Nova KBM Group		Nova KBM d.d.		Nova KBM d.d.	
	2016	2015	2016	2015	2016	2015
Net interest income	0	(91)	0	(91)	361	1,940
Dividend income	0	0	0	0	457	476
Net fee and commission income	0	(15)	0	5	197	658
Other operating income	0	32	0	0	41	59
Costs of services	0	0	0	0	(81)	(50)
Loan impairments	0	0	0	0	1,536	423
Provisions	0	0	0	0	(20)	(33)
Impairments of equity investments	0	0	0	0	(547)	(3,595)
Write-offs	0	0	0	0	(9,513)	0
Total	**0**	**(74)**	**0**	**(86)**	**(7,569)**	**(122)**

	Key management personnel				Other related persons			
	Nova KBM Group		Nova KBM d.d.		Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015	2016	2015	2016	2015
Net interest income	7	2	7	3	(7)	1,946	(7)	9
Net fee and commission income	0	1	0	1	19	(260)	19	7
Costs of services	(348)	(252)	(348)	(190)	(2,472)	(3,948)	(2,472)	(3,872)
Impairments	0	0	0	0	0	303	0	0
Provisions	0	0	0	0	0	(181)	0	(2)
Total	**(341)**	**(249)**	**(341)**	**(186)**	**(2,460)**	**(2,140)**	**(2,460)**	**(3,858)**

54.3 Loans and guarantees given

Nova KBM Group	Management Board members		Supervisory Board members		Other Nova KBM Group employees on individual contracts	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans	0	0	0	23	2,079	1,907
Average interest rate on loans (%)	7.9	3.23	0	3.42	2.48	3.06
Repayments	0	3	0	6	381	487

Nova KBM d.d.	Management Board members		Supervisory Board members		Other Nova KBM employees on individual contracts	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans	0	0	0	23	1,801	1,142
Average interest rate on loans (%)	7.9	3.23	0	3.42	2.44	2.89
Repayments	0	3	0	6	311	203

54.4 Relationship between Nova KBM and its parent company

No legal transactions were made in 2016 between Nova KBM and Biser Bidco S.à r.l., its parent company, or Biser Topco S.à r.l., a company affiliated to its parent company, which could have caused damage to Nova KBM.

In 2016, total dividends of €16,567,000 were distributed to Biser Bidco S.à r.l. by Nova KBM.

55. SUBSIDIARY AND ASSOCIATED COMPANIES

Disclosures for subsidiaries with material non-controlling interests

Nova KBM holds 72.73% of equity and voting rights in KBM Infond, a Nova KBM Group company in which the non-controlling interest is material.

	KBM Infond d.o.o.	
	2016	2015
Share of non-controlling interests in voting rights (%)	**27.27**	**27.27**
Share of non-controlling interests in equity (%)	**27.27**	**27.27**
Financial assets held for trading	887	1,447
Available-for-sale financial assets	2,418	3,109
Loans and advances	542	584
Other assets	158	53
Financial liabilities measured at amortised cost	468	601
Net worth (equity)	**10,943**	**12,394**
Equity attributable to non-controlling interests	**2,753**	**2,603**
Net income	4,854	5,060
Operating costs	(3,385)	(3,321)
Provisions and impairments	(127)	(12)
Profit from continuing operations	1,342	1,727
Income taxes on continuing operations	(228)	(299)
Net profit for the financial year	1,114	1,428
Net profit for the financial year attributable to non-controlling interests	304	389
Other comprehensive income	6	31
Total comprehensive income	1,121	1,459
Total comprehensive income attributable to non-controlling interests	**306**	**398**
Cash flows from operating activities	3,318	2,925
Cash flows from financing activities	(114)	(334)
Cash flows from investing activities	(2,571)	(1,655)
Net increase in cash and cash equivalents during the financial year	**634**	**936**
Dividends paid to non-controlling interests	**115**	**126**

56. EXPOSURE TO THE BANK OF SLOVENIA, REPUBLIC OF SLOVENIA AND STATE-OWNED INSTITUTIONS

	Nova KBM Group		Nova KBM d.d.	
On-balance-sheet exposure to:	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Bank of Slovenia	**695,921**	**231,391**	**695,921**	**192,464**
– settlement account	651,335	201,358	651,335	167,157
– other	19,316	14,388	19,316	11,061
– Bank Resolution Fund	25,270	15,645	25,270	14,246
Republic of Slovenia	**707,014**	**884,548**	**706,697**	**664,357**
– bonds	664,017	661,786	664,017	475,202
– other securities	2,000	189,389	2,000	156,910
– loans and advances	31,683	30,763	31,543	30,070
– other	9,314	2,610	9,137	2,175
State-owned institutions	**184,524**	**310,381**	**184,293**	**369,875**
– securities	35,541	54,384	35,541	120,425
– loans and advances	146,889	184,069	146,872	183,354
– total	2,094	71,928	1,880	66,096
Total on-balance-sheet exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	**1,587,459**	**1,426,320**	**1,586,911**	**1,226,696**
Total exposure as a proportion of the balance sheet total (%)	32.91	33.59	32.84	34.43
Balance sheet total	**4,823,450**	**4,246,167**	**4,831,767**	**3,563,355**
Off-balance-sheet exposure to:				
Bank of Slovenia				
– commitments and contingencies	0	0	0	0
Republic of Slovenia				
– commitments and contingencies	618	628	22	32
State-owned institutions				
– commitments and contingencies	130,550	128,846	130,550	128,426
Total off-balance-sheet exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	**131,168**	**129,474**	**130,572**	**128,458**
Loans secured by guarantees provided by the Republic of Slovenia	62,078	207,223	62,078	194,998
– on-balance-sheet	61,888	207,223	61,888	194,998

57. MOVEMENTS IN PAST DUE AND UNPAID CLAIMS

Nova KBM Group	Balance at 1.1.2016	(%)	Net increase/ (decrease)	Write-offs	Foreign exchange rate differences	Assets acquired through a business combination	Balance at 31.12.2016
Loans and advances to banks	197	0.32	(195)	0	0	0	2
Loans and advances to customers	611,685	25.18	(8,286)	(212,458)	152	46,617	437,710
Other financial assets	4,881	12.69	1,151	(2,516)	0	0	3,516
Total	**616,763**		**(7,330)**	**(214,974)**	**152**	**46,617**	**441,228**

Nova KBM Group	Balance at 1.1.2015	(%)	Net increase	Write-offs	Foreign exchange rate differences	Balance at 31.12.2015
Loans and advances to banks	16	0.03	181	0	0	197
Loans and advances to customers	655,821	25.82	1,056	(45,220)	28	611,685
Other financial assets	4,963	19.94	1,004	(1,086)	0	4,881
Total	**660,800**		**2,241**	**(46,306)**	**28**	**616,763**

Nova KBM d.d.	Balance at 1.1.2016	(%)	Net increase/ (decrease)	Write-offs	Assets acquired through a business combination	Balance at 31.12.2016
Loans and advances to banks	179	0.27	5,000	(5,177)	0	2
Loans and advances to customers	388,858	19.79	(6,603)	(152,285)	172,332	402,302
Other financial assets	2,141	8.24	923	(1,034)	178	2,208
Total	**391,178**		**(680)**	**(158,496)**	**172,510**	**404,512**

Nova KBM d.d.	Balance at 1.1.2015	(%)	Net increase	Write-offs	Balance at 31.12.2015
Loans and advances to banks	16	0.02	163	0	179
Loans and advances to customers	395,422	19.72	18,173	(24,737)	388,858
Other financial assets	1,647	12.39	894	(400)	2,141
Total	**397,085**		**19,230**	**(25,137)**	**391,178**

58. REMUNERATION

	Nova KBM Group		Nova KBM d.d.	
	2016	2015	2016	2015
Management Board members	390	274	390	274
Supervisory Board members	87	125	87	125
Members of Supervisory Board committees	20	56	20	56
Other employees on individual contracts	5,486	4,945	4,557	2,828
Total	**5,983**	**5,400**	**5,054**	**3,283**

Remuneration paid to Management Board members comprises: salary, bonuses, incentives and the payment of supplementary pension insurance premiums.

Remuneration paid to Supervisory Board members comprises: a payment for holding the office, and to cover attendance fees, reimbursement of costs, seminar participation fees, and the payment of liability insurance premiums.

Remuneration paid to other Nova KBM Group employees working on individual contracts comprises: salary, bonuses, compensation for lost income, allowance for bonuses, the payment of supplementary pension insurance premiums, and other remuneration under employment contracts.

The total amount paid in 2016 to Robert Senica, President of the Management Board, and Sabina Župec Kranjc, Management Board member, for meeting attendances in respect of their work on the Supervisory Board of KBM Infond, a Nova KBM subsidiary, was €1,574.89 and €4,653.36, respectively.

Analysis of remuneration paid to Management Board members and executive directors

Remuneration of the Management Board

€

Salary (including bonuses and other incentives) Nova KBM d.d.	Gross salary	Allowance for bonuses	Bonuses	Pay for annual leave	Awards	Supplementary pension insurance premiums	Other benefits	2016 Net remuneration
Robert Senica	181,845.62	0.00	7,353.27	1,633.60	9,150.62	2,819.04	0.00	79,178.07
Sabina Župec Kranjc	168,021.10	0.00	5,879.64	1,633.60	8,375.06	2,819.04	0.00	74,600.33
Total	**349,866.72**	**0.00**	**13,232.91**	**3,267.20**	**17,525.68**	**5,638.08**	**0.00**	**153,778.40**

€

Salary (including bonuses and other incentives) Nova KBM d.d.	Gross salary	Allowance for bonuses	Bonuses	Pay for annual leave	Awards	Supplementary pension insurance premiums	Other benefits	2015 Net remuneration
Robert Senica	122,008.23	0.00	6,522.31	790.73	0.00	2,819.04	0.00	56,815.70
Sabina Župec Kranjc	111,667.38	0.00	5,903.72	790.73	0.00	2,819.04	0.00	53,181.09
Aleš Hauc (until 27 February 2015)	19,222.79	0.00	1,108.19	0.00	0.00	469.84	0.00	8,942.10
Total	**252,898.40**	**0.00**	**13,534.22**	**1,581.46**	**0.00**	**6,107.92**	**0.00**	**118,938.89**

Remuneration of executive directors

€

Nova KBM d.d.	Gross salary	Allowance for bonuses	Bonuses	Pay for annual leave	Awards	Supplementary pension insurance premiums	Other benefits	2016 Net remuneration
Total	**694,362.41**	**0.00**	**25,932.44**	**13,068.80**	**0.00**	**5,830.00**	**0.00**	**366,253.83**
								2015
Total	**445,395.65**	**0.00**	**17,671.43**	**3,887.76**	**0.00**	**2,700.00**	**60,942.41**	**225,745.03**

The figure of total remuneration of executive directors in 2016 comprises the remuneration of nine executive directors of Nova KBM (including three acting executive directors), some of whom were not holding their positions for the entire reporting period.

Remuneration of the Supervisory Board

€

Nova KBM d.d.				2016
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees and liability insurance	Total
Peter Kukovica (member until 21 April 2016)	8,102.50	445.15	98.69	8,646.34
Niko Samec (member until 21 April 2016)	6,499.18	111.92	98.69	6,709.79
Andrej Fatur	58,181.65	582.05	263.27	59,026.97
Miha Glavič (member until 21 April 2016)	6,098.32	0.00	98.68	6,197.00
Peter Kavčič (member until 21 April 2016)	6,098.32	156.79	98.69	6,353.80
Total	**84,979.97**	**1,295.91**	**658.02**	**86,933.90**

On 21 April 2016, the Shareholders' Meeting of Nova KBM appointed a new Supervisory Board consisting of the following members: Andrej Fatur (Chair), Manfred Puffer (Deputy Chair), Michele Rabà, Gernot Lohr, Andrea Moneta and Alexander Saveliev.

In accordance with a resolution passed by the Shareholders' Meeting on 21 April 2016, the members of the Supervisory Board, who are employed at or in a contractual relationship with the shareholder of Nova KBM, i.e. the company Biser Bidco S.à r.l., or any of its related parties or shareholders, shall not receive any compensation for their work on the Supervisory Board (such as meeting attendance fees, reimbursement of costs, training fees, etc.), with the exception of compensation for the payment of liability insurance premiums in the amount of €51.44 per member per annum.

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees and liability insurance	Total
Peter Kukovica	24,230.00	5,001.00	8,597.00	37,828.00
Niko Samec	19,030.00	503.00	136.00	19,669.00
Andrej Fatur	17,443.00	4,674.00	9,054.00	31,171.00
Miha Glavič	17,730.00	0.00	514.00	18,244.00
Peter Kavčič	16,685.00	844.00	941.00	18,470.00
Total	**95,118.00**	**11,022.00**	**19,242.00**	**125,382.00**

Remuneration of the Audit Committee

€

Nova KBM d.d.				2016
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Andrej Fatur (remuneration paid until 21 April 2016)	1,442.07	327.11	0.00	1,769.18
Peter Kavčič (member until 21 April 2016)	2,444.18	30.66	0.00	2,474.84
Miha Glavič (member until 21 April 2016)	1,442.07	0.00	0.00	1,442.07
Total	**5,328.32**	**357.77**	**0.00**	**5,686.09**

Since 21 April 2016, the Audit Committee has had the following members: Andrej Fatur (Chair until 16 December 2016), Gernot Lohr, Manfred Puffer and Michele Rabà. On 16 December 2016, the Supervisory Board appointed Andrea Moneta as a new member of the Audit Committee. Andrea Moneta took up the role of Chair of the committee.

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Keith Charles Miles	2,427.00	1,679.00	0.00	4,106.00
Andrej Fatur	5,142.00	951.00	0.00	6,093.00
Peter Kavčič	6,213.00	201.00	0.00	6,414.00
Jernej Pirc	4,380.00	784.00	0.00	5,164.00
Miha Glavič	3,612.00	0.00	0.00	3,612.00
Mario Gobbo	1,478.00	133.00	0.00	1,611.00
Total	**23,252.00**	**3,748.00**	**0.00**	**27,000.00**

Remuneration of the Remuneration and Nomination Committee

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Peter Kukovica	5,535.00	391.00	0.00	5,926.00
Niko Samec	3,097.00	112.00	0.00	3,209.00
Peter Kavčič	2,827.00	10.00	0.00	2,837.00
Romana Košorok	3,313.00	291.00	0.00	3,604.00
Total	**14,772.00**	**804.00**	**0.00**	**15,576.00**

On 9 July 2015, the Remuneration and Nomination Committee was transformed into two separate committees – the Remuneration Committee and the Nomination Committee.

Remuneration of the Remuneration Committee

€

Nova KBM d.d.				2016
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Niko Samec (member until 21 April 2016)	2,224.18	55.96	0.00	2,280.14
Peter Kukovica (member until 21 April 2016)	1,222.07	0.00	0.00	1,222.07
Miha Glavič (member until 21 April 2016)	1,222.07	0.00	0.00	1,222.07
Total	**4,668.32**	**55.96**	**0.00**	**4,724.28**

Since 21 April 2016, the Remuneration Committee has had the following members: Gernot Lohr, Alexander Saveliev and Michele Rabà.

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Niko Samec	3,550.00	112.00	0.00	3,662.00
Peter Kukovica	963.00	0.00	0.00	963.00
Miha Glavič	1,775.00	0.00	0.00	1,775.00
Total	**6,288.00**	**112.00**	**0.00**	**6,400.00**

Remuneration of the Nomination Committee

€

Nova KBM d.d.				2016
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Peter Kukovica (member until 21 April 2016)	2,224.18	167.88	0.00	2,392.06
Niko Samec (member until 21 April 2016)	1,222.07	55.96	0.00	1,278.03
Peter Kavčič (member until 21 April 2016)	1,222.07	5.08	0.00	1,227.15
Total	**4,668.32**	**228.92**	**0.00**	**4,897.24**

Since 21 April 2016, the Nomination Committee has had the following members: Andrea Moneta, Gernot Lohr and Alexander Saveliev.

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Peter Kukovica	360.00	132.00	0.00	492.00
Niko Samec	1,032.00	0.00	0.00	1,032.00
Peter Kavčič	0.00	0.00	0.00	0.00
Total	**1,392.00**	**132.00**	**0.00**	**1,524.00**

Remuneration of the Risk Committee

€

Nova KBM d.d.				2016
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Andrej Fatur (member until 21 April 2016)	2,224.18	0.00	0.00	2,224.18
Peter Kukovica (member until 21 April 2016)	1,222.07	167.88	0.00	1,389.95
Peter Kavčič (member until 21 April 2016)	1,222.07	0.00	0.00	1,222.07
Total	**4,668.32**	**167.88**	**0.00**	**4,836.20**

Since 21 April 2016, the Risk Committee has had the following members: Andrea Moneta, Alexander Saveliev and Michele Rabà.

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Andrej Fatur	3,330.00	0.00	0.00	3,330.00
Peter Kukovica	1,413.00	234.00	0.00	1,647.00
Peter Kavčič	220.00	36.00	0.00	256.00
Total	**4,963.00**	**270.00**	**0.00**	**5,233.00**

The Risk Committee was set up on 9 July 2015.

Remuneration of the Credit Committee

In 2016, the Supervisory Board formed the Credit Committee, whose members are as follows: Manfred Puffer, Andrea Moneta, Alexander Saveliev and Michele Rabà.