

# LETTER TO SHAREHOLDERS



## **Dear Shareholders and Business Partners** **First, we would like to offer you our warmest greetings!**

The rehabilitation of the Slovene banking system remains at the centre of the government's efforts to restore the financial system's stability and help the economy emerge from the recession. A drop in interest income and an increasing level of provisioning expenses have put a considerable pressure on the performance of virtually all the banks operating in the country, prompting the competent authorities to start cleaning up and consolidating the Slovene banking system. The first positive results of this process are the declining interest rates for deposits. It is also encouraging to see that the asset quality reviews and stress tests, which are being carried out at the request of the European Commission in 10 Slovene banks, including Nova KBM, are coming to an end. Based on the results of these independent reviews, which are expected to be released in the middle of December, a decision will be reached by the Bank's management regarding the transfer of bad loans to the Bank Assets Management Company (BAMC), and the projected share capital increase.

Adverse market conditions in the third quarter of the year had a substantial negative impact on the performance of the Nova KBM Group, causing its results for the nine-month period ended 30 September to continue to be affected by a deteriorating loan portfolio. The level of provisioning expenses incurred by the Nova KBM Group in the first nine months of the year accounted for 66.7% of that reported for the same period last year. For the nine-month period ended 30 September, the Nova KBM Group reported a pre-tax, pre-provision profit of €25.8 million. The net loss posted by the Nova KBM Group was €66.9 million, compared to €97.6 million reported for the first nine months of 2012. At the end of September, the Nova KBM Group's total capital adequacy ratio was 8.39%, with its equity amounting to €278.0 million, up 9.8% on the 2012 year-end figure. The results achieved in the first nine months of the year prove that both the Bank and the Nova KBM Group managed to defend their market shares in most segments while reducing costs and improving their responsiveness to opportunities and challenges arising from the business environment.

In the third quarter of the year, we took a number of decisions with the aim of stabilising the interest and non-interest income generated by the Nova KBM Group. In addition, several measures and activities were implemented that have helped the performance of the Nova KBM Group to gradually recover while reducing the negative impacts on its profitability. As part of the RAST project, all companies within the Nova KBM Group are actively focused on reducing operating costs and improving cost efficiency at all operational levels. The results for the first nine months of the year show that the Nova KBM Group managed to optimise operating costs across all of its operations. However, due to significant one-off costs associated with the asset quality review, stress tests, and some other extraordinary activities that the Bank was obliged to conduct this year, the cost savings were not reflected accordingly in the total operating costs incurred by the Nova KBM Group. By overhauling and centralising procurement processes, the Bank achieved significant cost savings, which will be further enhanced through the premises optimisation that is expected to be completed by the end of the year. At the end of the third quarter, a new, more economical and effective organisational structure of the Bank was implemented, while the activities related to the streamlining of business processes that will enable the Bank and the Nova KBM Group to make

their operations even more efficient are continuing. The number of employees is being reduced according to the plan. This year, the number of Bank employees is expected to be reduced by about 100, with 250 to 300 additional employees expected to be made redundant in the next two to three years.

The Bank is operationally ready to transfer its bad loans to BAMC. Until the transfer takes place, bad loans on the books of the Bank will be actively managed by its Bad Loans Management Department. While work is continuing on the project to improve the Nova KBM Group's capital base, the Bank's management is devoting particular attention to the comprehensive investigation of responsibility for any loss or damage caused to the Bank in the past, and for any irregularities in its decision-making processes. We are committed to ensuring the highest level of integrity across the entire Nova KBM Group in order to prevent any irregularities or fraud from occurring in the future.

Along with the Nova KBM restructuring programme that is currently being examined by the European Commission, the Bank drew up a draft strategy for the period 2014 to 2018. The strategy will be finalised once the Nova KBM Group restructuring programme is approved.

According to the autumn report of the Institute of Macroeconomic Analysis and Development, the economic situation in Slovenia is not expected to improve this year or in 2014. Despite the first signs of recovery in the Eurozone, the recuperation of Slovenia's economy will continue to be impeded by local factors. The pressing need for fiscal consolidation and the stabilisation of the banking system will affect the consumption of households, companies and the government, which is set to decline further this year and next year. We will adapt the operations of both the Bank and the Nova KBM Group to the current market conditions while focusing on making improvements in cost efficiency, on compliance with regulatory requirements, and on integration of operations within the Nova KBM Group. All the activities will be carried out in line with the Nova KBM Group's restructuring programme.

Every effort will be made in the immediate future to transform both the Bank and the Nova KBM Group into more efficient financial institutions, and to return them to profitability. Apart from measures we have taken to improve our business internally, it is expected that the following systemic decisions will greatly contribute to our future development: the transfer of bad loans to BAMC, recapitalisation, and the implementation of legislation that will ease the rules governing debt recovery proceedings. While a considerable amount of work will be required to achieve our ultimate performance objectives, the results might come gradually and take several years, given the nature of the changes necessary.

We thank you for the trust you have placed in us. Through successful work and the provision of superior financial services, and by adopting efficient measures for the benefit of the Bank and all those who support our efforts, we are determined to bolster this trust further.

Maribor, November 2013

Management Board of Nova KBM d.d.



Igor Žibrik,  
Member



Aleš Hauc,  
President