Disclosures made by Nova KBM for the year 2013 on the basis of its consolidated financial situation

Maribor, April 2014

Pursuant to the Regulation on Disclosures by Banks and Savings Banks, Nova KBM d.d. (hereafter also referred to as 'Nova KBM' or the 'Bank') is, on the basis of its consolidated financial situation, obliged to disclose important information that could, if omitted or misstated, change or influence the assessment or decision of a user relying on that information to make business decisions. The legislation gives banks the option of not disclosing confidential information or business secrets.

Considering the options available to banks and savings banks, Nova KBM has decided to publish the disclosures in a separate document in which it has described each individual disclosure in accordance with the Regulation on Disclosures by Banks and Savings Banks. The majority of requested information is disclosed by Nova KBM in its annual report, in compliance with the applicable legislation and International Financial Reporting Standards. The disclosures, which form an integral part of the annual report and must, in addition, be published under the Regulation on Disclosures by Banks and Savings Banks, are not contained herein; only a reference is given in this document to the relevant disclosures in the Bank´s annual report.

The disclosures have been verified from the point of view of integrity and accuracy by the Internal Audit Centre of Nova KBM.

Article		Disclosure
10.	**Risk management objectives and policies**	
	a) the strategies and processes for managing risks	Disclosure 2
	b) the structure and organisation of the relevant risk management function or other appropriate arrangements	Disclosure 3
	c) the scope and nature of internal risk reporting and risk measurement systems	Disclosure 4
	d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	Disclosure 5
11.	**Information on entities included in disclosures**	
	a) the name of the bank obliged to make disclosures pursuant to the regulation	Disclosure 1
	b) an outline of the differences in the basis of consolidation for accounting and prudential purposes (consolidation for supervision on a consolidated basis)	Disclosure 9
	c) any current or foreseen practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	Disclosure 6
	d) the aggregate amount by which the own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name(s) of these subsidiaries	Disclosure 7
12.	**Own funds**	
	a) key information on the terms and conditions of the main features of all own funds items and components thereof	Disclosure 8
	b) the amount of the original own funds	Disclosure 9
	c) the total amount of additional and ancillary own funds as can be taken into consideration in the calculation of the bank´s own funds	Disclosure 9
	d) deductions from original and additional own funds with separate disclosure of items specified in point (f) of the second paragraph of Article 30 of the own funds regulation	Disclosure 9
	e) the amount of own funds	Disclosure 9
13.	**Minimum capital requirements and the process of estimating necessary internal capital**	

Article		Disclosure
	a) a summary of the bank's approach to assessing the adequacy of its internal capital to support current and planned activities	Disclosure 10
	b) the amount of the capital requirement for all categories of exposure as defined in Article 4 of the Regulation on the Calculation of Capital Requirements for Credit Risk Under the Standardised Approach for Banks and Savings Banks	Disclosure 9
	c) the amount of capital requirement for credit risk under the IRB approach	Not relevant
	d) the amount of capital requirement for market risks	Disclosure 9
	e) the amount of capital requirement for operational risk	Disclosure 9
14.	**Counterparty credit risk (CCR)**	
	a) a description of the methodology used to assign internal capital and credit limits for counterparty credit exposures	Disclosure 11
	b) a description of policies for securing collateral	Disclosure 12
	c) a description of policies with respect to wrong-way risk exposures	Disclosure 12
	d) a description of the effects of a downgrade in the bank´s credit assessment in increasing the amount of collateral to be secured by the bank	Disclosure 13
	e) the gross positive fair values of contracts, netting benefits, netted current credit exposures, collateral at the bank´s disposal, and net credit exposure from derivatives	Disclosure 14
	f) a description of the method that it uses for calculating the exposure value for derivatives, swaps, securities or commodities lending or borrowing transactions, margin lending transactions, and long settlement transactions defined in Articles 48 to 68 of the market risk regulations	Disclosure 11
	g) the nominal value of credit derivatives used for hedging, and the distribution of current credit exposure by types of credit exposure	Disclosure 15
	h) the nominal value of credit derivatives transactions, the value of these instruments for the bank's own portfolio and the values for clients being illustrated separately, and an indication of the types of credit derivatives further broken down as bought and sold	Disclosure 15
	i) an estimate of α if the bank holds the Bank of Slovenia authorisation to use its own estimate of α	Disclosure 16
15.	**Credit risk and dilution risk**	
	a) a definition of past due and impaired items for accounting purposes	Disclosure 17
	b) a description of the methodology for making value adjustments to items and provisions	Disclosure 18
	c) the total amount of exposures, minus impairments and provisions, without taking the effects of credit protection into consideration, and the average exposure amount in the reporting period, broken down by category of exposure	Disclosure 19
	d) the geographic distribution of exposures, broken down by material category of exposure, and further detailed if appropriate	Disclosure 20
	e) the distribution of exposures by institutional sector or counterparty type, broken down by category of exposure, and further detailed if appropriate	Disclosure 21
	f) a breakdown of all categories of exposure into residual maturities of up to one year and more than one year, and further detailed if appropriate	Disclosure 22

Article		Disclosure
	g) for significant institutional sectors or counterparty types (as defined by the bank) as at the end of the reporting period: the amount of past due exposures, and within this the amount of impaired exposures (net amounts); the amount of value adjustments due to impairments and provisions; the amount of eliminated/formed value adjustments due to impairments and provisions	Disclosure 23
	h) for significant geographical areas the amount of past due exposures as at the end of the reporting period, and within this the amount of impaired exposures, including, if practical, the amounts of impairments and of provisions related to each geographical area	Disclosure 20
	i) for impaired exposures an illustration of the changes in value adjustments and an illustration of the changes in provisions, these comprising: a description of the value adjustments and provisions by type of assets; the opening balance of the value adjustments and provisions as at the beginning of the year; the increase in the reporting period; the decrease in the reporting period; the closing balance of the value adjustments and provisions as at the end of the reporting period	Disclosure 24
16.	**Additional disclosures by a bank using the standardised approach**	
	a) the business names of the nominated external credit assessment institutions (hereinafter: ECAI) or export credit agencies (hereinafter: ECA), and the reasons for any replacements	Disclosure 25
	b) an indication of the ECAI or ECA whose credit assessments are used for a particular category of exposure	Disclosure 25
	c) a general description of the process for determining the risk weights for individual exposures on the basis of the credit assessments available for the obligor and its financial instruments	Disclosure 25
	d) an indication of the mapping of the credit assessments of a particular nominated ECAI or ECA to the credit quality steps specified in the standardised approach regulation, if it is a mapping not published by the Bank of Slovenia	Disclosure 25
	e) the exposure values and the exposure values allowing for the effects of credit protection, broken down by credit quality step in accordance with the standardised approach regulation and the Regulation on Credit Protection, and the values of capital deduction items	Disclosure 19
17.	**Additional disclosures by a bank using the IRB approach**	Not relevant
18.	**Breakdown of market risk capital requirements – by individual types of risk**	Disclosure 9
19.	**Additional disclosures by bank using internal models to calculate market risk capital requirements**	Not relevant
20.	**Operational risk**	
	a) the approach that it uses to calculate operational risk capital requirements	Disclosure 26
	b) a description of the advanced measurement approach methodology, if the bank uses it	Not relevant
21.	**Investments in equities not included in the trading book**	
	a) the accounting techniques and valuation methods used with regard to the purpose of the investments, including for capital gains relationships and strategic reasons, and any changes in accounting practices	Disclosure 27

Article		Disclosure
	b) the balance sheet value and the fair value of investments, and, for exchange-traded securities, a comparison with the market price where it is materially different from the fair value	Disclosure 27
	c) the types, nature and amounts of exposures from exchange-traded securities, exposures from private equity if sufficiently diversified, and other exposures	Disclosure 27
	d) the cumulative realised gains and losses from the sale of investments in equities in the reporting period	Disclosure 27
	e) the total amount of unrealised gains and losses, and any of these amounts that the bank includes in the original capital or Tier I additional capital	Disclosure 27
22.	**Interest-rate risk from items not included in the trading book**	
	a) the nature of the interest-rate risk and the key assumptions (including assumptions about the early repayment of loans and the movement of sight deposits), and the frequency of the measurement of interest-rate risk	Disclosure 28
	b) the effect on earnings or any other measurement of value used in the management of interest-rate risk in the event of upward or downward shocks in interest rates on major currencies	Disclosure 28
23.	**Securitisation**	Not relevant
23(a)	**Liquidity risk**	Disclosure 29
	a) methodologies for managing liquidity risk	Disclosure 29
	b) mitigation of liquidity risk	Disclosure 29
	c) measures for preventing and removing the causes of liquidity shortages	Disclosure 29
23(b)	**Remuneration system**	Disclosure 35
23(c)	**Significant business contact**	Disclosure 36
23(d)	**Compliance with regulations**	Disclosure 37
24.	**IRB approach**	Not relevant
25.	**Credit protection**	
	a) the policies and processes for using balance-sheet netting, and the extent of use of this type of protection	Disclosure 30
	b) the policies and processes for collateral valuation and management	Disclosure 31
	c) a description of the main types of collateral taken by the bank	Disclosure 32
	d) the major types of personal guarantors and counterparties in credit derivatives transactions, and their creditworthiness	Disclosure 33
	e) information about market or credit risk concentrations within the credit protection taken	Disclosure 34
	f) for a bank that uses the standardised approach or an IRB approach to calculating credit risk capital requirements without its own estimates of LGDs (and CFs), the total exposure value (after balance sheet netting, if used) that is covered by collateral, after the application of volatility adjustments, for each category of exposure	Disclosure 19
	g) the total exposure value (after balance sheet netting, if used) that is covered by personal guarantees or credit derivatives for each category of exposure. For the category of exposures from equity instruments, this requirement shall apply to each of the approaches set out in Articles 133, 134 and 138 of the IRB approach regulation	Disclosure 19
26.	**Operational risk – advanced measurement approach**	Not relevant
	Measures and procedures taken by the bank, claims filed within compensation and labour law proceedings, and any criminal complaints brought against responsible persons	Disclosure 38

Disclosure 1 The name of the bank obliged to make disclosures and entities included in disclosures

(Article 11(a) and (b) of the Regulation on Disclosures by Banks and Savings Banks)

The disclosures are made by Nova KBM.

In accordance with the requirements of International Financial Reporting Standards, all subsidiaries, associates and joint ventures must be included in the consolidated financial statements; the subsidiaries are fully consolidated, while the associates are included in the consolidation using the equity method (the Bank does not have any joint ventures). The Bank has set up a reporting, controlling and risk monitoring system for all Nova KBM Group (hereafter also the 'Group') companies through their integration in the risk assessment system. A brief description of the Nova KBM Group companies is included Nova KBM´s annual report.

Company	Position in the Group	Share of voting rights (%)
Nova Kreditna banka Maribor d.d.	parent bank	
Poštna banka Slovenije d.d.	subsidiary bank	99.12
Adria Bank AG	subsidiary bank	50.54[1]
KBM Banka a.d.	subsidiary bank	89.53
KBM Fineko d.o.o. (in the process of liquidation)[2]	subsidiary company	100.00
KBM Infond d.o.o.	subsidiary company	72.73[3]
KBM Leasing d.o.o.	subsidiary company	100.00
KBM Invest d.o.o.	subsidiary company	100.00
Gorica Leasing d.o.o.	subsidiary company	100.00
M-PAY d.o.o.	subsidiary company	50.00
KBM Leasing Hrvatska d.o.o.	subsidiary company	100.00
MB Finance B.V.	subsidiary company	00.00[4]

[1] The Group´s stake in the share capital of and voting rights in Adria Bank accounts for 50.54%, while its stake in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.

[2] KBM Fineko filed for liquidation on 29 November 2013.

[3] The Group´s stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain amount of its own shares, the Group´s stake in the capital of and voting rights in KBM Infond equals 72.73%.

[4] In accordance with an explanation given by the Standing Interpretation Committee (SOP 12), 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.

Moja naložba is an associated company in which Nova KBM has a 45% shareholding.

In July 2013, Nova KBM injected fresh capital into KBM Leasing Hrvatska, the proceeds of which, totalling €5,477,000, were used to repay a loan to Nova KBM.

In December 2013, equity infusion in the form of debt-to-equity swaps was provided by Nova KBM to the following subsidiaries:

– KBM Leasing, in the amount of €25,000,000
– Gorica Leasing, in the amount of €22,000,000

– KBM Invest, in the amount of €21,000,000.

In December 2013, the put option of the Republic of Serbia on its 12.89% shareholding in KBM Banka was exercised at the exercise price of €5,641,000. Thus, Nova KBM increased its shareholding and voting rights in KBM Banka to 89.53%.

Also in December 2013, Nova KBM injected €42,474,000 of fresh capital into PBS, thus increasing its shareholding in PBS from 55.00% to 99.12%.

The company Istra Plan, which is 100% owned by KBM Fineko, is not regarded as a business entity, as a result of which only assets of this company, totalling €1,156,000, are included in the consolidated financial statements.

The company KBM Projekt is no longer a member of the Nova KBM Group. On 30 October 2012, the company filed for liquidation, with the result that the Group lost control of it.

Disclosure 2 The strategies and processes for managing risks

(Article 10(a) of the Regulation on Disclosures by Banks and Savings Banks)

This disclosure is included in Nova KBM´s annual report; an overview of strategies and processes with respect to risk management is presented in the business part of the 2013 Annual Report of the Nova KBM Group, (Section 7 'Risk Management'), while the disclosures made by individual types of risk are set out in the notes to the financial statements (Note 4 'Risk exposure').

In accordance with its mission, the Group will always ensure the security of its operations and will comply with the highest standards of risk management. The basic approach to risk management in the Group is based on this premise. The Group is aware of all the risks that are inherent in its operations, and categorizes these according to the type of risk, individual organisational units, business processes, and employees.

The Group uses a systematic approach for measuring risks. It identifies, measures (or assesses), monitors and manages each type of risk. For each type of risk, the Bank identifies the factors that have an impact on the size of exposure, and risk factors that cause a change in the value of its assets. A quantified level of acceptable risk is determined for each type of risk at least at the level of each independent legal entity and, where appropriate and reasonable, also at the level of organisational units.

The following risk management processes reflect the Group´s overall approach to risk:

- the identification of all risks that arise in the operations of the Group
- the evaluation of the extent of risk as well as the method of monitoring individual risk factors
- the continuous monitoring of Group companies exposure to a specific risk and consideration of established limits, and
- learning and adapting to the changed business environment, which includes re-assessment of limits and methodologies for setting up limits as the conditions change.

Disclosure 3 The structure and organisation of the relevant risk management function

(Article 10(b) of the Regulation on Disclosures by Banks and Savings Banks)

The Group revises the document Strategy of the Nova KBM Group on an annual basis. The Strategy of the Group is a key document in the preparation of annual business plans, both at the level of individual Group companies and at the Group level. The responsibility for attaining the objectives of a business plan, including those with respect to risk management, is vested in the management boards of the Group companies.

The Bank´s Management Board has delegated 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 respective risks. The responsible officers are specialised in defining, measuring and controlling individual types of risk. 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 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. Risk management policies form the basis for managing risks across the entire Group. Considering the volume of their operations, the Group companies may use their own approach to managing risk, but must in each case receive approval from the person at the Bank responsible for the risk management in question.

Risk management is conducted in accordance with established and approved risk management policies. The methods of managing risks, the system of limits and the limits themselves are proposed by organisational units that are specialised in managing individual risks and are organisationally independent of the units accepting risks, whereas the approval lies with decision-making bodies or the Management Board. Organisational units specialising in managing individual risks report periodically on risk exposure and possible violation of limits.

At the Group level, the Bank manages risks on the basis of monthly reporting provided by all Group companies. Through its representatives on supervisory boards of subsidiary companies, the Bank controls risks to which the Group companies are exposed.

Disclosure 4 The scope and nature of internal risk reporting and risk measurement systems

(Article 10(c) of the Regulation on Disclosures by Banks and Savings Banks)

Respective risk management policies set out the methods and frequency of reporting on exposure to risk. The scope and frequency of reporting depend on the category of risk and the recipients of reports. The persons responsible for managing and reporting on individual risks are independent of the organisational units accepting risks, which ensures the prevention of conflicts of interest.

The reports comply with the requirements in respect of impartial, informative and transparent reporting on individual risks. The regular reports are standardised. For compiling consolidated accounts, an automated system for collecting data has been set up at the Group level.

Disclosure 5 The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

(Article 10(d) of the Regulation on Disclosures by Banks and Savings Banks)

The monitoring and managing of specific types of risk is 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, taking into account the applicable legislation and best banking practice. The minimum scope of risk management policies has been determined; each policy must include the definition of risk, the method for measuring risk and reporting on risk, the method for limiting the exposure, and a clear definition of responsibilities of individual persons.

The following risk management policies are deemed to be the most important for managing risks at the Group level:

– the Credit Risk Management Policy
– the Loan Collateral Policy
– the Policy of Restructuring and Collecting Bad and Doubtful Debts
– the Liquidity Risk Management Policy
– the Policy of Managing the Banking Book Market Risks
– the Policy of Managing the Trading Book Market Risks
– the Interest Rate Risk Management Policy
– the Operational Risk Management Policy
– the Capital Risk Management Policy
– the Staff Development Policy
– the Reputational Risk Management Policy
– the Strategy Management Policy of the Nova KBM Group
– the Consolidated Supervision Policy
– the Information Security Policy
– the Outsourcing Policy
– the Policy of Ensuring Integrity in Nova KBM and its Group
– the Nova KBM Group Governance Policy

Risk management policies form the basis for managing respective risks across the entire Group. Considering the volume of their operations, the Group companies may use their own approach to managing risk, but must in each case receive approval from the person at the Bank responsible for the risk management in question.

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

(Article 11(c) of the Regulation on Disclosures by Banks and Savings Banks)

Subject to observance of regulatory requirements applicable to the operations of the Group companies, there are no legal impediments to the transfer of own funds or repayment of liabilities between the Bank and its subsidiaries.

An exception applies to Adria Bank since it has been banned by the national regulator from repaying loans, deposits or equity to its owners.

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

(Article 11(d) of the Regulation on Disclosures by Banks and Savings Banks)

The company Moja naložba, pokojninska družba, d.d. is not included in the supervision on a consolidated basis. As of 31 December 2013, this company complied with the minimum capital requirements applicable to its operations.

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

(Article 12(a) of the Regulation on Disclosures by Banks and Savings Banks)

With respect to its characteristics, the Bank´s equity is made up of three components: original own funds (Tier I), additional own funds I (Tier II) and additional own funds II (Tier III). The characteristics of each component of equity are set out in the Decision Regulating Banks´ and Savings Banks´ Capital Calculation.

Original own funds include paid-up share capital, share premium, retained earnings, hybrid instruments eligible for inclusion in original own funds, and non-controlling interests.

Additional own funds include subordinated debt, hybrid instruments eligible for inclusion in additional own funds, revaluation adjustment in respect of available-for-sale financial assets, and adjustment of effect of investment property valuation.

Further details regarding the structure of and changes in the Group´s equity in 2013 are given in the 2013 Annual Report of the Nova KBM Group, in the notes to the financial statements (Notes 4.6 'Capital risk' and 42.5 'Subordinated liabilities').

The following instruments were included in the calculation of the Group´s equity as of 31 December 2013:

€000

ISIN code/Issuer	Currency	Date of maturity	Interest rate	Nominal amount	Included in calculation of equity
Subordinated debt					
Adria Bank AG	€	call option exercisable at the end of each financial year; redemption after 4 years	variable	1,250	1,000

Disclosure 9 Capital and capital requirements with a description of differences in the basis of consolidation for accounting and prudential purposes

(Articles 11(b), 12(b), (c), (d) and (e), 13(b), (d) and (e) and 18 of the Regulation on Disclosures by Banks and Savings Banks)

This information is disclosed in the 2013 Annual Report of the Nova KBM Group, in the notes to the financial statements (Note 4 'Risk Exposure'). In accordance with the Regulation on the Calculation of Capital Requirements, the calculation of capital requirements for credit risk is made under the standardised approach, while the basic indicator approach is used for the calculation of capital requirements for operational risk.

The calculation of capital adequacy is based on the consolidated financial statements, in accordance with the Regulation on the Supervision on a Consolidated Basis.

The Bank complies with the prescribed ratios and restrictions relating to individual components of equity.

For the purpose of complying with the requirements of the Regulation on the Supervision on a Consolidated Basis, Moja naložba, pokojninska družba, d.d. is not included in the supervision on a consolidated basis. In the calculation of equity on a consolidated basis, the investment in this associated company is shown as a capital deduction item.

Disclosure 10 A summary of the bank´s approach to assessing the adequacy of its internal capital to support current and planned activities

Article 13(a) of the Regulation on Disclosures by Banks and Savings)

As part of the internal capital adequacy assessment process, the Bank has set up a methodology to calculate the available and adequate economic capital.

The available economic capital is the Group´s own estimate of the amount of available capital. The amount of available economic capital equals the amount of regulatory available capital, increased by a certain percentage of the profit for the current year.

The adequate economic capital is the Group´s own estimate of the amount of capital needed to cover any unexpected risks the Group is exposed to in its operations. The amount of adequate economic capital equals the amount of minimum capital as prescribed by the regulator (Pillar I), taking into account additional capital requirements.

Adequate economic capital takes separately into account the following types of risk:

– credit risk: in accordance with Pillar I
– market risks (other than currency risk): in accordance with Pillar I
– operational risk: in accordance with Pillar I
– interest rate risk of the banking book: an internal methodology based on stress testing
– currency risk: an internal methodology based on VaR
– liquidity risk: an internal methodology based on the calculation of costs of substituting an unexpected loss of liquidity
– capital risk: availability of fresh capital
– reputational risk: an expert assessment
– strategic risk: an expert assessment
– profitability risk: an internal methodology based on deposit interest rates.

The target values of capital components for the Group as a whole are determined by the Bank in its annual plans. The ALCO is responsible for reviewing available and regulatory minimum capital as well as available and adequate economic capital.

Disclosure 11 A description of the methodology used to assign internal capital and credit limits for counterparty credit exposures; a description of the method that it uses for calculating the exposure value for derivatives, swaps, securities or commodities lending or borrowing transactions, margin lending transactions, and long settlement transactions

(Article 14(a) and (f) of the Regulation on Disclosures by Banks and Savings Banks)

The Group monitors counterparty credit risk exposure using the current exposure methodology, pursuant to the provisions of the Regulation on the Calculation of Capital Requirements for Market Risks. The credit replacement value is the aggregate of current and potential exposure.

Repo transactions are valued as the difference between the current value of investment (nominal amount plus accrued interest) and the current value of collateral (market value of the collateral instrument). The maximum exposure must be within the set credit limits, and additional collateral must be provided if the set limits are exceeded. Counterparty exposure is monitored in accordance with the Credit Risk Management Policy.

Currency forward contracts used to regulate the open foreign currency position are entered into only with prime banks, and within the set limits. Currency forward contracts of the trading book are entered into up to the limit set for each counterparty.

The calculation of adequate economic capital for the transactions referred to above is made in accordance with an internal methodology that defines the method for calculating available and adequate economic capital. The calculation of adequate economic capital for the transactions referred to above is made in accordance with Pillar I and is the same as prescribed by the regulator for the calculation of capital requirements for credit risk.

Disclosure 12 A description of policies for securing collateral and a description of policies with respect to wrong-way risk exposures

(Article 14(b) and (c) of the Regulation on Disclosures by Banks and Savings Banks)

The Bank offers transactions in derivatives without requesting collateral only to customers with the highest credit rating; the exposure to credit risk under these transactions is included in the calculation of the total exposure. Transactions in derivatives entered into with all other customers are subject to providing prime collateral.

For repo transactions, the Bank has determined the minimum eligible credit quality of assets accepted as collateral.

The Bank enters into transactions that involve wrong-way risk exposure only to the extent that allows the Bank to close a position if a customer fails to meet the request to provide additional prime collateral. Counterparty credit risk is monitored daily on the basis of available market prices or prices calculated according to an internal methodology, the input data of which are the prevailing market prices.

Disclosure 13 A description of the effects of a downgrade in the bank´s credit assessment in increasing the amount of collateral to be secured by the bank

(Article 14(d) of the Regulation on Disclosures by Banks and Savings Banks)

The Bank has not entered into any transactions that would, in case of a downgrade in the Bank´s credit rating, require an increase in the amount of collateral provided by it.

Disclosure 14 The gross positive fair values of contracts, netting benefits, netted current credit exposures, collateral at the bank´s disposal, and net credit exposure from derivatives

(Article 14(e) of the Regulation on Disclosures by Banks and Savings Banks)

The Group does not use netting contracts. The gross positive value of contracts equals the net credit exposure from derivatives.

€000

Type of derivative	Total gross positive value of contracts or net credit exposure
Currency forwards	883
Forwards on securities	1,822
Interest rate swaps	480

Disclosure 15 The nominal value of credit derivatives used for hedging, and the distribution of current credit exposure by types of credit exposure; the nominal value of credit derivatives transactions, the value of these instruments for the bank´s own portfolio and the values for clients being illustrated separately, and an indication of the types of credit derivatives further broken down as bought and sold

(Article 14(g) and (h) of the Regulation on Disclosures by Banks and Savings Banks)

The Group does not hold credit derivatives in its portfolios.

Disclosure 16 An estimate of α if the bank holds the Bank of Slovenia authorisation to use its own estimate of α

(Article 14(i) of the Regulation on Disclosures by Banks and Savings Banks)

The Group has not obtained the Bank of Slovenia authorisation to use its own estimate of α.

Disclosure 17 A definition of past due and impaired items for accounting purposes

(Article 15(a) of the Regulation on Disclosures by Banks and Savings Banks)

The Group treats as past due items all on- and off-balance sheet items for which a counterparty has not met its contractual obligations on time and within the agreed scope.

Impaired items for accounting purposes are all items for which the Group has recognised impairment losses. Individually impaired items and collectively impaired items are treated separately.

Further details regarding the definition of overdue and impaired items for accounting purposes are set out in the 2013 Annual Report of the Nova KBM Group, in the notes to the financial statements (Note 3.4.6 'Impairment of financial assets').

Disclosure 18 A description of the methodology for making value adjustments to items and provisions

(Article 15(b) of the Regulation on Disclosures by Banks and Savings Banks)

The Group records financial assets and liabilities at amortised cost or at fair value, while the off-balance sheet commitments are recorded at contractual value.

The amortised cost of a financial asset equals the amount of outstanding principal, increased by outstanding interest and fees, and decreased by corresponding impairment losses recognised in accordance with Nova KBM´s Methodology for Assessing Credit Risk Losses.

The fair value of a financial asset equals its current market value. If the market price of a financial asset cannot be determined, the Bank applies the fair value hierarchy in accordance with International Accounting Standards. If the market price of a financial asset is not available for one month, the fair value of such an asset is determined using a model that takes into consideration market prices. If the value of a financial asset cannot be determined according to this model, the acquisition cost of a financial asset is regarded as its fair value.

The Group continuously, or at least quarterly, 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 of a financial asset or a group of financial assets, or off-balance sheet commitments, which can be reliably assessed. Significant information that indicates impairment of a financial asset or the possibility of a loss under off-balance sheet items includes: non-fulfilment of obligations to the Group companies, significant financial difficulties of the borrower, and the likelihood of bankruptcy, receivership or a financial reorganisation of the borrower.

Individually significant financial assets and off-balance sheet items are assessed individually for impairment.

If, in an individual assessment of a financial asset, the impartial evidence exists that the asset is impaired, the replacement value of this asset must be assessed. The replacement value is assessed based on the expected discounted cash flows generated from the realisation of collateral. The contractual interest rate applicable to the financial asset is used for discounting cash flows.

Individually insignificant financial assets and off-balance sheet items are assessed collectively for impairment. The collective impairment rates for homogeneous asset groups are determined in accordance with the Methodology for Assessing Credit Risk Losses.

The method for assessing collective impairment and provisioning rates is based on:

- the proportion of customers becoming delinquent (credit rating 'D' and 'E') in a period of one year
- assessed losses
- loss identification period (LIP).

If the amount of impairment loss or provision decreases in the subsequent period, the previously recognised loss due to impairment will be reversed. The amount of reversed loss is recognised through profit or loss.

Disclosure 19 The total amount of exposures, minus impairments and provisions, without taking the effects of credit protection into consideration, and the average exposure amount in the reporting period (from quarterly data), broken down by category of exposure; the exposure values and the exposure values allowing for the effects of credit protection, broken down by credit quality step in accordance with the standardised approach regulation and the Regulation on Credit Protection, and the values of capital deduction items; for a bank that uses the standardised approach or an IRB approach to calculating credit risk capital requirements without its own estimates of LGDs (and CFs), the total exposure value (after balance sheet netting, if used) that is covered by collateral, after the application of volatility adjustments, for each category of exposure; the total exposure value (after balance sheet netting, if used) that is covered by personal guarantees or credit derivatives for each category of exposure

(Articles 15(c), 16(e) and 25(f) and (g) of the Regulation on Disclosures by Banks and Savings Banks)

€000

Category of exposure	Original exposure pre-conversion factors	% of exposure by category	Net value of exposure	CRM with substitution effects on exposure				Value of collateral/ net value of exposure	Net exposure after CRM substitution effects pre-conversion factors	Fully adjusted exposure value	Risk-adjusted exposure amount	Capital requirement	Share of capital
				Unfunded credit protection: adjusted values (Ga)		Funded credit protection							
				Personal guarantees	Credit derivatives	Financial collateral: simple method	Other funded credit protection						
	1	2=1/sum(1)	3	4	5	6	7	8=(sum4:7)/3	9	10	11	12	13=12/sum(12)
Central governments and central banks	1,522,605	25.41%	1,522,179	0	0	0	0	0.00%	2,047,526	2,045,259	0	0	0.00%
Regional governments and local authorities	6,296	0.11%	6,282	0	0	0	0	0.00%	6,282	6,260	3,133	251	0.13%
Administrative bodies	396,485	6.62%	396,479	392,869	0	0	0	99.09%	12,233	11,121	5,560	445	0.23%
Multilateral development banks	5,374	0.09%	5,374	0	0	0	0	0.00%	5,374	5,374	0	0	0.00%
Institutions	260,656	4.35%	260,594	34,233	0	0	0	13.14%	226,744	226,725	134,094	10,728	5.46%
Corporates	930,714	15.53%	862,144	67,929	0	4,708	0	8.43%	789,507	695,085	695,089	55,607	28.30%
Retail banking	1,341,445	22.38%	1,324,996	3,318	0	16,746	0	1.51%	1,304,933	1,131,934	848,951	67,916	34.56%
Secured by real estate	105,707	1.76%	103,227	90	0	33	0	0.12%	103,104	101,539	39,005	3,120	1.59%
Past due items	148,426	2.48%	81,511	1,531	0	0	0	1.88%	79,980	79,771	91,750	7,340	3.74%
Items belonging to regulatory high-risk categories	895,273	14.94%	396,886	2,230	0	10,668	0	3.25%	383,988	370,208	411,757	32,941	16.76%
Collective investment undertakings	10,292	0.17%	10,292	0	0	0	0	0.00%	10,292	10,292	10,292	823	0.42%
Other exposures	369,680	6.17%	284,008	0	0	0	0	0.00%	284,008	283,880	216,731	17,339	8.82%
Total	**5,992,953**	**100.00%**	**5,253,973**	**502,200**	**0**	**32,154**	**0**	**10.17%**	**5,253,973**	**4,967,449**	**2,456,363**	**196,510**	**100.00%**

Disclosure 20 The geographic distribution of exposures, broken down by material category of exposure, and further detailed if appropriate

(Article 15(d) and (h) of the Regulation on Disclosures by Banks and Savings Banks)

€000

Country	Central governments and central banks	Regional governments and local authorities	Administra-tive bodies	Multilateral development banks	Institutions	Corporates	Retail banking	Secured by real estate	Past due items	Items belonging to regulatory high-risk categories	Collective investment undertakings	Other exposures	Total
Slovenia	1,315,664	6,290	396,440	0	87,430	831,566	1,284,655	105,624	136,602	662,397	10,292	361,147	5,198,108
Croatia	0	0	0	0	1,876	23,451	9,626	0	2	167,268	0	91	202,314
Serbia	47,276	6	45	0	348	17,805	39,791	0	11,823	57,567	0	6,429	181,090
Austria	26,586	0	0	0	65,584	22,849	2,154	0	0	393	0	2,000	119,565
Germany	30,396	0	0	0	29,768	0	1,095	0	0	414	0	0	61,674
Belgium	40,697	0	0	0	16,028	0	164	0	0	0	0	12	56,901
Italy	0	0	0	0	26,233	2,665	885	0	0	4,990	0	0	34,773
France	25,943	0	0	0	4,004	2,029	36	0	0	0	0	0	32,012
The Netherlands	26,046	0	0	0	3,224	0	0	0	0	49	0	0	29,318
Great Britain	0	0	0	0	272	13,563	298	0	0	0	0	0	14,133
Portugal	0	0	0	0	9,897	0	0	0	0	0	0	0	9,897
Slovakia	9,497	0	0	0	0	0	0	0	0	216	0	0	9,714
Switzerland	0	0	0	0	3,705	5,000	572	0	0	0	0	0	9,277
USA	0	0	0	0	8,892	0	20	0	0	78	0	0	8,989
Cyprus	0	0	0	0	0	5,267	547	83	0	0	0	0	5,897
Luxembourg	0	0	0	5,374	24	0	1	0	0	0	0	0	5,399
Hungary	0	0	0	0	0	4,152	18	0	0	1	0	0	4,171
Bosnia and Herzegovina	0	0	0	0	0	1,306	1,024	0	0	1,526	0	0	3,856
Russia	0	0	0	0	2,750	1,055	30	0	0	0	0	0	3,835
Romania	500	0	0	0	0	0	60	0	0	0	0	0	560
Denmark	0	0	0	0	169	0	206	0	0	0	0	0	374
Republic of Macedonia	0	0	0	0	0	0	1	0	0	246	0	0	247
Other	0	0	0	0	453	5	263	0	0	129	0	0	850
TOTAL	**1,522,605**	**6,296**	**396,485**	**5,374**	**260,656**	**930,714**	**1,341,445**	**105,707**	**148,426**	**895,273**	**10,292**	**369,680**	**5,992,953**

Disclosure 21 The distribution of exposures by institutional sector or counterparty type, broken down by category of exposure, and further detailed if appropriate

(Article 15(e) of the Regulation on Disclosures by Banks and Savings Banks)

€000

Category	Central government	Regional government	Public sector	Institutions	Corporates	Households and sole proprietors	Funds	Other	Total
Central governments and central banks	1,522,605	0	0	0	0	0	0	0	1,522,605
Regional governments and local authorities	0	6,296	0	0	0	0	0	0	6,296
Administrative bodies	0	0	396,485	0	0	0	0	0	396,485
Multilateral development banks	0	0	0	5,374	0	0	0	0	5,374
Institutions	0	0	0	260,592	64	0	0	0	260,656
Corporates	0	0	0	0	925,284	5,430	0	0	930,714
Retail banking	0	0	0	0	276,490	1,064,955	0	0	1,341,445
Secured by real estate	0	0	0	0	26,998	78,709	0	0	105,707
Past due items	0	425	0	1,128	133,203	13,670	0	0	148,426
Items belonging to regulatory high-risk categories	0	33	0	3,523	826,437	65,280	0	0	895,273
Collective investment undertakings	0	0	0	0	0	0	10,292	0	10,292
Other exposures	0	0	0	258,724	99,183	1,958	0	9,815	369,680
TOTAL	**1,522,605**	**6,754**	**396,485**	**529,341**	**2,287,659**	**1,230,002**	**10,292**	**9,815**	**5,992,953**

Disclosure 22 A breakdown of all categories of exposure into residual maturities of up to one year and more than one year

(Article 15(f) of the Regulation on Disclosures by Banks and Savings Banks)

€000

Category of exposure	Residual maturity	Exposure amount
Central governments and central banks	non-current	701,325
	current	821,280
Regional governments and local authorities	non-current	5,589
	current	707
Administrative bodies	non-current	394,142
	current	2,343
Multilateral development banks	non-current	4,501
	current	873
Institutions	non-current	54,435
	current	206,221
Corporates	non-current	548,825
	current	381,889
Retail banking	non-current	868,517
	current	472,928
Secured by real estate	non-current	94,825
	current	10,882
Past due items	non-current	40,057
	current	108,369
Items belonging to regulatory high-risk categories	non-current	388,583
	current	506,690
Collective investment undertakings	non-current	10,292
	current	0
Other exposures	non-current	8,188
	current	361,492
Total		**5,992,953**

Disclosure 23 For significant institutional sectors or counterparty types as at the end of the reporting period: the amount of past due exposures, and within this the amount of impaired exposures (net amounts); the amount of value adjustments due to impairments and provisions; the amount of eliminated/formed value adjustments due to impairments and provisions

(Article 15(g) of the Regulation on Disclosures by Banks and Savings Banks)

€000

Category	01.01.2013		31.12.2013	
	Opening balance of past due exposures	Impairment	Closing balance of past due exposures	Impairment
Retail banking	11,793	3,760	13,670	5,622
Institutions	2,640	407	1,128	0
Corporates	247,896	61,210	133,204	61,104
Total	**262,329**	**65,377**	**148,002**	**66,726**

Customers belonging to the regulatory high-risk category are not included in the table above.

Disclosure 24 **For impaired exposures an illustration of the changes in value adjustments and an illustration of the changes in provisions, these comprising:**

- **a description of the value adjustments and provisions by type of asset**
- **the opening balance of the value adjustments and provisions as at the beginning of the year**
- **the increase in the reporting period**
- **the decrease in the reporting period**
- **the closing balance of the value adjustments and provisions as at the end of the reporting period**

(Article 15(i) of the Regulation on Disclosures by Banks and Savings Banks)

€000

Type of exposure	Impairment losses and provisions at the beginning of the period	Impairment losses and provisions at the end of the period	Increase/(decrease) during the reporting period
On-balance sheet items	724,403	674,921	(49,482)
Off-balance sheet items	34,142	64,060	29,918
Total	**758,545**	**738,981**	**(19,564)**

Disclosure 25 **The business names of the nominated external credit assessment institutions (hereinafter: ECAI) or export credit agencies (hereinafter: ECA), and the reasons for any replacements; an indication of the ECAI or ECA whose credit assessments are used for a particular category of exposure; a general description of the process for determining the risk weights for individual exposures on the basis of the credit assessments available for the obligor and its financial instruments**

(Article 16(a), (b), (c) and (d) of the Regulation on Disclosures by Banks and Savings Banks)

The Group calculates capital requirements for credit risk according to the standardised approach. As a reference export agency for the category 'Exposure to Central Governments and Central Banks', the Group nominated SID Banka, Ljubljana. As a reference external rating agency for the category 'Exposure to Institutions, Including Exposure to Institutions with a Short-term Rating', the Group nominated the rating agency Moody´s.

The Bank of Slovenia considers SID Banka as an appropriate export credit agency, and Moody´s as an appropriate external credit rating agency. The Bank of Slovenia publishes publicly a comparison of ratings used by SID Banka and Moody´s.

The process of assigning weights to individual exposure categories on the basis of available ratings of a debtor and its financial instruments is carried out in compliance with the Regulation on the Calculation of Capital Requirements for Credit Risk under the Standardised Approach. For exposure categories for which the external rating agency has been nominated, the assignment of weights is based on ratings of financial instruments. If the rating of a financial instrument is not available, the long-term rating of a debtor or of a comparable financial instrument of the same debtor is taken into account. If these ratings are not available, the sovereign rating of the country in which the debtor is located is used.

For exposure categories for which the external rating agency has not been nominated, the assignment of weights is made according to the applicable legislation, meaning that weights are assigned by taking into account the sovereign rating of the country in which the debtor is located, or on the basis of specific rules applicable to each exposure category.

Disclosure 26 Operational risk – the approach to operational risk

(Article 20(a) of the Regulation on Disclosures by Banks and Savings Banks)

In 2013, the Group monitored operational risk and calculated capital requirements for operational risk in accordance with the basic indicator approach.

Disclosure 27 Investments in equities not included in the trading book

(Article 21 of the Regulation on Disclosures by Banks and Savings Banks)

With respect to the investment purpose, the Group´s portfolio of equity instruments is divided into the following three sub-portfolios:

- investments needed for regular operations of the Group (Bankart, S.W.I.F.T.)
- investments in equities and funds for which the Group, as an investor, has adopted appropriate exit strategies to be carried out once the financial objectives are achieved
- temporary investments in equities which result from the realisation of collateral or debt-to-equity swaps and which the Group intends to sell within a short period of time.

All of the investments listed above are kept in the available-for-sale portfolio and measured at fair value through equity, taking into account the capital requirements for credit risk. The market price of an instrument, if available, is disclosed in the accounts. If the market price of an instrument is not available, a team of valuation experts determines the value of the investment on the basis of an internal methodology.

€000

Type of investment	Investment value as of 31.12.2013
Investments needed for regular operations of the Group	421
Investments in equities and funds with an exit strategy	26,246
Temporary investments in equities resulting from the realisation of collateral and debt-to-equity swaps	8,095
Total	**34,762**

As of 31 December 2013, the equity investment in Moja naložba, pokojninska družba, d.d. totalled €2,237,000.

In accordance with the applicable legislation, the Group deducts from the share capital the entire unrealised loss on equities of the banking book, which, as of 31 December 2013, amounted to €504,000. In accordance with the applicable legislation, the Group includes 80% of unrealised gains on equities of the banking book in the calculation of additional capital, which, as of 31 December 2013, amounted to €2,531,000.

In 2013, the Group incurred a loss of €967,000 from the sale of equity instruments that were included in its banking book.

Disclosure 28 Interest rate risk from items not included in the trading book

(Article 22(a) and (b) of the Regulation on Disclosures by Banks and Savings Banks)

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 asset and liability items, which form the largest proportion of the Group´s total assets and liabilities. In addition, interest rate risk may derive from a shift in the yield curve, from the basis risk, or from the risk resulting from embedded options in interest-rate sensitive items.

The Bank assesses its exposure to interest rate risk on the basis of assumptions set out in the Methodology for Managing Interest Rate Risk, and monitors interest rate risk in accordance with the Interest Rate Risk Management Policy. Exposure of the Bank and the Group to interest rate risk is measured on a monthly and a quarterly basis, respectively. To manage interest rate risk, the Bank calculates monthly the impact on its net interest income of interest rate changes in the next three months, as well as of the parallel shift of the yield curve by 200 basis points

Disclosure 29 Liquidity risk:

- **methodologies for managing liquidity risk**
- **mitigation of liquidity risk**
- **measures for preventing and removing the causes of liquidity shortages**

(Article 23(a) of the Regulation on Disclosures by Banks and Savings Banks)

Liquidity risk is the risk of loss resulting from the Bank´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. For managing liquidity risk at the operational level, the Bank has set up the Methodology for Projecting the Net Liquidity Position. For managing liquidity risk at the structural level, the Bank uses the following two methodologies: the Methodology for Calculating Liquidity Ratios and Other Components of Liquidity Risk; and the Methodology for Managing Structural Liquidity Risk. The Bank has upgraded its tool for calculating internal transfer prices, and has made necessary amendments to its Methodology for Determining and Recording Opportunity Interest Rates.

For mitigating liquidity risk, the Bank has set up a system of limits which involves the limits on selected liquidity ratios, liquidity indicators, net liquid assets, diversification of funding sources, and limits with respect to the structure of liabilities. Based on the results of adverse scenarios, the Bank has determined the necessary level and structure of liquidity reserves to be used during a one-month period of most difficult liquidity situations. Within this period, the Bank has determined a one-week period of emergency liquidity situation for which it can provide sufficient amount of additional liquidity reserves. Additional liquidity reserves include cash in hand, highly-liquid assets in the private markets (which are also eligible as collateral for the Eurosystem credit operations), interbank sight deposits, and obligatory deposits with the central bank that are freely available to the Bank. Furthermore, to analyse the diversification of its funding, the Bank calculates it exposure to the 30 largest depositors. Limits on liquidity ratios and other components of liquidity risk as well as limits on the cumulative net liquidity gaps are approved and regularly monitored by the ALCO.

In order to avoid and remedy any liquidity shortages, the Bank has set up the Methodology for Implementing Stress Scenarios, and has formulated the Contingency Plan. The Methodology for Implementing Stress Scenarios of Liquidity Risk sets out the basic methods for conducting various reasonable stress scenarios. Based on these scenarios, the Bank has determined the procedure for providing adequate liquidity under normal operating conditions (baseline scenario) and under adverse liquidity conditions (adverse scenario). Adverse scenarios are classified into the following three main groups: the idiosyncratic scenario, the market scenario and the combined scenario. These scenarios take into account two different difficulty levels and different periods of adverse liquidity. The impact of on- and off-balance sheet items on liquidity is taken into consideration as well. The Bank has determined limits for the baseline scenario and for the second-level combined scenario. The Bank´s Contingency Plan sets out the measures and activities for the prevention and management of various situations of liquidity crisis, including appropriate measures aimed at remedying any liquidity crisis and restoring normal liquidity position of the Bank.

Disclosure 30 The policies and processes for using balance-sheet netting, and the extent of use of this type of protection

(Article 25(a) of the Regulation on Disclosures by Banks and Savings Banks)

The Group does not use balance-sheet netting as an instrument of credit protection.

Disclosure 31 The policies and processes for collateral valuation and management

(Article 25(b) of the Regulation on Disclosures by Banks and Savings)

The Loan Collateral Policy of the Nova KBM Group sets out the rules governing the types of collateral accepted by the Bank, the procedures used to establish collateral, and the obligation to monitor the adequacy of collateral during the life of the collateral arrangement.

The principal objective of the Loan Collateral Policy is to reduce the Bank´s exposure to credit risk. Collateral provided as security for loans is used as a secondary source for the repayment of contractual obligations; it is liquidated if a borrower, for whatever reason, ceases to pay its debts, or if there is a change in the circumstances that prevailed at the time the loan was approved.

Prior to entering into any transaction, the Group must obtain appropriate documentation for each type of collateral, which ensures adequate legal protection in case the secondary repayment source needs to be utilised. For each type of collateral to be provided as security for a loan, the borrower must present a valuation report. This report is checked by the competent department, primarily with a view to establishing its credibility and whether it complies with the International Valuation Standards. The verified and approved value assessment forms the basis for making the necessary collateral arrangements.

During the contractual relationship with the borrower, the Bank regularly monitors the collateral coverage ratio and, where appropriate, requests that additional collateral be provided if there is a drop in the value of the collateral.

Disclosure 32 A description of the main types of collateral taken by the bank

(Article 25(c) of the Regulation on Disclosures by Banks and Savings Banks)

The following classification of collateral has been adopted by the Bank:

- prime collateral
- adequate collateral
- pledge of movable property and real estate
- other types of collateral.

The following types of collateral are considered to be of prime quality:

- bank deposits
- securities issued by the Republic of Slovenia, the Bank of Slovenia, the European Central Bank as well as governments and central banks of other A-zone countries
- irrevocable guarantees of the Republic of Slovenia
- irrevocable guarantees payable at first demand given by the banks that have obtained the Bank of Slovenia authorisation to provide banking services, or given by investment grade banks of the A-zone countries and other investment grade foreign banks
- prime debt securities of banks that are traded on financial markets, whereby subordinated and convertible debt instruments are excluded.

The following types of collateral are considered to be of adequate quality:

- independent guarantees given by companies of good financial standing that meet the criteria to be assigned the A rating and generate sufficient cash flows to pay off their debts
- insurance with an insurance company registered in the Republic of Slovenia or any other A-zone country

– securities for which an active market exists.

Movable and immovable property is accepted as collateral and taken into consideration in the calculation of the recoverable amount of a financial asset only if all the documentation is provided to establish whether the pledged movable or immovable property can be used as an efficient and adequate secondary repayment source.

Other types of collateral accepted by the Bank are the following:
- borrower´s drafts (accepted only as a basic form of collateral)
- pledge of industrial property rights.

The Bank aims to have its loan portfolio adequately secured, while at the same time having legal certainty in case of realisation of collateral.

The largest proportion of the Bank´s loan portfolio is secured by real estate, guarantees and securities.

Disclosure 33 The major types of personal guarantor and counterparties in credit derivatives transactions, and their creditworthiness

(Article 25(d) of the Regulation on Disclosures by Banks and Savings Banks)

Providers of personal guarantees	% of total
State	62.3%
Legal entities	27.0%
Natural persons	10.3%
Banks	0.4%
Total	**100.0%**

The Group does not enter into credit derivative transactions.

Disclosure 34 Information about market or credit risk concentrations within the credit protection taken

(Article 25(e) of the Regulation on Disclosures by Banks and Savings Banks)

In accordance with its policies, the Group grants loans and advances which are expected to be repaid from future cash flows generated by borrowers. Collateral provided as security for loans is used to pay off loans only if the borrower fails to meet its payment obligations.

In monitoring large exposures, the Group checks the concentration of credit risk resulting from personal guarantees taken as collateral.

The amount of the guarantee given by the guarantor as security for a loan is included in the lending limit assigned to the customer acting as a guarantor. The amount of the guarantee is weighted depending on the rating of the underlying obligor for whom the guarantor gives a guarantee.

The Group monitors the concentration of market risks within the credit protection from the point of view of liquidity of securities obtained. With the support of competent departments, the Group assesses the liquidity of securities taken as protection on the basis of regular turnover in securities and the amount of securities received. In the same way, it also assesses value adjustments to be made as a result of reduced liquidity in securities received as collateral.

The Bank monitors the value of collateral by considering the individual types of collateral, and reports this to the competent authorities.

Disclosure 35 Remuneration system

(Article 23(b) of the Regulation on Disclosures by Banks and Savings Banks)

The Nova KBM Remuneration Policy has been formulated in accordance with the Banking Act and the Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks. The Remuneration Policy has been adjusted to the mission of the Bank, its business strategy, organisational structure and values, and its business and financial objectives.

Technical support in the drafting of the Remuneration Policy has been provided by the Human Resource Department and the Bank´s Secretariat. No external advisers were engaged in the preparation of the Remuneration Policy.

The Remuneration Policy has been discussed by the Supervisory Board Remuneration and Nomination Committee. The duties of the Remuneration and Nomination Committee in this regard are as follows:

- formulation of positions on individual aspects of the Remuneration Policy
- assessment of the remuneration system methodologies
- preparation of reports for the Supervisory Board regarding the implementation of the Remuneration Policy
- preparation of proposals on the remuneration of employees
- verification of the Remuneration Policy´s consistency with the Bank´s business policy
- direct control of remuneration provided to those categories of employees whose work is of a specific nature and who are responsible for the system of internal control functions and for other independent control functions.

The Remuneration Policy is applicable to all Bank employees, with emphasis on the categories of employees whose work is of a specific nature, i.e. the Bank´s Management Board, senior management, the management bodies of the system of internal control functions and of other independent control functions, and direct risk-takers (the employees who are authorised to take business decisions that have an impact on the risk profile of the Bank).

Remuneration provided to employees working in control functions is independent from the performance of business units they control. The variable component of their remuneration depends on the objectives achieved by the control functions.

The Bank´s Remuneration Policy is designed in such a way that it ensures appropriate motivation of employees, but does not encourage them to take disproportionately excessive risks. This is ensured by:

- an appropriate balance between the fixed and variable components of remuneration provided to different categories of employees, meaning that the total amount of remuneration is not highly dependent on the variable component of remuneration which, at the same time, represents an effective way to encourage employees to achieve or exceed planned work results
- taking into consideration the assessment of the performance of employees, their organisational units and the Bank as a whole, and by aligning the variable component of remuneration with all types of risk to which the Bank is or could be exposed in its operations
- an appropriate method for the payment of the variable component of remuneration.

The entire variable component of remuneration is determined on the basis of the performance of an employee, an employee´s organisational unit and the general operating results of the Bank. In assessing the performance of an employee, the Bank takes into account certain financial and non-financial criteria. Each assessment process is based on long-term performance.

The variable component of remuneration of employees whose basic salary is determined based on provisions of the collective employment agreement depends on meeting the criteria set out in an internal document, meaning that this category of employees is not automatically entitled to the variable component of remuneration. These criteria are based on the assessment of an employee´s performance by his/her manager, taking into account the employee´s work, including the management of risk.

The variable component of remuneration may not exceed 30% of the total annual remuneration paid to an employee. In accordance with its internal rules, the Bank may decide to reduce or not to pay the variable component of remuneration, if the performance of the Bank is below the projection or if a loss is reported by the Bank.

Hence, it follows that the ratio between the fixed and any variable components of remuneration provided to these employees is properly balanced and that the amount of the variable component of remuneration provided to employees on a collective employment agreement is not such that it would have an adverse effect on the risk-taking decisions. In the light of the foregoing, the category of employees referred to above is exempt from the Remuneration Policy provisions, since these employees don´t have a significant impact on the risk profile of the Bank.

Employees working on individual employment contracts (managers with specific competencies and responsibilities, including senior management and the management bodies of the system of internal control functions and of other independent control functions), i.e. the employees whose work is of a specific nature, may receive a variable component of remuneration, the annual amount of which shall not exceed their monthly salary. This non-binding variable remuneration is paid for extraordinary performance to be assessed at the discretion of the Management Board in accordance with internal documents (taking into account quantitative and qualitative criteria). Any variable component of remuneration is not directly related neither to the volume or value of transactions entered into, nor to the exposure to risk associated with these transactions. The ratio between the fixed and the variable component of remuneration is properly balanced, by which the Bank justifies the omission of the implementation of the Remuneration Policy principles.

Remuneration, including any variable component of remuneration, is paid by the Bank after the end of the accounting period, without any deferral.

Members of the Bank´s Management Board are not exempt from the implementation of the provisions governing the payment of the variable component of remuneration. Remuneration provided to members of the Management Board is determined and limited by the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities. In accordance with this Act, members of the Management Board are, apart from a fixed remuneration, entitled to a variable component of remuneration, which depends on the performance achieved, and to a severance benefit.

In accordance with the applicable legislation, the variable component of remuneration paid to members of the Management Board shall be determined by a resolution of the Supervisory Board at the end of each financial year, and paid out in accordance with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, provided that the annual variable remuneration shall not exceed 30% of the basic salary paid to a member of the Management Board in one year.

The method of paying any variable component of remuneration (criteria, restrictions, whether in the form of a financial instrument or cash, payment deferral, reimbursement) is laid down in the Act referred to above, the Corporate Governance Code for Public Limited Companies, and resolutions of the Supervisory Board. The amount of variable remuneration paid to Management Board members is determined on the basis of a balanced system of performance indicators, which is such that it stimulates members of the Management Board to strive for an equal growth in assets and deposits, and to achieve profits, efficiently manage costs, preserve a low level of provisioning, and maintain a robust control environment.

The Bank employees are not entitled to shares or options. As regards other non-cash benefits, which do not have a material impact on the amount of remuneration, the Bank employees are entitled to such benefits in accordance with their employment agreements and the Bank´s internal rules.

The following table sets forth the information regarding remuneration provided by the Bank in 2013, and on the number of employees entitled to remuneration as at 31 December 2013:

€

Business area	Gross remuneration (salary + pay for annual leave)	Variable component	Number of employees
Management Board	253,214.30	0	2
Commercial departments	13,257,411.10	891,818.52	621
Development function, support to commercial departments	7,703,743.31	519,782.12	359
Other areas and departments	7,025,022.54	360,924.29	219
Total	**28,239,391.25**	**1,772,524.93**	**1,201**

Remuneration paid in 2013 to Management Board members is disclosed in the 2013 Annual Report of the Nova KBM Group, in the notes to the financial statements (Note 57 'Remuneration').

Disclosure 36 Significant business contact

(Article 23(c) of the Regulation on Disclosures by Banks and Savings Banks)

A direct business contact is a contact between a member of the Management or Supervisory Board or a member of his or her immediate family and the Bank or its subsidiary.

In 2013, no agreements on the provision of goods and services, including financial and advisory services, were entered into between a member of the Management or Supervisory Board or a member of his or her immediate family and the Bank or any of its subsidiaries.

Members of the Management and Supervisory Board or members of their immediate family were, as the users of banking or other services provided by the Bank and its subsidiaries, treated in accordance with the adopted business policy and usual practices of the Bank and its subsidiaries.

An indirect business contact exists if a member of the Management or Supervisory Board or a member of his or her immediate family is a business partner, holder of a qualifying holding, managing director or member of the management staff of a company or organisation that has a significant business contact with the Bank or its subsidiary.

In 2013, no agreements on the provision of services were made that would involve an indirect business contact.

The information in respect of the volume of operations between the Group and persons that are regarded as a significant business contact of the Group is set out in the 2013 Annual Report of the Nova KBM Group, in the notes to the financial statements (Note 54 'Related party transactions').

Disclosure 37 Compliance with regulations

(Article 23(d) of the Regulation on Disclosures by Banks and Savings Banks)

With respect to any conflicts of interest, the Bank complies with the regulations and internal acts, both at the Management Board level and the Supervisory Board level. The Bank´s subsidiary companies also comply with the applicable regulations and standards of corporate practice, in particular with the Corporate Governance Code for Public Limited Companies. With the aim of applying the same standards across the Group, the Bank has made necessary adjustments to internal regulations of subsidiary companies, except in case of different regulatory requirements, which provides for unified work of management and supervisory bodies in subsidiary companies. All members of the Supervisory Board have signed a statement declaring that they meet the criteria of independence, which includes the criteria with respect to identifying and avoiding conflicts of interest. Any conflicts of interest that the Management and Supervisory Board identified in performing their work in 2013 were avoided by complying with the applicable regulations (abstain from voting in decisions that could result in conflicts of interest).

The Bank regularly follows all regulations and makes necessary amendments to its internal documents. Consideration of conflicts of interest is set out in the Bank´s Governance Policy.

Disclosure 38 Measures and procedures taken by the bank, claims filed within compensation and labour law proceedings, and any criminal complaints brought against responsible persons

(a requirement of the Bank of Slovenia)

In 2013, based on the findings of a forensic audit of its past operations, and an audit carried out by the Internal Audit Centre, Nova KBM brought four actions for compensation against its then employees and ex-employees, totalling over €45 million. In addition, actions for compensation worth over €1 million were brought against several individuals at the Group level. The Bank and all other members of the Group collaborated with the prosecuting authorities in cases where criminal offences had been identified. A total of nine reports on the suspicion of criminal activity were filed by the Bank last year.

If it is proved that a Bank employee has been involved in unlawful or negligent conduct that constitutes a breach of the applicable employment legislation, the Bank terminates the employment of the employee for reasons of culpability.