2018 ANNUAL REPORT

Nova KBM Group and
Nova KBM d.d.

Nova KBM

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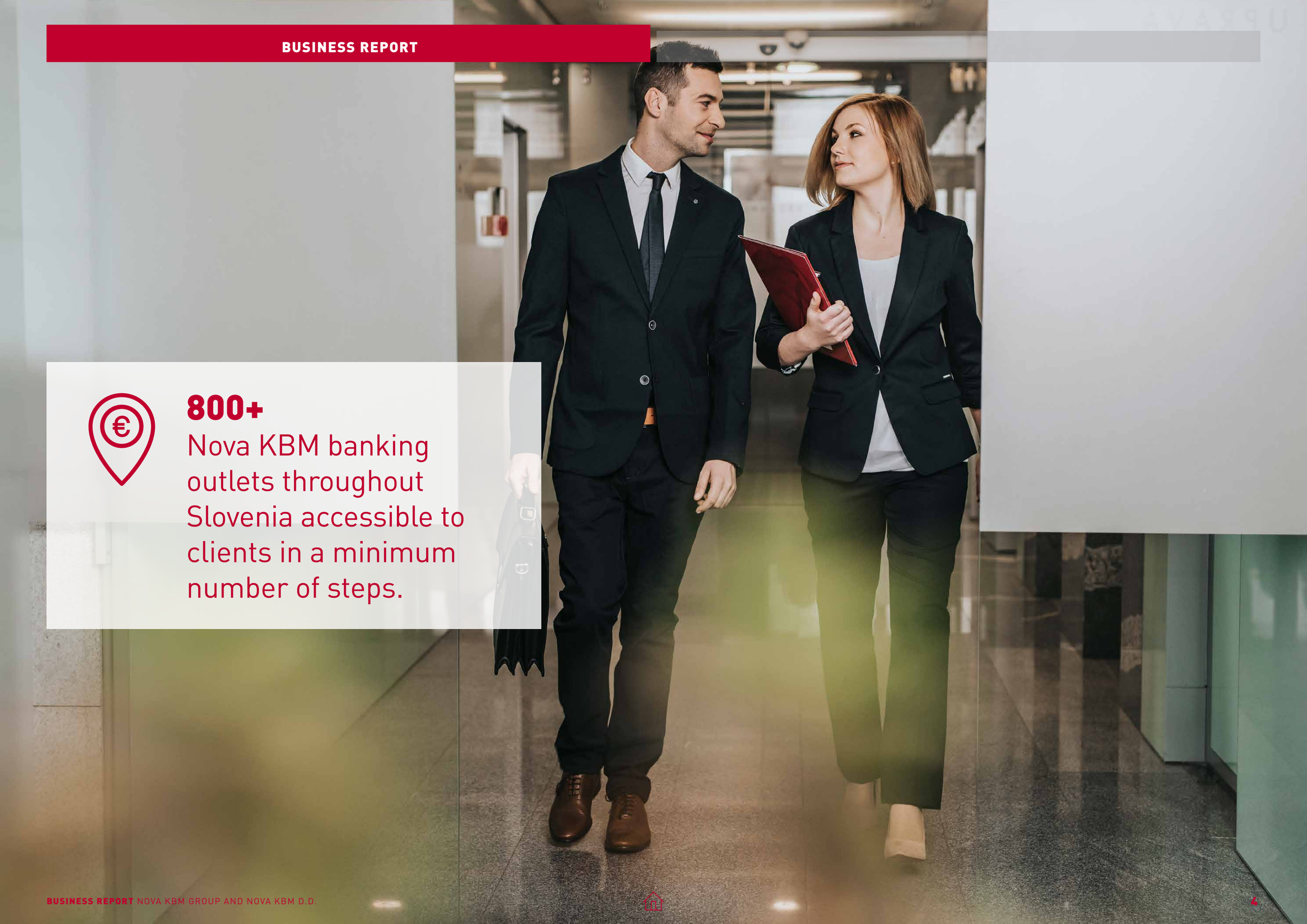
Setting a goal is the step that sets dreams apart from a plan. Our goal is clear: to become the best bank in 2020 by following our business strategy and also through increasingly better accessibility. This is why we carefully design our path to the future and look back with pleasure upon the results we have achieved.
Every step counts.

BUSINESS REPORT



800+

Nova KBM banking outlets throughout Slovenia accessible to clients in a minimum number of steps.

Name of the Parent Bank:	**Nova Kreditna banka Maribor d.d.**
Short name of the Bank:	**Nova KBM**
Registered office:	**Ulica Vita Kraigherja 4, 2000 Maribor**
Website:	**www.nkbm.si**
E-mail:	**info@nkbm.si**
Skype	**NovaKBM**
Switchboard:	**00386 2 229 22 90**
Call Centre:	**080 17 70**
Share capital:	**€150,000,000**
Registration number:	**5860580**
VAT ID:	**SI94314527**
Account No:	**01000-0000400014**
IBAN:	**SI56 0100 0000 0400 014**
BIC (SWIFT):	**KBMASI2X**
LEI:	**549300J0GSZ83GTKBZ89**
GIIN:	**XQ7A4V.00000.LE.705**

1 Key performance indicators

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

ITEM DESCRIPTION	2018	2017	2016
1	2	3	4
Statement of financial position (€000)	**31/12**	**31/12**	**31/12**
Balance sheet total	**4,998,137**	4,929,829	4,823,450
Total deposits from the non-banking sector measured at amortised cost	**3,772,188**	3,638,391	3,626,247
Total loans to the non-banking sector	**2.626.431**	/	/
Total loans and advances to the non-banking sector measured at amortised cost (IAS 39)	**/**	2,366,167	1,963,849
Securities portfolio	**1,566,487**	/	/
a) of which financial assets measured at fair value through other comprehensive income	**1,474,168**	/	/
b) of which debt securities measured at amortised cost	**73,021**	/	/
Financial assets (IAS 39)	/	1,729,042	1,762,581
a) of which available for sale (IAS 39)	/	1,621,581	1,584,514
b) of which held to maturity (IAS 39)	/	88,700	90,216
Total equity	**730,392**	697,414	683,361
Off-balance-sheet items	**1,107,055**	1,000,332	722,610
Income statement (€000)	**1/1 – 31/12**	**1/1 – 31/12**	**1/1 – 31/12**
Net interest income	**109,643**	82,569	92,300
Net non-interest income	**59,288**	60,425	54,420
- of which net fee and commission income	**44,080**	45,456	42,431
Staff, general and administrative costs	**(101,849)**	(108,041)	(97,686)
Depreciation and amortisation	**(13,379)**	(10,993)	(11,863)
Impairments and provisions (credit losses)	**16,545**	/	/
Impairments and provisions (IAS 39)	**/**	14,829	(10,501)
Profit before tax from continuing and discontinued operations	**70,864**	38,789	26,670
Income tax on continuing and discontinued operations	**1,630**	9,533	3,805
Net profit	**72,494**	48,322	30,475

1 In the Annual Report, Nova KBM Group is also referred to as the Group. Data for 2017 include the operations of Summit Leasing Slovenija d.o.o. from 1 October to 31 December 2017. Data for 2016 include the results of KBS banka d.d. from 1 July to 31 December 2016.

ITEM DESCRIPTION	2018	2017	2016
1	2	3	4
Statement of comprehensive income (€000)	**1/1 – 31/12**	**1/1 – 31/12**	**1/1 – 31/12**
Other comprehensive income/(loss) before tax	**(17,078)**	(4,876)	5,032
Income tax related to other comprehensive income	**3,313**	956	(1,153)
	31/12	**31/12**	**31/12**
Number of employees	**1,487**	1,576	1,512
Shares			
Number of shareholders	**1**	1	1
Number of shares	**10,000,000**	10,000,000	10,000,000
Accountable par value of one share (€)	**15.00**	15.00	15.00
Book value per share (€)	**72.81**	69.44	68.05
Ratios (%)			
a) Equity			
- Common Equity Tier 1 capital ratio	**20.13**	20.17	23.98
- Tier 1 capital ratio	**20.13**	20.17	23.98
- total capital adequacy ratio	**20.13**	20.17	23.98
b) Profitability			
- interest margin	**2.21**	1.70	2.04
- non-interest margin	**1.20**	1.25	1.20
- margin of financial intermediation	**3.41**	2.95	3.24
- ROAA before tax	**1.43**	0.80	0.59
- ROAA after tax	**1.46**	1.00	0.67
- ROAE before tax	**9.80**	5.66	3.98
- ROAE after tax	**10.03**	7.05	4.55
c) Operating costs			
- operating costs/average total assets	**2.32**	2.45	2.42
- cost-to-income ratio (CIR)	**68.21**	83.24	74.67
- operating costs (excluding extraordinary items)/income ratio (CIR 2)	**66.15**	73.66	70.80
d) Net loans and advances to/deposits from non-bank customers (net LTD ratio)	**69.63**	65.03	54.16
e) Gross loans and advances to/deposits from non-bank customers (gross LTD ratio)	**74.65**	75.61	67.51
International ratings			
Fitch Ratings	BB/B (with positive assessment of future prospect)	BB/B (stable outlook)	BB–/B (stable outlook)
Moody's Investors Service	Baa3/P-3 (with positive assessment of future prospect)	Ba2/Non-prime (positive outlook)	B2/Non-prime (positive outlook)

				2018
ITEM DESCRIPTION	March	June	September	December
Liquidity				
- liquidity coverage ratio	557 %	512 %	455 %	431 %
- liquidity buffer (€000)	1,688,956	1,587,684	1,489,367	1,427,512
- net liquidity outflows (€000)	306,185	311,663	330,586	335,937

Note: Significant data and performance indicators as at 31 December 2018 are in line with IFRS 9, whereas comparative data for 2017 and 2016 are consistent with IAS 39.

1.2 Key performance indicators of Nova KBM[2]

ITEM DESCRIPTION	2018	2017	2016
1	2	3	4
Statement of financial position (€000)	**31/12**	**31/12**	**31/12**
Balance sheet total	**4,977,862**	4,913,905	4,831,767
Total deposits from the non-banking sector measured at amortised cost	**3,777,304**	3,671,799	3,650,858
a) of which from legal and other entities that carry out economic activity	**974,752**	916,148	929,375
b) of which from households	**2,802,552**	2,755,651	2,721,483
Total loans to the non-banking sector	**2,544,745**	/	/
a) of which to legal and other entities that carry out economic activity	**1,451,521**	/	/
b) of which to households	**1,093,224**	/	/
Total loans and advances to the non-banking sector measured at amortised cost (IAS 39)	/	2,322,531	1,948,737
a) of which to legal and other entities that carry out economic activity (IAS 39)	/	1,257,366	905,652
b) of which to households (IAS 39)	/	1,065,165	1,043,085
Securities portfolio	**1,565,516**	/	/
a) of which financial assets measured at fair value through other comprehensive income	**1,474,168**	/	/
b) of which debt securities measured at amortised cost	**73,021**	/	/
Financial assets (IAS 39)	/	1,727,944	1,759,275
a) of which available for sale (IAS 39)	/	1,621,498	1,582,095
b) of which held to maturity (IAS 39)	/	88,700	90,216
Total equity	**723,449**	683,057	670,581
Value allowances and adjustments and provisions for credit losses	**202,713**	/	/
Impairments of financial assets and provisions (IAS 39)	/	439,405	541,980
Off-balance-sheet items	**1,114,461**	1,031,003	722,761

2 In the Annual Report, Nova KBM is also referred to as Nova KBM or the Bank. Data for 2016 include the results for Poštna banka Slovenije d.d. (hereinafter also: PBS) from 1 January to 31 December 2016, and KBS banka from 1 July to 31 December 2016.

ITEM DESCRIPTION	2018	2017	2016
1	2	3	4
Income statement (€000)	**1/1 – 31/12**	**1/1 – 31/12**	**1/1 – 31/12**
Net interest income	**93,717**	78,584	90,728
Net non-interest income	**54,799**	53,155	55,281
- of which net fee and commission income	**39,373**	40,178	37,885
Staff, general and administrative costs	**(89,575)**	(100,477)	(92,067)
Depreciation and amortisation	**(6,621)**	(8,384)	(10,409)
Impairments and provisions (credit losses)	**19,468**	/	/
Impairments and provisions (IAS 39)	/	12,716	(14,465)
Profit before tax from continuing and discontinued operations	**72,266**	35,594	29,068
Income tax on continuing and discontinued operations	**3,254**	10,219	3,936
Net profit	**75,520**	45,813	33,004
Statement of comprehensive income (€000)	**1/1 – 31/12**	**1/1 – 31/12**	**1/1 – 31/12**
Other comprehensive income/(loss) before tax	**(17,272)**	(3,996)	1,562
Income tax related to other comprehensive income	**3,312**	824	(1,135)
	31/12	**31/12**	**31/12**
Number of employees	**1,303**	1,419	1,464
Shares			
Number of shareholders	**1**	1	1
Number of shares	**10,000,000**	10,000,000	10,000,000
Accountable par value of one share (€)	**15.00**	15.00	15.00
Book value per share (€)	**72.34**	68.31	67.06

ITEM DESCRIPTION	2018	2017	2016
1	2	3	4
Ratios (%)			
a) Equity			
- Common Equity Tier 1 capital ratio	**19.59**	19.76	23.26
- Tier 1 capital ratio	**19.59**	19.76	23.26
- total capital adequacy ratio	**19.59**	19.76	23.26
b) Quality of assets and liabilities assumed			
- non-performing (balance-sheet or off-balance-sheet) exposures / classified balance-sheet exposures and classified off-balance-sheet exposures	**5.99**	/	/
- non-performing loans and other financial assets / classified loans and other financial assets	**9.70**	/	/
- value allowances and adjustments and provisions for credit losses / non-performing exposures	**55.89**	/	/
- collateral received / non-performing exposures	**14.79**	/	/
c) Profitability			
- interest margin	**1.90**	1.62	2.01
- non-interest margin	**1.11**	1.10	1.22
- margin of financial intermediation	**3.00**	2.72	3.23
- ROAA before tax	**1.46**	0.73	0.64
- ROAA after tax	**1.53**	0.94	0.73
- ROAE before tax	**10.13**	5.31	4.41
- ROAE after tax	**10.59**	6.84	5.01
d) Operating costs			
- operating costs/average total assets	**1.95**	2.24	2.27
- cost-to-income ratio (CIR)	**64.77**	82.63	70.18
- operating costs (excluding extraordinary items)/income ratio (CIR 2)	**63.97**	75.25	66.87
e) Net loans and advances to/deposits from non-bank customers (net LTD ratio)	**67.37**	63.25	53.38
f) Gross loans and advances to/deposits from non-bank customers (gross LTD ratio)	**72.21**	72.85	65.67

				2018
ITEM DESCRIPTION	March	June	September	December
Liquidity				
- liquidity coverage ratio	483 %	426 %	368 %	359 %
- liquidity buffer (€000)	1,691,027	1,587,684	1,489,367	1,427,512
- net liquidity outflows (€000)	354,395	378,872	409,013	402,667

Note: Significant data and performance indicators as at 31 December 2018 are in line with IFRS 9, whereas comparative data for 2017 and 2016 are consistent with IAS 39.

2 Statement by the Nova KBM Management Board

Dear all,

In the year 2018, the Nova KBM Group decisively pursued the Strategic Plan for the period of 2017–2020 (2020 Strategy), which sets up an ambitious vision for Nova KBM d.d. (hereinafter: Nova KBM) to become the best bank in Slovenia in 2020. The progress and positive shifts are reflected in all strategic areas: client excellence, growth and profitability, effective risk management and compliance, operational efficiency, and organisational culture and development of employees.

The implementation of the 2020 Strategy is actively supported and prudently monitored by the Bank's owners – certain investment funds managed by affiliates of Apollo Global Management, and the European Bank for Reconstruction and Development.

The Nova KBM Group keeps its focus on core, banking activity. Accordingly, a contract was concluded on the sale of KBM Infond, Nova KBM left the Moneta system and sold KBM Leasing in Slovenia and Croatia, as well as KBM ASCO in Serbia at the end of 2018. Summit Leasing Slovenija, which has been part of the Nova KBM Group since 2017, remains an important strategic company strengthening the competitive advantage and operations of the entire Group.

In the past year, Nova KBM consolidated its position of the second largest bank in the country in terms of total assets. The Bank operated with a profit and in line with the highest standards of corporate governance. Its employees were focused on core banking, revenue generation, cost-effective management and optimisation at all levels of business. In addition, we strengthened numerous internal processes, and implemented an effective system of broader risk management. These were important priorities of the new Management Board throughout the period following the privatisation of the Bank.

In order to strengthen the risk management framework, in the area of assessing internal capital adequacy and liquidity adequacy (ICAAP and ILAAP), the Bank continued in 2018 its activities aimed at improvement of the process of risk profile monitoring and incorporating it into day-to-day decision-making.

The Bank's operations were systematically, in a responsible and timely manner, adapted to new or amended national or international regulations (General Data Protection Regulation – GDPR, Directive on Payment Services in the Internal Market – PSD2, IFRS 9 and MIFID II).

In 2018, Nova KBM increased its market share in significant segments as a result of a well-thought-out business, sales and marketing strategy, positive changes in internal organisation and culture, and the commitment of all employees. With its more than 800 banking units, Nova KBM is the most accessible bank in the country. At the end of last year, the Bank's network comprised 52 branch offices and, through cooperation with the strategic partner Pošta Slovenije d.o.o. (hereinafter: Pošta Slovenije), customers are able to use financial services at more than 330 post offices, and through the partnership with the SKB Banka, perform transactions also at more than 300 ATMs. In recent years, we have successfully set up the model of specialised bank offices (SBOs) in post offices, where customers can consult a bank officer and choose from a wide range of banking services. At the end of 2018, there were 10 SBOs in the network, and this service is planned to be further expanded in the future.

The Bank has been operating with a profit since 2016, and in 2018, profitability was achieved in all business segments. One of the Bank's important business goals is sustainable profitability, which enables investing in further development of the Bank, while providing adequate reserves in order to adjust to future changes or shocks in the financial and economic environments. The Nova KBM Group closed the year 2018 with a net profit of €72,494 thousand, while Nova KBM generated the profit of €75,520 thousand. The achieved return on equity after taxation at the end of 2018 was 10.59 % at the Bank and 10.03 % at the Group level. The capital adequacy ratio remains high, namely 19.59 % and 20.13 % for the Bank and the Group respectively, the results also show good liquidity position. The activities in the field of non-performing loans management were also successful. In 2018, the share of non-performing loans in the Bank's portfolio decreased by 3.88 percentage points, and in the Group's portfolio by 4.22 percentage points, which demonstrates a positive trend in both decreasing the volume of non-performing exposures and increasing repayments and restructured claims. The quality of the lending portfolio and the discipline in following the criteria for loan approvals have also improved.

Positive shifts and the successful performance of the Bank are also shown in the improved credit ratings the Bank was assigned in 2018. In April, the rating agency Fitch Ratings confirmed Nova KBM's Long-Term Issuer Default Rating at BB, and changed the future outlook from stable to positive due to improved operations, further high potential for improvements in profitability, and a decrease in non-performing loans. In October, Moody's Investor Service improved the long-term deposit rating of Nova KBM by two notches, from Ba2 to Baa3.

Customer satisfaction surveys on retail and corporate customers prove that steps are being made in the right direction. Significant expertise and efforts are invested into relationships with customers and in the provision of excellent services, with the aim that customers will acknowledge the accessibility, convenience, and value added of our services. In 2018, we further improved the implementation of the Client Excellence strategic programme; it is focused on improving the key drivers and elements in ensuring excellence throughout the process of customer servicing. The success of this orientation is confirmed by the improved net promoter score. In 2018, we exceeded the target level of satisfaction, and the growing trend is an incentive to further strengthen client excellence.

In 2018, we continued the activities aimed at operational efficiency. The central project, the launch of a new core banking information system, continued in 2018 and is planned to be completed in 2019. The project seeks to establish a modern information architecture that will effectively support the Bank's operations and enable attainment of strategic goals set for the period until 2020. In 2018, we strengthened operational efficiency in particular by automation of the

consumer loan approval process, and started the development of the same procedure for corporate customers.

The Bank carefully redesigns, simplifies and updates the range of its products and services. We continued these activities also in 2018, and managed to reduce the volume of various products by 70 %. This has contributed to a better understanding of the range of Bank's services among customers, and provided them with added value and expected experience. The Komplet bundle (Paket Komplet) and the consumer loan (Kredit naprej) product were among the most popular banking products in 2018. The Premium segment providing a special offer for more affluent customers, and a special offer for employees in companies (Bank@Work) strengthened their respective market positions. We also introduced numerous other minor improvements signifying a positive change for customers. Progress was also achieved in corporate banking. In order to provide our customers with even more efficient services, we reorganised the corporate banking segment and designed a special bundle for advanced entrepreneurs.

Digitalisation is the future and a priority development area in Nova KBM. In 2018, we introduced several e-services that simplify financial transactions of customers, such as a secure online banking registration, password reset via internet or telephone, and practical e-notifications, which we introduced at the end of the year. As a result, the Bank recorded a record-breaking use of digital services in 2018, and research has shown that customers are increasingly satisfied with these services. Bearing in mind the principles of digitalisation, we are transforming business processes with the aim of simplifying the procedures and improving response times and operational efficiency, in order to further improve our services and relationships with our customers. In 2018, we laid the foundations for redesigning our processes with the aim to digitalise internal processes, expedite services, and minimise the use of forms and other printed material.

The Bank incorporates its efforts on social responsibility and sustainable development at all levels of its operations, namely, as a self-regulatory mechanism. By doing so, the Bank does not only provide for active compliance with the law, ethical rules and national and international standards, but also satisfies its own interests in the context of long-term strengthening of a broader society welfare and preservation of the natural environment. In the long run, the Bank focuses on sustainable and socially responsible attitude in all its areas of operation, whereby increasingly influencing social and market changes. By doing so, the Bank is following its strategic goals, i.e. to become the best bank in Slovenia.

All facts and results presented in detail in this Annual Report would not have been possible without the commitment and expertise of employees at all levels and in all areas of the Nova KBM Group. In the context of the 2020 Strategy, we dedicate special attention to the development of a positive organisational culture, and we invest in education and professional training more than ever. In 2018, the monitoring, assessing and rewarding performance model was consolidated, and it is already bringing positive results. Our goal is to provide our employees with a working environment that enables achievement of personal goals and promotion to dedicated teams and individuals. As shown by internal research and experience, we were successful in this area, as the satisfaction and engagement of employees have increased in the last year.

We are proud of the achieved results which clearly demonstrate our strategic focus, expertise, motivation, and dedicated work of our employees and external associates, as well as of a constructive cooperation with the Supervisory Board of the Bank. We have many additional plans, challenges and ideas on how to further improve our performance. We believe that Nova KBM is on the right track to become the best bank in Slovenia, an excellent partner to our customers, business partners, suppliers and a wider social environment, and a respected employer.

The 2020 Strategy determines our commitment to emphasise and enhance the values of trust, excellence, professionalism, honesty, loyalty, and integrity within the Bank, and in relations with our stakeholders. It is our firm belief that these values constitute sound foundations on which we will keep building high-quality partnerships with our stakeholders also in the future, and contribute to the realisation of their numerous professional, personal, and wider social goals.

We would like to thank each and everyone for their trust and constructive cooperation, which we are looking forward to intensify with our expertise and experience also in the future.

Management Board of Nova KBM d.d.

Matej Falatov
Member

Sabina Župec Kranjc
Member

Jon Locke
Deputy President

John Denhof
President

3 Report of the Supervisory Board Chair

Introduction

In 2018, namely until 26 March, the Supervisory Board comprised the following members: Andrej Fatur, Chair; Andrzej Klesyk, Deputy Chair; and members Manfred Puffer, Michele Rabà, Gernot Lohr, Andrea Moneta, and Alexander Saveliev.

The composition of the Supervisory Board changed on 26 March 2018 following the resignation submitted by Gernot Lohr, which resulted in termination of his office of the Supervisory Board member. Since 26 March 2018, the Supervisory Board has operated as a six-member body.

The Supervisory Board carried out its function of supervising the management of Nova KBM and the Nova KBM Group and its duty of diligent and prudent conduct, in line with its powers defined by applicable laws, other regulations, and internal rules of Nova KBM. Based on the Supervisory Board's performance review, we estimate that the Supervisory Board supervised the work of the Management Board and operations of Nova KBM and the Nova KBM Group in an adequate manner, in line with its powers and responsibilities.

Supervision of the management of Nova KBM d.d. and the Nova KBM Group method and scope

The Supervisory Board's work was adequately organised and carried out particularly in accordance with the Rules of Procedure of the Supervisory Board and the Rules for Managing Conflict of Interest of Supervisory Board Members. In accordance with the Companies Act (ZGD-1) and the Banking Act (ZBan-2), the following Supervisory Board committees operated under the Supervisory Board in 2018: the Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee, and the Credit Committee.

The Bank's Management Board provided Supervisory Board members with professionally drafted materials, which enabled them to be well-informed on the matters subject to their decisions.

We believe that the Supervisory Board received sufficient and transparent reports, together with timely and accurate information on the management function, to monitor the operations of Nova KBM in a responsible and prudent manner, in particular the work of the Bank's Internal Audit. The Supervisory Board and its committees actively participated in the creation of the Governance Policy, the Remuneration Policy, and the Policy on the assessment of the suitability of members of the management bodies and key function holders (Fit & Proper Policy). Where necessary, the Supervisory Board was provided with additional clarifications and explanations, whereby, together with the Management Board, launched initiatives for further improvement of the quality and quantity of data delivered, including the optimisation of data delivery times.

Members of the Supervisory Board took all precautionary measures to avoid any conflict of interest that might influence their decisions, as required by the Rules for Managing Conflict of Interest of Supervisory Board Members. Any conflicts of interest encountered by respective Supervisory Board members occurred only occasionally and they neither constituted a reason to terminate the term of office of any Supervisory Board member, nor impeded smooth operations of the supervisory body. These conflicts interest were duly recorded and reported to the Nova KBM Compliance Office.

The Chair of the Supervisory Board performed his duties in line with his powers and the Rules of Procedure of the Supervisory Board, communicating and cooperating with the Management Board also in the periods between particular Supervisory Board meetings. He regularly monitored

the developments related to the operations of the Bank, and responded promptly and consistently. The Chair encouraged other Supervisory Board members to perform their duties in an efficient and active manner, and included Supervisory Board members in the communication with the Management Board and heads of internal control functions even outside regular meetings. By chairing Supervisory Board meetings, the Chair ensured that Supervisory Board adopted its decisions in a responsible, transparent, and prudent manner. He committed sufficient time to his chairmanship duties; therefore, his other commitments did not impede his work in the Supervisory Board.

Supervisory Board members have adequate and complementary professional knowledge, experience and skills to perform their duties, and complement one another in terms of their different professional, geographical and educational backgrounds. The current composition of the Supervisory Board allows for fully compensating potential lack of specific knowledge in any of its members by professional expertise of other members. All members of the Supervisory Board also have the necessary personal integrity and professional ethics to hold their positions. This ensures responsible supervision and decision-making to the best interest of Nova KBM.

Supervisory Board members were well prepared for the Supervisory Board meetings. The meetings were regularly attended by the majority of its members. Supervisory Board members were properly equipped to discuss important topics; they presented constructive proposals, and often challenged the Management Board. On the basis of expertly drawn up and comprehensive information provided by the Management Board, Supervisory Board members were able to take high-quality decisions. The Rules of Procedure of the Supervisory Board comply with applicable principles of best corporate governance and banking-specific international guidelines. All meetings were recorded, with written records and transcriptions that highlighted and/or summarised the most important positions and key questions raised during discussions, which has ensured a full traceability and transparency of all matters discussed or decisions adopted.

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 necessary explanations on particular topics. In addition to detailed arguments given by the Management Board directly at the meetings, members of the Management Board were also ready to discuss in detail any questions asked by Supervisory Board members. The communication and cooperation between the Management Board and the Supervisory Board was adequate and fair.

Supervisory Board Committees

In 2018, the Supervisory Board operated with five committees. The following is a breakdown of committee composition and their mission, all of which complied with the provisions of the Banking Act (ZBan-2) and the Companies Act (ZGD-1):

- Audit Committee: Until 21 March 2018, the Audit Committee comprised the following members: Andrea Moneta, Chair, Andrzej Klesyk, Deputy Chair, Michele Rabà, Andrej Fatur, and Manfred Puffer, members. Manfred Puffer resigned from the position of the Committee member on 21 March 2018. In 2018, the Committee considered key topics and issues, as per Article 280 of the ZGD-1. The following is a summary of key topics considered by the Audit Committee:

  - Internal Audit Department work optimisation project, and hiring new eligible experts to complete the Internal Audit staff
  - Preliminary audit plan for 2018, the 2018 Internal Audit Group plan
  - Report on the implementation of the 2018 Internal Audit Plan
  - Control of the accuracy, compliance and integrity of financial and accounting information provided by the Bank to shareholders and other external users
  - Assessing the structure of the Bank's Annual Report, including drawing up a proposal to the Supervisory Board of the Bank
  - Control of the risk management system, internal control system, and internal audit
  - Monitoring the financial reporting procedure, monitoring the efficiency of the company's internal controls, internal audit, and risk management systems
  - Cooperating with the external auditor in auditing the company's Annual Report, in particular by means of exchanging briefings on major audit-related issues
  - Cooperating with the internal auditor, in particular by means of exchanging briefings on main issues regarding internal auditing
  - Drawing up a proposal to the Supervisory Board regarding the appointment of an external auditor to audit financial statements of the Bank and the Group for the period 2018–2020
  - Update to the Internal Audit Charter
  - Considering reports of the regulators and other supervisory and audit companies.

- Risk Committee: In 2018, the Risk Committee comprised the following members: Manfred Puffer, Chair, Andrea Moneta, Deputy Chair, and Michele Rabà and Alexander Saveliev, members. In 2018, the Committee considered key topics and issues in accordance with Article 51 of ZBan-2. The following is a summary of key topics considered by the Risk Committee:

  - NPL reduction strategy
  - Reports on regulatory risks
  - Reports concerning activities in NPL management, Risk Appetite Framework of the Nova KBM Group (RAF), and Risk Appetite Statement of the Nova KBM Group (RAS) for 2018, Nova KBM Group Restructuring and Resolution Plan, stress testing reports, Action Plan regarding the SREP Letter, and NPL reduction strategy
  - Internal Capital Adequacy Assessment (ICAAP) Report in relation to the NPE stress testing strategy
  - Advising on the Bank's current and future risk appetite and on the Risk Management Strategy
  - Assisting in the supervision of the Bank's Management Board regarding the implementation of the Risk Management Strategy
  - Compliance risk assessment
  - Assessment of the risk function.

- Remuneration Committee: Until 26 March 2018, the Remuneration Committee comprised the following members: Gernot Lohr, Chair, Alexander Saveliev, Deputy Chair, Michele Rabà, member. Gernot Lohr resigned from the position of Committee member and Chair on 26 March 2018. On 17 May 2018, the Supervisory Board appointed Andrzej Klesyk as a new Committee member and Chair. In 2018, the Committee considered key topics and issues in accordance with Article 52 of ZBan-2. The following is a summary of key topics considered by the Remuneration Committee:

  - Approval of amendments to the Remuneration Policy and the Performance Management Concept
  - Taking note of Nova KBM's remuneration peer analysis
  - Defining Management Board goals for 2018
  - Drafting proposals underlying general principles of remuneration policies, including definition of positions on respective remuneration policy topics
  - Drafting reports for the Bank's Supervisory Board concerning the implementation of remuneration policies
  - Taking note of the contents of the new Bank's Collective Agreement

- Nomination Committee: Until 26 March 2018, the Nomination Committee comprised the following members: Andrej Fatur, Chair, Gernot Lohr, Deputy Chair, Alexander Saveliev and Andrzej Klesyk, members. Gernot Lohr resigned from the position of Committee member and Deputy Chair on 26 March 2018. On 17 May 2018, the Supervisory Board appointed Alexander Saveliev as a new Committee member and Deputy Chair. In 2018, the Committee considered key topics and issues in accordance with Article 50 of ZBan-2. The following is a summary of key topics considered by the Nomination Committee:

  - The policy on the selection of suitable candidates for the management body
  - Appointment of a new Management Board member
  - Defining tasks and required conditions for respective appointments, including time commitments for respective functions
  - Assessment of structure, size, composition and performance of the Management Board and Supervisory Board, and drawing recommendations for potential changes
  - Assessment of knowledge, skills, and experience of each Management Board and Supervisory Board members as well as the body as a whole, and reporting accordingly to the Supervisory Board and Management Board
  - Active contribution to ensuring performance of Bank's obligations in terms of adopting relevant Fit & Proper policies.

- Credit Committee: In 2018, the Credit Committee comprised the following members: Manfred Puffer, Chair, Andrea Moneta, Deputy Chair, and Michele Rabà and Alexander Saveliev, members. The Credit Committee is an expert advisory body of the Supervisory Board of Nova KBM. Its fundamental mission is to provide prior written consent for transactions, as determined by a resolution of the Supervisory Board. The Bank's Management Board shall seek the consent (approval) of the Credit Committee for legal transactions subject to special resolution of the Supervisory Board (i.e. the List of Transactions) prior to concluding the transaction. In 2018, the Credit Committee dealt with the aforementioned asks and activities.

Supervisory Board committees performed their work in accordance with tasks assigned to them, in line with the decisions and duties adopted by the Supervisory Board, and in accordance with duties imposed on the committees directly by ZGD-1 and ZBan-2 or applicable implementing regulations. Supervisory Board committees supported the Supervisory Board in controlling the management of Nova KBM and the Nova KBM Group companies. The committees carried out their work based on the law, Nova KBM´s Articles of Association, and respective rules of procedure setting out the lines and method of operation of respective committees. While per Z-Ban-2 committees need to be composed solely of Supervisory Board members, they have, in cases where this proved to be necessary due to specifics or the nature of work, engaged external advisers that have extensive knowledge of the lines for which a particular committee is responsible, and of operations of Nova KBM that require specific knowledge and skills.

In 2018, the Supervisory Board met at 6 regular and 49 by-correspondence meetings, considering key topics and issues in accordance with Article 48 of ZBan-2. The following is a summary of key topics considered by the Supervisory Board:

- Annual and other financial reports of the Bank
- Reports of Supervisory Board committees
- The 2018 Plan of the Internal Audit Group
- Internal Audit reports
- Reports on Risk Appetite Framework of the Nova KBM Group (RAF)

- Report on the Internal Capital Adequacy Assessment Process (ICAAP)
- Nova KBM and Nova KBM Group Governance Policy
- Remuneration Policy
- Nova KBM's Collective Agreement
- Matters that require consent of the Supervisory Board
- Consent to the appointment of a new Chief Audit Executive
- Appointment of a new Management Board member
- Reports on NPE Strategy
- Contracts with external advisers
- The policy on the selection of suitable candidates for the management body
- List of Transactions (LoT)
- Sale of the stake in KBM Leasing
- Agreement on exiting the Moneta payment system
- Nova KBM Group Restructuring Plan
- Sale of a 77-percent stake of Nova KBM in KBM Infond
- Amendments to the Rules of Procedure of the Supervisory Board
- The Core Banking System project
- Strategy-tracking reports
- Taking note of the Anti-money Laundering and Counter Financing - Terrorism (AML/CFT) status and AML/CFT reports
- Materials for the 2017 Annual Report to be presented at the regular Shareholders' Meeting, Nova KBM consolidated disclosures for the 2017 fiscal year, Report of the Supervisory Board on considering the external Auditor's Report, and Report on the Supervisory Board Work.

Based on the forgoing, the Supervisory Board hereby estimates and declares it had fully complied with Articles 272 and 281 of ZGD-1, having regularly and thoroughly monitored the operations of Nova KBM and the Nova KBM Group in 2018, within its competences and, therefore, adequately supervised the management and operations of Nova KBM and the Nova KBM Group and the work of the Internal Audit.

Review and approval of 2018 Annual Report in accordance with Article 282 of the Companies Act (ZGD-1)

The Bank Management Board submitted to the Supervisory Board within the statutory deadline the audited 2018 Annual Report of Nova KBM and the Nova KBM Group, including the Auditor's Report. The Management Board also submitted the 2018 Annual Internal Audit Report of Nova KBM Group.

The Supervisory Board considered the audited 2018 Annual Report of the Nova KBM Group and Nova KBM, determining that the Annual Report is a complete and comprehensive review of business operations of Nova KBM and the Group in 2018. The Supervisory Board also took note of the opinion of the certified auditor from the audit firm Deloitte revizija d.o.o. on the audit of financial statements of Nova KBM and the Nova KBM Group as at 31 December 2018.

According to the certified auditor's opinion concerning the audit of financial statements of Nova KBM as at 31 December 2018, the accompanying financial statements present fairly, in all material aspects, the financial position of Nova KBM as at 31 December 2018, and its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

According to certified auditor's opinion concerning the audit of financial statements of Nova KBM Group as at 31 December 2018, the accompanying consolidated financial statements present fairly, in all material aspects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Review of the Report on Related Party Relationship

Pursuant to Article 546a of ZGD-1, the Supervisory Board examined the Report on Related Party Relationship and took note of the opinion of the certified auditor Deloitte revizija d.o.o. concerning the Report on Related Party Relationship. The auditor declared in the report that the company Deloitte revizija d.o.o., based on their procedures and the evidence obtained, confirms that nothing has come to their attention that would cause them to believe that:

- the information in the Report on Related Party Relationship for the year ended 31 December 2018 is not presented fairly, in all material respects;
- the fulfilment of the company's obligations in the scope of the legal transactions presented in the Report, based on the circumstances known at the time of these transactions, was materially disproportionate;
- that circumstances exist which, in relation to other actions disclosed in the Report, would indicate an assessment of disadvantages incurred that is substantially different from the assessment presented by the management; all of which was considered based on the above criteria.

Based on the review of Bank's operations described above, the Supervisory Board deems the Bank's operations in 2018 to be successful.

The Supervisory Board is not aware of any breach of legislation and/or Bank's internal rules.

Maribor, 19 March 2019

Supervisory Board of Nova KBM d.d.

Andrej Fatur,
Chair

4 Strategic directions of Nova KBM and the Nova KBM Group

Nova KBM decisively pursues the implementation of the Development Strategy of Nova KBM and the Nova KBM Group for the period of 2017–2020, which was approved by the Management Board and the Supervisory Board in April 2017.

VISION AND MISSION

In the heart of the Nova KBM's Development Strategy is the following vision: "To become the best bank in Slovenia by 2020."

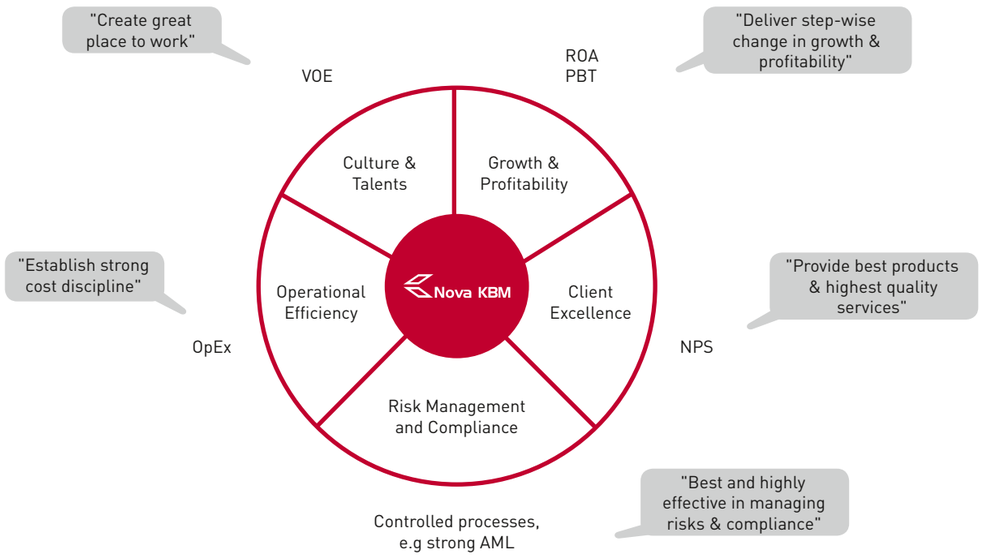
Nova KBM's vision is thoughtfully built on five key pillars or strategic areas. The Nova KBM's mission is a successful realisation of all the strategic pillars:

- Client excellence
- Growth and profitability
- Strong risk management and compliance
- Operational efficiency
- Organisational culture and development of employees (Culture & Talents).

Metrics and milestones are set for each strategic pillar, thus enabling the Bank to monitor the implementation of its strategy.

VALUES

Implementation of the strategy is based on common values that employees of the Nova KBM Group shall take into account in their work, mutual relations, and in cooperation with all stakeholders: trust, responsibility, excellence, honesty, loyalty, and integrity.



5 Profile of the Nova KBM Group and Nova KBM

5.1 Important events and achievements during 2018

January

- According to the strategy of the Nova KBM Group, the sale of the subsidiary KBM Leasing Hrvatska – in liquidation was completed; and Gorica Leasing d.o.o. – in liquidation was merged with KBM Leasing – in liquidation.
- Nova KBM opened the 7th specialised bank office at Miren post office.

February

- The Bank introduced the Directive on Payment Services in the Internal Market (PSD2) into its operations. With the first phase of the project, the Bank ensured legal compliance with the transposition of PSD2 into national law; provided support for new payment services, payment initiation service and account information service, and started identifying business opportunities associated with applying PSD2.

March

- The Bank started using an innovative loan application that enables quicker, simpler and more transparent approval of loans to customers, and renewed its credit range by adding the new consumer loan "Kredit naprej" product.
- KBM Infond was selected as the best fund management company from among all eleven management companies that sell mutual funds in Slovenia. The annual competition for the best mutual fund manager and mutual fund is organised by the Moje finance magazine every year.
- The Brežice branch office moved to a new, more modern and refurbished location.
- By a special event organised for managers of post offices and bank offices – POBA, Nova KBM celebrated and strengthened its strategic partnership with Pošta Slovenije.
- Following his resignation notice, the office of Robert Senica as a Management Board member and Deputy President was terminated.

April

- On 26 April 2018, the rating agency Fitch Ratings confirmed the assessment of Nova KBM's Long-Term Issuer Default Rating at BB, and changed the outlook from stable to positive due to improved operations, further high potential for improvements in profitability and a decrease in non-performing loans.
- Nova KBM published the first independent Report on Sustainable Development and Social Responsibility, which includes reporting according to GRI (Global Reporting Initiative) and ESG (Environmental, Social and Governance) guidelines. The report includes information about economic, environmental, social and management effects and results of the organisation's operations.

May

- The Bank successfully aligned its operations with the General Data Protection Regulation (GDPR).
- The Bank sold its Serbian subsidiary KBM ASCO, a special purpose vehicle established for the purpose of transferring non-performing assets at the sale of KBM Banka Kragujevac.

June

- Nova KBM opened the 8th specialised bank office at Trbovlje post office.
- Summit Leasing Slovenija improved its Certificate of Excellence rating awarded by Bisnode from A (in 2017) to AA.

July

- After obtaining regulatory authorisations, Matej Falatov who was appointed by the Supervisory Board in June, started his office of the Nova KBM Management Board member.
- The Bank redesigned the mobile bank mBank@Net, and according to the national survey called Elaborate, the Bank@Net online bank was ranked 2nd among Slovenian online banks.

August

- Nova KBM presented to its customers updated and affordable online and mobile bank services involving the use of SMS tokens that provide the same level of security as the previous security elements (the RSA SecurID key and password).

September

- Employees of the Nova KBM Group gathered for the third time in a row at the Nova KBM Olympics that aims at strengthening cooperation, satisfaction, loyalty, and awareness of the Bank's common goals.

October

- Moody's Investor Service improved the long-term deposit rating of Nova KBM by two notches, from Ba2 to Baa3.
- A contract was signed concerning the sale of the entire equity interest in KBM Leasing d.o.o. (i.e. the former subsidiaries in liquidation – Gorica Leasing and KBM Leasing – which were merged at the beginning of 2018).
- Nova KBM opened the 9th specialised bank office at Domžale post office.
- The Bank launched a new brand and service bundle for micro enterprises (Smart Business) designed for advanced entrepreneurs.
- The Bank upgraded its range of housing loans.
- For the third year in a row, a numerous team of employees and associates of the Nova KBM Group participated at the Ljubljana Marathon, demonstrating the sport, team and charity spirit.
- Following his resignation notice, the office of Josef Gröblacher as a Management Board member was terminated.

November

- Nova KBM opened the 10th specialised bank office at Velenje post office.
- SKB and Nova KBM entered into a partnership in ATM operations. Benefits for the customers of the two banks include more accessible ATMs and greater availability of more than 300 ATMs throughout the territory of Slovenia.
- The Bank started a free replacement of passbooks by debit cards. Thus enabling customers to work with the Bank in a new way that is environment-friendlier, simpler, and offers a larger range of services.
- The Premium branch office in Maribor celebrated its first anniversary. The entire Premium segment has already acquired 3,000 customers since its introduction in November 2017.

December

- The Bank introduced a new, environment-friendly and technology-based E-notification service for customers not yet using Bank@Net, which facilitates receiving notifications in an electronic format.
- The programme called "Banka na delu" (Bank@Work), which includes a special product and service range for employees in companies, reached a new milestone – in December, it involved more than 300 companies and 22,000 customers.
- The Bank took over brokerage customers of Abanka and thus increased the volume of operations in this segment.
- Based on a common agreement between Nova KBM and Telekom d.d. on the exit of Nova KBM from the Moneta system, the company's Shareholders' Meeting adopted the resolutions on summary winding up the company without liquidation.
- Nova KBM, as the seller, and Sava Re d.d., as the buyer, signed a Contract on the sale and transfer of the equity interest in KBM Infond, družba za upravljanje, d.o.o., stipulating the sale and purchase of the equity interest representing 77 % of the company's equity.

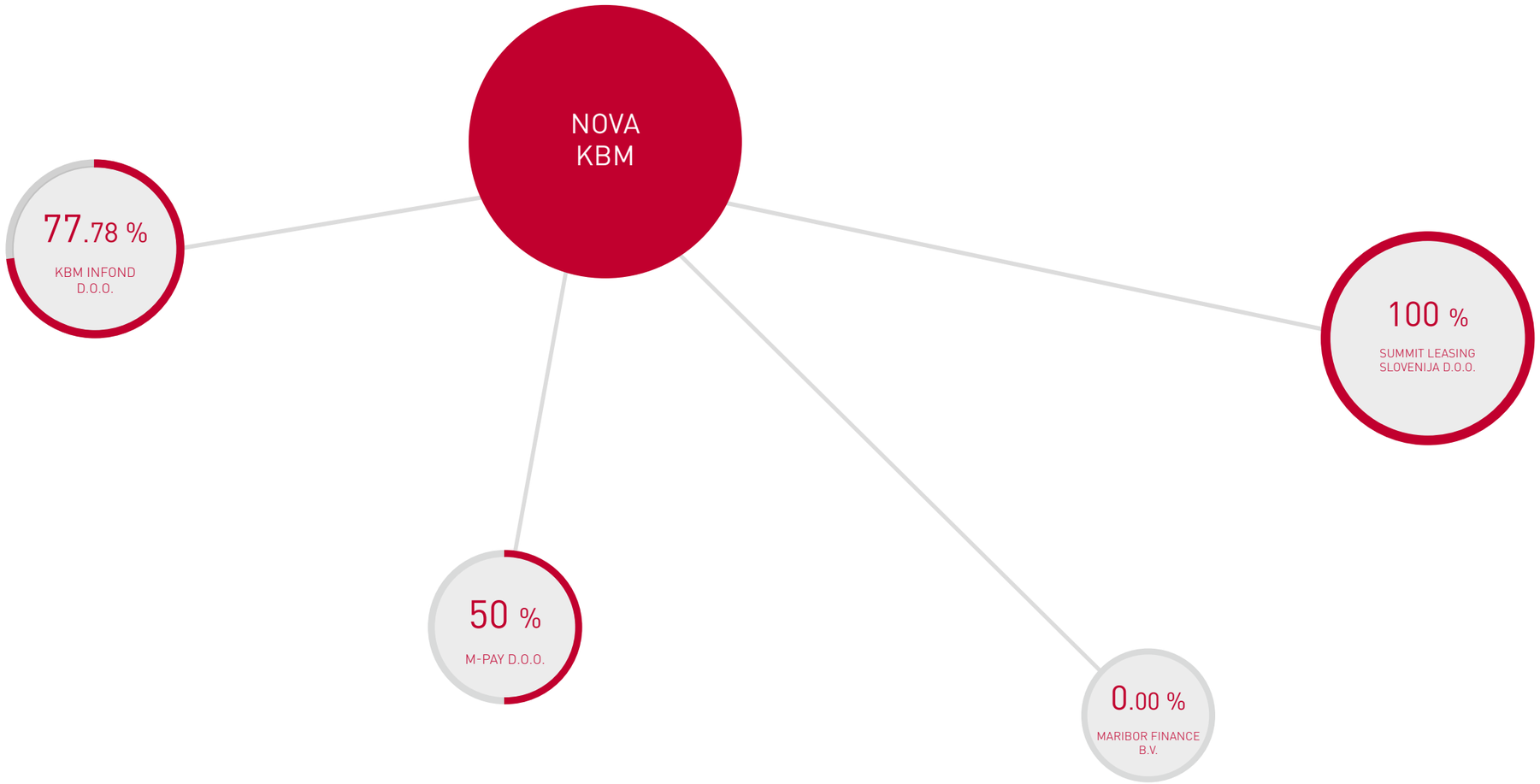
5.2 Significant events after the end of the financial year

January

- The Supervisory Board of the Bank appointed a new member of the Management Board in charge of operations (COO), i.e. Aytac Aydin, who will act as a procurator of the Bank until the regulatory requirements are met.
- In January, the District Court of Maribor issued a decision on striking off the company M-Pay, družba za mobilno plačevanje, storitve in trgovino, d.o.o., from the court register. As at the day of the final legal decision, 1 February 2019, the company was struck off.

5.3 Governing the Nova KBM Group and Nova KBM

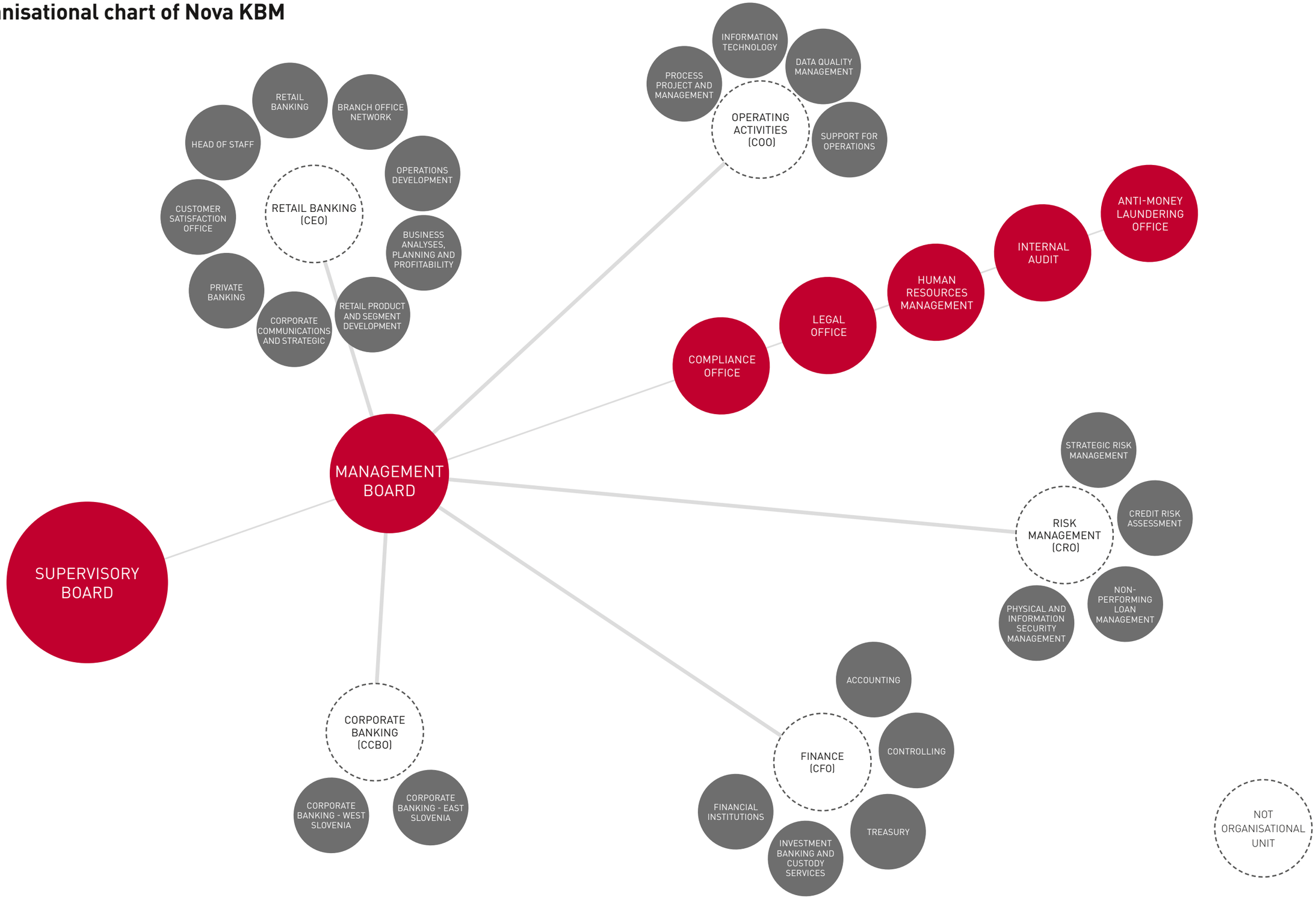
5.3.1 Organisational structure of the Nova KBM Group



The Group's stake in the share capital of KBM Infond accounts for 77.00 %. Because KBM Infond holds a certain percent of its own shares, the Group's stake in the capital of and voting rights in KBM Infond equals 77.78 %.

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

5.3.2 Organisational chart of Nova KBM



5.3.3 Corporate governance of Nova KBM

The governance of the Bank is based on applicable legislation, the Company's Articles of Association, and the rights and responsibilities of Company's governance and management bodies that realise the mission indicating that responsible governance is a basis for all activities implemented by Nova KBM and the Nova KBM Group.

Name and surname	Position	Term of office	Membership in Supervisory Boards of companies
John Denhof	President of the Management Board	2017–2022	• Summit Leasing Slovenija d.o.o. – Chair • KBM Infond d.o.o. – Deputy Chair
Jon Locke	Deputy President of the Management Board	2017–2022	• Summit Leasing Slovenija d.o.o. – Member • KBM Infond d.o.o. – Member
Sabina Župec Kranjc	Management Board member	2014–2019	• Summit Leasing Slovenija d.o.o. – Member • KBM Infond d.o.o. – Chair • ZBS – Member
Matej Falatov	Management Board member	2018–2023	• Summit Leasing Slovenija d.o.o. – Member

In compliance with Slovenian legislation, the Bank has a two-tier management structure, where relations between individual bodies are based on mutual division of rights and responsibilities.

Nova KBM bodies include: Management Board, Supervisory Board, and the Shareholders' Meeting of the Bank.

Management Board

Until 31 March 2018, the Management Board comprised the following five members: John Denhof, President of the Management Board, Robert Senica, Deputy President of the Management Board, Jon Locke, Management Board member, Sabina Župec Kranjc, Management Board member, and Josef Gröblacher, Management Board member. As at 31 March 2018, following his resignation notice, the office of Robert Senica as a Management Board member and Deputy President was terminated.

Since 31 March 2018, the Management Board member Jon Locke has been performing the function of Deputy President of the Management Board.

On 21 March 2018, the Supervisory Board of Nova KBM appointed a new Nova KBM Management Board member, Matej Falatov. On 29 June 2018, Matej Falatov received the authorisation from the ECB to act as a Management Board member. The office of the newly appointed member started on 6 July 2018 as per the decision took by the Supervisory Board on 5 July 2018. Before taking the role of a Management Board member, he held the office of an authorised representative (procurator) of Nova KBM since 31 March 2018.

The composition of the Management Board changed on 8 October 2018, when, following his resignation notice, the office of Josef Gröblacher as a Management Board member was terminated.

As at 31 December 2018, the Management Board of Nova KBM comprised the following four members: John Denhof, President of the Management Board, Jon Locke, Deputy President of the Management Board, Sabina Župec Kranjc, Management Board member, and Matej Falatov, Management Board member.

Remuneration of Management Board members complies with their powers, assignments, expertise, and responsibilities. Remuneration for the work, reimbursement of their costs, and bonuses of Management Board members are defined in the individual contract of each Management Board member.

The remuneration system for employees the professional activities of which have a significant impact on the Bank's risk profile is implemented in line with the Remuneration Policy of Nova KBM. The Remuneration Policy complies with the Bank's strategy on managing its operations and risks, its corporate culture and values, long-term interests, and measures taken to avoid conflicts of interest, while not encouraging taking excessive risks.

The most recently updated Remuneration Policy has been in effect since 1 October 2018.

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 financial statements.

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

Other Nova KBM committees

Credit Committee

Credit Committee makes decisions on granting all loans to customers within its powers, in accordance with the Bank's rules governing the powers, procedures and decision-making with respect to loan approvals.

The committee comprises four members, and is chaired by the Management Board member responsible for the corporate segment.

Committee meetings are called on a weekly basis.

Distressed Loans Committee

The Bank has in place also the Distressed Loans Committee. The committee comprises six members, and is chaired by the Management Board member, Chief Risk Officer.

Liquidity Committee

The Liquidity Committee monitors the situation and adopts measures for the assurance of short-term liquidity. The Committee comprises eight members. It is chaired by the Management Board member, Chief Financial Officer.

The Liquidity Committee meets daily.

Assets and Liabilities Committee (ALCO)

The ALCO reviews and monitors the statement of financial position structure, capital adequacy, interest rate risk, structural liquidity, market risks, foreign exchange risks, profitability and 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 comprises ten members. It is chaired by the Management Board member, Chief Financial Officer.

The ALCO meets once a month.

Operational Risk Committee

The Operational Risk Committee is responsible for monitoring, measuring, assessing, and managing operational risks. The committee comprises six members. The committee is chaired by the Management Board member, Chief Risk Officer.

The Operational Risk Committee meets at least on a quarterly basis.

Crisis Management Committee

The Crisis Management Committee is a decision-making body responsible for managing crisis situations. The Committee takes independent decisions on all the proposals for immediate action aimed at crisis management, including decisions on the use of exceptional financial and other assets.

The committee meets and acts in the events of crisis situations.

Supervisory Board

In accordance with the Articles of Association, the Supervisory Board shall consist of no fewer than 6 and no more than 11 members to be appointed by the Shareholders' Meeting.

Until 26 March 2018, the Supervisory Board comprised 7 members, namely Andrej Fatur, Chair, Andrzej Klesyk, Deputy Chair, Manfred Puffer, Michele Rabà, Gernot Lohr, Andrea Moneta, and Alexander Saveliev.

As at 26 March 2018, following his resignation notice, the office of Gernot Lohr as a Supervisory Board member was terminated.

As at 31 December 2018, the Supervisory Board comprised the following members: Andrej Fatur, Chair, Andrzej Klesyk, Deputy Chair, Manfred Puffer, member, Michele Rabà, member, Andrea Moneta, member, and Alexander Saveliev, member.

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

Andrzej Klesyk is a highly qualified expert in financial services. Since 2016, he has been working as a senior advisor, mainly in the field of financing listed companies, advising investors and banks, and advising international companies on their business strategy in Europe. Between 2007 and 2015, he was Chief Executive Officer of PZU SA Company. Under his leadership, PZU became known as one of the largest and most successful cases of public offering of private company shares in Central and Eastern Europe.

Manfred Puffer has more than 30 years of experience in banking and insurance sectors. Since 2008, he has been working as an Operating Partner at Apollo Global Management, LLC, focusing primarily on the European banking sector. He has acquired professional experience by performing a supervisory function in various companies in Europe and the United States, in particular at banking and insurance companies.

Michele Rabà is partner in Apollo Management International, LLP – the area of Private Equity. In addition, he is acting as a Non-Executive Director at Biser Bidco S.à r.l., the investment fund holding company, which is affiliated to Apollo. He has acquired professional experience by performing a supervisory function in various companies in Europe, in particular in the area of finance. Previously, he worked in the Investment Banking Division – Financial Institutions Group of Goldman Sachs International.

Andrea Moneta is the President of the Board of Directors in Amissima, the insurance company held by certain investment funds managed by companies of Apollo Global Management. He has acquired relevant supervisory experience by acting in supervisory boards of various European companies, particularly at banking and insurance companies. He has gained in-depth experience through various senior management positions held at several European financial institutions. Andrea Moneta completed his 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 acquired knowledge and experience by performing various supervisory, commercial and executive functions, particularly in the area of finance. As a representative of the EBRD, he has served as a member of supervisory boards of several banks (Bank Kedr in Russia, Megabank in Ukraine, and Šiaulių Bankas in Lithuania). He has also gained his banking experience while acting as a Management Board member of ProCreditBank in Serbia.

In accordance with the resolution adopted by the Shareholders' Meeting, members of the Supervisory Board are entitled to receive basic remuneration for their work and reimbursement of their costs incurred in relation to their work and the work of the Supervisory Board's committees.

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

Supervisory Board committees

In the 2018 financial year, the following committees carried out their work in accordance with the Companies Act (ZGD-1) and the Banking Act (ZBan-1): the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Risk Committee.

In accordance with the Bank's Articles of Association, the Supervisory Board 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 section on Corporate governance statement of Nova KBM.

Shareholders' Meeting of the Bank

The Shareholders' Meeting is the body of the Bank through which shareholders exercise their rights, i.e. take decisions on all statutory issues, in particular those in respect of staff decisions (e.g. appointment of Supervisory Board members, appointment of auditors), distribution decisions (appropriation of distributable profit), and decisions on corporate changes (e.g. amendments to the Articles of Association, increase or decrease in share capital) and legal restructuring (e.g. mergers, acquisitions, demergers, etc.) with the aim of attaining the fundamental commercial objective – to maximise the value of the Bank.

Information in respect of convening the Shareholders' Meeting, participation at the Shareholders' Meeting, and about the method of decision-making is set out in section on Corporate governance statement of Nova KBM.

Two Shareholders' Meetings of Nova KBM were held in 2018.

On 18 April 2018, the Shareholders' Meeting took note of the 2017 report on the internal audit of the Nova KBM Group and of the opinion given by the Supervisory Board in this regard, the 2017 Annual Report of the Nova KBM Group and the 2017 Annual Report of Nova KBM, and both the auditor's

Name and surname	Position	Term of office	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	Credit Committee
Andrej Fatur	Chair	2016–2021	Member	Chair			
Andrzej Klesyk	Deputy Chair	2017–2022	Deputy Chair	Member	Chair since 17 May 2018		
Manfred Puffer	Member	2016–2021	Chair until 21 March 2018			Chair	Chair
Michele Rabà	Member	2016–2021	Member		Member	Member	Member
Andrea Moneta	Member	2016–2021	Chair			Deputy Chair	Deputy Chair
Alexander Saveliev	Member	2016–2021		Deputy Chair since 17 May 2018	Deputy Chair	Member	Member

and the Supervisory Board's reports on the examination of the 2017 Annual Report of the Nova KBM Group and the 2017 Annual Report of Nova KBM.

On 18 April 2018, the Shareholders' Meeting appointed Deloitte Revizija d.o.o. Ljubljana as external auditor for the period of three years, 2018-2020, to audit the financial statements of Nova KBM and the Nova KBM Group.

On 4 July 2017, the Shareholders' Meeting decided on appropriation of the 2017 distributable profit. Furthermore, the Shareholders' Meeting granted a discharge to the Management and Supervisory Boards for the year 2017, and took note of the remuneration paid to the members of the management and supervisory bodies in 2017.

5.3.4 Compliance function

Sustainable and profitable growth of the Bank is based on the development of new products, effective solutions and excellent services on the one hand, and on exemplary and regulatory-compliant business practices on the other hand. In carrying out its operations, the Bank faces numerous threats, both in dealings with external parties and internally, including threats arising from non-compliance with the applicable regulations and from the loss of its integrity. Levels and the nature of threats change over time, while the development and changes taking place in the Bank and its environment keep giving rise to new threats.

Considering the aforesaid, the Bank has set up a centralised, autonomous and independent compliance function represented by the Compliance Office, which is placed directly under the Bank's Management Board, having a 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 the Bank in supporting the attainment of its strategic, business and financial objectives, while at the same time protecting the Bank by developing and encouraging ethical conduct and commitment to compliance with the law, and by strengthening the values of trust, responsibility, excellence, honesty, loyalty, and integrity, all of which are important components of the Code of Conduct. Furthermore, the Compliance Office provides advice to the Bank in identifying any compliance risks and resolving regulatory issues, and strengthens institutional compliance through effective training programmes, thereby preserving the reputation of the Bank. It encourages all those who have grounds to suspect that any law or regulation, the Code of Conduct, or any other internal policy or procedure has been violated in the Bank, 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.

In 2018, Nova KBM carried out the Compliance Programme and Strategy adopted, and in this context, inter alia, updated the Nova KBM and the Nova KBM Group's Code of Conduct, the Compliance Policy, the Compliance Risk Methodology, and other relevant internal regulations, and further improved the system of managing conflicts of interest, all of these with the aim of reducing the compliance risk, while strengthening the corporate culture and awareness in employees. In 2018, it also carried out a general annual compliance risk assessment, accompanied with specific compliance risk assessments by areas.

The Bank is continuously improving its system of compliance risk management, also in specific areas, such as ensuring compliance of the management body, operations of the financial instruments market, data protection, prevention of tax evasion, obligations arising from automatic exchange of information on financial accounts, management of the internal control system and the risks imposed by new legislation, etc.

In accordance with the requirements of the regulator, the Bank renewed in 2018 the fit & proper process for members of the management bodies and officers holding key positions.

In the area of dealing in financial instruments, the Bank implemented in the past year an IT solution for reporting, which resulted in increased transparency.

In the area of personal data protection, the Bank effectively implemented new requirements of the General Data Protection Regulation (GDPR).

In 2018, the Bank kept implementing consistently the requirements of tax legislation regarding financial accounts abroad (FATCA and CRS) and reporting.

In the area of compliance, the Bank carries out regular training courses for all its employees, and suggests appropriate measures and advice as continuous support to individual organisational units of the Bank for the purpose of preventing or mitigating compliance risks in the Bank.

5.3.5 Prevention of money laundering and terrorist financing, and provision of compliance in restrictive measures

Diligent implementation of the activities with respect to the prevention of money laundering and terrorist financing falls among the tasks carried out by the Bank in accordance with the Prevention of Money Laundering and Terrorist Financing Act. The set of measures adopted covers also the obligations with their legal base arising from EU regulations and the US Treasury Office (OFAC). The risks related to the possibility of abusing the Bank for the purpose of money laundering and terrorist financing, and the risks in the area of restrictive measures are managed centrally, by the Anti-Money Laundering Office. Key tasks include the implementation of legal requirements, supervision of the internal control system, provision of training courses, continuous control over the performance of the system (the second level control), and a continuous search for modern solutions that would contribute to a more efficient and improved system for managing the risks of money laundering, terrorist financing and violation of restrictive measures.

In 2018, the Bank carried out a comprehensive renovation of the system of internal controls, applications, and internal rules, whereby tightened the conditions for establishing business relationships.

At the beginning of 2018, the Customer Acceptance Policy came into effect. It is a key document in determining the basis on which the Bank enters into relationships with its customers. Customer Acceptance Policy objectives include:

- Establishment of clear criteria for customer acceptance
- Determination of procedures for verifying the identity of individuals or corporate customers for opening an account
- Assurance that the Bank has taken the measures and obtained the data and documents used to learn about the customer and their financial activities with a view to carefully manage risks
- Reduction of legal risk, reputational risk or money laundering risk the Bank is facing when performing its business.

The adopted measures were implemented for both existing and new customers. Consequently, an overview of all existing business relationships was carried out in terms of compliance with the adopted Customer Acceptance Policy. In cases where the customers did not demonstrate their attachment in accordance with the Policy, business relationships were terminated.

Another key document that came into force in the third quarter of 2018 is the Anti-money Laundering and Terrorist Financing Policy.

Policy objectives:

- To determine, in an internal act implemented in the Nova KBM Group, that the Bank is in charge of preparing and designing the Group's programme on anti-money laundering and terrorist financing, including restrictive measures
- To summarise, in a single document, the essence of the programme for this area
- To define a minimum set of measures applicable across the Group.

These measures include:

1. Customer due diligence procedures
2. Customer risk assessment
3. Continuous monitoring of the business relationship with the customer
4. Internal and external reporting process
5. Compliance assessment and verification
6. Training and awareness-raising programme
7. Retention of data and record keeping
8. Verifying all stakeholders in terms of fighting against terrorism and international sanctions.

Both documents were established at the Group level. Together with introducing the applied improvements and the connection to internal controls also by compulsory scanning the documents required, as well as by the control of all newly established business relationships, the Bank took a step forward towards a stable system of internal controls, improvement in the quality and completeness of data, and increased awareness of the importance of good knowledge of customers.

6 Shareholders' equity of Nova KBM

The composition of Nova KBM shareholders' equity is presented in the table below:

	31/12/2018	31/12/2017
Share capital	150,000	150,000
Share premium	403,302	403,302
Accumulated other comprehensive income	18,260	30,029
Reserves from profit	20,228	20,228
Retained earnings	56,139	33,685
Net profit/loss for the financial year	75,520	45,813
Total	**723,449**	**683,057**

As at 31 December 2018, the Nova KBM shareholders' equity increased by 5.9 % or €40,392 thousand compared to 31 December 2017.

Following the transition to IFRS 9, on 1 January 2018, both retained earnings and accumulated other comprehensive income increased, by €22,455 thousand and €2,190 thousand respectively, resulting in a total increase in equity by €24,645 thousand.

In 2018, the share capital of Nova KBM did not change, and amounted at the end of 2018 to €150,000 thousand. It was split into 10,000,000 ordinary no-par-value shares.

On 21 April 2016, BISER BIDCO S.à.r.l. Company became a 100-percent owner of Nova KBM shares, through which the purchase of shares was performed by certain investment funds managed by affiliates of Apollo Global Management, LLC, and the European Bank for Reconstruction and Development.

In 2018, accumulated other comprehensive income decreased by €11,769 thousand, mainly due to the valuation of debt securities measured at fair value through other comprehensive income.

Based on the relevant proposal of the Management Board and the opinion of the Supervisory Board, a resolution was passed at the 35th Shareholders' Meeting of Nova KBM held on 4 July 2018 to earmark €45,813,055.74 of the distributable profit for the financial year 2017 as a dividend payment to the shareholder, with the remaining balance of the distributable profit, totalling €33,684,763.34 being carried forward as retained earnings.

Information on Nova KBM shares

	Nova KBM Group			Nova KBM		
	31/12/2018	31/12/2017	31/12/2016	31/12/2018	31/12/2017	31/12/2016
Share book value[3] (€)	72.81	69.44	68.05	72.34	68.31	67.06
Basic earnings per share[4] (€)	7.23	4.78	3.02	7.55	4.58	3.30

3 Book value per share on the last day of the reporting period is calculated as the ratio between the Bank's total equity or, in case of the Group, between equity attributable to owners of the Parent Bank, and the total number of shares at the end of the reporting period.
4 Net earnings per share are calculated as the ratio between the Bank's net profit or, in case of the Group, between net profit or loss attributable to owners of the Parent Bank, and the weighted average number of shares during the period.

7 Declaration on the adequacy of risk management

In accordance with Article 435(e) of the 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 body consisting of the Management Board in the following composition:

John Denhof
President of the Management Board

Jon Locke
Deputy President of the Management Board

Sabina Župec Kranjc
Management Board member

Matej Falatov
Management Board member

and the Supervisory Board:
Andrej Fatur
Chair of the Supervisory Board

confirm, by signing this declaration, that the risk management function, which is an independent area in the Bank's organisational scheme, is arranged properly. The risk management system is adequate with regard to the Bank's risk profile, strategy and risk appetite framework.

The risk management function is an important part of the overall governance of the Group and is based on the Nova KBM Group's Risk Appetite Strategy, defining the concepts, objectives, and procedures related to wilful risk appetite. The Risk Appetite Framework is linked to the Group's business strategy, ICAAP, ILAAP, and the implementation of stress tests. The main elements of the Risk Appetite Framework are included in the Risk Appetite Statement, which forms the basis for informing organisational units of the Bank on the Bank's risk appetite. The Risk Appetite Framework also reflects and defines the business strategy.

The preparation of the Risk Appetite Framework is based on identification of the risks associated with the current and future operations of the Nova KBM Group. Identification of risks is carried out by an appropriate process forming an integral part of the risk profile assessment process under the ICAAP. Identification of risks is implemented through quantitative and qualitative models covering both types of risks already experienced by the Group and the types that the Group could be exposed to in the future. The risk identification process results in a list of risks, which are subsequently evaluated and managed under the ICAAP. The process also determines the significance of each type of risk, which is defined on the basis of an assessment of each type of risk under the process of quantifying risks by defining the materiality of risks and the need for allocation of capital. This is done by an assessment of the likelihood of the realisation of threats and occurrence of loss. An assessment of relevance of controls established to limit individual types of risks is made at the same time.

The implementation of stress tests also forms an integral part of the entire risk management process in the Nova KBM Group. The results obtained from the analysis of stress tests are used in the decision-making process and in taking strategic decisions. Stress tests are carried out under the ICAAP, ILAAP, and the Restructuring Plan.

In its Risk Appetite Statement, the Nova KBM Group determines the overall volume and type of risks, which it is willing to take or avoid in pursuing its business objectives. Under this Statement, the Risk Appetite Framework is determined, setting out the list of material risks and other types of risks, as well as key risk indicators in respect of capital adequacy, liquidity position, asset quality, and profitability, which are monitored on a regular basis. With the purpose of defining the Group's Risk Appetite, based on a forward-looking assessments, the Nova KBM Group set up key indicator threshold values by acceptance level, as well as relevant risk-response triggers. The system of limits was established, together with the early warning system. The system of limits is defined in the Nova KBM Group's Operative Limits Handbook, which is a separate document attached to the Risk Appetite Statement.

In addition to the Risk Appetite Statement, the Group also determined its risk-bearing capacity. The risk-bearing capacity determines the maximum volume of risks that the Nova KBM Group is capable to assume, and it is defined by the amount of common equity Tier-1 capital (CET1), which is in line with the "going concern" approach as defined in the ICAAP framework. The risk-bearing capacity is a starting point to define the total risk appetite, which is defined also for each type of risk by the need to allocate capital and the total utilisation of the risk appetite framework with respect to the risk appetite. When determining its risk appetite, the Nova KBM Group takes into account most recent list of risks, the use of limits by each type of risk and, where appropriate, by individual organisational units. The risk appetite is aligned with the Group's business plan. The Group regularly monitors the utilisation of the risk-bearing capacity through key risk-response triggers, and reports them to the Bank's bodies. The Group's risk appetite is below its risk-bearing capacity.

Maribor, 19 March 2019

Management Board of Nova KBM d.d.

Matej Falatov
Member

Sabina Župec Kranjc
Member

Jon Locke
Deputy President

John Denhof
President

Supervisory Board of Nova KBM d.d.

Andrej Fatur
Chair

8 Risk management

It is the mission of the Group to ensure the security of its operations, assume risks in a thoughtful and responsible manner, and comply with the highest standards of risk management. In its Risk Appetite Strategy, the Group has defined the objectives of future risk assuming and management, taking into account the risk profile and the anticipated and expected development of the Group's operations, its business and investment strategies, the Assets and Liabilities Management (ALM) Strategy, including the IT Security Strategy, Non-performing Loan Management Strategy, the Restructuring Plan, the held for sale real estate management plan, and the external environment. The Group regularly carries out the process of identification and measurement of various types of risks arising from its operations.

The risk management process reflects the Group's comprehensive approach and includes the following:

- Identification of the risks to which the Group is exposed in its operations
- Risk measurement and the methods for monitoring risk factors
- Continuous monitoring of the exposure to individual risks, and systematic and comprehensive reporting on risk exposure
- The implementation of stress tests, the results of which are used in the decision-making process and in taking strategic decisions
- Established system of limits with the early warning system and the specified risk appetite
- Learning from and adapting to the evolving business environment, which includes re-assessment of limits and methodologies for establishing limits in order to ensure stable and secure operations of the Nova KBM Group in the long run.

It is the responsibility of each Group's employee to identify risks. The risk appetite framework and the method of measuring and monitoring each type of risks are defined by officers that specialise in dealing with each type of risk. The organisational unit responsible for defining the risk appetite framework and the method for measuring and monitoring the risks is in organisation terms separated from the risk-taking unit.

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. Each risk management policy is the responsibility of a single person who takes care of compliance of the respective policy with other policies while taking into account the applicable legislation, guidelines, recommendations, 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 as the largest credit institution in the Group. All companies within the Group manage risks in accordance with legal requirements and internal policies or methodologies that reflect their activities and the volume of operations. Persons responsible for individual risk policy and methodology in the Bank are familiar with the method for managing respective risks to be covered across all companies of the Group, and have the opportunity and obligation to influence establishment of the adequate method for managing and measuring each risk in all companies of the Group. Risk management procedures are conducted independently at the level of each company. The Group has set up methods for reporting on individual risks, which stipulate the content, the frequency, and recipients of reports.

Each year, the Group carries out a critical review of its risk profile and risk appetite for each risk within an integrated process, from risk identification to stress test implementation and the preparation of a restructuring plan, and a feedback process, which then influences regular processes and strategic decisions.

All 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.

Credit risk

Credit risk is the risk of loss resulting from the failure of counterparty to repay its debts; it is the basic risk to which the Nova KBM Group is exposed in carrying out its activity related to the lending portfolio.

In the area of credit risk, 2018 was marked mostly as a year of transition to the new IFRS 9 accounting standard, which significantly influenced the process of making impairments and provisions, or estimation of expected credit loss. In addition to introducing the IFRS 9, the Bank carried out several upgrades and improvements in 2018, which significantly contributed to the quality of credit risk management.

Credit risk management involves risk identification, measurement, and risk reduction to an acceptable level, which complies with the business strategy, the Risk Appetite Framework and the Risk Appetite Statement.

Credit risk management includes the following activities:

- Continuous monitoring and analysing customers' performance and, based on this, their classification into appropriate credit risk categories
- Monitoring the concentration and quality of the lending portfolio in terms of its compliance with the set limits
- Monitoring exposure to credit risk by each portfolio segment in terms of compliance with the risk appetite
- Determining rules for the identification of non-performing exposures and rules for the termination of a non-performing exposure status
- Development and calibration of appropriate credit rating models
- Monitoring the risk profile of the portfolio using appropriate risk parameters, such as the probability of default (PD) and loss given default (LGD)
- Separate managing of the performing portfolio and the non-performing portfolio
- Determining an adequate level of impairments to be recorded on the performing and non-performing portfolios
- Monitoring the adequacy of collateral provided for securing individual financial assets and commitments
- Limiting exposure to each customer and groups of related customers
- Systematic early detection of any increase in credit risk using the warning signals (EWS)
- Developing stress scenarios for the purpose of calculating the Bank's internal capital
- Developing stress scenarios for the purpose of the Restructuring Plan, and reporting on the values of indicators as action plan triggers
- Participating in decision-making on loan approvals
- Ensuring proper functioning of the lending process by providing an adequate assessment of risks for each loan.

Individual members of the Nova KBM Group have defined their own credit risk management policy adjusted to their specific activity, which is in line with the framework credit risk management policy of the Nova KBM Group. Due to the strategic importance of the subsidiary Summit Leasing Slovenija, the latter is explicitly integrated into all key credit risk management documents of the Bank, such as the Risk Appetite Framework, and the Risk Appetite Statement, as well as into all credit risk management processes, including the ICAAP and the Restructuring Plan preparation process. For the purpose of a comprehensive credit risk management, the Summit Leasing Slovenija's information system is integrated into the Bank's information system, which enables up-to-

date and thorough monitoring of the credit risk, which both the company and the Nova KBM Group are exposed to as a whole.

The principal goal of credit risk management is to ensure a stable and profitable performance of the Group while assuming the necessary level of credit risk that arises from the nature of Bank's operations. The Nova KBM Group reduces the impact of the risks assumed by complying with the following:

- Regulations of the European Central Bank, instructions of the European banking body and the Bank of Slovenia, 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, the Bank carries out a thorough review of the customer's operations, and classifies each customer into credit risk categories from 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, the Bank 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 soft operation factors
- It assesses, on a daily basis, the compliance of credit rating after occurrence of delays in settlement of obligations, frozen current accounts, and initiated insolvency proceedings
- It verifies, on a daily basis, adverse events in accordance with the early warning system (EWS)
- Depending on the risk classification of the customer or investment, the Bank promptly records adequate level of impairments or assesses the credit loss expected, for each contract.

The Bank classifies customers into appropriate credit rating categories using its own credit rating model. Special attention is devoted to assignation and cancelling of the status of a "defaulting customer" and "non-performing exposure". When the debtor's performance improves, the Bank classifies it in the status of cured exposures in accordance with the rules.

In 2018, the Bank carried out several upgrades and improvements in the area of credit risk management. The main upgrade included the implementation of the estimation of expected credit losses in line with IFRS 9. For this purpose, the Bank developed new risk parameter models complying with the requirements of the standard, and implemented a comprehensive renewal of the process and methodology for each impairment calculations, including a new calculation tool. In addition to the transition to IFRS 9, the Bank:

- Automated the process of identification of defaulting customers, and upgraded the calculation of delays
- Set the limits, monitoring and EWS for the entire portfolio exposed to credit risk, in order to ensure monitoring the use of limits, compliance of the credit risk with the Risk Appetite Statement, and key risk indicators
- Implemented new risk parameter models in calculating the capital requirement for credit risk according to Pillar II (ICAAP), and upgraded the methodology and automated the calculations for certain specific types of risks under the ICAAP process
- Renewed the classification methodology with improvements related, inter alia, to customers without models
- Implemented a new tool for retail loan approvals with an integrated credit rating model
- Made progress in the process of regular monitoring of models, thus concluding contracts with external validators in order to review important Bank's models and implemented improvements based on their evaluations
- Performed extensive activities in the area of data quality improvement and quality assurance.

Further information concerning individual types of risk is provided in the financial statements.

Liquidity risk

Liquidity risk management is an integral part of a prudential and secure operation of the Bank. Liquidity risk is the risk of loss when the Bank is not able to meet all of its due liabilities, or is forced to provide necessary funding at significantly higher than usual costs. It arises from maturity mismatches between assets and liabilities. It may result in a failure to meet obligations to customers in paying off deposits and withdrawing approved credit lines.

In 2018, the Banks started automation and improvement of the ILAAP process in the area of liquidity risk.

The Bank has its own methodologies for identifying, measuring, managing, and monitoring liquidity, which are applied at the Group level and enable matching actual and potential liquidity sources with the actual and potential use of liquid assets within the same periods of time.

The Bank regularly pursues the following principal objectives with respect to liquidity risk management:

- Continuous assurance of liquidity
- Daily settlement of all on- and off-balance sheet liabilities in various currencies
- Compliance with all regulatory requirements
- Monitoring compliance with the liquidity ratio tresholds, set indicators, and other elements of liquidity risk
- Managing an adequate pool of financial assets used as collateral for central bank's claims
- Efficient management of daily liquidity surpluses, and setting up an adequate liquidity reserve
- Monitoring the liquidity gap
- Regular conducting of liquidity stress tests and reporting on the results thereof.

In accordance with the Capital Requirements Directive IV and the European Banking Authority (EBA) guidelines referring to SREP, the Bank carries out the Internal Liquidity Adequacy Assessing Process (ILAAP). The ILAAP process has an important role in the SREP concerning the process of determining liquidity requirements under the second pillar.

The policy of assessing adequate internal liquidity of the Nova KBM Group represents a framework of the ILAAP process in the Nova KBM Group. ILAAP is an internal process, which means that it has to comply with the Bank's business model, size, complexity, risk, market expectations, etc. It includes all qualitative and quantitative information on which the risk appetite is based, including a description of the systems, processes and methodology used to measure and manage liquidity and financing risks.

In 2018, 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 the regulatory Liquidity Coverage Ratio (LCR) as obligatory. The ratio is identified as a key risk indicator and defined in the Risk Appetite Statement.

The Nova KBM Group has a system of limits in place as insurance against liquidity risk and for its mitigation, which includes quantifiable risks and important factors of liquidity risk. The purpose of the system of limits is to manage liquidity risk and determine effective measures and activities to be used to prevent and manage various liquidity crisis situations, including appropriate measures to overcome and limit any consequences of liquidity crises, and to restore the Bank's normal liquidity position.

Negative liquidity position may arise very quickly and unexpectedly; this is why the Bank has drawn up three types of stress scenarios at two difficulty levels guiding the Bank to adopt adequate measures to reduce liquidity risk. Stress scenarios are carried out on a monthly basis with the main aim to ensure sufficient amount of liquidity reserves for the period precisely fixed in advance. The results of stress tests are discussed regularly by the ALCO, the Management Board, and the Supervisory Board of the Bank as part of a regular report on risk exposure of the Group.

The Bank reports to the Liquidity Committee on the realisation of the Bank's liquidity position plan for the previous day and the liquidity indicators of the previous day on a daily basis, and presents the Bank's liquidity position for the current day for approval. Causes for any deviations from the liquidity position plan and liquidity indicators are reported on a daily basis. At a monthly level, the Bank's liquidity position for the following month is submitted to the Liquidity Committee for approval.

The Bank regularly reports to the ALCO on the diversification of funding sources, liquidity indicators, and the results of a dynamic liquidity gap analysis that takes into consideration the time component of cash flows, which is used by the Bank for early detection of liquidity risk in the anticipated liquidity position. The main cash flows are assessed on the basis of a statistical analysis of historical time-series data on liquidity items.

Market risk

In the area of market risk, in 2018, the Bank upgraded the credit spread risk monitoring under the ICAAP process, updated the system of limits, and set up a daily system of early warning on the risk of exposure in the portfolio of debt securities.

Market risk is a risk of loss arising due to adverse changes in financial markets (changes in the prices of securities, exchange rates, or interest rates). 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 is set out in the Market Risk Management Policy of the Nova KBM Group.

The goal of the Policy is to manage market risks, which the Bank is willing and capable to assume in the course of its business. The management includes market risk identification, measuring, monitoring, and reporting. Market Risk Management Policy is part of a comprehensive risk management strategy whereby market risk is defined as acceptable.

The Bank values its trading portfolios daily mark-to-market. In order to determine the risk of a particular financial instrument held for trading, the Bank calculates value at risk (VaR) on a daily basis. The methodology used by the Bank to calculate VaR complies with the Basel standards: 99 % one-sided confidence interval, the calculation of volatility is based on 250-day data history, 10-day securities retention period or one-day retention period in case of currencies.

The Bank has adopted the system of limits following the Bank's investment strategy. The limits and the system of early warning are revised at least once a year and approved by the Bank's Management Board. The compliance with the limits and early warning system is monitored on a daily basis by the Strategic Risk Management Department, and published on the Bank's Intranet site. Any violations of limits are reported to responsible persons in accordance with the documents adopted.

Position risk is a risk of loss resulting from a change in the price of a financial instrument held by the Bank in its portfolio for the purpose of trading for its proprietary account. The Bank holds three trading portfolios: the portfolio of debt securities, the portfolio of equity instruments, and the currency portfolio.

Position risk is controlled by trading limits determined by the Bank. Limits are additionally determined by traders as decided by the head of the Trading Department. Trading in securities is limited by the highest allowable risk value of the portfolio and the stop-loss limit. In addition, stop-loss limit is defined for each transaction. Limits for foreign exchange trading for the Bank's proprietary account are defined as the maximum allowable open position of the Trading Department. The Bank's exposure to the position risk of the trading book is considered immaterial. The trading book is actually inactive, which complies with the business strategy for the next three years. Nova KBM's trading activity mainly includes derivatives upon customers' requests intended for closing interest and foreign exchange (FX) positions.

Foreign exchange risk represents a potential loss arising from an open foreign exchange position and the volatility of foreign exchange rates. Foreign exchange risk is restricted by the maximum allowable 10-day VaR, which is established at the individual currency level, and the maximum allowable 10-day VaR is established also for the entire currency portfolio. The Bank monitors the efficiency of maintaining a balanced position by individual foreign currency daily, whereas any violation of limits is reported to responsible persons in accordance with instructions.

Credit spread risk is a risk arising from changes in the market value of debt instruments held in the portfolio of FVOCI and results from changes in the credit quality of the debt instrument issuers. Given the volume of its FVOCI portfolio, the Bank has established, through the ICAAP process, that it is exposed to the credit spread risk. Exposure to changes in the credit risk spread is limited by the investment policy, as the Bank invests its assets almost exclusively in investment grade debt instruments issued mainly by issuers in the Euro area.

Assessment of the amount of internal capital required to cover changes in the credit risk spread is based on the BCBS Standard methodology: Minimum capital requirements for market risk (January 2016). Based on the results of this assessment, a calculation of the impact of the shock on the fair value of debt instruments held in the portfolio of FVOCI has to be made. The method of calculating and reporting credit spread risk is detailed in the ICAAP methodology for measuring the risks of the Nova KBM Group.

Interest rate risk in the banking book (IRRBB)

In the area of interest rate risk in the banking book, in 2018, the Bank updated the measurement and management of the interest rate risk in the banking book in accordance with the standards and EBA guidelines, and in particular, it upgraded the model of core deposit identifying. The Bank will gradually carry out methodological improvements also in 2019.

Interest rate risk is a risk of loss arising due to unexpected changes in market interest rates, and results from maturity mismatches of interest-sensitive assets and liabilities. The Bank identifies, measures, manages, controls and monitors the interest rate risk in accordance with the Interest Rate Risk Management Policy of the Nova KBM Group and the Methodology for Interest Rate Risk Measuring in the Nova KBM Group.

With a purpose of managing the interest rate risk, the Bank measures on a monthly basis the impact of various shifts in the yield curve on the economic value of equity (EVE) and net interest income (NII). For its internal needs and to calculate capital requirements for the interest rate risk, the Bank implements 9 interest rate scenarios aimed at day-to-day management of the interest rate risk. The capital requirement for the interest rate risk is determined by the scenario producing the greatest negative impact on the sum of EVE and NII. In all of the scenarios, the Bank takes into account also the distribution of demand deposits in accordance with the internal models.

The Bank also regularly performs stress testing scenarios, using them to measure its vulnerability in stressful market conditions. In addition to the standardised stress test in the form of a parallel shift in the yield curve by +/–200 basis points using the zero-interest-rate floor, the Bank carries out also 6 other shifts in the yield curve of various proportions that were summarised in line with the Basel standards on the interest rate risk management in the banking book. The result with the largest negative change in the economic value of equity shall not exceed 15 % of the Bank's Tier 1 capital.

The Bank controls its exposure to the interest rate risk of portfolios by the system of limits, which is approved by the Bank's Management Board and updated at least once a year. In addition to that, the Bank has set up an early warning system. Compliance with the limits and early warning system is monitored on a monthly basis by the Strategic Risk Management Department. Any violations of limits are reported to responsible persons in accordance with the documents adopted.

The Bank has limited its exposure to interest rate risk by time buckets for the three most important currencies: EUR, USD and CHF.

Operational risk

"The operational risk is determined as: a risk of loss arising from inappropriate or failed internal processes, people and systems or external events". This definition includes legal risk (in accordance with CRR regulation), while excluding the strategic risk and the risk of losing business reputation. However, some of operational risks (ORs) may have a major impact on the loss of reputation. Consequently, within the overall operational risk, the Nova KBM Group also deals with reputational risk, model risk, employee conduct related risk, system/IT risk, project risk, compliance risk, risk of fraud (external, internal), internet crime risk, and human resources risk.

In 2018, the Bank upgraded its comprehensive framework for operational risk management with new analyses, controls, and measures for improvement.

In line with the Operational Risk Management Policy describing specific components of the framework for operational risk management, the Operational Risk Department provides independent control over the implementation of the framework for operational risk management, which includes, inter alia, a review and verification of internal controls in view of reporting operational risk events, management of operational risk self-assessment procedures, monitoring of key operational risk indicators, outsourcing control, monitoring the implementation of appropriate improvement measures, and managing the operational risk reporting process.

Operational risk reports for the whole Group are dealt with by the Operational Risk Committee, which is an advisory body to the Management Board and the task of which is to examine, discuss, and decide on operational risk issues. Given the presence of Management Board members and directors of departments having an important role in managing operational risks, a possiblity to take action even in case of high levels of identified risks is thereby ensured.

The Nova KBM Group calculates capital requirements for operational risk Pillar I using the Basic Indicator Approach (BIA), and Pillar II on the basis of its own models derived from OR loss events, OR non-financial and potential events, and self-assessments of operational risk carried out. The Nova KBM Group classifies all the events and threats identified by operational risk self-assessments in accordance with the uniform categorisation of loss events as defined by the Basel II Capital Agreement and by business areas, which enables their interconnecting.

Within general operational risk, improvements were made also in area of other risks. In 2018, the Nova KBM Group paid significant attention to the systemic IT risk, through continuous analysing, assessing and measuring IT risks, the implementation of risk self-assessment, and gathering loss events. These risks are classified as availability risk, security risk, risk of change, risk of data integrity, and risk of outsourcing. Special risk is presented also by the replacement of the core information system, which was the largest project of the Bank in 2018. This risk is addressed by regular risk analyses and monitoring of measures within the project risk. When the system is successfully completed, it will have a significant impact on the reduction of the systemic IT risk level. An important part of systemic IT risk includes also internet crime risk. Internet crime risk is carefully managed by appropriate processes related to detection, recording, analysing and reporting incidents, as well as by procedures related to managing and dealing with incidents and eliminating their consequences. The Bank carried out e-training for all employees, and introduced regular informing activites about news and threats in the area of information technology via the intranet.

The Nova KBM Group made significant progress in the process of regular monitoring of models, thus concluding contracts with external validators in order to review important Bank's models and implemented improvements based on their evaluations. It is also necessary to point out the progress made in reputational risk, where the Nova KBM Group adopted a separate Reputational Risk Management Policy with the aim of identifying, managing and monitoring risks in line with relevant EBA recommendations.

Improvements were also made in the area of internal and external risks of fraud, where by Compliance Office detecting and identifying suspicions of fraudelent activities of employees, receiving reports, analysing the suspision and assessing its level, dealing with reported suspicions, detecting the same, and investigating suspected fraudulent acts by employee interviews as well as obtaining and safeguarding of evidence. The Fraud Prevention Department is responsible for setting up the system of managing frauds and associated risks, which excludes management of prohibited behaviour of employees.

Other risks

Reputational risk

Reputational risk is a risk of loss resulting from damage to the Bank's reputation. The loss may incur as a consequence of various factors, such as improper management of all types of risk in the Bank, erroneous or negative actions of Bank's employees, bad experience gained by stakeholders in relation to the Bank, and negative opinions and judgements expressed by stakeholders with respect to the Bank.

Every year, the Bank prepares a reputational risk profile, which is part of the master risk profile. The key purposes of the reputational risk profile are to identify and assess, in qualitative terms, reputational risks arising from the Bank's operations, and to assess established controls to reduce these risks.

When drafting its business plan, the Bank estimates the capital requirement for reputational risk. The capital requirement for reputational risk takes into consideration the possibility of a decline in the Bank's reputation and its effect on the ability to obtain adequate funds. The capital requirement for reputational risk at the level of the Group equals that for reputational risk at the Bank's level.

Strategic risk

Business/strategic risk includes the risk associated with a successful implementation of strategic and operational plans of the Bank and the Nova KBM Group in changed external and internal conditions. The Bank's strategic goal is to achieve a stable growth and profitability of its operations, and to optimise the structure of its costs, while simultaneously consolidating risk management and ensuring compliance with regulations. Under the ICAAP process, and in line with the internal methodology, the Bank assesses material exposure to risks at the Bank and Group's level, respectively, and determines the capital requirement accordingly.

Information system risks

Information technology is recognised as a key source in the development of and support for new banking services, therefore the Bank pays special attention to managing the risks associated with the functioning of its information system. Information technology risk management is an ongoing process in the Bank, since the Bank can only ensure high availability and proper functioning of its core information systems through continuous monitoring of risks related to the information infrastructure and improvement of controls. Based on key risk indicators for the information technology, the Bank's management monitors the risks associated with information technology on a quarterly basis. Every year, the Bank performs also an operational risk self-assessment in accordance with the guidelines on assessment of risks related to information and communication technologies (ICT). In 2018, the Bank renewed the process of information system risk management.

Loss events arising from (failures in) the functioning of information systems fall within one of the regulatory-defined categories of loss events. The Bank has in place business continuity plans for its information technology systems that comply with the applicable regulations. These plans relate to disaster recovery procedures. Backup facilities storing copies of systems and data have been set up at a secondary location to ensure the continuous functioning of IT systems.

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

Profitability risk

Profitability risk is a risk that the Bank or its subsidiaries will incur operating loss in the following year that will reduce the amount of its available capital. Therefore, in order to assess the profitability risk, the Bank identifies the main profitability holders, trends, and reasons for uncertainty regarding the profitability in the past performance of the Nova KBM Group and its financial plans for the future, assesses materiality of the exposure to risk in the ICAAP process and in line with the internal methodology, and determines capital requirement at the level of the Bank or the Group accordingly.

9 Performance of the Nova KBM Group and Nova KBM

9.1 Macroeconomic environment

While global economic activity has remained resilient, it has become more uneven and signs of moderate growth are emerging. The maturing global economic cycle, waning government policy support across advanced economies, and the impact of tariffs between the United States and China are weighing on global activity. The growth of global trade has somewhat decelerated, and uncertainties about future trade relations have risen. In the third quarter of 2018, euro area real **GDP** growth slowed by further 0.2 %, quarter on quarter, mainly as a result of sector-specific developments, but remained resilient overall, despite a slight decline in a few euro area countries. Euro area real GDP growth is supported primarily by the growth in private consumption and investment. The slowdown in growth was mainly influenced by external factors, particularly weak external demand.

The growth dynamics was also influenced by several factors of a temporary nature (weather conditions, sick leave and strikes, the impact on automotive production in the third quarter resulting from the introduction of new emission standards). The latest data show that automotive production has already begun to normalise.

According to flash estimate, the euro area year-on-year annual HICP **inflation** was 2.0 % in November 2018. Measures of core inflation remain generally muted, but domestic cost pressures keep strengthening and broadening due to increasing levels of capacity utilisation and exceeded demand on labour markets.

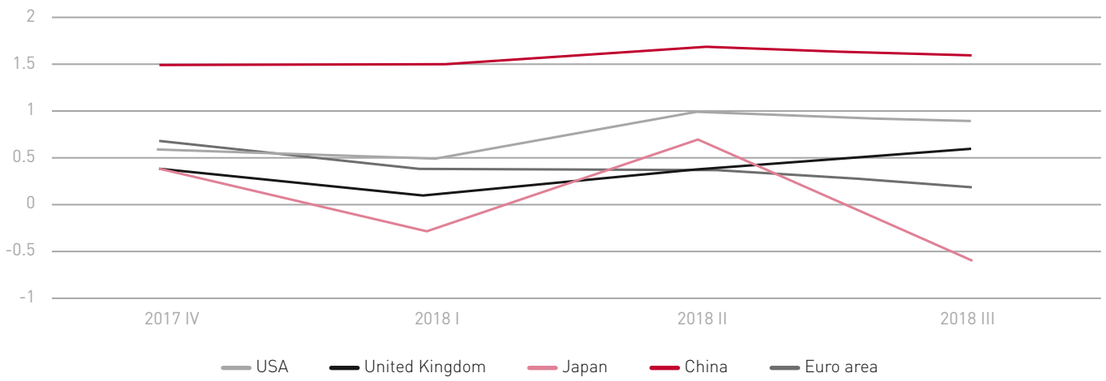
Bank lending rates for NFCs and households remained close to their historical lows. The fall in the **euro area fiscal** deficit in 2018 was mainly the result of favourable cyclical conditions and declining interest payments.

Despite the uncertainties in the international environment, **Slovenia's economic growth** remains significantly above the euro average. The international environment is becoming less encouraging for the **Slovenian export sector.** In the third quarter of 2018, **year-on-year GDP growth** again approached five percent, but without major signs of imbalances. Nevertheless, the contribution of net external trade to the GDP growth was very high, as import growth was even further reduced. Among other things, this was due to a surprisingly weak private consumption, which could, in part at least, be attributed to lower household confidence and a decline in real wage growth. The share of household income allocated to savings has increased. The high economic growth leads to a growing share of companies experiencing a lack of adequate workforce, but employment growth nevertheless remains high. In particular loans to households continue to increase as part of total loans (in the form of housing and consumer loans), while the quality of bank assets has been improving.

With the easing of price pressures from abroad, HICP **inflation** declined sharply in December. It stood at 1.4 %, which is by 0.2 percentage point less than the average of the euro area. The previous strong influence of external factors waned towards the end of 2018, while domestic factors become prevailant, being consistent with the expectations of the Bank of Slovenia.

The growth in **net interest** in the banking system in Slovenia is positive, i.e. 3.3 % year-on-year for the first eleven months, mainly due to lower interest expenses in 2018. In the period concerned in 2018, banks generated 18.3 % **higher profits before tax** than in the same period the year before. Besides an increase in net interest, the higher profit before tax resulted also from a rise in net non-interest income and increased reversal of impairments and provisions in 2018.

GDP by major trading partners, changes in percentages compared to the previous period, data are seasonally adjusted



Source: European Central Bank, Economic Bulletin, Number 8/2018.

Selected macroeconomic indicators for Slovenia

Indicator	2014	2015	2016	2017	2018*	2019*
Real GDP (in %)	3.0	2.3	3.1	4.9	4.4	3.7
Inflation (annual average in %)	0.2	-0.5	-0.1	1.4	1.8	2.1
Registered unemployment (in %)	13.1	12.3	11.2	9.5	8.2	7.7
Real export of goods and services (in %)	5.7	5.0	6.4	10.7	8.2	6.6
Real import of goods and services (in %)	4.1	4.7	6.6	10.3	8.0	7.1

Note: * Forecast; Autumn Forecast, IMAD
Source: IMAD, Statistical appendix, Slovenian Economic Mirror

9.2 Analysis of performance of the Group and Nova KBM

Income statement

In 2018, Nova KBM Group generated net profit of €72,494 thousand, which exceeds the amount for 2017 by €24,172 thousand. Nova KBM generated in 2018 net profit of €75,520 thousand or €29,707 thousand more than in 2017.

In 2018, Nova KBM generated net operating income of €168,931 thousand, of which net interest accounted for 65 %, and net fees and commissions 26 %. Operating expenses, including amortisation and depreciation, amounted in 2018 to €115,228 thousand or, without expenses relating to the restructuring of the Bank and the Group, to €105,092 thousand. In 2018, the Group and the Bank reversed net provisions and impairments of €17,161 thousand and €19,946 thousand, respectively, mainly due to improved quality of the lending portfolio, a positive trend in decreasing the amount of non-performing exposures, while increasing repayments and restructured receivables.

Net interest income

At the level of the Nova KBM Group, net interest rose in 2018 by €27,074 thousand or 33 %, whereas the Bank recorded an increase of €15,133 thousand or 19 %. In 2018, net interest margin stood at 2.21 % at the Group level, which is 0.5 percentage point more than in December 2017. The Nova KBM Group generated interest income of €116,073 thousand, of which the Bank accounted for €99,623 thousand. In 2018, the bulk of interest income of the Nova KBM Group and the Bank originated from loans. Interest expenses of the Group in 2018 stood at €6,430 thousand, most of it referring to the Bank. A detailed structure of interest income and interest expenses of the Group and of Nova KBM by market segment and type of assets and liabilities is presented in the notes to the financial statements.

Non-interest income

At the level of the Nova KBM Group, non-interest income decreased in 2018 by €1,137 thousand or 1.9 %, whereas the Bank recorded an increase of €1,650 thousand or 3.1 %. The bulk of net non-interest income of the Group was earned by net fees and commissions. Net fees and commissions amounted to €44,080 thousand at the level of the Nova KBM Group and €39,373 thousand at the level of the Bank. Fee and commission income increased by €3,176 thousand or 4 % at the Group level, whereas fee and commission expenses rose by €4,552 thousand or 14 % in 2018, mainly as a result of payment transactions. Other non-interest income[5] of the Group amounted to €15,208 thousand in 2018, having increased by 1.6 % compared to 2017.

Operating expenses

At the end of 2018, operating expenses of the Group, which include staff costs and administrative costs with amortisation and depreciation, amounted to €115,228 thousand or €3,806 less than in 2017. The cost to income ratio was 68.21 % (2017: 83.24 %). The highest decrease in 2018 was seen in the Bank's costs of consulting and other services, information system services and rent for business premises. If expenses in the amount of €10,135 thousand relating to the restructuring of the Group and the Bank were not taken into account, the cost to income ratio at the Group level would be 66.15 % (2017: 73.66 %). Staff costs had the largest portion in the Group's operating costs (56.0 %), followed by general and administrative costs (32.4 %) and depreciation and amortisation (11.6 %). The structure of administrative costs is presented in the notes to the financial statements.

Net impairments and provisions

In 2018, the Group reversed net provisions and impairments of €17.161 thousand. The Group recorded the largest reversal of net impairments in loans to customers. The structure of provisions and impairments of the Group and of Nova KBM by type of assets is presented in the notes to the financial statements.

Statement of financial position of the Nova KBM Group

Balance sheet total

As at 31 December 2018, the Nova KBM Group's balance sheet total amounted to €4,998,137 thousand. Loans account for more than one half of assets on the assets side. On the liabilities side, deposits by the non-banking sector represent 75 % of total liabilities (including equity).

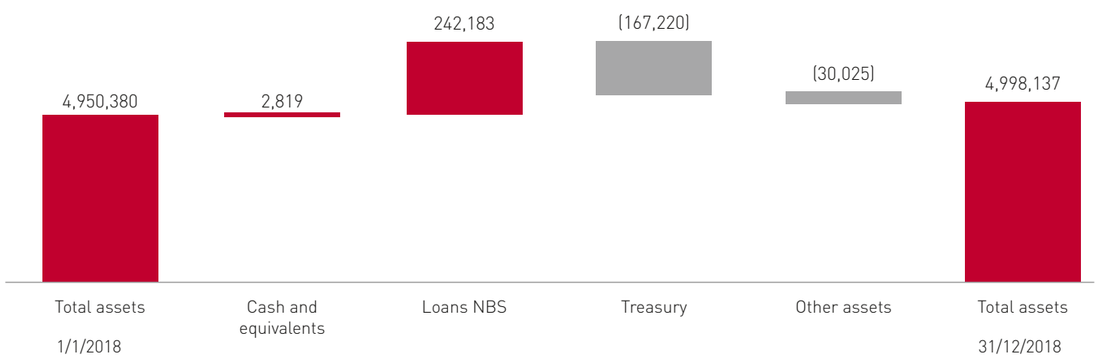
Loans

At the end of 2018, loans to non-bank customers of the Nova KBM Group (including loans from item Non-trading financial assets mandatorily at fair value through profit or loss) amounted to €2,626,431 thousand. In 2018, net loans to non-bank customers increased by 10 % or €242,183 thousand, mostly due to an increase in long-term loans in Nova KBM.

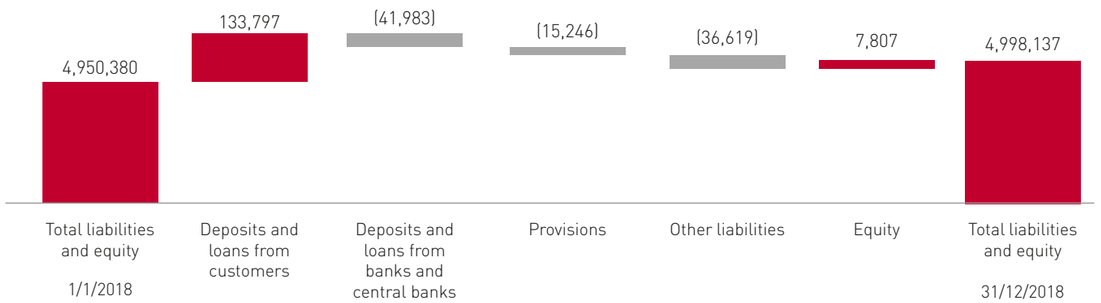
Financial assets measured at fair value through other comprehensive income

In 2018, financial assets measured at fair value through other comprehensive income amounted at the Group level to €1,474,168 thousand, of which more than one-half is attributable to debt securities issued by the state.

Movements in the Nova KBM Group assets (€000)



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



5 Other non-interest income includes: dividend income; net gains or losses on derecognition of 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; net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss; net gains or losses on financial assets and liabilities designated at fair value through profit or loss; net exchange differences; net losses on derecognition of non-financial assets; other net operating income; profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations.

9.3 Profile of the companies in the Group

KBM Infond, družba za upravljanje, d.o.o. – Nova KBM Group

Year of establishment: 1993

Website: www.infond.si

E-mail: info@infond.si

Nova KBM's stake as at 31 December 2018 (in %): 77.78

Management Board members as at 31 December 2018:

President of the Management Board: Matjaž Lorenčič, Management Board member: Samo Stonič

Supervisory Board members as at 31 December 2018:

Chair: Sabina Župec Kranjc, Deputy Chair: John Denhof, members: Jon Locke, Primož Močivnik, Vito Bobek

Activity

As at 31 December 2018, the company managed the assets of Krovni sklad Infond with 22 sub-funds totalling €306,104 thousand. According to available data, the total market capitalisation of all the investment funds managed by companies registered in Slovenia amounted on 31 December 2018 to €2,468,819 thousand. Therefore, the market share of KBM Infond – Nova KBM Group was 12.40 % on 31 December 2018.

Business performance in 2018

For 2018, the company reported a net profit of €982 thousand. During this period, the company generated a positive result, mainly from the generated fee and commission income amounting to €6,894 thousand. As at 31 December 2018, the company's total equity amounted to €9,873 thousand, which is below the previous year by 7 %. As at 31 December 2018, the balance sheet total amounted to €10,625 thousand, falling below the 2017 balance sheet total by 8 %.

Business strategy

Nova KBM as the seller and Sava Re d.d. as the buyer, signed the contract on the sale and transfer of an equity interest in KBM Infond, družba za upravljanje, d.o.o., stipulating the sale and purchase of an equity interest representing in total 77 % of the company's share capital. Nova KBM will keep its focus on investment fund distribution. Therefore, the Bank will keep marketing also the funds of the Infond asset management company, which remains the Bank's most important partner in the area of fund marketing.

Summit Leasing Slovenija d.o.o.

Year of establishment: 1999

Website: www.summit-leasing.si

E-mail: info@summit-leasing.si

Nova KBM's stake as at 31 December 2018 (in %): 100

Management Board members as at 31 December 2018:

Director: Mitja Otorepec, Deputy Directors: Maja Kebe, Tina Filipan

Supervisory Board members as at 31 December 2018:

Chair: John Denhof, Deputy Chair: Jon Locke, members: Michele Rabà, Philip Greuter, Sabina Župec Kranjc, Matej Falatov

Activity

The company's main activity is financing the purchase of private cars and light commercial vehicles for end customers, and financing the stock, test and replacement vehicles to car dealers. The product range includes: finance leasing, operating leasing, and loans. In addition, the company also offers consumer loans and insurance policies for compulsory and comprehensive car insurance. In 2018, the company expanded its service range to financing freight vehicles, buses and equipment by finance lease.

Business performance in 2018

In 2018, the company recorded profit after tax in the amount of €5,646 thousand and equity of €101,194 thousand. As at 31 December 2018, the company's balance sheet total amounted to €411,611 thousand, and thus increased compared to 31 December 2017 by €70,330 thousand or 21 % respectively. The company had 149 employees at the end of 2018, their number increased in 2018 by 32.

The company has its registered office in Ljubljana, and business units in Maribor and Koper. In 2018 it opened a business unit in Novo mesto. In addition, it strengthened its presence in the area of Kranj, where it has a field representative.

Business strategy

The main objectives of the company for 2019 are as follows:

- To keep the existing business model with an increase in investments in new private cars and light commercial vehicles, as well as slight increase in consumer loans and insurance taking
- To open a new branch office
- To strengthen operations in financing freight vehicles, buses and equipment.

M-PAY d.o.o.

Based on a common agreement between Nova KBM and Telekom Slovenija on the exit of Nova KBM from the Moneta system, on 31 December 2018, the company's Shareholders' Meeting adopted the relevant resolutions on summary winding up the company without liquidation in accordance with the provisions of ZGD-1. On 1 February 2019, the company was struck off from the court register.

10 Development of the Bank

10.1 Client Excellence

Client Excellence is one of Nova KBM's strategic priorities. Client Excellence serves as a key part of our ambition to become the best bank in Slovenia. It is a customer-oriented widespread programme, a significant share of which is contributed by all employees.

Through Client Excellence, we aim at providing our customers with outstanding services and the best-in-class products. Based on the combination of these two factors, we continuously seek to increase the customer satisfacton and loyalty.

We are striving to achieve such a remarkable level of our customers' satisfaction that they would be happy to recommend their friends and family to do business with us. Our values and expertise will guide us in a long run, as we need to keep improving.

In 2018, the Bank conducted numerous activities:

- Learning from each other
- Listening to our customers
- Integrating our customers' feedback into our organisation.

We continuously measure our performance in order to benchmark Nova KBM against its competitors. Through various customer satisfaction and other marketing surveys, we established mechanisms to capture customers' feedback and measure their satisfaction.

Upon analysing in detail customer complaints, which are valuable sources of feedback and a very good opportunity for improvement, we took various measures to improve our products, processes and attitude, with the aim that each interaction with our customers would be no less than perfect.

Skupaj do odličnosti | Together to excellence

10.2 Development of products and services

10.2.1 Development of new products and services

Nova KBM provides its customers with a wide variety of services, including all key groups of financial products, such as basic banking services for day-to-day business, and also other products, like insurance products and a broad range of investment products. While the Bank 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 2018, the Bank completed the product simplification procedure. The portfolio of services was reduced in various segments, which enables customers to better understand the range of bank products and services.

The product simplification procedure was carried out in the retail segment and it included the simplification of product and process structure, and approval fees. At the same time, the Bank upgraded the range of housing loans. The table presents novelties in retail and corporate segments.

Segment	New products and services, and upgrades of existing ones
Loans	Consumer loan (Kredit naprej) Housing loan paid in cash Housing loan with combined interest rate
Insurance	Life insurance for consumer loan takers Insurance of residential real estate and movable property – HOME package Accident insurance – redesigned bundles to optimise and expand areas of insurance
Corporate	Redesigned existing bundles and a new bundle with automatic overdraft approval, Smart Business Special offer within the scope of uniform account Cooperation with external institutions

10.2.2 Development of digital channels and e-services

Segment	New products and services, and upgrades of existing ones
Bank@Net online bank	Completion of the first stage of the Bank@Net online bank redesign project. Introduction of a new security element – SMS token, which provides a two-step authentication for secure login, use and execution of payments via online and mobile Bank@Net. Therefore, existing users started using SMS tokens instead of the physical generator of one-off passwords RSA SecurID. Registration and activation of the online bank via the internet (resetting and unlocking of forgotten password for accessing online and mobile Bank@Net). The mobile bank has been upgraded by including a display and managing securities, Infond and RCM mutual funds and supplementary pension insurance Sava Pokojninska. Introduction of the password generator at the mobile device HID approve for online bank users.
Paperless operations	Introduction of E-notifications, whereby the Bank switched to paperless and digital operations as regards all notifications to customers on accounts, payment cards, loans, deposits, mutual funds, and other notices. Detailed information on E-notifications is available in the Report on Sustainable Development and Social Responsibility.
On-line conclusion of loans	Introduction of on-line conclusion of consumer/cash loans through the internet and mobile bank.
ATMs	Expansion of the ATM network through partnership, thus enabling customers to withdraw cash free of charge throughout Slovenia.

The Bank and Pošta Slovenije, being important strategic partners, cooperate in various areas of providing services to customers. Pošta Slovenije, with its diversified network of post offices enables natural persons and legal entities to perform payment services, and provides banking services to both existing and potential Bank's customers. Bank's customers can withdraw or deposit cash, conclude deposit contracts, or submit applications for a range of banking services at more than 330 regular post offices. Individuals and entities not yet customers of the Bank but wishing to become ones can open an account at post offices.

10.2.3 Development of services at post offices

The Bank and Pošta Slovenije are constantly improving their services in order to better understand and fulfil the needs of customers. Therefore, in 2018, we continued the expansion of the SBO network, which represents an upgrade of cooperation in retail banking. SBOs – there were 10 SBOs at the end of 2018 – are small bank branches, with a single highly-skilled bank officer in each of them. They are located in post offices and provide customers with advice and all non-cash services and transactions, while cash transactions are available at post counters nearby.

The Bank is strengthening its strategic partnership with Pošta Slovenije also in the areas of information technology, digitalisation, and e-archive services, which was further enhanced this year by cooperating in the area of secure customer authentication.

10.3 Information technology development

In 2018, Nova KBM continued the comprehensive redesign of its core banking system and the construction of a modern information infrastructure, which will support its business needs and facilitate the introduction of innovative solutions and taking part in modern financial ecosystems.

In 2018, the Bank pursued its strategic goals relating to the redesign of information support for the Bank's operations. Following a detailed analysis, the Bank decided to replace the provider of the future core banking system, and found a more suitable solution on the market, which will enable swift achievement of the Bank's strategic goals. Namely, replacement of the core banking system is an opportunity to design a modern information architecture that will effectively support operations of the Bank and enable the realisation of its strategic goals for the period until 2020. In 2018, the Bank successfully completed the introduction of the IFRS 9 standard and MIFID II regulation. In the light of adopting a new business strategy and considering rapid technological changes, the Bank continued the redesign of its IT strategy that follows new strategic objectives and prepares the foundations for new innovative solutions in the future.

Changes result in a more customer-friendly and safer business. In line with the main strategic goal to become the best bank by 2020, the redesign of the core banking system started last year. Associated to this redesign, the core infrastructure is being upgraded and the transition to the renewed targeted systems architecture is in progress. This will allow simple integration of advanced business services. In the area of data management and business intelligence development, the Bank introduced in 2018 a new tool, which will enable end-users to prepare the reports directly.

We actively pursued a consistent implementation of the license compliance policy also in 2018. Significant efforts were invested in achieving the optimum use of the licensed software. In order to be license compliant and ensure stable prices of software licenses also in the future, the Bank renewed the long-term contract with the strategic software manufacturer and service provider.

In 2018, archiving of the data of the acquired banks was successfully completed and, consequently, the systems from which the data were migrated, were terminated.

The Bank carried out the annual process of systematic collection, evaluation and prioritisation of corporate users' requirements for information support, which ensured efficient and transparent planning of business needs, the use of human and financial resources, and monitoring the indicators of utilisation of the latter. The Bank also revised the cloud service policy in a comprehensive manner, aligning it with the EBA Guidelines.

10.4 Projects

In 2018, Nova KBM's project portfolio consisted of numerous regulatory and operating projects, the timely implementation of which required complex management of internal sources and external suppliers.

In 2018, projects in Nova KBM significantly contributed to achieving business growth, operational efficiency, as well as to more effective risk management and regulatory compliance.

Process improvements and new application solutions have been introduced in numerous business areas

In addition to redesigning the core banking system, projects have significantly contributed to a faster and more successful attainment of specific business objectives in the field of product and service development, as well as the development of information technology and ensuring regulatory compliance, which are presented in previous chapters. Furthermore, based on the projects, in 2018, the Bank:

- Upgraded customer asset management processes by introducing new support in Premium banking, the Wealth Management Platform
- Automated the processes of consolidated reporting in the Group by introducing a new application support in this area
- Took all necessary steps for new regulatory reporting on individual bank loans (AnaCredit)
- Started launching a new platform in the contact centre with the aim of automation
- Commenced extensive activities aiming at introducing modern support for asset and liability management (ALM) in the Bank's balance sheet, whereby improving the Bank's internal capital and liquidity adequacy management processes
- Launched the support for paperless operations, the use of which is foreseen together with the new core banking system and the priority support for the processes in customer transactions (introduction of electronic signature, paperless operations in banking branches).

Through successfully implemented projects, the Bank strengthens its project culture, extending it to other levels of operations.

10.5 Investments in property, plant and equipment and intangible assets

Investments in information technology

In 2018, the Bank conducted the tender on the procurement of hardware necessary for the implementation of the new core banking system. In accordance with the plan, the Bank updated the workstations and the hardware equipment. The Bank also carried out the redesign process of the authentication mechanism for the online bank, completed the tender and ordered the equipment for the replacement of central network switches and firewalls. Further details on information technology development are described in section 10.3.

Investments in buildings

In 2018, the Bank renovated the premises of the Brežice branch office, arranged an additional workplace at the Šempeter branch office, reorganised existing workplaces at the Ormož branch office, arranged four new SBOs at Pošta Slovenije, and workplaces for Smart Business at the Central office.

Under regular and extraordinary maintenance works, the Bank took care of its commercial property and a smooth operation of its business network.

11 Operations by business areas

11.1 Corporate banking operations in Nova KBM

The Corporate Banking Department started the year 2018 with a determined ambition to expand the Bank's presence to Central Slovenia and the Coast. In this respect, the department was reorganised and established a regional approach as a response to market expectations, mainly in the segment of large and medium-sized companies. The Bank substantially strengthened its presence in the target market by carrying out an increased number of customer visits. Therefore, the Bank's strategic approach pursued the goal to strengthen and maintain its market position in the east, while acquiring new customers and growing significantly in the west.

The service range was upgraded by project financing, as the demand requires a specialised approach with the aim to be an effective and successful business partner to investors at home and abroad in financing housing, business, infrastructure, tourism, and trade projects. Customers were offered professional support and supervision of facility construction.

In small and micro companies, the Bank implemented a strategy of standardisation and simplified approach, providing the customers with better accessibility to banking services. The key result of this activity is the launch of the "Smart Business", positioning in the market by competitive and user friendly bundles of services.

In addition to working capital loans, the demand expanded to larger investments, which have partly already contributed to the increased growth in the loan portfolio. The change in this trend started in the second half of the year, mostly as a result of the positive market climate. The Bank demonstrated its support for the economy also as a member of banking syndicates financing larger projects.

The Bank focused on its corporate advisory role and intensified it further. In partnership with other institutions (the Slovene Enterprise Fund, Tovarna podjemov, and IRP – Institute for Entrepreneurship Research), the Bank ensured easier access to information and advice and, consequently, to grants from EU funds and banking funds to finance projects of its customers.

The Bank recorded an increase in the volume of business carried out with companies that achieved an appropriate level of competitiveness, are not heavily indebted, and sell their products or services on foreign markets.

Nova KBM continued its cooperation with SID Banka, by obtaining long-term funds to finance corporate customers. A majority of these funds approved to small and medium-sized enterprises were dedicated to the development of environment-friendly companies, funding their competitiveness, and financing fixed assets and long-term working capital.

Through its proactive customers' approach – which involved more than 9,000 on-site customer visits – the Bank managed to increase its market share in corporate operations, and organised business events aimed at training and strengthening its business relations.

The Bank also provided deposit services, local and cross-border payment services, successfully developed and launched new services in the Single European Payment Area (SEPA), and improved the quality of services, in particular in documentary operations.

11.2 Retail banking operations in Nova KBM

In 2018, the Bank remained focused on improving sales activities, product offerings and, consequently, customer satisfaction. The Bank continued simplifying its service range and procedures, and kept improving customer satisfaction. Nova KBM is an universal bank offering a whole range of products, however, in 2018, the Bank focused on a narrow range of the most important products that are designed to be best in class. A new loan approval process for consumer loans was introduced, with a simple and transparent pricing policy allowing for loan approval to be completed as quickly as in a few minutes. The Bank also presented two new products in the field of housing loans, which allow the Bank to meet customer needs in terms of interest rate and loan payment method.

In 2018, the Bank introduced Premium banking in all branch offices. It is a service designed especially for affluent customers that want and require more. The most important advantage of this service are professionally trained personal bankers that advise customers on how to achieve their financial goals and wishes, and service their daily banking needs. Furthermore, the Bank launched a 360-degree customer review, which is a comprehensive analysis of their personal finance.

In addition to paying attention to the existing portfolios of loyal customers, the Bank has been intensively acquiring new customers, thus intensifying the marketing activities in the regions where the its presence was weaker, such as the Central Region.

During data cleansing process, the Bank also closed a lot of non-active, non-economic accounts and accounts which were not in line with the Client Acceptance Policy.

Bank's branches continue to be the most important sales channel for the Bank. Therefore, the Bank was focusing on branch productivity with strong emphasis on sales tracking adherence to processes and AML rules. With the branch optimisation program the Bank also reduced the number of branches. Digital, Post, Telesales and Bank@Work channels are also important distribution points for retail bank. The contribution of all of these has been increasing.

The Bank has also increased its activities in marketing and lead generation, with better tracking mechanisms in place.

In 2018, in line with its business network optimisation strategy following the merger of three banks, the Bank opened four additional SBOs in Pošta Slovenije offices. These specialised bank offices were merged with branch offices located in the vicinity, to which customers' transactions were transferred free of charge.

In SBOs, the Bank is offering the whole range of banking services while Pošta Slovenije is providing cash related transaction services.

With the network of own branch offices and Pošta Slovenije post offices, Nova KBM has the largest network of banking units in the country. At post office counters, Nova KBM's customers may carry out basic banking services, such as cash withdrawal, loans or deposits, and account balance checking.

As was the case a year earlier, the demand for loans registered an increase in 2018, reflecting a moderate economic growth and recovery of the real estate market.

The total volume of consumer loans granted in 2018 was by 15 % higher than the previous year. Two new housing loan products were introduced in 2018 – i.e. the loan where the full amount can be disbursed in cash, and a combined loan with a part of the loan (up to 10 years) subject to a fixed interest rate and the remaining part to a variable interest rate.

Total retail deposits placed with the Bank registered a stable growth in 2018. The highest increase was recorded in demand deposits, while the volume of fixed-term deposits slightly decreased.

The Bank provides its customers with a complete range of financial products and solutions for various life situations, including investing in funds of other Nova KBM Group companies and its other partners. In 2018, the Bank earned additional non-interest income by continuous updates of these products, taking a proactive marketing approach, and adjusting its pricing policy.

The Bank was also successful in selling insurance products of Zavarovalnica Sava and Zavarovalnica Generali in 2018. At branch offices of the Bank, customers may take out life insurance policies when taking a loan, arrange travel or accident insurance for themselves and their families, take out attractive health insurance and payment card or valuables insurance. In 2018 we started marketing also two new products, i.e. life insurance for the borrower and HOME insurance. Compared to the year before, the Bank nearly doubled the fee and commission income from insurance underwriting in 2018.

11.3 Active management of non-performing loans

In 2018, Nova KBM continued its successful management of non-performing loans and fulfilment of regulatory obligations. The Bank exceeds the plans set up for 2018 in the Non-performing Loans Management Strategy, which were prepared in line with the instructions and expectations of the regulator. In the year under consideration, the Nova KBM Group reduced non-performing loans by as much as €249,228 thousand, which is 31 % more than in the previous year, and 19 % more than in 2016.

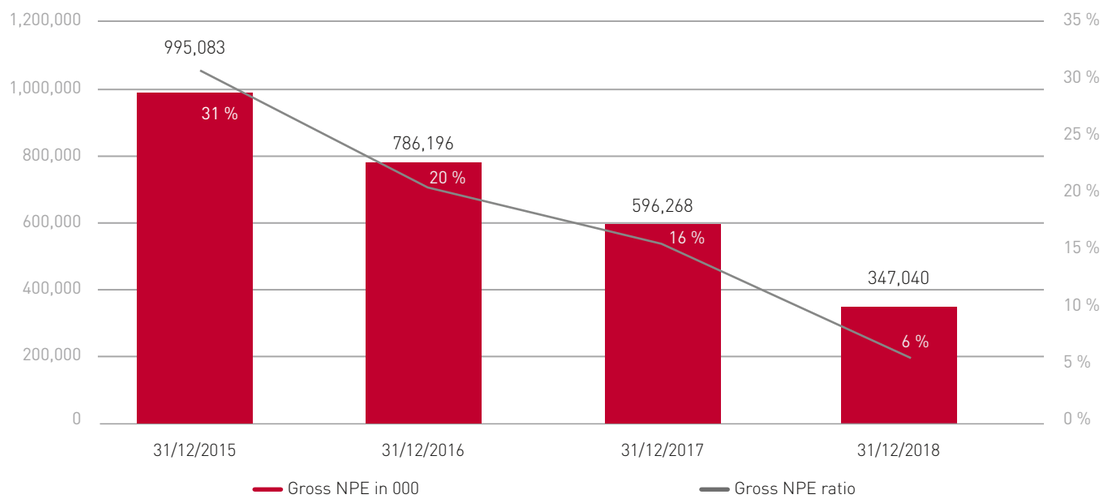
The Bank additionally optimised the processes related to non-performing loan management, which was subject to comprehensive renovation and centralisation in 2017. A call centre was set up for early recovery and standard processes and procedures were established related to the management of non-performing loans.

In 2018, a strong emphasis was given to the procedures dealing with non-performing loans of households, seized assets and real estate held for sale, the management of which was entrusted to the Non-performing Loan Management Department (Workout Department).

The decisions implemented as part of renewal of the non-performing loan area during 2017 and 2018 proved to be correct, since they enabled the Bank, through a significant increase in the quality of data and the above-mentioned material reduction of non-performing loans, to significantly exceed the level of their coverage and generate a significant portion of profits of the entire Group.

The entire NPL and held-for-sale real estate portfolio of Nova KBM is managed by the Non-performing Loan Management Department (Workout Department). Once the transfer criteria including early warning signs are met, assets are transferred to Workout Department, and an analysis taking into account all available data and circumstances is carried out, which is followed by the strategy on handling the particular case adopted by the competent body.

NPE reduction in the Nova KBM Group



The Bank pays particular attention to credit risk management, effective recovery of non-performing loans, and constructive participation in the restructuring efforts. The results of this work are reflected, inter alia, in an improved loan recovery rate and an increased number of restructured loans, and in individual cases, the Bank decides on selling claims when such an approach is considered the most appropriate, whereby taking into account all the circumstances of the specific case.

Nova KBM's professionals cooperate actively in various initiatives and institutions in developing systemic solutions to deal with the issue of non-performing asset management, both at home and abroad.

The ultimate goal of the Bank remains to reduce non-performing loans to the level of comparable banks, while at the same time maximising the positive effects on the Bank's results. Consequently, Nova KBM intends to continue the planned activities next year and to achieve the ambitious goals in this field by active and responsible management of non-performing loans.

11.4 International operations in Nova KBM

Operations with banks

Due to its solid liquidity position, the Bank was not active on the international financial markets in terms of borrowing or issuing debt instruments in 2018. The Bank actively managed and optimised its long-term liabilities to banks, mainly by repaying less price favourable sources, succeeded in improving the conditions of existing loan contracts, and obtaining more favourable long-term sources. The structure of long-term liabilities to banks did not significantly change in 2018. At the same time, the Bank carried out activities related to meeting the Minimum Requirement for Own Funds & Eligible Liabilities (the MREL requirement). Nova KBM provided long-term liquidity to Group companies.

During 2018, the Bank carried out a review of banks in terms of anti-money laundering and terrorist financing and, consequently, optimised the network of business relations with foreign banks. Despite the reduced network of correspondent banks, the Bank successfully provided its customers with foreign payment services, and improved the quality of services, especially documentary transactions. Many of activities were devoted also to strengthening its international visibility.

Ratings assigned to Nova KBM by international rating agencies

On 26 October, Moody's announced the upgrade of Nova KBM's Long-Term Issuer Default Rating to Baa3, with positive assessment of future prospects.

On 26 April 2018, Fitch Ratings confirmed the Nova KBM's Long-Term Issuer Default Rating at BB, and changed the assessment of future prospects from stable to positive due to improved operations, further high potential for improvements in profitability, and a decrease in non-performing loans.

As at 31 December 2018, the ratings of Nova KBM were as follows:

Moody's Investors Service: Baa3/P-3 (with positive assessment of future prospects)

Fitch Ratings: BB/B (with positive assessment of future prospects)

11.5 Treasury operations in Nova KBM

The Bank's Treasury Department performs the activities of managing the Bank's balance sheet, trading in its own name and for its own account, and marketing of treasury products designed for customers of the Bank to hedge against currency risk and interest rate risk. In 2018, the Treasury Department continued its successful performance, and operated in line with the plan. The bulk of its operations was based on managing assets and resources of the Bank.

As at 31 December 2018, the Treasury Department investment balance accounted for 42 % of the balance sheet total, with the latter amounting to €4,977,862 thousand. The Treasury Department's investments include €1,518,407 thousand of debt securities, in addition to cash and current receivables from banks totalling €589,951 thousand.

The Bank managed its liquidity in the manner to ensure the settlement of all due obligations. In addition to adequate primary liquidity, the Bank maintained an adequate secondary liquidity reserve, comprising eligible ECB securities and bank loans, which may be used as collateral when borrowing via instruments of the European Central Bank, while the ECB-eligible securities may also be used for concluding repo deals on the interbank market.

While conducting its business operations, the Bank fully complied with the Bank of Slovenia's regulations on obligatory reserves, and followed also the central bank's recommendation on ensuring minimum liquidity ratio as set out in the Resolution on macro-prudential monitoring of liquidity and financing structure. With respect to the Resolution, the Bank is recommended to keep the indicator's value at least at 1.

The Bank also complied with the prescribed liquidity coverage ratio requirements defined in the Commission Delegated Regulation (EU) 2015/61. Since 1 January 2018, the minimum liquidity coverage ratio of credit institutions has been set at 100 %.

As at 31 December 2018, the key 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 %, and for the marginal deposit facility –0.40 %. Since June 2014, the interest rate for the marginal deposit facility has also 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 maintaining an adequate liquidity reserve and for managing interest rate risk. The Bank has created the portfolio of debt securities in accordance with its Policy of Managing the Banking Book Debt Securities Portfolio. As at 31 December 2018, the total value of debt securities held in the banking book stood at €1,518,407 thousand, which is by 9.67 % lower than at end of the previous year.

Government securities and securities with state guarantee accounted for 60 % of the total banking book portfolio, while the rest was represented by securities of prime banks and companies.

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

Trading on financial and capital markets was in line with the set goals. The bulk of trading on foreign exchange markets was carried out mostly in euro, the US dollar and the Swiss franc. In 2018, the Bank continued concluding foreign currency transactions, purchasing and selling foreign cash, and concluding derivatives transactions. The Bank did not conclude any repo transactions in the period concerned.

The interest rate policy of the Bank was carried out in accordance with the adopted guidelines and on the basis of its business policy and financial plan for 2018. The policy was adjusted in order to reflect current market conditions, circumstances on international financial markets, and developments in the economic environment.

Item (in €000)	31/12/2018
Financial assets measured at amortised cost	73,021
Financial assets measured at fair value through other comprehensive income	1,445,386
Total	**1,518,407**

Portfolio of international syndicated loans

In 2018, the Bank continued investing in international syndicated loans. At the end of the year, the portfolio of international syndicated loans amounted to €185,033 thousand, which is in line with the Bank's Investment Strategy and Plan. By investing in the portfolio of international syndicated loans, the Bank managed to further optimise the surplus of liquidity, and such activities will be continued also in 2019.

11.6 Trading in financial instruments in Nova KBM

In 2018, transactions worth €52,850 thousand were concluded by the Bank on domestic and foreign markets. The value of these transactions decreased by 3 %, mainly as a result of a drop in financial instruments' prices on capital markets at the end of the year. In 2018, Nova KBM concluded transactions amounting to €19,107 thousand on Ljubljana Stock Exchange, €31,658 thousand on international stock markets, €1,893 thousand by trading in mutual funds, and €192 thousand on unregulated capital markets.

In 2018, the Bank took over the customers of the Abanka's brokerage service and carried out procedures for terminating the service of customer asset management. In 2019, the Bank will be also active in the segment of brokerage and marketing of mutual funds of Infond and Raiffeisen Capital Management.

12 Human resources management

At the end of 2018, the Bank had 1,303 employees, 116 less than at the end of 2017, with 1,269 employees (97 %) having permanent employment contracts, and 34 employees (3 %) with fixed-term contracts. In 2018, employment contracts for 212 employees were terminated, while 96 employees were recruited anew.

influence commitment and satisfaction of employees, appropriate measures and activities are carried out based on research results.

Detailed information on employees is available in the Report on Sustainable Development and Social Responsibility.

	2018	2017
As at 31 December		
Total number of employees	1,303	1,419
Number of permanent employees	1,269	1,387
Number of fixed-term employees	34	32
Number of disabled employees	19	24
During the year	**2018**	**2017**
Average number of employees	1,392	1,459
Number of new employees	96	358
Number of employees that left	212	185

The Bank strives to create working conditions in which employees are productive, committed, and satisfied. In order to facilitate the reconciliation of professional life with private obligations, the Bank has been carrying out 13 actions in the scope of the full Family-Friendly Company certificate.

The Bank values the opinion and well-being of its employees, therefore it conducted two employee satisfaction and engagement surveys (VoE – Voice of Employees) in 2018. The results of the most recent survey carried out at the end of 2018 show an increase in the commitment rate by 10 percentage points and an increase in employee satisfaction rates by as much as 13 percentage points compared to the results of the survey conducted at the beginning of 2017. In order to positively

13 Plans for 2019

In 2019, Nova KBM will continue pursuing its vision of becoming the best bank in Slovenia, and it will therefore prudently and determinedly implement its mission and key strategic objectives set out in the 2020 Strategy.

Client excellence

- Customers of Nova KBM will remain to be at the centre of the Nova KBM's operations and efforts in 2019. The Bank will continue implementing the Client Excellence programme, upgrading the quality of products, processes and services, and thus strengthening the satisfaction and confidence of its customers and business partners.
- In order to achieve synergies in the area of customer operations, the Bank will provide continuous improvements of its internal business processes, while developing strategic partnerships with external stakeholders in accordance with its strategy.
- In the area of retail banking, the Bank will focus on providing excellent, affordable, and efficient financial products and services available to customers through different means. One of the key projects will include further activities in establishing a modern call centre that will allow employees and customers to cooperate in a responsive and effective manner.
- The Bank will follow challenges and opportunities of digitalisation, thus providing faster and more comfortable banking for customers. The Bank will introduce these improvements thoughtfully, while increasing awareness among customers and general public.
- The Bank will further develop its Premium offer for affluent customers, the product and service range for corporate customers, and the programme called Bank@Work.
- In addition, as a socially responsible institution and by taking into account its business objectives, Nova KBM will be involved in important national, regional and local events, projects and initiatives also in 2019, thus contributing to the development of the societal and economic environment in which it operates.

Culture and talents

- Nova KBM Group will continue implementing measures, activities, and projects aimed at further development of positive culture, working environment, and talents in the Bank, as well as monitoring and assessing employee performance. Along with these activities, special attention will be paid to enhancing the values of trust, responsibility, excellence, honesty, loyalty and integrity, and the commitment to operate in accordance with legislation and ethical standards.

Growth and profitability

- Through maintaining the strategic partnership with Pošta Slovenije and opening of SBOs at post offices, the Bank will further strengthen its position with the most diversified and accessible sales network in Slovenia. At the same time, the Bank will further optimise its branch office network by well-considered mergers of branch offices while opening new ones in market-attractive locations.
- In corporate segment, the Bank will pursue the revised strategy. It will focus on providing high-quality services and thoughtfully introducing new products, while upgrading existing ones. The Bank will enhance the custody programme, business relationships, and its advisory role in 2019.
- Important objectives of the Bank also include further reduction of non-performing loans at the Bank and Nova KBM Group's level. The Bank will remain

focused on ensuring the protection of its interest, achieving the target share of non-performing loans in the Bank's portfolio, while simultaneously maximising the effects on its performance.

- The Bank will keep managing its liquidity in a responsible manner also in 2019. Furthermore, the Bank will ensure its presence and visibility on the international markets, thus providing adequate access to more favourable funding sources and capital markets.

Ensuring effective risk management and compliance

- In accordance with the adopted risk management strategy and by taking into account its risk appetite framework, the Bank will strive to ensure safety of its operations, and assume risk in a thoughtful and responsible manner. In this area, the Bank will operate in compliance with the highest risk management standards.
- The Bank will continuously improve its system of compliance risk management and ensure regulatory compliance in all business areas. Upon establishing an effective internal control and anti-money laundering system (AML), the introduction of General Data Protection Regulation (GDPR) and Directive on Payment Systems (PSD2) in 2018, the Bank will continue ensuring compliance with the said regulations and introducing new statutory regulations in 2019.
- The Bank will ensure for its operations to comply with the highest standards applicable to the prevention of money laundering and terrorist financing, to the identification of potential fraud, and to management of unlawful conduct and practice.

Operational efficiency

- The Bank plans to maintain sustainable profitability and to take appropriate measures, both in terms of revenue and costs. Therefore, in 2019, the Bank will ensure efficient procurement procedures, cost-efficiency and cost control at all levels of its operations.
- In 2019, the Bank will seek to ensure more environment-friendly and cost-effective work processes. It will upgrade its service and product range by e-services and raising the awareness among the customers on more effective, paperless and environment-friendly operations.
- The project of introducing the core banking system and the construction of a modern information infrastructure will be one of the top priorities in 2019. The expected result will be a modern, powerful and efficient information platform, which will enable the Bank to improve its business model, while focusing on ensuring client excellence.
- The Bank will keep managing its portfolio of key projects with the aim of ensuring compliance with regulatory requirements, pursuing strategic goals, and strengthening its competitiveness.

14 Nova KBM Corporate Governance Statement

In accordance with the fifth paragraph of Article 70 of the Companies Act, Nova KBM issues the following Corporate Governance Statement, which is part of the business report included in the Annual Report.

1 INFORMATION ON THE EXTENT OF DEROGATIONS FROM CORPORATE GOVERNANCE CODES IN ACCORDANCE WITH THE FIRST AND SECOND INDENTS OF ITEM 1 OF PARAGRAPH 5 OF ARTICLE 70 OF THE ZGD-1

1.1 Reference to codes, recommendations and other internal corporate governance rules

As at 31 December 2018, Nova KBM is a company having an equity investment made by foreign investors.

Furthermore, as at 31 December 2018, Nova KBM is not a public company in the meaning of the provisions of the Financial Instruments Market Act, as it has no financial instruments listed in organised trading or stock exchange listing.

In accordance with the above, and on the basis of the exception referred to in item 2 of the fifth paragraph of Article 70 of the Companies Act, Nova KBM implements its internal governance arrangements, including corporate governance, in accordance with the legislation applicable in the Republic of Slovenia, while respecting its internal rules.

With a view to strengthening internal governance arrangements in its operations, the Bank takes into account particularly the following:

1. Provisions of the applicable Banking Act setting out internal governance arrangements, in particular the provisions of Chapter 3.4 (Banking management system), and Chapter 6 (Internal governance arrangements and corresponding internal capital), in the part of the requirements applicable to the Bank or members of its governing body, whereby taking into account also the acts referred to in the second paragraph of Article 9 of the Banking Act
2. Resolution on internal governance arrangements, the governing body and the internal capital adequacy assessment process for banks and savings banks, and
3. EBA guidelines governing internal governance, assessment of the suitability of members of the management body and officers holding key functions, and remuneration policies and practices, based on relevant regulations of the Bank of Slovenia on the application of these guidelines.

Nova KBM strives to take into account, as much as possible, also non-binding recommendations contained in the letter of the Bank of Slovenia (code 38.20-0288/15-TR of 23 October 2015).

Nova KBM also strives to continue its proactive work to strengthen and promote appropriate internal governance arrangements and corporate integrity in a wider professional, financial, economic and other public.

In implementing its corporate governance framework in 2018, the Bank also took into consideration the Nova KBM and the Nova KBM Group companies' Governance Policy, which was adopted in January 2018. The Bank adopted amendments and supplements to this Policy in December 2018, with the period of effect as of 1 January 2019.

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 are properly managed, that proper accounting principles, as well as internal and external financial reporting and communicating are applied, and that operations of the Bank are carried out in compliance with the law and business ethics. Internal controls are established within all processes and organisational units, at all levels of the Bank and the Group.

Risk management is an important part of the management and governance system relating to the systematic identification, measurement, and assessment of risks arising from operations of the Group and its environment. Procedures of measuring the risks and risk management by individual types of risk are set out in the respective risk management policies. Each company within the Group is responsible for identifying, measuring, and managing all the risks influencing its operations.

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

The system of control over risk management is based on monthly reports, which are reviewed by the specialised bodies of the Bank that are responsible for monitoring the exposure to individual types of risk.

For the purpose of a comprehensive overview of the risks to which the Group is exposed, the Bank prepares the Risk Profile once a year, and this document contains an assessment of the key types of risk and of the related controls. The document is discussed and approved by the Bank's Management Board.

The Bank and the Group endeavour to have in place appropriate systems of internal controls, which includes 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).

The Internal Audit assesses the adequacy and efficiency of applicable internal controls, including the risk management systems and processes, and the system of the Bank's internal controls. The Internal Audit provides support and assistance to the Management Board in protecting long-term interests of the Bank and its reputation. The Centre reports on the results of 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 at its discretion, a review of internal controls with respect to the preparation and fair presentation of financial statements. In its letter to the Management Board, the external auditor summarises the findings regarding the deficiencies, as well as areas of 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 ITEMS 3, 4, 6, 8, AND 9 OF THE SIXTH PARAGRAPH OF ARTICLE 70 OF THE ZGD-1)

Significant direct and indirect holding of the company's securities in the meaning of achieving a qualified stake as determined by the act regulating acquisitions (item 3 of the sixth paragraph of Article 70 of the ZGD-1)

On 21 April 2016, a 100-percent owner of Nova KBM shares became the BISER BIDCO S.à.r.l. Company, through which the purchase of shares was performed by certain investment funds managed by affiliates of Apollo Global Management, LLC, and the European Bank for Reconstruction and Development. The BISER BIDCO S.à.r.l. Company owns 10,000,000 ordinary, registered no-par-value shares, which represent 100 % of the Bank's share capital.

Nova KBM has issued only one class of shares, which are all freely transferable and bear the same rights in every respect. 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.

Holders of securities that carry special control rights (item 4 of the sixth paragraph of Article 70 of the ZGD-1)

Shareholders have no special controlling rights arising from the ownership of Nova KBM shares.

Restrictions related to voting rights, in particular: (–) restrictions of voting rights to a certain stake or a certain number of votes, (–) deadlines for executing voting rights, and (–) agreements in which, on the basis of the company's cooperation, the financial rights arising from securities are separated from the rights of ownership of such securities (item 6 of the sixth paragraph of Article 70 of the ZGD-1)

In accordance with the Bank's Articles of

Association, no restrictions apply to the voting rights.

The Bank's rules on appointment or replacement of members of the management or supervisory bodies and amendments to the Articles of Association (item 8 of the sixth paragraph of Article 70 of the ZGD-1)

Management Board

In accordance with the provisions of the Articles of Association, the Supervisory Board appoints and recalls the President and other Management Board members, whereby the President of the Management Board may appoint one of the Management Board members a 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 the reasons stipulated in the applicable regulations and internal documents and rules of the Bank.

Management Board members may also resign voluntarily.

Supervisory Board

In accordance with the Articles of Association, Supervisory Board members are elected by the Shareholders' Meeting for a period of five years.

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

In accordance with the provisions of the ZGD-1 and Article 14 of the Bank's Articles of Association, the Shareholders' Meeting is authorised to make decisions with respect to amendments to the Bank's Articles of Association. In accordance with the provisions of the ZGD-1 and the Bank'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.

Authorisation of members of the management for issuing or purchasing own shares (item 9 of the sixth paragraph of Article 70 of the ZGD-1)

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

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 the Bank.

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 the Bank's operations.

The session of the Shareholders' Meeting is usually held either at the headquarters of the Bank or at another location specified in the notice on convening the Shareholders' Meeting.

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

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

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

Management Board

As at 31 December 2018, the Management Board of Nova KBM comprised the following four members: John Denhof, President of the Management Board, Jonathan Locke, Deputy President of the Management Board, Sabina Župec Kranjc, Management Board member, and Matej Falatov, Management Board member.

Functioning of the Management Board

Pursuant to the law and the Bank'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 a President of the Management Board. The President of the Management Board shall appoint one Management Board member a Deputy President. The number of Management Board members shall be determined by the Supervisory Board in its resolution. 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 the Bank. Management Board members may also resign voluntarily.

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

The Management Board must obtain a 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 a prior consent of the Supervisory Board or its relevant committees 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 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 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 a respective resolution of the Supervisory Board.

Further details regarding the composition and powers of the management bodies' committees are set out in the section on "Corporate governance".

Supervisory Board

Management of Nova KBM's operations is supervised by the Supervisory Board that, in accordance with Bank's Articles of Association, shall consist of no fewer than 6 and no more than 11 members.

As at 31 December 2018, the Supervisory Board comprised the following members: Andrej Fatur, Chair, Andrzej Klesyk, Deputy Chair, Manfred Puffer, member, Michele Rabà, member, Andrea Moneta, member, and Alexander Saveliev, member.

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 the period or based on a resolution on removal adopted by the Bank's Shareholders' Meeting. Supervisory Board members may resign at any time.

The Supervisory Board may regulate its work by the Rules of Procedure.

Supervisory Board members shall be entitled to remuneration, which shall be determined by a respective resolution of the Shareholders' Meeting.

The Supervisory Board's decisions shall be valid if the majority of its members are present at its meeting. 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 meetings of the Supervisory Board.

Meetings of the Supervisory Board shall be convened at least four times a year. Meetings of the Supervisory Board shall be convened by its Chair or Deputy Chair.

The Supervisory Board may appoint other committees, the appointment of which is not foreseen or mandatory in accordance with the applicable regulations. The powers of such committees shall be determined in a respective resolution adopted by the Supervisory Board.

Detailed information about the composition of the Supervisory Board as at 31 December 2018 and other data on the functioning of the Supervisory Board are shown in section on "Corporate Governance".

Information about the functioning of the Supervisory Board is set out also in section "Report of the Supervisory Board".

Supervisory Board committees

In the 2018 financial year, the following committees carried out their work in accordance with the Companies Act (ZGD-1) and the Banking Act (ZBan-1): the Audit Committee, the Remuneration Committee, the Nomination Committee, the Risk Committee, and the Credit Committee.

Information about the composition of the Supervisory Board and the composition of the Supervisory Board committees are shown in section on "Corporate Governance".

In accordance with the Bank's Articles of Association, the Supervisory Board 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 of the Supervisory Board

The Audit Committee provides the Supervisory Board with expert support in supervising managing the Bank and the companies in the Nova KBM Group on matters within its competence, in particular the assessment of the internal control and risk management systems, assessment of accounting and financial accounting reporting, the legality and ethics of the Bank's operations, internal and external auditing in the Bank and the companies in the Nova KBM Group.

The Audit Committee carries out its activities in accordance with the law (ZGD-1), the Bank's Articles of Association, and the instrument of incorporation, which regulates the purpose and the composition of the Audit Committee, conditions and methods 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

The Nomination Committee provides the Supervisory Board with expert basis for decision-making, especially with regard to human resource issues relating to the exercise of the function of a Management Board member and a Supervisory Board member.

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 Nomination Committee.

Remuneration Committee

The main purpose of the Remuneration Committee is to assist the Supervisory Board with carrying out a supervisory function in relation to receipts that affect the risks and risk management.

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

The main purpose of the Risk Committee is to provide the Supervisory Board with expert assistance with fulfilling its supervisory roles related to the preparation of decisions relating to risk management and risk profile, and the implementation of the Risk Management Strategy.

The area and the method of work of the Risk Committee, its decision-making process, and all other issues deemed important for its work are regulated by the Rules of Procedure of the Risk Committee.

Credit Committee

The Committee is an expert advisory body of the Supervisory Board of Nova KBM Its fundamental mission is to provide prior written consent for transactions, as determined by a resolution of the Supervisory Board. The Bank Management Board shall seek the consent (approval) of the Credit Committee for legal transactions subject to special resolution of the Supervisory Board (i.e. List of Transactions) prior to concluding the transaction.

6 DESCRIPTION OF DIVERSITY POLICY BEING IMPLEMENTED IN RELATION TO THE REPRESENTATION IN MANAGEMENT OR SUPERVISORY BODIES IN TERMS OF E.G. GENDER, AGE OR EDUCATION

Although the Bank has adopted no 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. The Bank adopted the most recent renewed policy in July 2018. In line with the provisions of Article 34 of the Banking Act (ZBan-2), paragraph 2 thereof, the policy foresees the establishment and implementation of an appropriate selection policy for suitable candidates, which ensures:

- That a management body as a whole takes into account a 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 in the management body
- Defining the conditions for performing a specific function, including the required profile of the governing body members before being appointed.

Therefore, the criteria of experience are defined for members of the management body (in this area, the following criteria are assessed in each member or candidate: education, work experience, and expertise in pivotal areas), the criterion of personal reliability and reputation, and the criterion of management capability.

More about this policy is found in the document Disclosures 2018 (within Pillar 3) at the level of the Biser Topco Group, which is published on the Nova KBM's website.

The Corporate Governance Statement forms an integral part of the 2018 Annual Report of the Bank, which will be published on the Bank's website.

Maribor, 19 March 2019

Management Board of Nova KBM d.d.

Matej Falatov
Member

Sabina Župec Kranjc
Member

Jon Locke
Deputy President

John Denhof
President

Supervisory Board of Nova KBM d.d.

Andrej Fatur
Chair

15 Statement of Nova KBM management's responsibilities in compiling 2018 Annual Report

By signing this statement, the Management Board, comprising **John Denhof, President of the Management Board, Jon Locke, Deputy President of the Management Board, Sabina Župec Kranjc, Management Board member, and Matej Falatov, Management Board member,** confirms to the best of their 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 the Bank and other companies included in the consolidation as a whole, and
- The business report gives a fair view of the development and results of the Bank's operations and its financial position, including the description of principal risks the Bank and other companies included in the consolidation are exposed to as a whole.

The Management Board of Nova KBM hereby declares also that in the 2018 financial year, pursuant to Article 545 of the Companies Act (ZGD-1), the Bank has neither engaged in or concluded any legal transactions with the controlling company and its affiliates upon an initiative or in interests of those companies, nor it has performed or omitted any other acts upon an initiative or in interests of those companies that would result in detriment or deprivation of the Bank.

Maribor, 19 March 2019

Management Board of Nova KBM d.d.

Matej Falatov	**Sabina Župec Kranjc**	**Jon Locke**	**John Denhof**
Member	Member	Deputy President	President

16 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 Banking Act (Official Gazette of RS, No. 25/15, as amended, hereinafter: ZBan-2). Banking services include the acceptance of deposits and other repayable funds from the public and granting loans for its own account.

The Bank also has the authorisation to perform mutually recognised and additional financial services.

Pursuant to Article 5 of the ZBan-2, the Bank may perform the following mutually recognised financial services:

1. Acceptance of deposits and other repayable funds
2. Granting loans, including:
   - Consumer loans
   - Mortgage loans
   - Factoring (with or without recourse)
   - Financing commercial transactions, including export financing based on forfeiting
3. Lease of assets, where all material risks and benefits that arise from ownership rights to 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 (e.g. travellers' cheques and bankers' drafts) in the part in which this service is not included in the service referred to in the previous item
6. Issuance of guarantees and other commitments
7. Trading for own account and for accounts of customers in:
   - Money market instruments
   - Foreign exchange, including currency exchange transactions
   - Standardised financial futures and options
   - Foreign exchange and interest-rate instruments
   - Transferable securities
8. Participation in the issue of securities and services related to such issues
9. Advice and services related to mergers and the purchase of undertakings
11. Portfolio management and advice
12. Safekeeping of securities and other services related to safekeeping
14. Renting out safe deposit boxes
15. Investment services and operations and ancillary investment services in accordance with the ZTFI.

The Bank may perform the following additional financial services in accordance with Article 6 of the ZBan-2:

1. Insurance brokerage in accordance with the law governing the insurance business
2. Administration of payment systems
6. Marketing of investment funds and the sale of investment coupons or shares in investment funds.

Furthermore, within additional financial services provided in accordance with item 6 of the first paragraph of Article 6 of the ZBan-2, the Bank may be engaged in the brokerage of voluntary supplementary pension insurance.

17 Nova KBM branch office network

Nova KBM
Branch Office Network Department
Ulica Vita Kraigherja 5
2000 Maribor
Telephone: 02/229 20 66

Slovenia-East Branch
Ulica Vita Kraigherja 5
2000 Maribor
Telephone: 02/229 28 39

Centrala Branch Office
Ulica Vita Kraigherja 4
2000 Maribor
Telephone: 02/229 21 40

Melje Branch Office
Partizanska cesta 42
2000 Maribor
Telephone: 02/229 15 70

Ljubljanska Branch Office
Ljubljanska ulica 1–3
2000 Maribor
Telephone: 02/229 15 20

Europark Branch Office
Pobreška cesta 18
2000 Maribor
Telephone: 02/229 15 10

Cesta zmage Branch Office
Cesta zmage 98
2000 Maribor
Telephone: 02/229 17 20

Koroška vrata Branch Office
Turnerjeva ulica 17a
2000 Maribor
Telephone: 02/229 16 60

Pobrežje Branch Office
Cesta XIV. divizije 34
2000 Maribor
Telephone: 02/229 15 30

Tezno Branch Office
Ptujska cesta 105
2000 Maribor
Telephone: 02/229 16 90

Ruše Branch Office
Jamnikova ulica 2
2342 Ruše
Telephone: 02/229 17 50

Hoče Branch Office
Miklavška cesta 63
2311 Hoče
Telephone: 02/229 17 40

Lenart Branch Office
Partizanska cesta 3
2230 Lenart
v Slovenskih goricah
Telephone: 02/229 15 80

Novi trg Branch Office
Novi trg 1
2250 Ptuj
Telephone: 02/229 19 45

Breg Branch Office
Zagrebška cesta 4a
2250 Ptuj
Telephone: 02/229 18 90

Kidričevo Branch Office
Mladinska ulica 10
2325 Kidričevo
Telephone: 02/229 18 65

Rogoznica Branch Office
Špindlerjeva ulica 3
2250 Ptuj
Telephone: 02/229 17 35

Ormož Branch Office
Ptujska cesta 2
2270 Ormož
Telephone: 02/229 18 70

Titova Branch Office
Ljubljanska cesta 11
2310 Slovenska Bistrica
Telephone: 02/229 18 15

Zg. Bistrica Branch Office
Partizanska ulica 61
2310 Slovenska Bistrica
Telephone: 02/229 17 90

Poljčane Branch Office
Bistriška cesta 60
2319 Poljčane
Telephone: 02/229 18 30

Pragersko Branch Office
Kolodvorska ulica 7
2331 Pragersko
Telephone: 02/229 18 50

Murska Sobota Branch Office
Kocljeva ulica 11
9000 Murska Sobota
Telephone: 02/229 17 78

Gornja Radgona Branch Office
Partizanska cesta 26
9250 Gornja Radgona
Telephone: 02/229 19 70

Lendava Branch Office
Trg ljudske pravice 11
9220 Lendava
Telephone: 02/229 16 30

Premium Branch Office
Razlagova ulica 4
2000 Maribor
Telephone: 02/229 21 20

Slovenia-Centre Slovenia
Tivolska cesta 48
1000 Ljubljana
Telephone: 01/620 30 00

Ljubljana 1 Branch Office
Pogačarjev trg 2
1000 Ljubljana
Telephone: 01/234 98 20

Poslovalnica Ljubljana 2
Linhartova cesta 9
1000 Ljubljana
Telephone: 01/433 92 74

Celje 1 Branch Office
Prešernova ulica 23
3000 Celje
Telephone: 03/425 88 77

Šoštanj Branch Office
Ulica Lole Ribarja 6
3325 Šoštanj
Telephone: 03/898 68 88

Kranj 1 Branch Office
Nazorjeva 3
4000 Kranj
Telephone: 04/280 70 11

Žiri Branch Office
Loška cesta 15
4226 Žiri
Telephone: 04/620 31 30

Novo mesto 1 Branch Office
Rozmanova 16
8000 Novo mesto
Telephone: 07/371 98 62

Brežice Branch Office
Cesta prvih borcev 6
8250 Brežice
Telephone: 07/620 31 47

Krško Branch Office
Cesta krških žrtev 137
8270 Krško
Telephone: 07/620 31 70

Celje Branch Office
Cankarjeva ulica 1
3000 Celje
Telephone: 03/620 30 75

Dravograd Branch Office
Meža 10
2370 Dravograd
Telephone: 02/229 17 65

Ravne Branch Office
Prežihova ulica 5
2390 Ravne na Koroškem
Telephone: 02/229 16 40

Lovrenc na Pohorju Branch Office
Gornji trg 20
2344 Lovrenc na Pohorju
Telephone: 02/229 18 40

Ljubljana Branch Office
Tivolska cesta 48
1000 Ljubljana
Telephone: 01/620 30 09

Ljubljana Center Branch Office
Stritarjeva ulica 2
1000 Ljubljana
Telephone: 01/620 30 30

Slovenia-West Slovenia
Kidričeva ulica 11
5000 Nova Gorica
Telephone: 05/331 70 00

Centrala Branch Office
Kidričeva ulica 11
5000 Nova Gorica
Telephone: 05/331 70 00

Šempeter Branch Office
Cesta Prekomorskih
brigad 9
5290 Šempeter pri Gorici
Telephone: 05/331 70 60

Solkan Branch Office
Trg J. Srebrniča 2
5250 Solkan
Telephone: 05/331 74 80

Brda Branch Office
Trg 25. maja 5
5212 Dobrovo v Brdih
Telephone: 05/331 74 85

Kanal Branch Office
Trg svobode 23
5213 Kanal
Telephone: 05/331 74 70

Ajdovščina Branch Office
Goriška cesta 25
5270 Ajdovščina
Telephone: 05/331 70 14

Vipava Branch Office
Cesta 18. aprila 4
5271 Vipava
Telephone: 05/331 70 50

Idrija Branch Office
Lapajnetova ulica 41
5280 Idrija
Telephone: 05/331 70 91

Cerkno Branch Office
Glavni trg 5
5282 Cerkno
Telephone: 05/331 71 30

Tolmin Branch Office
Trg maršala Tita 14
5220 Tolmin
Telephone: 05/331 71 47

Bovec Branch Office
Trg golobarskih žrtev 47
5230 Bovec
Telephone: 05/331 71 65

Kobarid Branch Office
Trg svobode 2
5222 Kobarid
Telephone: 05/331 71 70

Koper Branch Office
Ferrarska ulica 12
6000 Koper
Telephone: 05/331 71 96

Post Office Banking Services
SBO Radovljica
Kranjska cesta 1
4240 Radovljica
Telephone: 051 348 703

SBO Čopova
Slovenska cesta 32
1000 Ljubljana
Telephone: 01/620 30 62

SBO Fužine
Fužine 33
1000 Ljubljana
Telephone: 01/620 30 66

SBO Grosuplje
Taborska cesta 5
1290 Grosuplje
Telephone: 031 695 622

SBO Šentjur
Mestni trg 5a
3230 Šentjur
Telephone: 051 348 705

SBO Slovenske Konjice
Mestni trg 3a
3210 Slovenske Konjice
Telephone: 031 695 633

SBO Ljutomer
Rajh Nade ulica 2
9240 Ljutomer
Telephone: 031 371 068

SBO Miren
MIren 125c
5291 Miren
Telephone: 031 307 439

SBO Velenje
Kidričeva cesta 2a
3320 Velenje
Telephone: 051 489 579

SBO Domžale
Ljubljanska cesta 74
1230 Domžale
Telephone: 051 489 578

18 Sustainable development and social responsibility

The Nova KBM Group's efforts in social responsibility and sustainable development are incorporated in all levels of operations as a self-regulatory mechanism.

The Nova KBM Group, as a financial institution of national importance, can make a significant contribution to the growth of social welfare through its mode of operation, financial services and products, and the relationships it develops with strategic stakeholders.

This is why the Group incorporates its efforts on social responsibility and sustainable development in all levels of its operations, whereby complying with the law, ethical rules and national and international standards, while also satisfying its own interests in the context of long-term strengthening of broader social welfare and preservation of the natural environment.

The Group considers sustainable growth the central development driver.

Nova KBM pursues its strategy and the ambitious vision to become the best bank in Slovenia by 2020, whereby focusing on five strategic pillars: client excellence, growth and profitability, effective risk management and compliance, operational efficiency and organisational culture, and development of employees.

The mission of the Bank, which is based on the above five pillars, is interwoven by social responsibility and sustainable development, emphasising its responsibility to the economic, social and natural environments. The Bank incorporates the culture of responsibility into all aspects of its development and behaviour, and promotes long-term development and success in all of its stakeholders.

We build our vision of social responsibility and sustainable development on:

- Successful performance of the Bank
- Excellent user experience
- A high value created for all our stakeholders
- High standards of integrity and ethics and compliance
- Managing business risks
- Creating and recognising business opportunities, and
- Innovative management of continuous improvement processes.

In a long run, the Bank focuses on such a sustainable and socially responsible attitude in all its areas of operation, whereby increasingly influencing social and market changes. By doing so, the Bank follows its strategic goals, i.e. to become the best bank in Slovenia.

Activities of Sustainable Development and Social Responsibility in Nova KBM Group are presented in a separate report. Report on Sustainable Development and Social Responsibility. of the Nova KBM Group includes:

- Company profile in brief
- Strategic direction of Nova KBM and the Nova KBM Group
- Sustainable development and social responsibility in the Nova KBM Group
- Challenges and opportunities of corporate social responsibility and sustainable development for the Bank
- Sustainable communication with stakeholders
- Materiality matrix
- Sustainable management relations
- Sustainable relations to social environment
- Sustainable relations to the nature
- Socially responsible projects
- GRI Indicators.

This report is accessible online on www.nkbm.si.

19 Non-financial Statement

By signing this statement, the Management Board of the Bank, comprising John Denhof, President of the Management Board, Jon Locke, Deputy President of the Management Board, Sabina Župec Kranjc, Management Board member, and Matej Falatov, Management Board member, hereby declares:

- In accordance with paragraphs 1 and 5 of Article 70.c of the Companies Act (ZGD-1), the Bank has prepared the Non-financial Statement as a complete and comprehensive document, which allows interested public to understand main dimensions of the Bank's development, performance and position, and the impact of its activities, as a separate, yet complementary report called the 2018 Report on Sustainable Development and Social Responsibility.
- Report on Sustainable Development and Social Responsibility contains information on the implementation of corporate social responsibility and sustainable development in the Nova KBM Group, and will be published as a separate report on the Nova KBM website.

Maribor, 19 March 2019

Management Board of Nova KBM d.d.

Matej Falatov
Member

Sabina Župec Kranjc
Member

Jon Locke
Deputy President

John Denhof
President

List of acronyms and terms used in the Annual Report

ALCO – Nova KBM's Assets and Liability Committee

AML – Anti-money laundering and terrorist financing

BCBS – Basel Committee on Banking Supervision

CET1 – Common equity Tier-1 capital

CRO – Chief risk officer

CRR – Regulation (EU) No. 575/2013 of the European Parliament and the European Council on prudential requirements for credit institutions and investment firms

CRS – Common reporting standard

EBA – European Banking Authority

EBRD – European Bank for Reconstruction and Development

ECB – European Central Bank

ESG – Environmental, Social and Governance

EVE – Economic value of equity

EWS – Early Warning System

FA – Financial assets

FATCA – Foreign Account Tax Compliance Act

FVOCI – Measurement at fair value through other comprehensive income

FVTPL – Measurement at fair value through profit or loss

GDP – Gross domestic product

GDPR – General Data Protection Regulation

GRI – Global reporting initiative

HICP – Harmonised Indices of Consumer Prices

IAS – International Accounting Standard

ICAAP – Internal Capital Adequacy Assessment Process

IFRS – International Financial Reporting Standards

ILAAP – Internal Liquidity Adequacy Assessment Process

LCR – Liquidity Coverage Ratio

LGD – Loss given default

MIFID – Markets in Financial Instruments Directive

NFC – Non-financial company

NII – Net interest income

NPE - Non-performing exposure

NPL – Non-performing loan

NPS – Net promoter score

OFAC – Office of Foreign Assets Control

OPEX – Operating expenses

OR – Operational risk

PBT – Profit before tax

PD – Probability of Default

POCI – Purchased or originated credit impaired

PSD2 – Payment Services Directive 2

SBO – Specialised bank offices

IAS – International Accounting Standards

IFRS – International Financial Reporting Standards

IMAD – Institute of Macroeconomic Analysis and Development of the Republic of Slovenia

VaR – Value at risk

VOE – Voice of Employees

ZBS – Bank Association of Slovenia

FINANCIAL REPORT

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP AND NOVA KBM

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of NOVA KBM d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the 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 2018, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in ownership equity and consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules 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 Group 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 consolidated financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to non-bank customers (expected credit losses)

In its financial statements for the year ended 31 December 2018 the Group presented loans to non-bank customers to an amount of EUR 2,794 million and total expected credit loss to an amount of EUR 189.6 million.

Key audit matter	How the matter was addressed in our audit
Measurement of impairment allowances for expected credit losses on loans to non-bank customers is deemed a key audit matter since high level of significant judgements is applied by Management as well as the use of complex models. Additionally, from 1 January 2018, the Group has adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement. Management exercise significant judgements in the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans to customers in notes '3.1.1 IFRS 9 Financial instruments', ,28.3 – Financial assets at amortised costs to customers', ,19 - Impairment' and '4.1 Credit risk' to the financial statements. Information regarding the transitional effect of IFRS 9 are disclosed in note '3.32 Implementation of IFRS 9' including the impact on shareholders' equity and retained earnings at 1 January 2018.	Based on our risk assessment and industry knowledge, we have examined the impairment allowances for expected credit loss for loans and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans: • Reviewing the Group's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample selection • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the

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V Sloveniji storitve zagotavljata Deloitte revizija d.o.o. in Deloitte svetovanje d.o.o. (pod skupnim imenom Deloitte Slovenija), ki sta članici Deloitte Central Europe Holdings Limited. Deloitte Slovenija sodi med vodilne družbe za strokovne storitve v Sloveniji, ki nudi storitve revizije, davčnega, poslovnega, finančnega in pravnega svetovanja ter svetovanja na področju tveganj, ki jih zagotavlja več kot 100 domačih in tujih strokovnjakov.

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	calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Group.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual Report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance thereon.

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. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the consolidated financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Group and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory Board and Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 of the Group, management is responsible for assessing its 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 Group or to cease operations, or has no realistic alternative but to do so

Supervisory Board and Audit Committee are responsible for overseeing the Group's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Consolidated 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 auditing rules 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 auditing rules, we exercise professional judgment and maintain professional scepticism 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 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 Group'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 information of the entities or business activities within the Group 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 Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide Supervisory Board and Audit Committee 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.

From the matters communicated Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 18 April 2018. Our total uninterrupted engagement has lasted 7 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 15 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Yuri Sidorovich, certified auditor.

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified auditor

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

For signature please refer to the original Slovenian version.

Ljubljana, 19 March 2019

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of NOVA KBM d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the company NOVA KBM d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in ownership 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules 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 year ended 31 December 2018. 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.

Impairment of loans to customers (expected credit losses)

In its financial statements for the year ended 31 December 2018 the Company presented loans to customers to an amount of EUR 2,705 million and total expected credit loss to an amount of EUR 182.8 million.

Key audit matter	How the matter was addressed in our audit
Measurement of impairment allowances for expected credit losses on loans to customers is deemed a key audit matter since high level of significant judgements is applied by	We performed following audit procedures with respect to area of loans: • Reviewing the Bank's methodology for recognizing impairment allowances for

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na http://www.deloitte.com/si.

V Sloveniji storitve zagotavljata Deloitte revizija d.o.o. in Deloitte svetovanje d.o.o. (pod skupnim imenom Deloitte Slovenija), ki sta članici Deloitte Central Europe Holdings Limited. Deloitte Slovenija sodi med vodilne družbe za strokovne storitve v Sloveniji, ki nudi storitve revizije, davčnega, poslovnega, finančnega in pravnega svetovanja ter svetovanja na področju tveganj, ki jih zagotavlja več kot 100 domačih in tujih strokovnjakov.

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Management as well as the use of complex models. Additionally, from 1 January 2018, the Bank had adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement. Management exercise significant judgements in the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans to customers in notes '3.1.1 IFRS 9 Financial instruments', ,28.3 – Financial assets at amortised costs to customers', ,19 - Impairment' and '4.1 Credit risk' to the financial statements Information regarding the transitional effect of IFRS 9 are disclosed in note '3.32 Implementation of IFRS 9' including the impact on shareholders' equity and retained earnings at 1 January 2018.	expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample selection • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i.models applied in stage allocation ii.assumptions used by the Management in the expected credit loss measurement models iii.criteria used for determination of significant increase in credit risk iv.assumptions applied to calculate lifetime probability of default v.methods applied to calculate loss given default vi.methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i.Assessment of borrower's financial position and performance following latest credit reports and available information ii.Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance iii.Reviewing and critically assessing estimated value of collateral and estimated realisation period iv.Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral
	v.Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Bank.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

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. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

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- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory Board and Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 of the Company, management is responsible for assessing its 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

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

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 auditing rules 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 auditing rules, we exercise professional judgment and maintain professional scepticism 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 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 Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide Supervisory Board and Audit Committee 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.

From the matters communicated with Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 18 April 2018. Our total uninterrupted engagement has lasted 7 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 15 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Yuri Sidorovich, certified auditor.

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 19 March 2019

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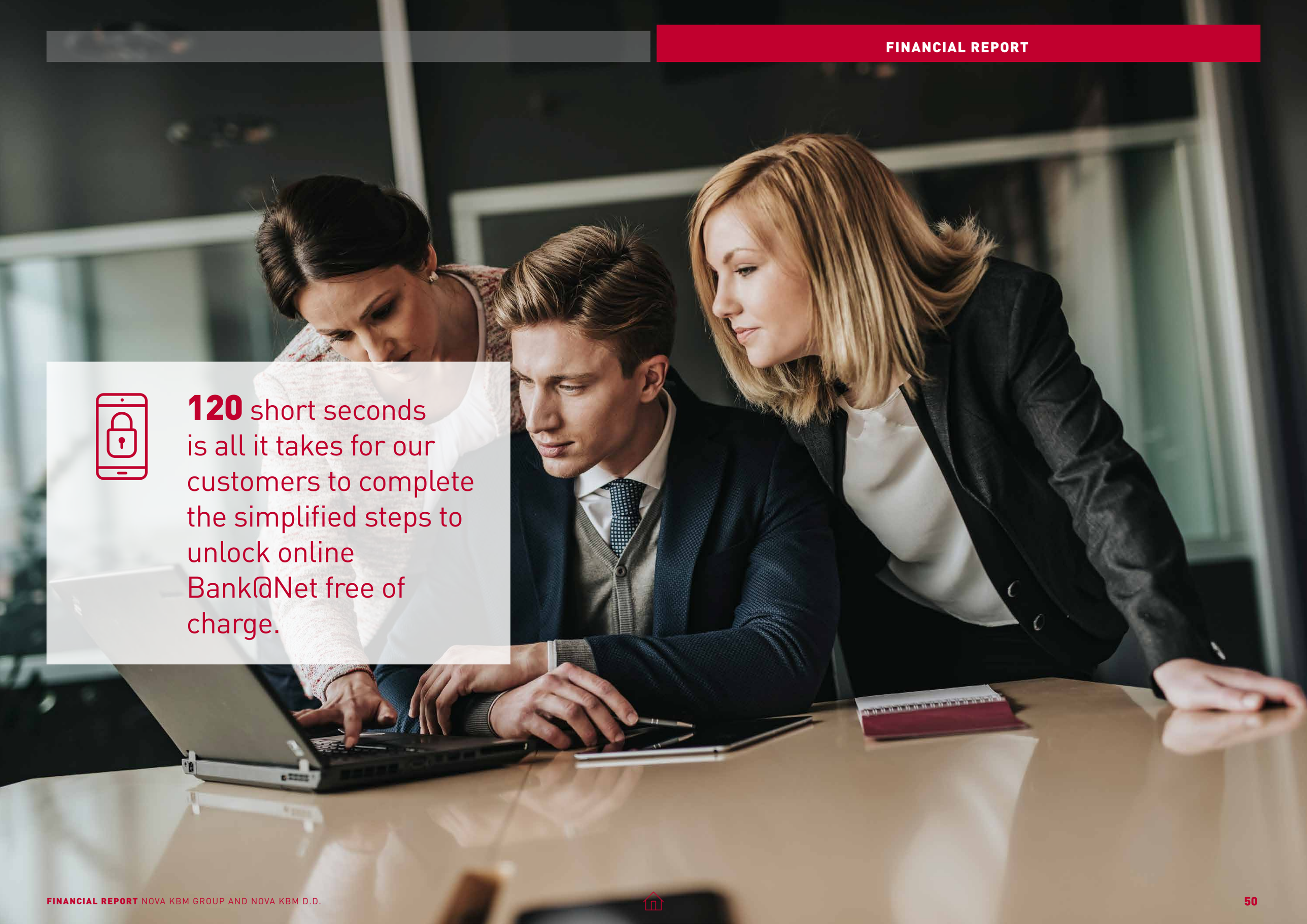

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Financial statements

1 Income statement

		Nova KBM Group		Nova KBM	
ITEM DESCRIPTION	**Notes**	**1/1–31/12/2018**	**1/1–31/12/2017**	**1/1–31/12/2018**	**1/1–31/12/2017**
Interest income	7	116,073	92,944	99,623	88,747
– Income on financial assets measured at amortised cost and at fair value through other comprehensive income	7.3	114,591	-	98,141	-
– Other interest income	7.3	1,482	-	1,482	-
Interest expenses	7	(6,430)	(10,375)	(5,906)	(10,163)
Net interest income	**7**	**109,643**	**82,569**	**93,717**	**78,584**
Dividend income	**8**	**703**	**1,926**	**5,829**	**1,926**
Fee and commission income	9	80,839	77,663	70,601	69,738
Fee and commission expenses	9	(36,759)	(32,207)	(31,228)	(29,560)
Net fee and commission income	**9**	**44,080**	**45,456**	**39,373**	**40,178**
Net gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10	5,089	7,963	4,999	7,227
Net gains on financial assets and liabilities held for trading	11	1,552	4,017	1,596	3,991
Net gains on financial assets and liabilities designated at fair value through profit or loss	12	-	830	-	830
Net gains on non-trading financial assets mandatorily at fair value through profit or loss	12	6,815	-	6,815	-
Net losses on financial assets and liabilities designated at fair value through profit or loss	-	(60)	-	(60)	-
Net losses from foreign exchange rate differences	13	(30)	(1,541)	(96)	(2,231)
Net losses on derecognition of non-financial assets	14	(3,921)	(1,252)	(3,489)	(749)
Other net operating income and loss	15	4,823	2,954	(1,196)	1,686
Administrative costs	16	(101,849)	(108,041)	(89,575)	(100,477)
Depreciation and amortisation	17	(13,379)	(10,993)	(6,621)	(8,384)
Provisions	18	8,432	2,541	8,572	570
Impairments	19	8,729	12,288	11,374	12,146
Share of profits of subsidiaries, associates and joint ventures	-	0	0	0	225
Net profit from non-current assets and disposal groups classified as held for sale	-	237	72	1,028	72
PROFIT FROM CONTINUING OPERATIONS		**70,864**	**38,789**	**72,266**	**35,594**
Income tax on continuing operations	20	1,630	9,533	3,254	10,219
NET PROFIT FROM CONTINUING OPERATIONS		**72,494**	**48,322**	**75,520**	**45,813**
NET PROFIT FOR THE FINANCIAL YEAR		**72,494**	**48,322**	**75,520**	**45,813**
a) Attributable to owners of the parent		72,277	47,835	75,520	45,813
– continuing operations		72,277	47,835	75,520	45,813
b) Attributable to non-controlling interests		217	487	0	0
– continuing operations		217	487	0	0
Basic earnings per share (€)	21	7.23	4.78	7.55	4.58
Diluted earnings per share (€)		7.23	4.78	7.55	4.58

The accompanying notes form an integral part of these financial statements.

2 Statement of other comprehensive income

		Nova KBM Group		Nova KBM
ITEM DESCRIPTION	1/1–31/12/2018	1/1–31/12/2017	1/1–31/12/2018	1/1–31/12/2017
NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX	**72,494**	**48,322**	**75,520**	**45,813**
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX	**(13,765)**	**(3,920)**	**(13,960)**	**(3,172)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**436**	**469**	**424**	**592**
Actuarial gains on defined benefit pension plans	334	526	323	652
Gains on change in fair value of investment in equity instruments designated at fair value through other comprehensive income	163	-	163	-
Income tax relating to items that will not be reclassified to profit or loss	(61)	(57)	(62)	(60)
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**(14,201)**	**(4,389)**	**(14,384)**	**(3,764)**
Net gains/losses recognised in translation reserves	**184**	**(75)**	**0**	**0**
– gains/losses recognised in translation reserves	0	(75)	0	0
– transfer to profit or loss	184	0	0	0
Losses in respect of available-for-sale financial assets	**-**	**(5,327)**	**-**	**(4,648)**
– valuation losses taken to equity	-	(3,554)	-	(3,682)
– transfer to profit or loss	-	(1,773)	-	(966)
Losses in respect of investment in debt financial instruments designated at fair value through other comprehensive income (4.3.1 + 4.3.2 + 4.3.3)	**(17,759)**	**-**	**(17,758)**	**-**
– valuation losses taken to equity	(14,807)	-	(14,807)	-
– transfer to profit or loss	(3,486)	-	(3,485)	-
– other reclassifications	534	-	534	-
Income tax relating to items that may be reclassified subsequently to profit or loss	**3,374**	**1,013**	**3,374**	**884**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**58,729**	**44,402**	**61,560**	**42,641**
a) Attributable to owners of the parent	58,505	44,068	61,560	42,641
– continuing operations	58,505	44,068	61,560	42,641
b) Attributable to non-controlling interests	224	334	0	0
– continuing operations	224	334	0	0

The accompanying notes form an integral part of these financial statements.

3 Statement of financial position

		Nova KBM Group		Nova KBM	
ITEM DESCRIPTION	Notes	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash in hand, cash balances at central banks and demand deposits at banks	22	494,258	546,521	492,046	541,061
Financial assets held for trading	23	2,317	1,524	1,347	509
Non-trading financial assets mandatorily at fair value through profit or loss	24	39,692	-	39,692	-
Financial assets designated at fair value through other comprehensive income	26	1,474,168	-	1,474,168	-
Financial assets measured at amortised cost	28	2,806,405	-	2,723,787	-
– debt securities	28.1	73,021	-	73,021	-
– loans and advances to banks	28.2	97,930	-	97,905	-
– loans to customers	28.3	2,603,719	-	2,522,033	-
– other financial assets	28.4	31,735	-	30,828	-
Financial assets designated at fair value through profit or loss	25	-	17,237	-	17,237
Available-for-sale financial assets	27	-	1,621,581	-	1,621,498
Loans	29	-	2,464,449	-	2,419,507
– loans and advances to banks	29.1	-	42,842	-	42,806
– loans to customers	29.2	-	2,366,167	-	2,322,531
– other financial assets	29.3	-	55,440	-	54,170
Held-to-maturity financial assets	30	-	88,700	-	88,700
Equity investments in subsidiaries, associates and joint ventures	31	0	0	109,417	85,762
Tangible assets	32	92,228	98,864	72,034	79,886
– property, plant and equipment	32.1	64,650	70,288	44,884	51,725
– investment property	32.2	27,578	28,576	27,150	28,161
Intangible assets	33	27,768	27,197	17,097	15,364
Current income tax assets	34	23,713	20,706	21,908	19,389
– current tax assets	34.1	152	114	0	18
– deferred tax assets	34.3	23,561	20,592	21,908	19,371
Other assets	35	27,927	34,946	13,194	16,957
Non-current assets held for sale and discontinuing operations	36	9,661	8,104	13,172	8,035
TOTAL ASSETS		**4,998,137**	**4,929,829**	**4,977,862**	**4,913,905**

The accompanying notes form an integral part of these financial statements.

			Nova KBM Group		Nova KBM
ITEM DESCRIPTION	**Notes**	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
Financial liabilities held for trading	37	1,451	1,024	1,451	1,023
Financial liabilities designated at fair value through profit or loss	-	60	-	60	-
Financial liabilities measured at amortised cost	38	4,229,040	4,167,845	4,219,354	4,178,883
– deposits from banks and central banks	38.1, 38.3	21,379	51,863	21,379	51,862
– deposits from customers	38.1, 38.3	3,772,188	3,638,391	3,777,304	3,671,799
– loans from banks and central banks	38.2, 38.3	384,654	396,153	378,026	378,912
– debt securities	-	0	1,502	0	1,502
– other financial liabilities	38.4	50,819	79,936	42,645	74,808
Provisions	39	30,713	49,445	30,109	48,596
Current income tax liabilities	34.2	414	393	8	8
– current tax liabilities	34.2	414	393	8	8
Other liabilities	40	6,067	13,708	3,431	2,338
TOTAL LIABILITIES		**4,267,745**	**4,232,415**	**4,254,413**	**4,230,848**
Share capital	41	150,000	150,000	150,000	150,000
Share premium	42	403,302	403,302	403,302	403,302
Accumulated other comprehensive income	43	18,128	29,893	18,260	30,029
Translation reserves	-	0	(184)	0	0
Reserves from profit	44	20,340	20,543	20,228	20,228
Retained earnings (including net profit)	45	136,301	90,835	131,659	79,498
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**728,071**	**694,389**	**723,449**	**683,057**
Equity attributable to non-controlling interests		2,321	3,025	0	0
TOTAL EQUITY		**730,392**	**697,414**	**723,449**	**683,057**
TOTAL LIABILITIES AND EQUITY		**4,998,137**	**4,929,829**	**4,977,862**	**4,913,905**

The accompanying notes form an integral part of these financial statements.

4 Statement of cash flows

		Nova KBM Group		Nova KBM	
Designation	ITEM DESCRIPTION	1/1–31/12/2018	1/1–31/12/2017	1/1–31/12/2018	1/1–31/12/2017
A.	CASH FLOWS FROM OPERATING ACTIVITIES				
a)	**Total profit before tax**	**70,864**	**38,789**	**72,266**	**35,594**
	Depreciation and amortisation	13,379	10,993	6,621	8,384
	Impairments/(reversal of impairments) in respect of investment in debt financial instruments designated at fair value through other comprehensive income	534	-	534	-
	Impairments/(reversal of impairments) in respect of loans and other financial assets measured at amortised cost	(12,615)	-	(15,458)	-
	Impairments of tangible assets, investment property, intangible assets and other assets	349	12,324	225	1,747
	Impairments of equity investments in subsidiaries, associates and joint ventures	2,979	0	3,300	4,990
	Net losses from foreign exchange rate differences	30	1,541	96	2,231
	Net (gains)/losses from the sale of tangible assets and investment property	358	656	(46)	(70)
	Net losses from the sale of intangible assets	3,780	1,005	3,779	1,005
	Other (gains) from investing activities	(1,320)	(2,146)	(1,320)	(2,146)
	Share of (profits) of subsidiaries, associates and joint ventures	(195)	0	(6,110)	(225)
	Net unrealised (gains) from non-current assets held for sale and discontinuing operations and the liabilities associated therewith	(147)	(72)	(147)	(72)
	Other adjustments to total profit or loss before tax	(8,432)	(2,535)	(8,572)	(570)
	Loan impairments	-	(24,612)	-	(18,883)
	Cash flow from operating activities before changes in operating assets and liabilities	**69,565**	**35,943**	**55,169**	**31,985**
b)	**(Increase)/decrease in operating assets (excluding cash equivalents)**	**(83,842)**	**(42,958)**	**(36,737)**	**(312,228)**
	Net (increase) in financial assets held for trading	(792)	(405)	(838)	(277)
	Net decrease in non-trading financial assets at fair value through profit or loss	366	-	366	-
	Net decrease in financial assets designated at fair value through other comprehensive income	141,077	-	140,995	-
	Net decrease in financial assets designated at fair value through profit or loss	-	69,495	-	69,495
	Net (increase) in available-for-sale financial assets	-	(44,825)	-	(46,482)
	Net (increase) in loans and other financial assets measured at amortised cost	(227,251)	-	(181,869)	-
	Net (increase)/decrease in loans and advances	-	(62,965)	-	(335,389)
	Net decrease in non-current assets held for sale	750	0	749	0
	Net (increase)/decrease in other assets	2,008	(4,258)	3,860	425
c)	**Increase/(decrease) in operating liabilities**	**42,988**	**(191,085)**	**30,393**	**79,620**
	Net increase/(decrease) in financial liabilities held for trading	427	(551)	428	(552)
	Net increase in financial liabilities designated at fair value through profit or loss	60	0	60	0
	Net increase/(decrease) in deposits and loans taken measured at amortised cost	58,596	(170,459)	37,366	100,313
	Net (decrease) in debt securities in issue measured at amortised cost	(1,502)	(12,874)	(1,502)	(12,874)
	Net (decrease) in other liabilities	(14,593)	(7,201)	(5,959)	(7,267)
d)	**Cash flow from operating activities (a + b + c)**	**28,711**	**(198,100)**	**48,825**	**(200,623)**
e)	**Income taxes refunded**	**(775)**	**747**	**0**	**974**
f)	**Net cash flow from operating activities (d + e)**	**27,936**	**(197,353)**	**48,825**	**(199,649)**

		Nova KBM Group		Nova KBM	
Designation	ITEM DESCRIPTION	1/1–31/12/2018	1/1–31/12/2017	1/1–31/12/2018	1/1–31/12/2017
B.	CASH FLOWS FROM INVESTING ACTIVITIES				
a)	**Receipts from investing activities**	**36,433**	**14,424**	**56,900**	**9,909**
	Receipts from the sale of tangible assets and investment property	20,240	6,204	281	168
	Receipts from the sale of intangible assets	250	0	250	0
	Receipts from disposal of associates	0	0	31,300	0
	Receipts from non-current assets or liabilities held for sale	7,698	715	7,698	715
	Receipts from disposal of debt securities measured at amortised cost	8,245	-	8,245	-
	Receipts from the sale of held-to-maturity financial assets	0	3,661	0	3,661
	Cash acquired through business combination	0	3,844	0	0
	Other receipts from investing activities	0	0	9,126	5,365
b)	**Cash payments on investing activities**	**(38,725)**	**(57,876)**	**(77,120)**	**(52,118)**
	(Cash payments to acquire tangible assets and investment property)	(30,888)	(6,520)	(2,865)	(908)
	(Cash payments to acquire intangible assets)	(7,837)	(6,939)	(7,613)	(6,793)
	(Cash payments for equity investments in subsidiaries, associates and joint ventures)	0	(44,417)	(66,642)	(44,417)
c)	**Net cash flow from investing activities (a + b)**	**(2,292)**	**(43,452)**	**(20,220)**	**(42,209)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES				
a)	**Receipts from financing activities**	**0**	**0**	**0**	**0**
b)	**Cash payments on financing activities**	**(46,294)**	**(30,320)**	**(45,813)**	**(30,167)**
	(Dividends and shares in profits paid)	(46,294)	(30,320)	(45,813)	(30,167)
c)	**Net cash flow from financing activities (a + b)**	**(46,294)**	**(30,320)**	**(45,813)**	**(30,167)**
D.	**Effects of change in foreign exchange rates on cash and cash equivalents**	**(1,300)**	**(3,663)**	**(1,300)**	**(3,842)**
E.	**Net increase/(decrease) in cash and cash equivalents (Af + Bc + Cc)**	**(20,650)**	**(271,125)**	**(17,208)**	**(272,025)**
F.	**Opening balance of cash and cash equivalents**	**564,047**	**838,835**	**558,393**	**834,260**
G.	**Closing balance of cash and cash equivalents (D + E + F)**	**542,097**	**564,047**	**539,885**	**558,393**

Adjustment of cash and cash equivalents with the statement of financial position items is presented in Note 22.1.

Cash flows from interest, dividends and shares in profits

	Nova KBM Group		Nova KBM	
ITEM DESCRIPTION	1/1–31/12/2018	1/1–31/12/2017	1/1–31/12/2018	1/1–31/12/2017
Interest paid	(7,735)	(13,110)	(7,324)	(12,868)
Interest received	160,508	140,896	148,767	135,636
Dividends and shares in profits paid	(46,294)	(30,320)	(45,813)	(30,167)
Dividends and shares in profits received	703	1,926	5,829	2,441

The accompanying notes form an integral part of these financial statements.

5 Statement of changes in equity

Nova KBM Group for the period of 1 January to 31 December 2018

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Translation reserves	Reserves from profit	Retained earnings/ losses	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
CLOSING BALANCE FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2017	**150,000**	**403,302**	**29,893**	**(184)**	**20,543**	**90,835**	**694,389**	**3,025**	**697,414**
Impact of IFRS 9	**0**	**0**	**2,190**	**0**	**0**	**19,957**	**22,147**		**22,147**
OPENING BALANCE FOR THE FINANCIAL YEAR AS AT 1 JANUARY 2018	**150,000**	**403,302**	**32,083**	**(184)**	**20,543**	**110,792**	**716,536**	**3,025**	**719,561**
Total comprehensive income for the financial year after tax	0	0	(13,956)	184	0	72,277	58,505	224	**58,729**
Appropriation of (accounting for) dividends	0	0	0	0	0	(45,813)	(45,813)	(481)	**(46,294)**
Transfer of net profit to reserves from profit	0	0	0	0	(203)	203	0	0	**0**
Other	0	0	1	0	0	(1,158)	(1,157)	(447)	**(1,604)**
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**403,302**	**18,128**	**0**	**20,340**	**136,301**	**728,071**	**2,321**	**730,392**

The accompanying notes form an integral part of these financial statements.

Nova KBM Group for the period of 1 January to 31 December 2017

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**	**403,302**	**33,571**	**(95)**	**20,545**	**73,164**	**680,487**	**2,874**	**683,361**
Total comprehensive income for the financial year after tax	0	0	(3,678)	(89)	0	47,835	44,068	334	**44,402**
Appropriation of (accounting for) dividends/profits	0	0	0	0	0	(30,167)	(30,167)	(153)	**(30,320)**
Transfers between equity components	0	0	0	0	(2)	2	0	0	**0**
Other	0	0	0	0	0	1	1	(30)	**(29)**
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**403,302**	**29,893**	**(184)**	**20,543**	**90,835**	**694,389**	**3,025**	**697,414**

The accompanying notes form an integral part of these financial statements.

Nova KBM for the period of 1 January to 31 December 2018

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings/losses	Total equity
CLOSING BALANCE FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2017	**150,000**	**403,302**	**30,029**	**20,228**	**79,498**	**683,057**
Impact of IFRS 9	**0**	**0**	**2,190**	**0**	**22,455**	**24,645**
OPENING BALANCE FOR THE FINANCIAL YEAR AS AT 1 JANUARY 2018	**150,000**	**403,302**	**32,219**	**20,228**	**101,953**	**707,702**
Total comprehensive income for the financial year after tax	0	0	(13,960)	0	75,520	**61,560**
Appropriation of (accounting for) dividends/profits	0	0	0	0	(45,813)	**(45,813)**
Other	0	0	1	0	(1)	**0**
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**403,302**	**18,260**	**20,228**	**131,659**	**723,449**

The accompanying notes form an integral part of these financial statements.

Nova KBM for the period of 1 January to 31 December 2017

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**	**403,302**	**33,201**	**20,228**	**63,850**	**670,581**
Total comprehensive income for the financial year after tax	0	0	(3,172)	0	45,813	**42,641**
Appropriation of (accounting for) dividends/profits	0	0	0	0	(30,167)	**(30,167)**
Other	0	0	0	0	2	**2**
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**403,302**	**30,029**	**20,228**	**79,498**	**683,057**

The accompanying notes form an integral part of these financial statements.

70.6
million steps are required to walk around Earth - and this is the exact amount of profit in euros generated in 2018

NOTES TO THE FINANCIAL STATEMENTS NOVA KBM GROUP AND NOVA KBM

1 General information

Nova KBM d.d.[1] is the parent company of the Nova KBM Group[2], which comprised the parent company and four subsidiary companies as at 31 December 2018.

Nova KBM is a commercial bank with tradition, focusing on providing its retail and corporate customers with standard banking products. Its registered office is in Ulica Vita Kraigherja 4, 2000 Maribor, Republic of Slovenia.

As at 31 December 2018, the Parent Bank's share capital totalled €150,000,000 and was split into 10,000,000 ordinary no-par-value shares.

On 21 April 2016, a 100-percent owner of Nova KBM shares became BISER BIDCO S.à r.l. The company, through which the purchase of shares was performed, is managed by certain investment funds, affiliates of Apollo Global Management, LLC, and the European Bank for Reconstruction and Development.

The Parent Bank is required to prepare consolidated financial statements at the level of the Nova KBM Group and the Biser Topco Group.

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 Group

The Group comprises the Parent Bank and its subsidiary companies.

Company	Position in the Nova KBM Group	Group's voting rights in the subsidiary (%)	Place of business (or country of incorporation)
Nova KBM	parent bank		Maribor, Slovenia
Infond d.o.o.	subsidiary company	77.78[3]	Maribor, Slovenia
Summit Leasing Slovenija d.o.o.	subsidiary company	100.00	Ljubljana, Slovenia
M-PAY d.o.o.	subsidiary company	50.00	Maribor, Slovenia
MB Finance B.V.	subsidiary company	00.00[4]	The Netherlands

1 In the Financial Report, Nova KBM d.d. is also referred to as the Parent Bank, the Bank, or Nova KBM.
2 In the Financial Report, the Nova KBM Group is also referred to as the Group
3 The Group's stake in the share capital of KBM Infond accounts for 77.00 %. Because KBM Infond holds a certain percent of own stake, the Group's stake in the capital of and voting rights in KBM Infond equals 77.78 %.
4 In accordance with IFRS 10, MB Finance B.V. company is regarded as a special purpose vehicle controlled by Nova KBM. The Bank has neither voting rights nor equity stake in this entity, and the investment in this entity is considered to be immaterial to the Group.

In May 2017, based on its management decision, the Parent Bank started actions to sell KBM Leasing Hrvatska d.o.o. – in liquidation, which was 100 % owned by the Group (of which 98.54 % was directly owned by the Parent Bank). The subject of the sale agreement (SPA) was the ownership interest in KBM Leasing Hrvatska d.o.o. – in liquidation, including the claims of the Parent Bank. The company was sold on 16 January 2018, and the entire company's exposure (as a going concern) was assumed by the buyer.

Under the restructuring of the Nova KBM Group, in 2016, the Parent Bank established the project company called KBM ASCO d.o.o., to which mainly non-performing loans and real estate of the former subsidiary bank (KBM Banka d.d.) were transferred. On 19 April 2018, Nova KBM received a binding offer for the purchase of a 100-percent stake in the KBM ASCO company, including the claims from loans. The Bank's Management Board accepted the binding offer on 24 April 2018. Until all the suspensory conditions were met, the KBM ASCO company was fully consolidated. The company was sold on 23 May 2018.

In December 2017, with an aim to optimise the liquidation process, Nova KBM took a decision to merge by acquisition Gorica Leasing d.o.o. – in liquidation to KBM Leasing d.o.o. – in liquidation. Based on the final decision on the merger by acquisition of Gorica Leasing – in liquidation to the acquiring company, KBM Leasing – in liquidation, Gorica Leasing – in liquidation has been struck off the court register since 26 January 2018. The acquisition cut-off date was 1 January 2018. During the first half of 2018, the management of Nova KBM took a strategic decision on the sale of the combined leasing company. On 19 October 2018, following the adoption of the Resolution on Sale, all the conditions for sale of KBM Leasing – in liquidation were met, and the company was sold to three buyers.

In October 2018, Nova KBM signed with Telekom Slovenije d.d. a resolution on summary winding up the company M-Pay d.o.o. in accordance with Article 425 of the Companies Act. Based on the resolution on winding up the company, the equity investment was reclassified in individual financial statements of Nova KBM to non-current assets held for sale, while the subsidiary is fully consolidated in the consolidated financial statements. As at the day when the Decision on striking the company off the court register of companies is final, the company M-Pay will cease to exist, and its assets will be paid to the shareholders in proportional shares.

On 5 October 2018, Nova KBM bought at a public auction a 5-percent stake in KBM Infond and, therefore, become its 77.78-percent owner. In December 2018, following a decision adopted by the management of Nova KBM on disposal of the equity stake in the subsidiary KBM Infond, in non-consolidated financial statements of Nova KBM, the equity investment was reclassified to non-current assets held for sale. Until the conditions necessary for derecognition are met, the company will be fully consolidated in the consolidated financial statements, until the sale is completed.

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 2018 were approved on 12 February 2019 by the Parent Bank's Management Board.

The financial statements have been prepared in accordance with regulatory requirements and on the assumption that both the Bank and the Group will continue as going concerns in the foreseeable future and that they will be able to meet their liabilities when due.

2.1 Statement of compliance and the purpose of financial statements

The separate and consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the European Union.

Financial statements included in this Report are prepared in accordance with legal requirements. The 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 the purposes of making decisions concerning any ownership, financing, or any other specific transactions relating to the Group. Accordingly, users of these audited financial statements should not rely exclusively on these financial statements and should undertake other relevant procedures before making any decisions.

2.2 Basis for 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 other than those held for trading obligatory designated at fair value through profit or loss
- Financial assets designated at fair value through other comprehensive income
- Derivatives
- Investment property
- Financial liabilities to be designated at fair value through profit or loss.

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 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 into an appropriate business model, and to a judgement whether contractual cash flows of a financial asset imply only principal and interest payment. The classification of financial instruments shall be carried out in line with the Group's policy prior to the initial recognition of a financial instrument.

Estimates are used for: impairments of financial assets, fair value of financial assets and liabilities, provisions for off-balance-sheet risks, depreciation period of property,

plant and equipment and 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, changes in macroeconomic forecasts used in assessment of expected loss for impairment, and the change in collateral values for defaulted loans at their realisation. The most important estimates under impairments of financial assets relate to an assessment of when a significant increase in credit risk occurs, incorporation of forward-looking information into the calculation of the expected loss for impairment, and the key assumptions used in estimating future cash flows. These estimates are detailed in Chapter 4.

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 the Bank and the 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.

3 Significant accounting policies

Except in the cases referred to in Item 3.1, the accounting policies adopted were used consistently in the two reporting periods presented in these financial statements.

3.1 Change in accounting policies

3.1.1 IFRS 9 Financial Instruments

The Group started using the new accounting standard on financial instruments, IFRS 9, on 1 January 2018. Requirements of this standard constitute a significant change compared to IAS 39 used in the past period, and they are summarised below.

Classification of financial assets and financial liabilities

In accordance with IFRS 9, there are three categories of financial asset classification: measurement at amortised cost, measurement at fair value through other comprehensive income (hereinafter also FVOCI), and measurement at fair value through profit and loss account (hereinafter also FVTPL). The above mentioned classification is based on business models in which each financial asset is managed, and on contractual cash flows of each financial asset. Classification and measurement of financial assets in accordance with IFRS 9 is detailed in Chapter 3.5 Financial assets.

In general, IFRS 9 keeps for the classification of financial liabilities the rules of IAS 39. In case of liabilities to be designated at fair value through profit or loss, in line with IAS 39, all changes in fair value were recognised through profit or loss, while in accordance with IFRS 9, a change in fair value resulting from a change in credit risk shall be recognised in other comprehensive income, and the remaining amount of the change in fair value shall be recognised in profit or loss.

Impairments of financial assets

Compared to IAS 39 that was based on the principle of incurred loss, IFRS 9 introduces the principle of expected loss. The new impairment model refers to financial assets measured at amortised cost, and debt instruments classified at fair value through the statement of other comprehensive income as well as to certain commitments (approved and unused loans and overdrafts), issued financial guarantees contract assets and lease contracts, while shares and interests are issued not subject to impairment. Accounting policies adopted with respect to impairment of financial assets in accordance with IFRS 9 are detailed in Chapter 3.5 Financial assets.

Transition to IFRS 9

Changes in accounting policies resulting from the introduction of IFRS 9 were considered retrospectively, except in the cases described below.

- Comparative data for 2017 have not been restated. The difference in the carrying amount of financial assets resulting from the introduction of IFRS 9 was recognised in retained earnings and accumulated other comprehensive income as at 1 January 2018. Consequently, data for 2017 do not include requirements of IFRS 9, which makes them incomparable to data for 2018.

- Based on the facts and circumstances that existed at the date of first time adoption of IFRS 9, the following estimates were made:
  - Definition of the business model in which a financial asset shall be classified
  - Classification and reversal of previous classifications of certain financial assets designated at fair value through profit or loss
  - Reclassification of certain investments in shares and interests not held for trading to the category to be designated at fair value through other comprehensive income
  - In case where a debt security had low credit risk at the date of introducing IFRS 9, i.e. 1 January 2018, the Group assumed that there was no significant increase in credit risk from the date of initial recognition.

The impacts of the transition to IFRS 9 are detailed in Chapter 3.32.

3.1.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduces a new income recognition framework, specifying the time and amount of revenue recognition. It replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations.

The Group first adopted IFRS 15 on 1 January 2018. The time and amount of recognition of fee and commission income falling within the scope of IFRS 15 did not change as a result of introducing this standard. Impact of IFRS 15 is limited to certain additional disclosures, as shown in Note 10.

3.2 Consolidation

Basis for consolidation

The consolidated financial statements comprise the financial statements of the Parent Bank and its subsidiaries.

Subsidiaries are fully consolidated from the date on which the Group obtains control. Subsidiaries are excluded from the Group at the moment when the controlling impact of the Parent Company or company in the Group ceases. The financial statements of the Group companies are prepared for the same reporting period as the Parent Company's, using the same accounting policies. All intra-group transactions, balances, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full in preparing the consolidated financial statements.

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 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.

Exceptions to consolidation

When judging the inclusion of subsidiaries in consolidation, the Group takes into account the principle of irrelevance (immateriality) that defines as irrelevant the information the omission (non-disclosure) of which does not affect the decision-making of financial statement users.

The Group does not include a subsidiary in the consolidated financial statements when none of the following criteria are exceeded:

- The subsidiary's balance sheet total is less than 3 % of the Group's balance sheet total
- Subsidiary's net profit or loss is less than 3 % of the Group's net profit or loss
- Subsidiary's net income is less than 3 % of the Group's net income.

However, collectively, the subsidiaries that would be excluded from consolidation for non-achieving the above-mentioned criteria, may not represent more than 5 % of the balance sheet total or 5 % of net profit/loss or 5 % of net income of the Group.

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 „Administrative costs".

When the 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.

If business combination is implemented 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 IFRS 9 either in profit or loss or as a change in 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 fair value 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 identifiable net assets of the acquiree, 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 business combination is, from the acquisition date, allocated to each of the 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 by the Group.

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 required to prepare consolidated financial statements, are recognised in the separate financial statements of the acquirer on the day the business combination takes place (accounting date). 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 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 required 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 Group. Control exists when the Group is exposed, or has rights, to variable returns from its interests in 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 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 Group. The reporting dates are unified across the entire 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 income and expenses and dividends are eliminated in full. 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.

Equity investments in subsidiaries presented in the separate financial statements of the Parent Bank

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, equity investments in subsidiaries are presented at cost, less any adjustment for impairment in line with IAS 27.

3.3 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 classified as financial assets and designated at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equity financial assets designated at fair value through other comprehensive income are included in other comprehensive income, together with the fair value measurement effect.

Financial statements of the 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 separate equity category, they are recognised in profit or loss in the period in which the asset is disposed of.

3.4 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 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 debt securities measured at amortised cost, and investments in debt securities measured at fair value through other comprehensive income, with the 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.

3.5 Financial assets

Accounting policies for 2018 in accordance with IFRS 9 are described below. The accounting policies complying with IAS 39, which were applied in 2017, are presented in the 2017 Annual Report published on the website www.nkbm.si. Basic differences between accounting policies used in 2018 and 2017 are disclosed in Note 3.1.1.

3.5.1 Classification of financial assets

At initial recognition, a financial asset shall be classified in one of the following classification categories: measurement at amortised cost, measurement at fair value through other comprehensive income (hereinafter also FVOCI), or measurement at fair value through profit and loss account (hereinafter also FVTPL).

Financial asset shall be measured at amortised cost, if the following two criteria are met:

- Financial asset is held to collect contractual cash flows
- Contractual cash flows represent solely the payment of principal and interest on an outstanding principal amount at specified dates.

The category of financial assets designated at fair value through other comprehensive income includes debt financial instruments not to be designated at FVTPL and fulfilling the two criteria listed below:

- Financial asset is held to collect contractual cash flows and for sale
- Contractual cash flows of the financial asset represent solely the payment of principal and interest on an outstanding principal amount at specified dates

Investments in equity instruments (non-monetary items) that are not held for trading and for which an option of recognising subsequent changes in fair value in other comprehensive income is irrevocably selected at initial recognition are elected as FVOCI Option category.

Other financial instruments shall be classified in the category of measurement at FVTPL.

Business model assessment

The Group assesses the purpose of the business model in which a financial asset is held on a portfolio basis. When defining a business model, the Group takes into account the following information:

- Policies and objectives for the financial assets portfolio, and functioning of these policies in practice
- The method of evaluating performance of the business model and the financial assets managed accordingly, and the method of reporting it to the Bank's management
- The risks affecting performance of the business model (and the financial assets managed accordingly), and the method of managing such risks
- Frequency, volume and timing of sales in previous periods, reasons for sales, and expectations of future sales activities
- The method of remunerating the manager responsible for these transactions (for example, whether their receipts are based on fair value of the managed assets or the volume of contractual cash flows received), based on the reward criteria set out in the Group's internal rules.

Financial assets that are held for trading purposes and the performance of which is measured at fair value are classified in the classification category measured at FVTPL, as they are held neither for the purpose of collecting contractual cash flows nor for the purpose of collecting contractual cash flows and sale.

Assessment of whether contractual cash flows constitute solely payment of principal and interest (SPPI test)

For the purpose of SPPI test, the principal is defined as the fair value of a financial asset at initial recognition. Interest is defined as compensation for the time value of money, credit risk associated with the outstanding principal and other basic credit risks and costs (liquidity risk and administrative costs), and a profit margin.

In assessing the condition of whether contractual cash flows constitute solely principal and interest payments, the Group assesses the contractual characteristics of a financial instrument. This assessment also includes an assessment of whether a financial asset contains contractual provisions that may change the time and amount of contractual cash flows in such a way that this condition is no longer met. In doing so, the Group takes into account:

- Any events that could change the time and amount of contractual cash flows
- An option of early repayment or extension of repayment time
- The facts restricting the Group in cash flows of certain funds (e.g., subordinate payments)
- Features that change the concept of the time value of money (e.g. periodic interest rate adjustment).

Financial assets that do not pass the SPPI test are obligatory measured at FVTPL.

The Group uses financial instruments to economically hedge against risks arising from other financial instruments. In its accounting, the 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 Group does not hold instruments for which hedge accounting would be required.

3.5.2 Recognition, derecognition and modification of the contractual terms applicable to an existing financial asset

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 Group has transferred all rights and risks under the financial asset). Should the 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. However, this does not apply to shares and business interests measured at FVOCI, in which the difference between the carrying amount and the sum of any consideration received and any cumulative gain or loss that had been recognised directly in other comprehensive income shall not be recognised in profit or loss.

In the event where the cash flows of a modified financial asset measured at amortised cost are not significantly different, such a modification does not result in derecognition. In such case, gross book value of this financial asset is recalculated by discounting the modified cash flows using the effective interest rate. A difference that occurs is recognised in profit or loss as net profit or loss resulting from a change in the conditions of financial asset repayment. If the conditions have changed due to financial difficulties of the counterparty, the gain or loss arising thereon is recognised in losses due to impairment.

3.5.3 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 financial assets measured at FVOCI 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 current bid 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 Group for trading purposes and measured at their fair value. Fair value of derivatives equals unrealised gains or losses on the valuation of derivatives at market prices or at contractual forward prices.

Financial assets designated at amortised cost are measured at amortised cost using the effective interest rate method. They are reported at their outstanding principal balances plus any accrued interest and fees and reduced by appropriate impairments.

3.5.4 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 incur.

Gains and losses arising from a change in fair value of debt financial assets measured at FVOCI 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. In such case accumulated gains or losses included in other comprehensive income are recognised in

profit or loss. Interest calculated using the effective interest rate method is recognised directly in profit or loss. In case of shares and interests designated to FVOCI, any gains and losses arising from changes in fair value are recognised in other comprehensive income, while at equity instrument derecognition, any accumulated gains and losses are transferred to retained earnings or loss. Dividends on equity financial instruments designated to FVOCI are recognised in profit and 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 Group immediately recognises the difference between the transaction price and fair value in profit or loss, in item „Net gains or losses on financial assets and liabilities held for trading" 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.

3.5.5 Reclassification of financial assets

As a rule, financial assets are not reclassified after initial recognition, unless the Group modifies its business model in which financial assets are held.

As at 1 January 2018, the Group carried out reclassifications of financial assets in line with IFRS 9 requirements, as shown in Note 3.32.

3.5.6 Impairments of financial assets

Impairments for expected credit losses are recognised for the following items:

- Financial assets classified at amortised cost (including operating receivables)
- Financial assets classified at fair value through other comprehensive income (debt financial instruments)
- Lending commitments (if a current contractual commitment exists to draw up a loan and commitments are not measured at fair value through profit or loss)
- Financial guarantees (which are the subject to IFRS 9 and not measured at fair value through profit or loss)
- Claims arising from leases, contract assets, issued financial gurantees.

Expected credit loss is a probability–weighted estimate of credit losses (i.e. present value of all cash flow losses) over the expected period of a financial instrument.

Credit loss is a difference between discounted contractual cash flows and discounted expected cash flows, whereby the effective interest rate is used as a discount factor.

An estimate of expected credit losses of a financial asset is made at least on each reporting day. It is based on a symmetric three-stage model allowing for a financial asset to transfer between groups depending on the intensity of a change (increase or decrease) in credit risk held by the financial asset on the reporting day compared to the credit risk held by that financial asset at initial recognition. If the credit risk is significantly reduced in the reporting periods following the period in which lifetime credit losses were recognised for the financial asset, re-adjustments are made to reflect the 12-month expected credit losses.

Upon initial recognition, all financial assets (other than originated credit-impaired financial assets – POCIs) are classified to Stage 1, for which 12-month expected credit losses are made. The Stage 1 also includes financial assets in which no significant increase in credit risk has been identified since their initial recognition, or financial assets having low credit risk on the reporting date. 12-month expected credit losses represent the part of lifetime expected credit losses relating to the possibility of default within the next 12 months following the reporting date. Interest income for financial assets classified to Stage 1 is calculated from their gross carrying amount (i.e. excluding expected credit losses) using the effective interest method, and is recognised in profit or loss.

Stage 2 includes financial assets subject to a significant increase in credit risk compared to the credit risk held by the financial asset at initial recognition (except in cases where credit risk of a financial asset is still low on the reporting date), while not yet showing objective signs of impairment. For financial assets included in Stage 2, lifetime expected credit losses are made. Lifetime expected credit losses represent expected credit losses resulting from any default events throughout the lifetime of the financial asset. Interest income is calculated in the same way as for Stage 1 using the effective interest method from the financial asset's gross carrying amount, and recognised in profit or loss.

Financial assets not purchased or issued as financial assets with deteriorated credit quality (POCIs) and showing signs of objective impairment at the reporting date are included in Stage 3. For such financial assets, lifetime expected credit losses are made, and interest income is recognised from the financial asset's net carrying amount (i.e. including impairments due to expected credit losses) using the effective interest method.

The general three-stage model of expected credit losses does not apply to purchased or issued financial assets impaired at initial recognition (POCIs). Impairments at initial recognition of POCI assets do not affect profit or loss, because lifetime credit losses are included in estimated cash flows when calculating the credit–adjusted effective interest rate. Interest income is recognised in profit or loss on the basis of credit–adjusted effective interest rate on the financial asset's net carrying amount.

Provisions relating to impairment of financial assets are detailed in Chapter 4.

Presentation of expected loss due to credit risk in the statement of financial position:

- Financial assets measured at amortised cost: as a decrease in gross carrying amount of the asset
- Undrawn portion of loan commitments, and financial guarantees: as provisions
- Debt financial assets measured at fair value through other comprehensive income: expected loss due to credit risk as impairment is not recognised in the statement of financial position, because these assets are carried at fair value. However, the related value adjustment is disclosed and included in the item accumulated other comprehensive income.

3.6 Write-offs

A financial asset measured at amortised cost is written off (in part or in whole) if, during the recovery proceedings and in liquidating collateral, the Group establishes that it cannot realistically expect to recover the outstanding amount.

The amount to be written off (of a part of receivable) is determined as the difference between the net present value of the expected cash flows generated (including liquidation of collateral) and the book value of the respective asset.

A write-off is regarded as the financial asset being derecognised.

3.7 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 the 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 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 recorded in profit or loss.

3.8 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.

3.9 Sale and repurchase agreements

Securities purchased under agreements to resell (repurchase agreements – repos) are recognised as loans to customers. Under such agreements, the 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 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.

3.10 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, are classified as finance leases. Legal title may be or may not be transferred to the leasee. 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.

The 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.

The 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 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. The assessment approach of losses due to impairment of receivable under the finance lease is detailed in Chapter 3.5.6 above.

3.11 Property, plant and equipment

Items of property, plant and equipment are assets, which the 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 investments, repairs and maintenance are charged to profit or loss in the financial period in which they are incurred.

The 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 Group in both 2018 and 2017:

	Nova KBM Group
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. The Group stops amortising property, plant and equipment when they are defined as non-current assets held for sale, or when they are derecognised as the Group no longer expects any further economic benefits.

For co-divided ownership of commercial space, the value of the associated land is included in the 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 the book value of an asset may not be recovered, but at least once a year. 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.

3.12 Investment property

Items of investment property are tangible assets that the 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 Group measures items of investment property using the fair value model.

Gains or losses arising from changes in fair value are included in profit or loss in the period to which they relate.

3.13 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 Group depreciates intangible assets on a straight-line basis over their estimated useful lives.

The following amortisation rates were applied by the Group in both 2018 and 2017:

	Nova KBM Group
Licences	10 to 33.33 %
Other investments	5 to 33.33 %
Other long-term property rights	10 %

The Group stops amortising intangible assets when they are defined as non-current assets held for sale, or when they are derecognised as the Group no longer expects any further economic benefits.

The value of intangible assets is assessed due to possible impairment each time when there are indicators that the book value of an asset may not be recovered, but at least once a year. 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.

In accordance with IAS 38, capitalisation of an intra-group completed intangible asset is only allowed in the development stage. An intangible asset completed within the Group is recognised at its cost, including all costs (staff costs, costs incurred by external consultants, costs of IT platforms and software acquired from external suppliers) having occurred from the date when all the conditions for recognition were met, namely:

- Conditions that meet the criteria for the purpose of completing the asset, and the professional feasibility criteria (both technical and financial) for the development and use of an intangible asset
- Conditions that meet the criteria of usefulness of IT software development in terms of likely future economic benefits
- The condition of the ability to measure costs attributable to the intangible asset in its development.

The Group enables recognition of an in-company completed intangible asset only in the event of internal development of IT software, namely in the case of major projects.

3.14 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 Group holds the items of real estate so acquired with the intention of selling them.

Inventory items seized under lease agreements are measured at the lower of net realisable value or cots. 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).

3.15 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 (i.e. non-binding and binding offers exist) 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.

3.16 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 the central bank) and customers, liabilities arising from debt securities 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.

3.17 Provisions

The 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 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 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; the 2018 discount rate was 1.88 % (in 2017, 10-year corporate bond rate of return was 1.36 %, and for 15-year bond, it was 1.92 %, respectively). The 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. Among other factors, the Group also considers employee fluctuation rate in the range of 0.0 % to 6 % (in 2017: 0.0 % to 6 %) and the projected increase in salaries in the range of 1.0 % (in 2017: 1.5 %). The calculation of these liabilities is carried out by a certified actuary. Recognition and derecognition of provisions for employee benefits are recorded in profit or loss, except for actuarial gains or losses related to severance benefits that are recognised in comprehensive income.

The 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 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.

3.18 Equity

Share capital of Nova KBM is split into ordinary no-par-value shares.

Treasury shares are deducted from equity.

The shares are freely transferable 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 Shareholders' Meetings in proportion to their interest in the share capital, participation in profits appropriated for dividends, and pro-rata distribution of residual assets in case of bankruptcy or liquidation of the Bank, 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 the Bank'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 Companies Act.

The Bank does not create statutory reserves.

Accumulated other comprehensive income reflects accumulated gains and losses from changes in fair value of equity and debt financial instruments, which are measured at FVOCI as well as actuarial gains and losses decreased/increased for any deferred tax, and impairments in debt instruments measured at FVOCI.

Dividends on shares are recognised as a financial liability in the period in which the Shareholders' Meeting approves appropriation of dividends.

3.19 Commitments and contingencies

The 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 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 during the period of transaction.

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.

3.20 Interest income and interest expenses

Interest income and interest expenses are recognised in accrued amounts at the 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.

Interest income and expenses from operations in financial assets are recognised in profit or loss using the effective interest rate method. As indicated in Chapter 3.5.6, interest income on financial assets classified to Stage 1 and Stage 2 is calculated from the financial asset's gross carrying amount (i.e. excluding expected credit losses) using the effective interest method. Interest income for Stage 3 financial assets is recognised by using the effective interest method on the financial asset's net carrying amount (i.e. including impairments due to expected credit losses). In case of POCIs, interest income is recognised in profit or loss on the basis of credit–adjusted effective interest rate on the financial asset's net carrying amount.

The following items are included in interest income: regular, default and accrued interest, approval fees as well as prepaid fees for costs of repaying. 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.

3.21 Dividend income

Dividend income comprises dividends and shares in profits received by the Group from its equity investments in companies. Dividend income is recognised in profit or loss when the right to receive payment is established.

3.22 Fee and commission income and fee and commission expenses

Fee and commission income includes fees and commissions received for services rendered by the Group. Fee and commission expenses include amounts paid by the Group for services provided by others.

Fee and commission income and expenses are recognised in profit or loss when the service is rendered.

Performance obligations and recognition of fee and commission income

Fee and commission income is measured on the basis of the amounts defined in contracts with customers (buyers). The Group recognises income when the control over the service passes to the customer.

The table below shows information on the nature and timing of satisfying major performance obligations arising from contracts with customers, and related income recognition policies.

Income includes fees and commissions received for services rendered by the Group, such as fees and commissions from guarantees, payment transactions, transactions on current accounts, transactions in securities for customers, and others. Fee and commission expenses include amounts paid for services provided by others, such as fees and commissions for payment transactions, brokerage and agency services, banking services abroad, and others.

Income and expenses are recognised in profit or loss when the service is rendered.

Type of service	Nature and time of satisfying performance obligations	Method of recognising income in accordance with IFRS 15
Banking services for retail and corporate customers	The Bank provides services of managing accounts, overdrafts, foreign currency and credit card transactions. Fees for daily account management are charged to customers on a monthly basis. Transaction-related fees in case of foreign currency transactions or use of overdrafts are charged at the time of transaction.	Account management income is recognised in the period of providing the services. Transaction-related income is recognised at the time when the transaction is made.
Asset management services	The Group provides asset management services. Asset management fees are charged according to the price list. In addition, the Group charges a non-refundable fee at opening an account.	Asset management income is recognised in the period of providing the services. Account opening fee results in the right to future services and is recognised as income over the period for which the customer is expected to continue receiving these services.

3.23 Realised gains and losses on financial assets not measured at fair value through profit or loss

Realised gains and losses on financial assets measured at amortised cost, and debt securities measured at FVOCI, are recognised in profit or loss upon disposing of the asset, at maturity, or upon other derecognition of the financial asset.

3.24 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.

3.25 Net gains and losses on non-trading financial assets mandatorily measured at fair value through profit and loss

Net gains and losses on non-trading financial assets mandatorily at fair value through profit or loss include realised and unrealised effects on equity securities as well as effects of measurement and realised effects related to debt securities, and loans and other financial assets that do not qualify for measurement at amortised cost.

3.26 Net gains and losses on financial assets and liabilities designated at fair value through profit and loss

Net gains and losses on financial assets and liabilities designated at fair value through profit or loss include measurement effects as well as realised effects associated with financial instruments that qualify for measurement at amortised cost, but were initially irrevocably designated as measured at fair value through profit or loss.

3.27 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 membership fees, contributions, and other expenses).

3.28 Impairments

Impairments comprise impairments of financial assets (Chapter 3.5.6), impairments of property, plant and equipment (Chapter 3.11), impairments of intangible assets (Chapter 3.13), and impairments of investment property (Chapter 3.12).

3.29 Taxes

Income tax is recognised at the amount as reported by the 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. 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 debt securities measured at FVOCI are recognised directly in other comprehensive income.

3.30 Segment reporting

A segment is recognisable as an integral part of the Group engaged in marketing of products or services (operating segment) and is subject to risks and returns different from those in other segments. Disclosures by segments are voluntary disclosures (optional for the Nova KBM group according to IFRS 8) prepared in accordance with requirements of the management for internal purposes.

With the aim of effectively managing its operations, the Group has divided its business into five operating segments based on products and services provided:

Banking	Banking and financial services provided in accordance with the Banking Act: Acceptance of deposits, granting 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 lease of movable property, equipment and real estate
Real estate activity	Real estate operations, investment engineering and project financing
Other	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.

3.31 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:

- **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“**, and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018)
- **Amendments to IFRS 2 „Share-based Payment“** – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018)
- **Amendments to IFRS 4 „Insurance Contracts“** – Applying IFRS 9 „Financial Instruments" with IFRS 4 „Insurance Contracts" – adopted by the EU on 3 November 2017 (effective for annual

periods beginning on or after 1 January 2018 or when IFRS 9 „Financial Instruments" is applied first time)

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018)
- **Amendments to IAS 40 „Investment Property"** – Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018)
- **Amendments to IFRS 1** and **IAS 28** due to **„Improvements to IFRSs (cycle 2014–2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12, and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018)
- **IFRIC 22 „Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The amendments to the existing standards have not led to any material changes in the Group's accounting policies except for IFRS 9 impacts that are presented in Chapter 3.32.

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 and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 16 „Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 „Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

Amendments to the existing standards that are not yet effective have not been early adopted by the Group. The Group estimates that the adoption of these amendments will have no material impact on its financial statements in the period of initial application.

The Group estimates that the adoption of IFRS 16 will have no material impact on its financial statements dated on 1 January 2019.

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 the regulations adopted by the International Accounting Standards Board (IASB), except for the following new and amended 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) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard
- **IFRS 17 „Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021)
- **Amendments to IFRS 3 „Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, and to asset acquisitions that occur on or after the beginning of that period)
- **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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded)
- **Amendments to IAS 1 „Presentation of Financial Statements" and IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods beginning on or after 1 January 2020)
- **Amendments to IAS 19 „Employee Benefits"** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IAS 28 „Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to various standards due to „Improvements to IFRSs (cycle 2015–2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12, and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements in the period of initial application.

3.32 Introduction of IFRS 9 standard

Financial asset classification at the date of first time adoption of IFRS 9

The table below shows the categories of financial asset measurement in accordance with IAS 39 and the new categories in accordance with IFRS 9 as at 1 January 2018:

			Nova KBM Group		Nova KBM	
	Classification according to IAS 39	Classification according to IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9
Cash in hand and at the central bank, and demand deposits at banks	Loans and receivables	Amortised cost	546,521	546,529	541,061	541,069
Financial assets held for trading	FVTPL* (held for trading)	FVTPL (held for trading)	1,524	1,524	509	509
Equity instruments	FVTPL	FVTPL (FA other than those held for trading obligatory measured at FVTPL)	13,973	13,973	13,973	13,973
Debt securities	FVTPL	FVOCI **	3,264	3,264	3,264	3,264
Debt securities	Available for sale	FVOCI	1,589,125	1,589,125	1,589,042	1,589,042
Equity instruments	Available for sale	FVTPL (FA other than those held for trading obligatory measured at FVTPL)	5,794	5,794	5,794	5,794
Equity instruments	Available for sale	FVOCI	26,662	26,662	26,662	26,662
Loans and advances to banks	Loans and receivables	Amortised cost	42,842	42,840	42,806	42,804
Loans to customers	Loans and receivables	Amortised cost	2,344,384	2,363,966	2,300,748	2,322,693
Loans to customers	Loans and receivables	FVTPL (FA other than those held for trading obligatory measured at FVTPL)	21,783	20,282	21,783	20,282
Other financial assets	Loans and receivables	Amortised cost	55,440	55,429	54,170	54,243
Debt securities	Held to maturity	Amortised cost	79,580	79,571	79,580	79,571
Debt securities	Held to maturity	FVOCI	9,120	13,780	9,120	13,780
Total financial assets			**4,740,012**	**4,762,739**	**4,688,512**	**4,713,686**

* Financial assets designated at fair value through profit or loss

** Financial assets designated at fair value through other comprehensive income

The following table shows adjustments of financial asset carrying amounts under IAS 39 to IFRS 9 as at 1 January 2018 for the Nova KBM Group:

Nova KBM Group	Carrying amount IAS 39 as at 31/12/2017	Reclassification	Repeated measurement	Carrying amount IFRS 9 as at 1/1/2018
Amortised cost				
Cash in hand and at the central bank, and demand deposits at banks				
Opening balance	546,521			
Repeated measurement			8	
Closing balance				**546,529**
Loans and advances to banks				
Opening balance	42,842			
Repeated measurement			(2)	
Closing balance				**42,840**
Loans to customers				
Opening balance	2,366,167			
Reclassification to FA other than those held for trading obligatory measured at FVTPL		(21,783)		
Repeated measurement			19,582	
Closing balance				**2,363,966**
Other financial assets				
Opening balance	55,440			
Repeated measurement			(11)	
Closing balance				**55,429**
Securities held to maturity				
Opening balance	88,700			
Movement to FVOCI		(9,120)	(9)	
Closing balance				**79,571**
Total amortised cost				**3,088,335**
Available-for-sale financial assets				
Opening balance	1,621,581			
Movement to FVOCI – debt securities		(1,589,125)		
Movement to FVOCI – shares and interests		(26,662)		
Movement to FVTPL		(5,794)		
Closing balance				**0**
FVOCI – debt securities				
Opening balance	0			0
Movements from held-to-maturity investments		9,120	4,660	
Movement from FVTPL		3,264		
Movement from available-for-sale financial assets		1,589,125		
Closing balance				**1,606,169**

Nova KBM Group	Carrying amount IAS 39 as at 31/12/2017	Reclassification	Repeated measurement	Carrying amount IFRS 9 as at 1/1/2018
FVOCI – shares and interests				
Opening balance	0			0
Movement from available-for-sale financial assets		26,662		
Closing balance				**26,662**
Total FVOCI				**1,632,831**
FVTPL				
Financial assets held for trading	**1,524**	**0**	**0**	**1,524**
Loans to (non-bank) customers reclassification to non-trading FA mandatorily at FVTPL (loans and other financial assets)	0	21,783	(1,501)	20,282
Securities				
Opening balance	17,237			
Movement to FVOCI (debt securities)		(3,264)		
Movement from available-for-sale financial assets (shares and interests)		5,794		
Closing balance (shares and interests)				**19,767**
Total FVTPL				**41,573**

The following table shows adjustments of financial asset carrying amounts under IAS 39 to IFRS 9 as at 1 January 2018 for Nova KBM:

Nova KBM	Carrying amount IAS 39 as at 31/12/2017	Reclassification	Repeated measurement	Carrying amount IFRS 9 as at 1/1/2018
Amortised cost				
Cash in hand and at the central bank, and demand deposits at banks				
Opening balance	541,061			
Repeated measurement			8	
Closing balance				**541,069**
Loans and advances to banks				
Opening balance	42,806			
Repeated measurement			(2)	
Closing balance				**42,804**
Loans to customers				
Opening balance	2,322,531			
Reclassification to non-trading FA mandatorily at FVTPL		(21,783)		
Repeated measurement			21,945	
Closing balance				**2,322,693**

Nova KBM	Carrying amount IAS 39 as at 31/12/2017	Reclassification	Repeated measurement	Carrying amount IFRS 9 as at 1/1/2018
Other financial assets				
Opening balance	54,170			
Repeated measurement			73	
Closing balance				**54,243**
Securities held to maturity				
Opening balance	88,700			
Movement to FVOCI		(9,120)	(9)	
Closing balance				**79,571**
Total amortised cost				**3,040,380**
Available-for-sale financial assets				
Opening balance	1,621,498			
Movement to FVOCI – debt securities		(1,589,042)		
Movement to FVOCI – shares and interests		(26,662)		
Movement to FVTPL		(5,794)		
Closing balance				**0**
FVOCI – debt securities				
Opening balance	0			0
Movements from held-to-maturity investments		9,120	4,660	
Movement from FVTPL		3,264		
Movement from available-for-sale financial assets		1,589,042		
Closing balance				**1,606,086**
FVOCI – shares and interests				
Opening balance	0			0
Movement from available-for-sale financial assets		26,662		
Closing balance				**26,662**
Total FVOCI				**1,632,748**
FVTPL				
Financial assets held for trading	**509**	**0**	**0**	**509**
Loans to (non-bank) customers reclassification to non-trading FA mandatorily at FVTPL (loans and other financial assets)	0	21,783	(1,501)	20,282
Securities				
Opening balance	17,237			
Movement to FVOCI (debt securities)		(3,264)		
Movement from available-for-sale financial assets (shares and interests)		5,794		
Closing balance (shares and interests)				**19,767**
Total FVTPL				**40,558**

The following table shows the impact of the transition to IFRS 9 on accumulated other comprehensive income and retained earnings:

	Nova KBM Group Impact of transition to IFRS 9 1/1/2018	Nova KBM Impact of transition to IFRS 9 1/1/2018
Accumulated other comprehensive income		
Closing balance under IAS 39 (31/12/2017)	**29,893**	**30,029**
Reclassification of shares and interests from AFS* to FVOCI	1,957	1,957
Reclassification of debt securities from AFS to FVOCI	297	297
Reclassification of debt securities from held-to-maturity to FVOCI	2,703	2,703
Reclassification of shares and interests from FVTPL to FVOCI	11	11
Reclassification of shares and interests from AFS to FVOCI	(2,273)	(2,273)
Tax	(505)	(505)
Opening balance under IFRS 9 (1/1/2018)	**32,083**	**32,219**
Retained earnings/(losses)		
Closing balance under IAS 39 (31/12/2017)	**90,835**	**79,498**
Net evaluation effects to FV	65	65
Net cancellation of loan impairments	19,969	22,419
Net impairments of other assets	(49)	0
Net cancellation of provisions and off-balance-sheet items	3,486	3,486
Tax	(3,515)	(3,515)
Opening balance under IFRS 9 (1/1/2018)	**110,791**	**101,953**

* Available-for-sale financial assets

The following table shows adjustment of the final impairment under IAS 39 and provisions under IAS 37 with the opening balance of impairments for expected credit losses under IFRS 9 (ECL) for the Nova KBM Group:

Nova KBM Group	Impairment balance as at 31/12/2017 IAS 39	Reclassification	Repeated measurement	ECL balance as at 1/1/2018 IFRS 9
Loans and receivables, and held-to-maturity securities under IAS 39, which are measured at amortised cost under IFRS 9 (includes: cash and cash balances, loans, other financial assets)	354,966	(13,870)	(23,277)	317,819
Available-for-sale debt securities reclassified to amortised cost under IFRS 9	0	0	9	9
Available-for-sale debt securities reclassified to FVOCI under IFRS 9	0	0	297	297
Receivables under finance lease	36,716	0	2,450	39,166
Loan commitments and financial guarantees	13,242	0	(3,486)	9,756
Total	**404,924**	**(13,870)**	**(24,007)**	**367,047**

The following table shows adjustment of the final impairment under IAS 39 and provisions under IAS 37 with the opening balance of impairments for expected credit losses under IFRS 9 (ECL) for Nova KBM:

Nova KBM	Impairment balance as at 31/12/2017 IAS 39	Reclassification	Repeated measurement	ECL balance as at 1/1/2018 IFRS 9
Loans and receivables, and held-to-maturity securities under IAS 39, which are measured at amortised cost under IFRS 9 (it includes: cash and cash balances, loans, other financial assets)	354,966	(13,870)	(23,277)	317,819
Available-for-sale debt securities reclassified to amortised cost under IFRS 9	0	0	9	9
Available-for-sale debt securities reclassified to FVOCI under IFRS 9	0	0	297	297
Receivables under finance lease	0	0	0	0
Loan commitments and financial guarantees	13,392	0	(3,486)	9,906
Total	**368,358**	**(13,870)**	**(26,457)**	**328,031**

Impacts of IFRS 9 standard introduction on impairments

Key impact factors to changes in impairments

The two main factors of the impact resulting from collectively impaired part of the portfolio are the following:

- Change in the portfolio impairment method, where the Bank, before transition to IFRS 9, used collective impairment rates reflecting average default rates and average loss rate at the event of default for each homogeneous segment, while calculation of impairments in accordance with IFRS 9 is based on each contract, taking into account the probability of debtor's default and the loss rate at the event of default in each contract.
- Additionally, inclusion of macroeconomic information resulted in a decrease in average values of risk parameters. Current macroeconomic forecasts are reflecting positive macroeconomic trends in the Slovenian economy; consequently, the impact of including macroeconomic variables in risk parameters is shown as a decrease in impairments, while in the period of deteriorated economic conditions, the impact will result in an increased amount of impairments.

Impact on an individually impaired part of the portfolio results from expected changes in real estate sales prices associated with GDP growth.

Impact of the introduction of IFRS 9 standard on capital adequacy ratio

As expected, the capital adequacy ratio has increased due to a positive impact resulting from the introduction of the IFRS 9 standard. Impacts of introducing the IFRS 9 standard on the capital adequacy ratio result from movements in retained earnings, accumulated other comprehensive income, and impairments for expected credit losses.

Impacts of introducing the IFRS 9 standard on the capital adequacy ratio of the Nova KBM Group and Nova KBM are shown in Table 1.

Impacts of the introduction of IFRS 9 standard on capital adequacy ratio

		NovaKBM Group fully-adjusted value	Nova KBM Group transient value	Nova KBM fully-adjusted value	Nova KBM transient value
1	Common equity tier-1 capital under IAS 39 (31/12/2017)	593,599	574,393	595,460	576,010
2a	Retained earnings – impact of IFRS 9	20,005	20,005	22,455	22,455
2b	Accumulated comprehensive income – impact of IFRS 9	2,190	2,190	2,190	2,190
3	Common equity tier-1 capital under IFRS 9 (1/1/2018)	615,794	596,588	620,105	600,655
4	Risk weighted assets under IAS 39 (31/12/2017)	2,842,990	2,848,043	2,910,238	2,915,047
5	Risk weighted assets under IFRS 9 (1/1/2018)	2,867,447	2,872,500	2,934,695	2,939,504
6	Capital adequacy on common equity tier-1 capital under IAS 39 (31/12/2017)	20.88 %	20.17 %	20.46 %	19.76 %
7	Capital adequacy on common equity tier-1 capital under IFRS 9 (1/1/2018)	21.48 %	20.77 %	21.13 %	20.43 %
8	**Impact of IFRS 9 standard introduction in p.p.**	**0.60 %**	**0.60 %**	**0.67 %**	**0.67 %**

Impact of the introduction of IFRS 9 standard on leverage ratio

As expected, the leverage ratio has increased due to a positive impact resulting from the introduction of the IFRS 9 standard on the amount of retained earnings and the accumulated other comprehensive income. Impacts of introducing the IFRS 9 standard on leverage ratio of the Nova KBM Group and Nova KBM are shown in Table 2.

Impacts of the introduction of IFRS 9 standard on leverage ratio

		Nova KBM Group fully-adjusted value	Nova KBM Group transient value	Nova KBM fully-adjusted value	Nova KBM transient value
Tier-1 leverage ratio					
9	Tier-1 leverage ratio under IAS 39 (31/12/2017)	11.67 %	11.28 %	11.69 %	11.29 %
10	Tier-1 leverage ratio under IFRS 9 (1/1/2018)	11.05 %	10.66 %	11.10 %	10.71 %
11	Impact of introducing the standard	(0.62) %	(0.62) %	(0.59) %	(0.58) %

4 Exposure to various types of risk

The Group has adopted the Risk Appetite Framework (hereinafter: the Framework) under which the Group has defined the objectives of future risk appetite and management, taking into account the Group's risk profile, foreseen and expected development of the Group's operations, its investment strategy, business strategy, IT strategy, non-performing loan management strategy, property for sale management plan, the restructuring plan and external environment plan. The Risk Appetite Frameworkincludes the Risk Appetite Statement, while the system of limits set up together with the early warning system is detailed by the Operating Limits Manual. It includes and connects ICAAP and ILAAP. Documents are revised on annual basis.

The framework is based on six pillars. They are:

- Risk identification and measurement process
- Risk strategy
- Definition of the Risk Appetite Statement
- Definition of the risk-bearing capacity, setting up the system of limits together with the early warning system, definition of capital allocation and monitoring the use of capital
- Risk management and monitoring
- Definition of roles and responsibilities.

The objectives of risk management defined in the Framework include:

- Moderate, stable and long-term profitability
- Generating profits while taking moderate credit risk
- Assuming a larger yet diversified risk from the exposure to governments in order to ensure high liquidity of assets
- Maintaining low-level equity and liquidity risk
- Maintaining a moderate level of other risks to which the Group is exposed.

The Group uses a systematic approach in measuring risks. First, the risks are identified, assessed, materiality thresholds and the capital allocation are determined. Based on the risk measurements, measures are taken to reduce risks. The Group is focused on active risk management and monitoring.

The risk management process reflects the Group's comprehensive approach in terms of:

- Definition and measurement of each type of risk
- Definition of materiality for each risk type
- Risk factors monitoring methods
- Continuous measuring and monitoring individual types of risks in compliance with the limits set
- Adapting risk management policies, methodologies, rules, and processes in a changing business environment.

For each material type of risk, the Group has adopted the following:

- Risk type management policy
- Risk type measurement methodology
- Risk Appetite Statement defining the appetite for a particular type of risk
- The system of limits, including operating limits and the early warning system.

4.1 Credit risk

Credit risk is a risk of loss arising from the failure of counterparty to meet its obligations to the Group's company, and it is the basic risk to which the Group is exposed in carrying out its activity. In the scope of the Nova KBM Group's Risk Appetite Framework, which is the umbrella document, the Group has quantified its strategic objectives for assuming credit risk.

Credit risk management includes risk identification, measurement, and risk reduction to an acceptable level, which complies with the business strategy, the Risk Appetite Framework, and the Risk Appetite Statement. The management of credit risk is carried out at the customer level, by each Group company as well as at the level of the entire Group.

The Group monitors, mitigates and manages credit risk by:

- Identifying the risk related to a customer and estimating expected credit losses in line with International Accounting Standards
- Providing capital to ensure sufficient capital coverage of credit risks
- Setting up exposure limits under the limit system, which is directly integrated into the Risk Appetite Framework and the ICAAP process
- Properly collateralising its financial assets.

To ensure that credit risk is properly limited, officers working in the risk management division are involved in loan approval processes (decisions are made based on the four-eye principle).

4.1.1 Non-performing exposures

The 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 Group considers as NPEs those exposures that satisfy any of the following criteria:

- Exposure is classified as „defaulted" or included in Stage 3 in line with IFRS 9 and the Methodology for Assessing Expected Credit Risk Losses in the Group
- Material exposures which are more than 90 days past due
- Exposures, which have been subject to restructuring that caused the Group to recognise a significant economic loss, or estimates that debtor's obligations are unlikely to be repaid – restructuring with a low repayment probability
- The exposure is already considered a NPE and does not meet the exit criteria.

An exposure is reclassified as non-performing after being restructured, if the following criterion is met:

- During a 2-year probation period, the debtor is 30 days past due, or a repeated restructuring was carried out on any exposure of that debtor.

The portfolio of customers that have a defaulted status and are classified in a defaulted credit rating is managed by the Workout Department and the Legal Office.

4.1.2 Interest rates and loan approval fees

Interest rates are determined in accordance with the adopted lending policies of the Group companies. Interest rates depend on the basic interest rate, the purpose of a loan, the customer's track record of cooperation with the 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 Group companies, taking into consideration their respective lending policies.

4.1.3 Exposure limits

In limiting large exposures, the Group complies with all regulatory requirements setting out that the exposure to a single customer or to a group of related customers shall not exceed 25 % of the Group's equity. The above limit excludes exposures to the subsidiary Summit Leasing Slovenija in accordance with relevant regulations.

In order to reduce credit risk, the Group monitors credit risk exposure under the comprehensive credit portfolio limit system with an early warning system, which is integrated in the ICAAP process.

4.1.4 Loan collateral policy

The loan collateral policy of the Nova KBM Group regulates:

- Types of loan collateral accepted by the Bank as acceptable or appropriate
- Types of loan collateral requiring a physical inspection of the property being pledged
- Minimum requirements that have to be met in each of the appropriate forms of loan collateral in the process of loan approvals, recording and monitoring them until the process of liquidation
- Permitted ratio between the loan value and the value of collateral (LTV) for each type of collateral
- Necessary documents for each type of collateral, which guarantee a legal certainty of collateral
- Recording, monitoring (evaluation method and frequency) and reporting the collateral accepted by the Bank
- Responsibilities of respective organisational units at the establishment of loan collateral and in monitoring loan collateral up to the process of their liquidation.

4.1.5 Assessment of expected credit risk losses

4.1.5.1 Introduction of IFRS 9 standard

In 2018, the Bank began calculating impairments in accordance with IFRS 9, which requires calculation of expected credit loss (ECL) from the first recognition of financial instruments, and earlier recognition of expected losses for the lifetime.

Key changes in the impairment calculation are:

- Change in the portfolio impairment method: Before the transition to IFRS 9, the Bank used collective impairment rates reflecting average default rates and average loss given default in the event of default for each homogeneous segment, while calculation of impairments in accordance with IFRS 9 is based on each individual contract, taking into account the probability of debtor's default and the loss given default of each individual contract.
- Inclusion of macroeconomic information: Macroeconomic forecasts used in the calculation of impairments in 2018 foresaw positive macroeconomic trends in the Slovenian economy. Consequently, the impact of including macroeconomic variables in risk parameters is shown as a decrease in impairments, while in the period of deteriorated economic conditions, the impact will result in an increased amount of impairments.

4.1.5.2 Exposure classification for the purpose of calculating expected credit losses

The subjects of assessing expected credit loss are financial instruments measured at amortised cost (AC) and at fair value through other comprehensive income (FVOCI).

The Bank classifies financial assets for which it assesses expected credit losses into three stages:

- Stage 1 – exposures in which no significant increase in credit risk has been identified since their initial recognition, and low-risk exposures
- Stage 2 – exposures in which credit risk has increased significantly from their initial recognition, and exposures from accounts receivables for which credit losses are calculated using a simplified approach
- Stage 3 – exposures in default status, and exposures defined as POCI.

4.1.5.3 Significant increase in credit risk

When determining whether the credit risk has increased significantly since the initial recognition for a particular asset, in addition to complying with regulatory established criteria, such as a 30-day delay, the Bank acts in line with the Nova KBM Group's Methodology for Classifying Customers in Credit Rating Categories. In doing so, the Bank presumes that a significant increase in credit risk is primarily reflected in the relative change in the customer's credit rating since its initial recognition.

In classifying its customers, the Bank uses all available quantitative data from the analysis of financial statements and projections by using a model and an expert assessment based on clearly defined criteria as well as qualitative or soft data relating to a particular customer, industries, and the general macroeconomic environment. In monitoring credit risks, the Bank uses also the Early Warning System (EWS).

4.1.5.4 Exposures in defaulted status

The Bank considers as a defaulted customer a customer:

- In which there is a high probability that obligations to the Bank will not be paid in full or will not be paid without taking measures by the Bank, such as the liquidation of collateral, selling receivables or restructuring
- Which is in delay on a materially significant credit liability for more than 90 days
- Which is in insolvency proceedings.

For defaulted customers, the Bank has put in place precisely defined criteria, the fulfilment of which suggests that the customer's risk has decreased and its defaulted status can be abolished. When the customer returns back to the performing credit rating category, its exposures during the given observation period are reclassified to Stage 2.

When the reasons that had led to a significant increase in credit risk of a particular financial asset no longer exist and the Bank reasonably expects that no significant increase in the debtor's credit risk is to be expected for it in the short-term, such a financial asset is classified to Stage 1 and subject to calculation of the expected losses for a period of 12 months.

4.1.5.5 Measuring expected credit loss (ECL)

The Bank has developed its own models for calculating key measuring parameters for credit loss:

- Exposure at default (EAD)
- Probability of default (PD)
- Loss given default (LGD).

Expected credit losses equal the product of expected probability of default, expected loss in case of default, and expected exposure at default.

Expected credit losses are an estimate of credit losses over a certain period of time weighted by the probability of a particular macroeconomic scenario. For Stage 1 exposures, the Bank estimates 12-month expected losses, while for exposures included in the other two stages, the Bank estimates lifetime losses or losses expected over the entire period of contractual obligations.

Exposures in Stage 3, where total exposure to a narrow group of related parties exceeds €300,000, are impaired individually based on an assessment of sustainability of the business plan and the Bank's strategy to the respective customer and, consequently, on all possible expected cash flows both from operations and from liquidation of collateral. For other Stage 3 exposures, the Bank uses a mass or automated calculation of expected credit losses.

4.1.5.6 Exposure at default (EAD)

Calculation of exposure at default differs depending on the type and features of a financial product. For assets held at amortised cost, the basis is the current exposure that varies according to contractual cash flows over the period of the contractual relationship. In case of contingent liabilities, the EAD is considered to be the future amount for which the Bank expects to be drawn in the future on the basis of historical data. For assets carried at FVOCI, the basis is the cost including a deferred discount/premium up to the instrument's maturity with the accrued interest.

For exposures in Stage 1 and Stage 3, only one EAD is taken into account, whereas for exposures in Stage 2, EAD is determined for each year up to maturity.

Exposure at default is calculated as the sum of the balance-sheet exposure corrected by the factor of exposure change and off-balance-sheet exposures multiplied by the conversion factor. For representative product groups, the Bank calculates the conversion factors by itself, while using regulatory values for non-representative products.

For revolving products, such as overdrafts on transaction accounts, credit cards and charge cards that have no effective maturity, the Bank takes into account the effective maturity estimated on the basis of characteristics in individual products.

4.1.5.7 Probability of default (PD)

The Bank determines a through the cycle probability of default and point in time probability of default for each of its customers.

Through the cycle probability of default is an average probability of default of a debtor over a period of 12 months through the entire economic cycle, and it is stable over time, as it is not affected by current macroeconomic conditions. On the other hand, point in time probability of default is a probability of default of a debtor over a period of the next 12 months from the reference date, and it is sensitive to changes in the macroeconomic environment. Point in time probability of default takes into account both the customer's credit rating and the current condition of the macroeconomic cycle. In times of favourable macroeconomic conditions and favourable macroeconomic forecasts, point in time probability of default will be lower than through the cycle probability of default, and vice versa.

Calculation of expected credit losses is based on a point in time probability of default, based on which customers are classified in appropriate credit rating categories. Depending on different characteristics of customers, the Bank uses various models for determining the probability of default. Credit rating models are prepared for the following segments:

- Individuals
- Sole proprietors
- Micro enterprises
- Small and medium-sized enterprises
- Large companies.

When calculating the probability of default, the Bank takes into account all available information about the customer, i.e. financial and behavioural data that differ according to the type of customer.

4.1.5.8 Expected loss given default (LGD)

The Bank uses a short-term LGD that reflects the current economic situation. Depending on the homogeneity of each segment of customers, the Bank has in place different LGD models, namely for the segment of companies, sole proprietors, retail customers, and the segment „others".

The LGD used to calculate losses is based on the calculation of an expected loss rate for the scenarios of curing, bankruptcy, and enforcement for a particular exposure, and is weighted by the probability of particular scenarios. The expected loss rate in Stage 3 exposures is affected also by any insolvency proceeding and the time elapsed since a default event occurred.

Expected credit losses for exposures classified to Stage 1 and Stage 3 are based on the LGD parameters applicable on the date of calculation. For Stage 2, the exposure to maturity changes as the input parameter to the LGD model.

4.1.5.9 Inclusion of forward-looking information into the expected credit loss model

In accordance with IFRS 9 and the Guidelines for Managing Credit Risk and Accounting for Expected Credit Losses, the Bank takes into account forward-looking information (FLI), which has been identified as material in assessing expected credit losses on the basis of reasonable judgement, generally adopted methods for economic analysis and forecasting, and supported by a sufficient set of data.

The Bank uses as a key macroeconomic variable the data on GDP forecast for three regions: Slovenia, Europe, and the rest of the world. The projected GDP growth for Slovenia is calculated as an average of the GDP growth forecasts made by the Bank of Slovenia and IMAD. The forecast of GDP growth in other regions is based on the forecasts made by the International Monetary Fund.

Macroeconomic information is included in probability of default (PD) and loss given default (LGD) risk parameters.

In the process of calculating expected credit losses, the Bank uses three macroeconomic scenarios: the most probable, optimistic, and conservative. In the optimistic and conservative scenarios, GDP growth increases or decreases by 200 basis points, respectively, compared to the most probable scenario.

Forecasts of macroeconomic variables in the calculation

Year	2018	2019	2020
GDP growth – Slovenia			
– Basic scenario	4.30	3.55	2.35
– Optimistic scenario	6.30	5.55	3.35
– Pessimistic scenario	2.30	1.55	1.35
GDP growth – Europe			
– Basic scenario	2.20	2.03	1.66
– Optimistic scenario	4.20	4.03	2.66
– Pessimistic scenario	0.20	0.03	0.66
GDP growth – the World			
– Basic scenario	3.73	3.65	2.58
– Optimistic scenario	5.73	5.65	3.58
– Pessimistic scenario	1.73	1.65	1.58

In the scope of customer classification and the process of individual assessment of expected credit losses, the Bank systematically considers soft forward-looking information in terms of a particular customer, which might affect a credit rating and any loss in cash flows.

Sensitivity analysis – the impact of macroeconomic variables on PD, LGD and ECL

The sensitivity analysis presented below demonstrates the impact of a 100-basis-point change in the GDP growth forecast on the current values of PDs, LGDs and the calculation of expected credit losses as at 31 December 2018.

Nova KBM Group	Change in GDP growth compared to actually considered one*	Impact on PD (in basis points)	Impact on LGD (in basis points)	Impact on ECL (€000)
Corporate customers	+100 basis points	(5.89)	(2.03)	(453)
	–100 basis points	8.40	2.07	647
Retail customers	+100 basis points	(6.09)	(0.91)	(299)
	–100 basis points	10.06	1.02	397

Nova KBM	Change in GDP growth compared to actually considered one*	Impact on PD (in basis points)	Impact on LGD (in basis points)	Impact on ECL (€000)
Corporate customers	+100 basis points	(4.86)	(1.75)	(459)
	–100 basis points	6.95	1.79	652
Retail customers	+100 basis points	(5.93)	(1.16)	(243)
	–100 basis points	9.72	1.29	316

* It represents the change in GDP growth in the most probable scenario in all the years.

4.1.5.10 Backtesting and validation of models

Once a year, the Bank checks the accuracy of the calculation of expected credit losses. Testing is performed as backtesting of all the parameters included in the calculation. If statistically significant deviations from the realised values are detected in the process of parameter backtesting, the Bank appropriately upgrades the calculation of each parameter that does not meet the criteria.

Risk parameter models are validated annually by an external contractor. Under this process, the validity and adequacy of the model and all processes related to the development and implementation of the model in the IT system are assessed, i.e. suitability of the qualification of the personnel that developed the models, the appropriateness of the methods and data used, and the adequacy of the forecasting power of the models.

4.1.6 Exposure to credit risk by credit rating categories

a) Financial assets measured at fair value through other comprehensive income

In tables below, the Group discloses no equity instruments that are otherwise part of the financial assets measured at fair value through other comprehensive income; however, by definition, they are not subject to staging in accordance with IFRS 9. As at 31 December 2018, equity instruments amounted to €28,782 thousand.

Nova KBM Group					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Financial assets measured at fair value through other comprehensive income						
A Credit rating category	1,434,849	0	0	0	**1,434,849**	**1,559,327**
B Credit rating category	9,256	2,113	0	0	**11,369**	**29,715**
C Credit rating category	0	0	0	0	**0**	**83**
D Credit rating category	0	0	0	0	**0**	**0**
E Credit rating category	0	0	0	0	**0**	**0**
Total gross amount	**1,444,105**	**2,113**	**0**	**0**	**1,446,218**	**1,589,125**
Total impairments	(788)	(44)	0	0	**(832)**	**0**
Total net amount	**1,443,317**	**2,069**	**0**	**0**	**1,445,386**	**1,589,125**

Nova KBM					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Financial assets measured at fair value through other comprehensive income						
A Credit rating category	1,434,849	0	0	0	**1,434,849**	**1,559,327**
B Credit rating category	9,256	2,113	0	0	**11,369**	**29,715**
C Credit rating category	0	0	0	0	**0**	**0**
D Credit rating category	0	0	0	0	**0**	**0**
E Credit rating category	0	0	0	0	**0**	**0**
Total gross amount	**1,444,105**	**2,113**	**0**	**0**	**1,446,218**	**1,589,042**
Total impairments	(788)	(44)	0	0	**(832)**	**0**
Total net amount	**1,443,317**	**2,069**	**0**	**0**	**1,445,386**	**1,589,042**

b) Debt securities measured at amortised cost

Nova KBM Group					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Debt securities measured at amortised cost						
A Credit rating category	73,054	0	0	0	**73,054**	**80,124**
B Credit rating category	0	0	0	0	**0**	**8,576**
C Credit rating category	0	0	0	0	**0**	**0**
D Credit rating category	0	0	0	0	**0**	**0**
E Credit rating category	0	0	0	0	**0**	**0**
Total gross amount	**73,054**	**0**	**0**	**0**	**73,054**	**88,700**
Total impairments	(33)	0	0	0	**(33)**	**0**
Total net amount	**73,021**	**0**	**0**	**0**	**73,021**	**88,700**

Nova KBM					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Debt securities measured at amortised cost						
A Credit rating category	73,054	0	0	0	**73,054**	**80,124**
B Credit rating category	0	0	0	0	**0**	**8,576**
C Credit rating category	0	0	0	0	**0**	**0**
D Credit rating category	0	0	0	0	**0**	**0**
E Credit rating category	0	0	0	0	**0**	**0**
Total gross amount	**73,054**	**0**	**0**	**0**	**73,054**	**88,700**
Total impairments	(33)	0	0	0	**(33)**	**0**
Total net amount	**73,021**	**0**	**0**	**0**	**73,021**	**88,700**

c) Loans and advances to banks

Nova KBM Group					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Loans and advances to banks						
A Credit rating category	97,909	10	0	0	**97,919**	**43,034**
B Credit rating category	5	12	0	0	**17**	**0**
C Credit rating category	0	0	0	0	**0**	**0**
D Credit rating category	0	0	0	0	**0**	**0**
E Credit rating category	0	0	0	0	**0**	**1,150**
Total gross amount	**97,914**	**22**	**0**	**0**	**97,936**	**44,184**
Total impairments	(6)	0	0	0	**(6)**	**(1,342)**
Total net amount	**97,908**	**22**	**0**	**0**	**97,930**	**42,842**

Nova KBM					31/12/2018	31/12/2017
	Stage 1	Total	Stage 3	POCI	Total	Total
Loans and advances to banks						
A Credit rating category	97,906	**0**	0	0	**97,906**	**42,804**
B Credit rating category	5	**0**	0	0	**5**	**0**
C Credit rating category	0	**0**	0	0	**0**	**0**
D Credit rating category	0	**0**	0	0	**0**	**0**
E Credit rating category	0	**0**	0	0	**0**	**2**
Total gross amount	**97,911**	**0**	**0**	**0**	**97,911**	**42,806**
Total impairments	(6)	**0**	0	0	**(6)**	**0**
Total net amount	**97,905**	**0**	**0**	**0**	**97,905**	**42,806**

d) Loans to customers

Nova KBM Group					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Loans to customers						
A Credit rating category	1,398,870	8,101	14	0	**1,406,985**	**1,212,281**
B Credit rating category	878,362	81,841	0	0	**960,203**	**712,924**
C Credit rating category	51,349	85,268	153	827	**137,597**	**262,685**
D Credit rating category	0	0	74,147	0	**74,147**	**143,353**
E Credit rating category	0	0	214,344	0	**214,344**	**419,789**
Total gross amount	**2,328,581**	**175,210**	**288,658**	**827**	**2,793,276**	**2,751,032**
Total impairments	(6,356)	(8,251)	(174,961)	11	**(189,557)**	**(384,865)**
Total net amount	**2,322,225**	**166,959**	**113,697**	**838**	**2,603,719**	**2,366,167**

Nova KBM					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Loans to customers						
A Credit rating category	1,177,345	5,578	14	0	**1,182,937**	**1,098,999**
B Credit rating category	1,051,361	71,695	0	0	**1,123,056**	**812,040**
C Credit rating category	41,652	79,813	153	827	**122,445**	**245,852**
D Credit rating category	0	0	66,019	0	**66,019**	**132,615**
E Credit rating category	0	0	210,354	0	**210,354**	**385,346**
Total gross amount	**2,270,358**	**157,086**	**276,540**	**827**	**2,704,811**	**2,674,852**
Total impairments	(6,433)	(7,796)	(168,560)	11	**(182,778)**	**(352,321)**
Total net amount	**2,263,925**	**149,290**	**107,980**	**838**	**2,522,033**	**2,322,531**

e) Financial guarantees

Nova KBM Group					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Financial guarantees						
A Credit rating category	72,395	0	0	0	**72,395**	**44,289**
B Credit rating category	24,833	502	0	0	**25,335**	**48,698**
C Credit rating category	592	117	0	0	**709**	**6,765**
D Credit rating category	0	0	150	0	**150**	**201**
E Credit rating category	0	0	0	0	**0**	**166**
Total gross amount	**97,820**	**619**	**150**	**0**	**98,589**	**100,119**
Total provisions	(124)	(22)	(29)	0	**(175)**	**(411)**
Total net amount	**97,696**	**597**	**121**	**0**	**98,414**	**99,708**

Nova KBM					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Financial guarantees						
A Credit rating category	72,395	0	0	0	**72,395**	**43,485**
B Credit rating category	24,833	502	0	0	**25,335**	**48,615**
C Credit rating category	592	117	0	0	**709**	**6,752**
D Credit rating category	0	0	150	0	**150**	**201**
E Credit rating category	0	0	0	0	**0**	**166**
Total gross amount	**97,820**	**619**	**150**	**0**	**98,589**	**99,219**
Total provisions	(124)	(22)	(29)	0	**(175)**	**(411)**
Total net amount	**97,696**	**597**	**121**	**0**	**98,414**	**98,808**

f) Other off-balance-sheet liabilities

Nova KBM Group					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Other off-balance-sheet liabilities						
A Credit rating category	385,436	5	0	0	**385,441**	**344,331**
B Credit rating category	266,253	13,274	0	0	**279,527**	**185,118**
C Credit rating category	4,936	1,273	2	0	**6,211**	**51,952**
D Credit rating category	0	0	4,154	0	**4,154**	**2,567**
E Credit rating category	0	0	13,763	0	**13,763**	**18,010**
Total gross amount	**656,625**	**14,552**	**17,919**	**0**	**689,096**	**601,978**
Total provisions	(771)	(90)	(4,628)	0	**(5,489)**	**(12,830)**
Total net amount	**655,854**	**14,462**	**13,291**	**0**	**683,607**	**589,148**

Nova KBM					31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Other off-balance-sheet liabilities						
A Credit rating category	385,439	5	0	0	**385,444**	**344,340**
B Credit rating category	273,654	13,274	0	0	**286,928**	**215,766**
C Credit rating category	4,936	1,273	2	0	**6,211**	**51,952**
D Credit rating category	0	0	4,154	0	**4,154**	**3,480**
E Credit rating category	0	0	13,763	0	**13,763**	**18,010**
Total gross amount	**664,029**	**14,552**	**17,919**	**0**	**696,500**	**633,548**
Total provisions	(795)	(90)	(4,628)	0	**(5,513)**	**(12,981)**
Total net amount	**663,234**	**14,462**	**13,291**	**0**	**690,987**	**620,567**

Loans to customers by days past due

Nova KBM Group	2018		2017	
	Gross amount	Impairments	Gross amount	Impairments
Outstanding	2,455,868	38,317	2,299,605	128,191
Past due up to 30 days	108,919	13,565	56,973	1,676
Past due 31 to 60 days	16,142	1,298	37,722	9,004
Past due 61 to 90 days	13,389	6,453	8,855	1,472
Past due over 90 days	198,958	129,924	347,877	244,522
Total	**2,793,276**	**189,557**	**2,751,032**	**384,865**

Nova KBM	2018		2017	
	Gross amount	Impairments	Gross amount	Impairments
Outstanding	2,396,391	36,738	2,283,335	122,453
Past due up to 30 days	88,984	13,049	42,793	1,401
Past due 31 to 60 days	12,555	1,060	25,465	8,251
Past due 61 to 90 days	12,703	6,288	5,037	975
Past due over 90 days	194,178	125,643	318,221	219,240
Total	**2,704,811**	**182,778**	**2,674,851**	**352,320**

Credit risk exposure by sector of activity and geographical areas

Nova KBM Group		Loans and advances to banks measured at amortised cost		Loans to customers measured at amortised cost		Debt securities measured at amortised cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance-sheet liabilities	
		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Concentration by sector of activity										
1.	Manufacturing industry	0	0	357,479	287,358	0	0	44,583	33,066	120,249	108,393
2.	Construction	0	0	56,898	64,774	0	0	0	0	109,809	94,126
3.	Trade	0	0	142,273	151,414	0	0	26,779	13,774	102,610	86,003
4.	Financial and insurance sectors	97,930	42,842	134,588	62,106	0	0	502,657	537,630	43,155	43,382
5.	Professional, scientific and technical activities	0	0	55,640	28,212	0	0	14,164	11,266	62,052	43,951
6.	Public administration and defence sectors	0	0	5,273	38,108	64,466	80,124	810,744	910,967	173	2,612
7.	Transport and storage	0	0	71,579	56,609	8,555	8,576	29,452	30,065	7,831	9,424
8.	Catering	0	0	46,156	40,882	0	0	3,086	3,110	1,345	1,921
9.	Cultural, entertainment and recreational activities	0	0	50,982	32,027	0	0	0	0	4,252	4,179
10.	IT and communication	0	0	35,575	18,197	0	0	4,984	5,005	40,354	36,010
11.	Health and social work	0	0	35,027	26,309	0	0	0	0	4,998	3,147
12.	Other	0	0	226,851	249,025	0	0	8,937	44,242	90,394	92,948
13.	Retail customers	0	0	1,385,398	1,311,146	0	0	0	0	194,799	162,760
	– secured by mortgages	0	0	529,464	549,088	0	0	0	0	941	750
	– unsecured	0	0	855,934	762,058	0	0	0	0	193,858	162,010
	Total	**97,930**	**42,842**	**2,603,719**	**2,366,167**	**73,021**	**88,700**	**1,445,386**	**1,589,125**	**782,021**	**688,856**
	Concentration by geographical areas										
1.	Slovenia	30	209	2,393,304	2,303,049	62,626	72,802	323,807	384,473	726,934	639,596
2.	Other EU member states	97,900	42,604	152,897	54,905	10,395	15,898	985,492	1,050,874	49,646	49,216
3.	Europe (without EU member states)	0	29	2,713	6,024	0	0	28,126	26,435	24	10
4.	Other countries	0	0	54,805	2,189	0	0	107,961	127,343	5,417	34
	Total	**97,930**	**42,842**	**2,603,719**	**2,366,167**	**73,021**	**88,700**	**1,445,386**	**1,589,125**	**782,021**	**688,856**

Nova KBM		Loans and advances to banks measured at amortised cost		Loans to customers measured at amortised cost		Debt securities measured at amortised cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance-sheet liabilities	
		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Concentration by sector of activity										
1.	Manufacturing industry	0	0	348,517	278,657	0	0	44,581	32,983	120,249	108,393
2.	Construction	0	0	44,932	55,166	0	0	0	0	109,809	94,126
3.	Trade	0	0	115,507	127,467	0	0	26,779	13,774	102,610	86,003
4.	Financial and insurance sectors	97,905	42,806	425,698	331,606	0	0	502,657	537,630	50,535	74,801
5.	Professional, scientific and technical activities	0	0	49,206	22,245	0	0	14,164	11,266	62,052	43,951
6.	Public administration and defence sectors	0	0	5,207	37,510	64,466	80,124	810,745	910,967	173	1,712
7.	Transport and storage	0	0	63,558	52,657	8,555	8,576	29,452	30,065	7,831	9,424
8.	Catering	0	0	43,936	38,322	0	0	3,086	3,110	1,345	1,921
9.	Cultural, entertainment and recreational activities	0	0	50,001	31,169	0	0	0	0	4,252	4,179
10.	IT and communication	0	0	34,185	16,607	0	0	4,984	5,005	40,354	36,010
11.	Health and social work	0	0	34,008	25,252	0	0	0	0	4,998	3,147
12.	Other	0	0	214,066	240,647	0	0	8,938	44,242	90,394	92,948
13.	Retail customers	0	0	1,093,212	1,065,226	0	0	0	0	194,799	162,760
	– secured by mortgages	0	0	529,465	547,353	0	0	0	0	941	750
	– unsecured	0	0	563,747	517,873	0	0	0	0	193,858	162,010
	Total	**97,905**	**42,806**	**2,522,033**	**2,322,531**	**73,021**	**88,700**	**1,445,386**	**1,589,042**	**789,401**	**719,375**
	Concentration by geographical areas										
1.	Slovenia	5	174	2,312,022	2,260,970	62,626	72,802	323,806	384,390	734,314	670,115
2.	Other EU member states	97,900	42,603	152,751	56,614	10,395	15,898	985,492	1,050,874	49,646	49,216
3.	Europe (without EU member states)	0	29	2,468	2,786	0	0	28,126	26,435	24	10
4.	Other countries	0	0	54,792	2,161	0	0	107,962	127,343	5,417	34
	Total	**97,905**	**42,806**	**2,522,033**	**2,322,531**	**73,021**	**88,700**	**1,445,386**	**1,589,042**	**789,401**	**719,375**

As at 31 December 2018, the Group's net loans outstanding to customers measured at amortised cost totalled €2,603,719 thousand. The majority of loans are loans to households, where the amount is €1,385,398 thousand and represents 53.21 % of net loans to customers.

The amount under item financial assets designated at fair value through other comprehensive income amounted to €1,445,386 thousand. The largest share of financial assets at fair value through comprehensive income is in the area of other EU member states, where the share is 68.18 %.

Non-performing loan management

For the purpose of managing non-performing loans, Nova KBM has established a special department that, in organisational terms, is placed directly under the Bank's Management Board, and its Director reports to the Chief Risk Officer (CRO).

The Workout Department is responsible for management of non-performing loans (NPLs) contracted to corporate and retail customers, management of seized assets; it is also actively involved in management of non-strategic investments of the Group. These substantive elements are used also in the organisational structure of the Department's sub-units. The Workout Department operates in line with internal rules that comply with applicable legislation and the recommendations given by regulators. The rules are prepared in cooperation with other specialised departments of the Bank. In its work, the Department cooperates with relevant Bank's specialised departments that provide professional support in specific areas centrally organised within the Bank.

NPLs are transferred to the Workout Department when a debtor is in default on a materially significant amount for more than 90 days (applicable to corporate customers and sole proprietors) or 60 days (natural person) or in case where an insolvency proceeding or an insolvency remedial action is initiated against the defaulted customer. Until that day, the recovery is carried out in commercial units with assistance of the Workout Department. In the segment of natural persons, the recovery of a default exceeding 1 day is carried out by the early recovery department (a telephone call by the call centre), while a customer in default of over 60 days is transferred for management to the Workout Department.

After non-performing loans were transferred to the Workout Department, a management strategy for each asset is prepared on the basis of available information and confirmed by the competent body. In some cases, additional measures can be taken to recover some or all non-performing loans, such as selling the claims to third parties or cooperation with external providers. If there is no suitable exit from a NPL available at a given moment, the Bank may decide to take over the asset, which is then transferred for management to a special unit within the Workout Department. The latter carries out the procedures of acceptance, analysis and subsequent marketing of the asset until it is sold on the market under the standardised sales process. After all legal and actual options for repayment in accordance with laws and internal regulations have been exhausted, any remaining exposures are finally written off.

Individual decisions in the process of NPL management are taken by various competent bodies of the Bank depending on the amount of exposure or the complexity of the case, and cover all the levels from the heads of departments, through the Credit Committee, and the decision-making and supervisory bodies of the Bank.

Volume of non-performing loans (NPLs)

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Total gross loans	2,891,212	2,795,216	2,802,722	2,717,657
Total net loans	2,701,649	2,409,009	2,619,938	2,365,337
Net NPLs	116,222	205,248	110,333	191,367
Net NPLs/total net loans (%)	4.30	8.52	4.21	8.09

During the period of 1 January to 31 December 2018, the Group continued collecting the unpaid obligations of customers by liquidating instruments of collateral through regular court proceedings and in out-of-court settlements.

The 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 between the customer and the Group member was not successful, the Workout Department assesses the expected cash flow generated from the liquidation of the pledged property or other collateral, from which cash flows are expected to settle the claims.

Analysis of restructured loans

Nova KBM Group	Restructured loans to individuals			Restructured loans to corporate customers			31/12/2018
	Without mortgage	Secured by mortgages	Total	Without mortgage	Secured by mortgages	Total	Total restructured loans
Gross loans	12,104	20,271	**32,375**	75,621	67,208	**142,829**	**175,204**
Impairments	(5,387)	(2,469)	**(7,857)**	(36,767)	(9,127)	**(45,894)**	**(53,751)**
Net loans	6,717	17,801	**24,518**	38,854	58,081	**96,935**	**121,453**
Share of restructured gross loans in all gross loans to customers							6.27 %
Share of restructured net loans in all net loans to customers							4.66 %

Nova KBM Group	Restructured loans to individuals			Restructured loans to corporate customers			31/12/2017
	Without mortgage	Secured by mortgages	Total	Without mortgage	Secured by mortgages	Total	Total restructured loans
Gross loans	14,328	23,490	**37,818**	129,189	158,902	**288,092**	**325,910**
Impairments	(5,139)	(3,955)	**(9,094)**	(65,244)	(66,565)	**(131,809)**	**(140,904)**
Net loans	9,189	19,535	**28,724**	63,945	92,337	**156,282**	**185,007**
Share of restructured gross loans in all gross loans to customers							11.85 %
Share of restructured net loans in all net loans to customers							7.82 %

Nova KBM	Restructured loans to individuals			Restructured loans to corporate customers			31/12/2018
	Without mortgage	Secured by mortgages	Total	Without mortgage	Secured by mortgages	Total	Total restructured loans
Gross loans	12,104	20,271	**32,375**	75,621	67,208	**142,829**	**175,204**
Impairments	(5,387)	(2,469)	**(7,857)**	(36,767)	(9,127)	**(45,894)**	**(53,751)**
Net loans	6,717	17,801	**24,518**	38,854	58,081	**96,935**	**121,453**
Share of restructured gross loans in all gross loans to customers							6.48 %
Share of restructured net loans in all net loans to customers							4.82 %

Nova KBM	Restructured loans to individuals			Restructured loans to corporate customers			31/12/2017
	Without mortgage	Secured by mortgages	Total	Without mortgage	Secured by mortgages	Total	Total restructured loans
Gross loans	14,328	23,463	**37,791**	136,740	157,403	**294,142**	**331,934**
Impairments	(5,139)	(3,955)	**(9,094)**	(71,398)	(65,941)	**(137,339)**	**(146,433)**
Net loans	9,189	19,508	**28,698**	65,342	91,461	**156,803**	**185,501**
Share of restructured gross loans in all gross loans to customers							12.41 %
Share of restructured net loans in all net loans to customers							7.99 %

As at 31 December 2018, the volume of restructured loans in the Group's lending portfolio totalled €175,204 thousand, of which €32,375 thousand were in retail loans, and €142,829 thousand in corporate loans (loans outstanding to companies and sole proprietors). Compared to 2017, the amount of restructured loans decreased by €150,706 thousand.

Valuation of real estate

Valuation of real estate is regulated by the Methodology for Real Estate Valuation. The Group monitors the quality and value of real estate collateral prior to taking any business decision under the loan process and throughout the period of its exposure.

Assessments of the value of real estate that have to be carried out in compliance with the International Valuation Standards is usually carried out by independent real estate appraisers appointed by the Slovenian Institute of Auditors, which are included in the Bank's list. Valuation reports received by the Bank are checked by the Underwriting Department, which confirms whether the valuation carried out is appropriate for the needs of business decisions. The Department also monitors the quality of work of external appraisers included in the Bank's list. The list of external appraisers was renewed in February 2018 and applies until 15 February 2020. For the purpose of monitoring the value of real estate, the Bank uses various procedures, depending on the type of property, the type of collateral and the value of the subject to collateral – statistical revaluation is used for larger groups of similar real estate of smaller values, or a revaluation of the value estimates carried out by internal or external appraisers.

Value of exposure by type of collateral

31 December 2018		Nova KBM Group		Nova KBM	
		Amount	Structure	Amount	Structure
1	Deposits	40,798	2.73 %	40,798	2.73 %
2	Guarantees	26,289	1.76 %	26,289	1.76 %
3	Sureties	224,240	15.00 %	224,240	15.00 %
4	Securities and pledge of receivables from points of mutual funds	15,255	1.02 %	15,255	1.02 %
5	Mortgages	936,837	62.65 %	936,708	62.65 %
6	Pledge of inventories and movable property	84,668	5.66 %	84,668	5.66 %
7	Pledge of receivables and assignment of claims	27,792	1.86 %	27,792	1.86 %
8	Pledge of interest in equity	1,741	0.12 %	1,741	0.12 %
9	Reserve fund assets	0	0.00 %	0	0.00 %
10	Insurance company	123,415	8.25 %	123,415	8.25 %
11	Pledge of claims from insurances with insurance company	0	0.00 %	0	0.00 %
12	Securities portfolio	0	0.00 %	0	0.00 %
13	Other types of collateral	14,332	0.96 %	14,332	0.96 %
	Total	**1,495,367**	**100.00 %**	**1,495,238**	**100.00 %**

31 December 2017		Nova KBM Group		Nova KBM	
		Amount	Structure	Amount	Structure
1	Deposits	54,195	3.27 %	54,208	3.32 %
2	Guarantees	27,193	1.64 %	27,193	1.67 %
3	Sureties	236,293	14.24 %	229,922	14.09 %
4	Securities and pledge of receivables from points of mutual funds	5,182	0.31 %	5,182	0.32 %
5	Mortgages	1,134,396	68.35 %	1,119,479	68.60 %
6	Pledge of inventories and movable property	40,607	2.45 %	39,815	2.44 %
7	Pledge of receivables and assignment of claims	8,796	0.53 %	8,796	0.54 %
8	Pledge of interest in equity	4,043	0.24 %	4,043	0.25 %
9	Reserve fund assets	0	0.00 %	0	0.00 %
10	Insurance company	141,983	8.55 %	141,983	8.70 %
11	Pledge of claims from insurances with insurance company	0	0.00 %	0	0.00 %
12	Securities portfolio	0	0.00 %	0	0.00 %
13	Other types of collateral	7,008	0.42 %	1,370	0.08 %
	Total	**1,659,696**	**100.00 %**	**1,631,991**	**100.00 %**

The volume of collateral, impairments and provisions for mortgaged housing loans

31 December 2018		Nova KBM Group		Nova KBM	
Mortgaged loans		Amount	Impairments	Amount	Impairments
1	up to 50 %	185,692	451	185,692	451
2	51 to 90 %	289,340	1,041	289,340	1,041
3	over 90 %	55,343	3,902	55,343	3,902
	Total	**530,375**	**5,394**	**530,375**	**5,394**

31 December 2018		Nova KBM Group		Nova KBM	
Irrevocable loan to value (LTV) commitments		Amount	Impairments	Amount	Impairments
1	up to 50 %	42	0	42	0
2	51 to 90 %	494	1	494	1
3	over 90 %	407	0	407	0
	Total	**943**	**1**	**943**	**1**

31 December 2018		Nova KBM Group		Nova KBM	
Impaired mortgaged loans LTV		Amount	Impairments	Amount	Impairments
1	up to 50 %	5,069	268	5,069	268
2	51 to 90 %	8,848	657	8,848	657
3	over 90 %	5,959	2,577	5,959	2,577
	Total	**19,876**	**3,502**	**19,876**	**3,502**

31 December 2017		Nova KBM Group		Nova KBM	
Mortgaged loans		Amount	Impairments	Amount	Impairments
1	up to 50 %	177,208	810	177,189	804
2	51 to 90 %	301,512	4,213	301,512	4,213
3	over 90 %	77,835	9,167	74,686	7,190
	Total	**556,555**	**14,190**	**553,387**	**12,207**

31 December 2017		Nova KBM Group		Nova KBM	
Irrevocable loan to value (LTV) commitments		Amount	Impairments	Amount	Impairments
1	up to 50 %	184	0	184	0
2	51 to 90 %	249	1	249	1
3	over 90 %	320	2	320	2
	Total	**753**	**3**	**753**	**3**

31 December 2017		Nova KBM Group		Nova KBM	
Impaired mortgaged loans LTV		Amount	Impairments	Amount	Impairments
1	up to 50 %	6,603	629	6,603	629
2	51 to 90 %	11,124	3,321	11,124	3,321
3	over 90 %	10,991	4,692	10,991	4,692
	Total	**28,718**	**8,642**	**28,718**	**8,642**

The analysis above shows the value of collateral eligible under relevant CRR relating to the calculation of regulatory capital only. The Bank holds collateral against certain claims against which it has registered legal mortgages, but which are not yet eligible because the Bank is collecting current market valuations and evidence of assignment of property insurance policies.

Movement in gross exposure amounts by type of financial assets and commitments

a) Movement in gross amounts of loans and other financial assets to banks measured at amortised cost

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**42,726**	**1,836**	**1,194**	**0**	**45,756**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in gross amounts due to withdrawal/ repayment	261	1,119	(11)	0	**1,369**
New recognition of financial assets	377,997	323	0		**378,320**
Derecognition of financial assets other than write-offs	(323,072)	(88)	(1,183)		**(324,343)**
Write-offs	0	0	0	0	**0**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Other changes	0	0	0	0	**0**
As at 31/12	**97,912**	**3,190**	**0**	**0**	**101,102**
Impairments as at 31/12	(7)	(2)	0	0	**(9)**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**42,726**	**1,660**	**2**	**0**	**44,388**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in gross amounts due to withdrawal/ repayment	36	1,314	0	0	**1,350**
New recognition of financial assets	377,996	292	0	0	**378,288**
Derecognition of financial assets other than write-offs	(322,847)	(88)	(2)	0	**(322,937)**
Write-offs	0	0	0	0	**0**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Other changes	0	0	0	0	**0**
As at 31/12	**97,911**	**3,178**	**0**	**0**	**101,089**
Impairments as at 31/12	(7)	0	0	0	**(7)**

b) Movement in gross amounts of loans and other financial assets to customers measured at amortised cost

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**2,009,459**	**228,311**	**534,817**	**823**	**2,773,410**
Transfer to Stage 1	210,469	(208,732)	(1,736)	0	**1**
Transfer to Stage 2	(137,557)	158,848	(21,290)	0	**1**
Transfer to Stage 3	(3,528)	(14,386)	17,914	0	**0**
Net change in gross amounts due to withdrawal/ repayment	(445,880)	1,495	13,198	4	**(431,183)**
New recognition of financial assets	1,000,332	96,098	25,742	0	**1,122,172**
Derecognition of financial assets other than write-offs	(302,310)	(60,370)	(200,065)	0	**(562,745)**
Write-offs	(50)	(77)	(76,751)	0	**(76,878)**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Other changes	0	0	0	0	**0**
As at 31/12	**2,330,935**	**201,187**	**291,829**	**827**	**2,824,778**
Impairments as at 31/12	(6,369)	(8,606)	(177,523)	11	**(192,487)**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**2,008,674**	**199,219**	**484,439**	**823**	**2,693,155**
Transfer to Stage 1	193,393	(192,206)	(1,187)	0	**0**
Transfer to Stage 2	(117,095)	136,733	(19,638)	0	**0**
Transfer to Stage 3	(2,517)	(12,577)	15,094	0	**0**
Net change in gross amounts due to withdrawal/ repayment	(359,124)	15,524	30,015	4	**(313,581)**
New recognition of financial assets	792,234	79,766	17,910	0	**889,910**
Derecognition of financial assets other than write-offs	(242,819)	(44,203)	(170,772)	0	**(457,794)**
Write-offs	(50)	(77)	(76,751)	0	**(76,878)**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Other changes	0	0	0	0	**0**
As at 31/12	**2,272,696**	**182,179**	**279,110**	**827**	**2,734,812**
Impairments as at 31/12	(6,445)	(8,118)	(170,576)	11	**(185,128)**

c) Movement in gross amounts of debt securities measured at amortised cost

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**79,580**	**0**	**0**	**0**	**79,580**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in gross amounts due to withdrawal/ repayment	(6,526)	0	0	0	**(6,526)**
New recognition of financial assets	0	0	0	0	**0**
Derecognition of financial assets other than write-offs	0	0	0	0	**0**
Write-offs	0	0	0	0	**0**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Other changes	0	0	0	0	**0**
As at 31/12	**73,054**	**0**	**0**	**0**	**73,054**
Impairments as at 31/12	(33)	0	0	0	**(33)**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**79,580**	**0**	**0**	**0**	**79,580**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in gross amounts due to withdrawal/ repayment	(6,526)	0	0	0	**(6,526)**
New recognition of financial assets	0	0	0	0	**0**
Derecognition of financial assets other than write-offs	0	0	0	0	**0**
Write-offs	0	0	0	0	**0**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Other changes	0	0	0	0	**0**
As at 31/12	**73,054**	**0**	**0**	**0**	**73,054**
Impairments as at 31/12	(33)	0	0	0	**(33)**

d) Movement in gross amounts of financial assets measured at fair value through other comprehensive income

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**1,559,892**	**2,153**	**0**	**0**	**1,562,045**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in gross amounts due to withdrawal/ repayment	(46,701)	(41)	0	0	**(46,742)**
New recognition of financial assets	179,957	0	0	0	**179,957**
Derecognition of financial assets other than write-offs	(249,043)	0	0	0	**(249,043)**
Write-offs	0	0	0	0	**0**
Methdological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Other changes	0	0	0	0	**0**
As at 31/12	**1,444,105**	**2,112**	**0**	**0**	**1,446,217**
Impairments as at 31/12	(788)	(44)	0	0	**(832)**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**1,559,892**	**2,153**	**0**	**0**	**1,562,045**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in gross amounts due to withdrawal/ repayment	(46,701)	(41)	0	0	**(46,742)**
New recognition of financial assets	179,957	0	0	0	**179,957**
Derecognition of financial assets other than write-offs	(249,043)	0	0	0	**(249,043)**
Write-offs	0	0	0	0	**0**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Other changes	0	0	0	0	**0**
As at 31/12	**1,444,105**	**2,112**	**0**	**0**	**1,446,217**
Impairments as at 31/12	(788)	(44)	0	0	**(832)**

e) Movement in gross amounts of off-balance-sheet exposures

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**633,799**	**46,397**	**21,901**	**0**	**702,097**
Transfer to Stage 1	45,031	(45,000)	(31)	0	**0**
Transfer to Stage 2	(14,156)	14,421	(265)	0	**0**
Transfer to Stage 3	(261)	(355)	616	0	**0**
Net change in gross amounts due to withdrawal/ repayment	2,486	4,614	628	0	**7,728**
New recognition of financial assets	719,969	34,211	2,696	0	**756,876**
Derecognition of financial assets other than write-offs	(632,412)	(39,108)	(5,320)	0	**(676,840)**
Write-offs	(11)	(10)	(2,155)	0	**(2,176)**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Other changes	0	0	0	0	**0**
As at 31/12	**754,445**	**15,170**	**18,070**	**0**	**787,685**
Impairments as at 31/12	(894)	(112)	(4,658)	0	**(5,664)**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**664,456**	**46,397**	**21,913**	**0**	**732,766**
Transfer to Stage 1	45,031	(45,000)	(31)	0	**0**
Transfer to Stage 2	(14,156)	14,421	(265)	0	**0**
Transfer to Stage 3	(261)	(355)	616	0	**0**
Net change in gross amounts due to withdrawal/ repayment	(20,761)	3,893	1,351	0	**(15,517)**
New recognition of financial assets	719,969	33,615	1,986	0	**755,570**
Derecognition of financial assets other than write-offs	(632,417)	(37,791)	(5,345)	0	**(675,553)**
Write-offs	(12)	(10)	(2,155)	0	**(2,177)**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Other changes	0	0	0	0	**0**
As at 31/12	**761,849**	**15,170**	**18,070**	**0**	**795,089**
Impairments as at 31/12	(919)	(112)	(4,657)	0	**(5,688)**

Movement in impairments and provisions by type of financial assets and commitments

a) Movement in impairments of loans and other financial assets to banks measured at amortised cost

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(4)**	**(194)**	**(1,150)**	**0**	**(1,348)**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	63	(63)	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in expected losses due to changes in credit risk	(10)	(1)	(1)	0	**(12)**
New recognition of financial assets or impairments	(37)	(33)	0	0	**(70)**
Derecognition of impairments other than write-offs	17	289	1,151	0	**1,457**
Write-offs	0	0	0	0	**0**
Methodological changes	(36)	0	0	0	**(36)**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(7)**	**(2)**	**0**	**0**	**(9)**
Payment of written-off receivables recognised in TPL	0	0	0	0	**0**
Write-offs of receivables recognised in TPL	0	0	0	0	**0**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(1)**	**0**	**(2)**	**0**	**(3)**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in expected losses due to changes in credit risk	51	0	0	0	**51**
New recognition of financial assets or impairments	(37)	0	0	0	**(37)**
Derecognition of impairments other than write-offs	16	0	2	0	**18**
Write-offs	0	0	0	0	**0**
Methodological changes	(36)	0	0	0	**(36)**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(7)**	**0**	**0**	**0**	**(7)**
Payment of written-off receivables recognised in TPL	0	0	0	0	**0**
Write-offs of receivables recognised in TPL	0	0	0	0	0

b) Movement in impairments of loans and other financial assets to customers measured at amortised cost

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(5,315)**	**(11,446)**	**(338,860)**	**0**	**(355,621)**
Transfer to Stage 1	(5,895)	5,142	753	0	**0**
Transfer to Stage 2	1,140	(6,379)	5,239	0	**0**
Transfer to Stage 3	59	1,177	(1,236)	0	**0**
Net change in expected losses due to changes in credit risk	9,897	2,350	(15,073)	11	**(2,815)**
New recognition of financial assets or impairments	(6,268)	(1,918)	(6,606)	0	**(14,792)**
Derecognition of impairments other than write-offs	1,455	2,693	110,042	0	**114,190**
Write-offs	2	7	68,117	0	**68,126**
Methodological changes	(1,444)	(232)	101	0	**(1,575)**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(6,369)**	**(8,606)**	**(177,523)**	**11**	**(192,487)**
Payment of written-off receivables recognised in TPL	42	0	87	0	**129**
Write-offs of receivables recognised in TPL	49	127	1,796	0	**1,972**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(5,106)**	**(9,903)**	**(302,791)**	**0**	**(317,800)**
Transfer to Stage 1	(5,497)	4,871	626	0	**0**
Transfer to Stage 2	924	(5,732)	4,808	0	**0**
Transfer to Stage 3	44	1,104	(1,148)	0	**0**
Net change in expected losses due to changes in credit risk	6,507	2,061	(9,237)	11	**(658)**
New recognition of financial assets or impairments	(3,085)	(1,606)	(4,969)	0	**(9,660)**
Derecognition of impairments other than write-offs	1,210	1,312	63,401	0	**65,923**
Write-offs	2	7	78,633	0	**78,642**
Methodological changes	(1,444)	(232)	101	0	**(1,575)**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(6,445)**	**(8,118)**	**(170,576)**	**11**	**(185,128)**
Payment of written-off receivables recognised in TPL	42	0	87	0	**129**
Write-offs of receivables recognised in TPL	49	127	1,796	0	**1,972**

c) Movement in impairments of corporate loans and other financial assets measured at amortised cost

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(4,161)**	**(9,438)**	**(304,844)**	**0**	**(318,443)**
Transfer to Stage 1	(4,905)	4,476	429	0	**0**
Transfer to Stage 2	599	(4,543)	3,944	0	**0**
Transfer to Stage 3	24	584	(608)	0	**0**
Net change in expected losses due to changes in credit risk	8,822	3,163	(6,636)	11	**5.360**
New recognition of financial assets or impairments	(5,329)	(1,820)	(6,023)	0	**(13,172)**
Derecognition of impairments other than write-offs	1,256	2,422	101,352	0	**105,030**
Write-offs	1	1	67,984	0	**67,986**
Methodological changes	(1,695)	(488)	258	0	**(1,925)**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(5,388)**	**(5,643)**	**(144,144)**	**11**	**(155,164)**
Payment of written-off receivables recognised in TPL	20	0	4	0	**24**
Write-offs of receivables recognised in TPL	23	17	1,399	0	**1,439**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(4,622)**	**(8,279)**	**(273,592)**	**0**	**(286,493)**
Transfer to Stage 1	(4,784)	4,418	366	0	**0**
Transfer to Stage 2	443	(4,233)	3,790	0	**0**
Transfer to Stage 3	12	550	(562)	0	**0**
Net change in expected losses due to changes in credit risk	6,158	3,117	(2,086)	11	**7,200**
New recognition of financial assets or impairments	(2,498)	(1,586)	(4,706)	0	**(8,790)**
Derecognition of impairments other than write-offs	1,124	1,125	56,983	0	**59,232**
Write-offs	1	1	78,557	0	**78,559**
Methodological changes	(1,695)	(488)	258	0	**(1,925)**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(5,861)**	**(5,375)**	**(140,992)**	**11**	**(152,217)**
Payment of written-off receivables recognised in TPL	20	0	4	0	**24**
Write-offs of receivables recognised in TPL	23	17	1,399	0	**1,439**

d) Movement in impairments of retail loans and other financial assets measured at amortised cost

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(1,108)**	**(1,805)**	**(32,063)**	**0**	**(34,976)**
Transfer to Stage 1	(989)	665	324	0	**0**
Transfer to Stage 2	534	(1,830)	1,296	0	**0**
Transfer to Stage 3	34	594	(628)	0	**0**
Net change in expected losses due to changes in credit risk	744	(521)	(8,202)	0	**(7,979)**
New recognition of financial assets or impairments	(893)	(99)	(621)	0	**(1,613)**
Derecognition of impairments other than write-offs	199	262	7,283	0	**7,744**
Write-offs	1	6	76	0	**83**
Methodological changes	553	490	(157)	0	**886**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(925)**	**(2,238)**	**(32,692)**	**0**	**(35,855)**
Payment of written-off receivables recognised in TPL	23	0	82	0	**105**
Write-offs of receivables recognised in TPL	26	110	397	0	**533**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(439)**	**(1,282)**	**(28,672)**	**0**	**(30,393)**
Transfer to Stage 1	(712)	453	259	0	**0**
Transfer to Stage 2	476	(1,494)	1,018	0	**0**
Transfer to Stage 3	31	555	(586)	0	**0**
Net change in expected losses due to changes in credit risk	52	(916)	(6,998)	0	**(7,862)**
New recognition of financial assets or impairments	(583)	(19)	(252)	0	**(854)**
Derecognition of impairments other than write-offs	86	188	6,417	0	**6,691**
Write-offs	1	6	76	0	**83**
Methodological changes	553	490	(157)	0	**886**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(535)**	**(2,019)**	**(28,895)**	**0**	**(31,449)**
Payment of written-off receivables recognised in TPL	23	0	82	0	**105**
Write-offs of receivables recognised in TPL	26	110	397	0	**533**

e) Movement in impairments of debt securities measured at amortised cost

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(9)**	**0**	**0**	**0**	**(9)**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in expected losses due to changes in credit risk	(24)	0	0	0	**(24)**
New recognition of financial assets or impairments	0	0	0	0	**0**
Derecognition of impairments other than write-offs	0	0	0	0	**0**
Write-offs	0	0	0	0	**0**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(33)**	**0**	**0**	**0**	**(33)**
Payment of written-off receivables recognised in TPL	0	0	0	0	**0**
Write-offs of receivables recognised in TPL	0	0	0	0	**0**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(9)**	**0**	**0**	**0**	**(9)**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in expected losses due to changes in credit risk	(24)	0	0	0	**(24)**
New recognition of financial assets or impairments	0	0	0	0	**0**
Derecognition of impairments other than write-offs	0	0	0	0	**0**
Write-offs	0	0	0	0	**0**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(33)**	**0**	**0**	**0**	**(33)**
Payment of written-off receivables recognised in TPL	0	0	0	0	**0**
Write-offs of receivables recognised in TPL	0	0	0	0	**0**

f) Movement in impairments of financial assets measured at fair value through other comprehensive income

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(238)**	**(59)**	**0**	**0**	**(297)**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in expected losses due to changes in credit risk	(475)	15	0	0	**(460)**
New recognition of financial assets or impairments	(137)	0	0	0	**(137)**
Derecognition of impairments other than write-offs	62	0	0	0	**62**
Write-offs	0	0	0	0	**0**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(788)**	**(44)**	**0**	**0**	**(832)**
Payment of written-off receivables recognised in TPL	0	0	0	0	**0**
Write-offs of receivables recognised in TPL	0	0	0	0	**0**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(238)**	**(59)**	**0**	**0**	**(297)**
Transfer to Stage 1	0	0	0	0	**0**
Transfer to Stage 2	0	0	0	0	**0**
Transfer to Stage 3	0	0	0	0	**0**
Net change in expected losses due to changes in credit risk	(475)	15	0	0	**(460)**
New recognition of financial assets or impairments	(137)	0	0	0	**(137)**
Derecognition of impairments other than write-offs	62	0	0	0	**62**
Write-offs	0	0	0	0	**0**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(788)**	**(44)**			**(832)**
Payment of written-off receivables recognised in TPL	0	0	0	0	**0**
Write-offs of receivables recognised in TPL	0	0	0	0	**0**

g) Movement in provisions for off-balance-sheet exposures

Nova KBM Group					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(428)**	**(821)**	**(8,505)**	**0**	**(9,754)**
Transfer to Stage 1	(381)	372	9	0	**0**
Transfer to Stage 2	26	(104)	78	0	**0**
Transfer to Stage 3	4	17	(21)	0	**0**
Net change in expected losses due to changes in credit risk	(943)	177	5,558	0	**4,792**
New recognition of financial assets or impairments	976	363	31	0	**1,370**
Derecognition of impairments other than write-offs	(148)	(115)	(88)	0	**(351)**
Write-offs	0	(1)	(1,720)	0	**(1,721)**
Methodological changes	0	0	0	0	**0**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(894)**	**(112)**	**(4,658)**	**0**	**(5,664)**
Payment of written-off receivables recognised in TPL	(19)	0	0	0	**(19)**
Write-offs of receivables recognised in TPL	(6)	(10)	(744)	0	**(760)**

Nova KBM					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(535)**	**(820)**	**(8,553)**	**0**	**(9,909)**
Transfer to Stage 1	(381)	371	9	0	**0**
Transfer to Stage 2	26	(105)	78	0	**0**
Transfer to Stage 3	4	17	(21)	0	**0**
Net change in expected losses due to changes in credit risk	(1,016)	199	5,516	0	**(4,699)**
New recognition of financial assets or impairments	976	365	31	0	**1,371**
Derecognition of impairments other than write-offs	(148)	(115)	(88)	0	**(352)**
Write-offs	0	(1)	(1,720)	0	**(1,721)**
Methodological changes	155	(23)	90	0	**223**
Modifications in contractual conditions	0	0	0	0	**0**
Foreign exchange rate differences and other changes	0	0	0	0	**0**
As at 31/12	**(919)**	**(112)**	**(4,657)**	**0**	**(5,688)**
Payment of written-off receivables recognised in TPL	(19)	0	0	0	**(19)**
Write-offs of receivables recognised in TPL	(6)	(10)	(744)	0	**(760)**

Modified financial assets

31/12/2018	Nova KBM Group	Nova KBM
Financial assets with a change in contractual cash flows Stage 2, 3 (lifetime ECL)		
– amortised cost before modification	0	0
– net gains/loss resulting from modification	0	0
Financial assets with a change in contractual cash flows transfer from Stage 2 (lifetime ECL) to Stage 1 (12-month ECL)		
– gross book value on the reporting day	19,237	19,237

4.2 Liquidity risk

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. It arises from maturity mismatches between assets and liabilities. In its liquidity projections, the Parent Bank takes into account liquidity needs of other Group companies. A harmonised method for monitoring structural liquidity is used across the entire Group.

The Parent Bank carries out the Internal Liquidity Adequacy Assessing Process (ILAAP). ILAAP concerns the process of determining liquidity requirements under the second pillar. ILAAP is an internal process, which means that it has to comply with the Bank's business model, size, complexity, risk, market expectations, etc. It includes all qualitative and quantitative information on which the risk appetite is based, including a description of the systems, processes, and methodology used to measure and manage liquidity and financing risks. The policy of assessing adequate internal liquidity of the Nova KBM Group is a framework of the ILAAP process in the Nova KBM Group. It sets out the methods and responsibilities for managing assets and liabilities to provide for sufficient cash inflows within a certain period of time. Furthermore, 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 due, measures to be adopted under adverse liquidity conditions, and procedures for checking assumptions providing the basis for liquidity.

At least once a year, the Parent Bank must provide a clear and formal statement of liquidity adequacy based on an analysis of the ILAAP process results.

The Parent Bank 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 Group carries out, on a monthly basis, liquidity stress tests in compliance with the *Methodology for Implementing Stress Scenarios of Liquidity Risk in the Group*. The results of stress tests at the Group level are used for the purpose of assessing negative effects of potentially critical events on the Group's liquidity position, and for preparing measures for dealing with any liquidity crisis.

The document called *Contingency Plan for Managing Liquidity Risk in Nova KBM* sets out appropriate measures and activities for the prevention and management of various liquidity crisis situations as well as for restoring a normal liquidity position of the Bank. The Parent Bank carries out, on a monthly basis, liquidity stress tests in compliance with the *Methodology for Implementing Stress Scenarios of Liquidity Risk in the Nova KBM Group*. The Parent Bank carries out stress tests with a purpose of assessing the impact of potentially negative events on the Bank's liquidity position, and preparing measures for dealing with any liquidity crisis.

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 Group cannot avoid the liquidity gap, but can manage it effectively. A positive gap represents a surplus of funds that can be invested profitably, while a negative gap is a sign of a shortage of funds that needs to be provided.

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 the Bank under the conditions of very short-term financial stress. LCR includes all on-balance-sheet items (both asset and liability items) due within one month as well as all off-balance-sheet liabilities that could incur within a period of 30 days, irrespective of their contractual maturities.

The Parent Bank monitors LCR on a daily basis. According to the internal limit, the value of the LCR is maintained above 100 %. As at 31 December 2018, the value of the LCR calculated on a consolidated basis stood at 439 %, and for the Bank alone it stood at 408 %, while at 31 December 2017, LCR calculated on a consolidated basis stood at 462 %, and for the Bank alone at 375 %.

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 are required to maintain the value of this ratio at the minimum of 100 % from 1 January 2018 onwards. The Bank monitors NSFR on a quarterly basis. According to the internal limit, the Bank keeps the NSFR value above 100 %. As at 31 December 2018, the NSFR calculated on a consolidated basis stood at 164 %, and for the Bank alone it stood at 159 %, while at 31 December 2017, NSFR on a consolidated basis stood at 177 %, and for the Bank alone at 166 %.

Liquidity ratios and obligatory reserves

In 2018, the Parent Bank complied with the Bank of Slovenia's regulations on minimum liquidity. As at 31 December 2018, the Parent Bank's liquidity ratio was 1.261, compared to 1.475 as at 31 December 2017. In 2018, the Parent Bank complied with the Bank of Slovenia's regulations on obligatory reserves.

Stability of deposits

The Parent Bank uses its own econometric model for calculating the proportion of stable demand deposits; this model is based on the regression analysis and used to examine the movements in demand deposits over time. The model is designed on the basis of determining the dependent variable and explanatory variables, and the results derived from the model provide a basis for analysing the predictive power, and for carrying out backtesting. In 2018, 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 stable demand deposits stood in 2018 at 94.2 %, and at 93.8 % in 2017. Of these figures, stability of demand deposits of households amounted to 96.1 % and to 95.8 % in 2017.

The following tables show the distribution of material statement of financial position items in terms of expected maturity in accordance with the internal methodology.

Analysis of the expected future cash flows

Nova KBM Group						31/12/2018
	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash in hand, and cash balances at central bank	**494,258**	494,258	0	0	0	0
Financial assets held for trading	**2,317**	1,065	0	30	985	237
Non-trading financial assets mandatorily at fair value through profit or loss	**39,692**	16,980	0	4,346	18,366	0
Financial assets measured at fair value through other comprehensive income	**1,474,168**	65,299	40,870	115,126	1,111,493	141,380
Financial assets measured at amortised cost – loans	**2,385,412**	207,602	129,002	327,909	1,030,193	690,706
Financial assets measured at amortised cost – debt securities	**73,021**	0	32,793	0	32,935	7,293
Other assets*	**181,298**	59,555	69	4,935	29,172	87,567
Total assets	**4,650,166**	**844,759**	**202,734**	**452,346**	**2,223,144**	**927,183**
Liabilities						
Financial liabilities to the central bank	**0**	0	0	0	0	0
Financial liabilities held for trading	**1,451**	369	63	38	835	146
Financial liabilities designated at fair value through profit or loss	**60**	60	0	0	0	0
Financial liabilities measured at amortised cost	**4,229,040**	347,683	365,501	649,549	1,867,166	999,141
Other liabilities*	**767,586**	120,246	589	66,923	3,023	576,805
Total liabilities and equity	**4,998,137**	**468,358**	**366,153**	**716,510**	**1,871,024**	**1,576,092**
Assets-liabilities, including equity, mismatch	**(347,971)**	**376,401**	**(163,419)**	**(264,164)**	**352,120**	**(648,909)**
Guarantees	**5,318**	**190**	**650**	**2,797**	**1,509**	**172**

* Other assets and other liabilities with no direct impact on liquidity.

Nova KBM Group						31/12/2017
	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash in hand, and cash balances at central bank	**546,521**	546,521	0	0	0	0
Financial assets held for trading	**1,524**	1,113	35	116	251	9
Financial assets designated at fair value through profit or loss	**17,237**	13,973	2,082	0	1,182	0
Available-for-sale financial assets	**1,621,581**	53,166	41,326	87,531	1,100,677	338,881
Loans	**2,076,519**	184,523	89,234	290,751	935,536	576,475
Held-to-maturity financial assets	**88,700**	0	0	5,180	67,091	16,429
Other assets*	**189,817**	57,344	299	4,158	29,244	98,772
Total assets	**4,541,899**	**856,640**	**132,976**	**387,736**	**2,133,981**	**1,030,566**
Liabilities						
Financial liabilities held for trading	**1,024**	769	33	29	193	0
Financial liabilities measured at amortised cost	**4,167,392**	403,691	338,744	676,842	1,905,530	842,585
Other liabilities*	**760,960**	126,166	1,344	45,728	6,417	581,305
Total liabilities and equity	**4,929,376**	**530,626**	**340,121**	**722,599**	**1,912,140**	**1,423,890**
Assets-liabilities, including equity, mismatch	**(387,478)**	**326,013**	**(207,145)**	**(334,863)**	**221,841**	**(393,324)**
Guarantees	**5,004**	**180**	**393**	**2,007**	**2,318**	**106**

* Other assets and other liabilities with no direct impact on liquidity.

Nova KBM	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
						31/12/2018
Assets						
Cash in hand, and cash balances at central bank	**492,046**	492,046	0	0	0	0
Financial assets held for trading	**1,347**	95	0	30	985	237
Non-trading financial assets mandatorily at fair value through profit or loss	**39,692**	16,980	0	4,346	18,366	0
Financial assets measured at fair value through other comprehensive income	**1,474,168**	65,300	40,870	115,126	1,111,492	141,380
Financial assets measured at amortised cost – loans	**2,241,782**	194,304	106,326	241,500	1,033,573	666,079
Financial assets measured at amortised cost – debt securities	**73,021**	0	32,793	0	32,935	7,293
Other assets*	**246,822**	18,776	0	4,786	29,172	194,088
Total assets	**4,568,878**	**787,501**	**179,989**	**365,788**	**2,226,523**	**1,009,077**
Liabilities						
Financial liabilities held for trading	**1,451**	369	63	38	835	146
Financial liabilities designated at fair value through profit or loss	**60**	60	0	0	0	0
Financial liabilities measured at amortised cost	**4,219,354**	340,982	364,821	647,913	1,865,977	999,661
Other liabilities*	**756,997**	120,157	590	59,039	3,004	574,207
Total liabilities and equity	**4,977,862**	**461,568**	**365,474**	**706,990**	**1,869,816**	**1,574,014**
Assets-liabilities, including equity, mismatch	**(408,984)**	**325,933**	**(185,485)**	**(341,202)**	**356,707**	**(564,937)**
Guarantees	**5,318**	**190**	**650**	**2,797**	**1,509**	**172**

* Other assets and other liabilities with no direct impact on liquidity.

Nova KBM	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
						31/12/2017
Assets						
Cash in hand, and cash balances at central bank	**541,061**	541,061	0	0	0	0
Financial assets held for trading	**509**	98	35	116	251	9
Financial assets designated at fair value through profit or loss	**17,237**	13,973	2,082	0	1,182	0
Available-for-sale financial assets	**1,621,498**	53,165	41,326	87,531	1,100,595	338,881
Loans	**1,924,461**	148,860	71,475	218,078	955,177	530,871
Held-to-maturity financial assets	**88,700**	0	0	5,180	67,091	16,429
Other assets*	**225,393**	17,016	0	4,010	29,395	174,972
Total assets	**4,418,859**	**774,173**	**114,918**	**314,915**	**2,153,691**	**1,061,162**
Liabilities						
Financial liabilities held for trading	**1,023**	768	33	29	193	0
Financial liabilities measured at amortised cost	**4,178,486**	404,906	340,985	676,761	1,909,980	845,854
Other liabilities*	**733,999**	113,274	791	39,030	6,670	574,234
Total liabilities and equity	**4,913,508**	**518,948**	**341,809**	**715,820**	**1,916,843**	**1,420,088**
Assets-liabilities, including equity, mismatch	**(494,649)**	**255,225**	**(226,891)**	**(400,905)**	**236,848**	**(358,926)**
Guarantees	**4,119**	**180**	**393**	**2,008**	**1,432**	**106**

* Other assets and other liabilities with no direct impact on liquidity.

The following tables present non-discounted on-balance- and off-balance-sheet liabilities by their contractual maturities. A significant portion of the Group's liabilities falls due within a one-month period, referring to demand deposits. The Parent Bank 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 by contractual maturity

Nova KBM Group						31/12/2018
	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Financial liabilities designated at fair value through profit or loss	**60**	**60**	**0**	**0**	**0**	**0**
Financial liabilities measured at amortised cost	**4,229,040**	**3,132,641**	**192,426**	**461,860**	**363,430**	**78,684**
Deposits from banks and savings banks	**21,379**	10,596	499	3,184	6,715	385
Deposits from customers	**3,772,188**	3,070,861	186,537	438,369	72,775	3,646
Loans	**384,654**	1,112	4,676	20,273	283,940	74,653
Debt securities	**0**	0	0	0	0	0
Other financial liabilities	**50,819**	50,072	713	34	0	0
Other liabilities	**769,037**	**120,615**	**652**	**66,961**	**3,858**	**576,951**
Total liabilities	**4,998,137**	**3,253,316**	**193,077**	**528,821**	**367,288**	**655,635**
Guarantees	**251,442**	**8,986**	**30,715**	**132,256**	**71,340**	**8,145**

Nova KBM Group						31/12/2017
	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Financial liabilities measured at amortised cost	**4,167,844**	**2,946,639**	**233,198**	**531,326**	**383,969**	**72,712**
Deposits from banks and savings banks	**51,863**	34,308	745	3,428	12,690	692
Deposits from customers	**3,638,391**	2,832,266	223,923	501,100	76,706	4,396
Loans	**396,153**	644	6,937	26,648	294,300	67,624
Debt securities	**1,502**	1,502	0	0	0	0
Subordinated liabilities	**0**	0	0	0	0	0
Other financial liabilities	**79,935**	77,919	1,593	150	273	0
Other liabilities	**760,960**	**126,166**	**1,344**	**45,728**	**6,417**	**581,305**
Total liabilities	**4,928,804**	**3,072,805**	**234,542**	**577,054**	**390,386**	**654,017**
Guarantees	**247,331**	**10,800**	**23,606**	**120,546**	**86,011**	**6,368**

Nova KBM						31/12/2018
	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Financial liabilities designated at fair value through profit or loss	**60**	**60**	**0**	**0**	**0**	**0**
Financial liabilities measured at amortised cost	**4,219,354**	**3,129,812**	**190,923**	**459,124**	**360,811**	**78,684**
Deposits from banks and savings banks	**21,379**	10,596	499	3,184	6,715	385
Deposits from customers	**3,777,304**	3,075,977	186,537	438,369	72,775	3,646
Loans	**378,026**	631	3,883	17,538	281,321	74,653
Debt securities	**0**	0	0	0	0	0
Other financial liabilities	**42,645**	42,608	4	33	0	0
Other liabilities	**758,448**	**120,528**	**652**	**59,077**	**3,839**	**574,352**
Total liabilities	**4,977,862**	**3,250,400**	**191,575**	**518,201**	**364,650**	**653,036**
Guarantees	**251,442**	**8,986**	**30,715**	**132,256**	**71,340**	**8,145**

Nova KBM						31/12/2017
	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Financial liabilities measured at amortised cost	**4,178,881**	**2,975,741**	**229,579**	**524,151**	**376,969**	**72,441**
Deposits from banks and savings banks	**51,863**	34,308	745	3,428	12,690	692
Deposits from customers	**3,671,803**	2,865,439	224,150	501,112	76,706	4,396
Loans	**378,912**	644	4,678	19,579	286,658	67,353
Debt securities	**1,502**	1,502	0	0	0	0
Subordinated liabilities	**0**	0	0	0	0	0
Other financial liabilities	**74,801**	73,848	6	32	915	0
Other liabilities	**734,001**	**113,276**	**791**	**39,030**	**6,670**	**574,234**
Total liabilities	**4,912,882**	**3,089,017**	**230,370**	**563,181**	**383,639**	**646,675**
Guarantees	**247,344**	**10,800**	**23,606**	**120,559**	**86,011**	**6,368**

Cash flows from derivatives

The following tables present non-discounted gross cash flows from derivatives. Foreign currency amounts were translated into the euro using the ECB's exchange rate effective on the reporting day.

Nova KBM Group						31/12/2018
	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Currency derivatives						
Forwards						
– outflow	**21,337**	5,257	9,678	6,402	0	0
– inflow	**21,330**	5,314	9,622	6,394	0	0
Interest rate derivatives						
Interest rate and currency swaps						
– outflow	**5,598**	1	137	520	4,183	757
– inflow	**5,953**	2	149	569	4,426	807
Total outflow	**26,935**	**5,258**	**9,815**	**6,922**	**4,183**	**757**
Total inflow	**27,283**	**5,316**	**9,771**	**6,963**	**4,426**	**807**

Nova KBM						31/12/2018
	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Currency derivatives						
Forwards						
– outflow	**21,337**	5,257	9,678	6,402	0	0
– inflow	**21,330**	5,314	9,622	6,394	0	0
Interest rate derivatives						
Interest rate and currency swaps						
– outflow	**5,598**	1	137	520	4,183	757
– inflow	**5,953**	2	149	569	4,426	807
Total outflow	**26,935**	**5,258**	**9,815**	**6,922**	**4,183**	**757**
Total inflow	**27,283**	**5,316**	**9,771**	**6,963**	**4,426**	**807**

Nova KBM Group						31/12/2017
	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Currency derivatives						
Forwards						
– outflow	**36,578**	9,501	4,701	21,891	485	0
– inflow	**36,714**	9,522	4,703	22,004	485	0
Interest rate derivatives						
Interest rate and currency swaps						
– outflow	**3,104**	0	(10)	(32)	3,116	30
– inflow	**3,270**	0	(5)	(3)	3,245	33
Total outflow	**39,682**	**9,501**	**4,691**	**21,859**	**3,601**	**30**
Total inflow	**39,984**	**9,522**	**4,698**	**22,001**	**3,730**	**33**

Nova KBM						31/12/2017
	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Currency derivatives						
Forwards						
– outflow	**36,578**	9,501	4,701	21,891	485	0
– inflow	**36,714**	9,522	4,703	22,004	485	0
Interest rate derivatives						
Interest rate and currency swaps						
– outflow	**3,104**	0	(10)	(32)	3,116	30
– inflow	**3,270**	0	(5)	(3)	3,245	33
Total outflow	**39,682**	**9,501**	**4,691**	**21,859**	**3,601**	**30**
Total inflow	**39,984**	**9,522**	**4,698**	**22,001**	**3,730**	**33**

4.3 Market risks

The Group monitors market risks of trading book and market risks of banking book separately. The method of monitoring and reporting as well as of limiting the exposure is set out in the market risk management policy. The 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 Group holds in its portfolio for the purpose of trading on its proprietary account.

The Bank values its trading portfolios daily mark-to-market. In order to determine the risk of a particular financial instrument held for trading, the Bank calculates value at risk (VaR) on a daily basis. The methodology used by the Bank to calculate VaR complies with the Basel standards: 99 % one-sided confidence interval, the calculation of volatility is based on 250-day data history, 10-day securities retention period or one-day retention period for currencies. The reason for a 10-day retention period in securities is based on an assumption that in this period, the Bank can sell the securities at liquid stock exchange without additional costs and any significant decrease in the exchange rate. Liquidity of the global currency market allows for an immediate closing of open positions in currencies, without additional costs and any significant decrease in the exchange rate.

The basis for determining trading limits is the capital requirement. The Group measures the market value of all trading items on a daily basis. The volume of transactions in each type of financial instruments is limited in detail by the Operating Limits Manual.

The Parent Bank's trading portfolio of equity instruments, which was inactive in 2018, 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. Limits for specific types of transactions are set by the Bank's Management Board. Changes in 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 are presented in the table „Financial assets held for trading" in the Notes to the financial statements.

The Parent Bank controls the position risk in foreign exchange trading by trading limits. Limits for foreign exchange trading for the Bank's proprietary account are defined as the maximum allowable open position of the Trading Department. The Strategic Risk Management Department monitors trading results on a daily basis and reports findings to the responsible bodies.

The Parent Bank 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.

The Group identifies, measures, manages, and monitors the interest rate risk arising from non-trading items in accordance with the Interest Rate Risk Management Policy of the Nova KBM Group. In accordance with the interest rate risk management strategy, the Group limits the interest rate risk by establishing a limit system. The Group monitors and reports on a monthly basis whether the interest rate risk is within the limits set up.

The interest rate risk management for trading book items is included in the Nova KBM Group's Market Risk Management Policy. Interest rate risk management of non-trading book items is carried out by the Group in accordance with the Methodology for Managing Interest Rate Risk in the Nova KBM Group.

The Group monitors interest-sensitive statement of financial position items and off-balance-sheet items separated by the key currencies and reference interest rates in which it operates, i.e. cash flows from fixed interest rate products with regard to the cash flow maturity date, while cash flows from variable interest rate products are monitored with regard to the first variable interest rate repricing period or their contractual maturity. The Group separately monitors reference interest rate risk for euro, US dollar and Swiss franc. The balance as at 31 December 2018 and 31 December 2017 is given in the following table:

In 2017 and 2018, as part of the reconstruction of its ICAAP, the Parent Bank revised its policy of managing interest rate risk. It will implement methodological improvements also in 2019. The Group implements interest rate scenarios for day-to-day internal management and interest rate stress testing scenarios on a monthly basis. Furthermore, the Group undertakes 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.

				31/12/2018
	Nova KBM Group		Nova KBM	
Currency	Assets %	Liabilities %	Assets %	Liabilities %
EUR	97.76 %	98.11 %	97.76 %	98.10 %
CHF	0.83 %	0.59 %	0.85 %	0.59 %
USD	0.86 %	0.92 %	0.88 %	0.92 %
Other	0.54 %	0.39 %	0.51 %	0.39 %
Total	**100 %**	**100 %**	**100 %**	**100 %**

				31/12/2017
	Nova KBM Group		Nova KBM	
Currency	Assets %	Liabilities %	Assets %	Liabilities %
EUR	97.80 %	98.10 %	97.75 %	98.04 %
CHF	1.01 %	0.67 %	0.99 %	0.68 %
USD	0.76 %	0.87 %	0.85 %	0.88 %
Other	0.44 %	0.37 %	0.41 %	0.39 %
Total	**100 %**	**100 %**	**100 %**	**100 %**

The Group uses in interest rate risk monitoring and management the basis point value. This method measures the exposure to interest rate risk using the basis point value, which indicates the extent to which the value of the interest-sensitive instruments portfolio is reduced if the general level of interest rates rises by 1 basis point or, 0.01 %.

For its internal purposes and the purposes of calculating capital requirement for interest rate risk, the Group calculates the impact of the change on the economic value of equity (EVE) and net interest income (NII), where it takes into account the interest rate floor by each product in cases of the following shifts in the yield curve (day-to-day internal management scenarios):

- Parallel shift (a sudden parallel shift of the yield curve for a certain basis point value, which is defined by a preliminary analysis of movements in market interest rates)
- A shock on the basis of past or predicted market data (shift of the curve to the position held three months ago and the position where three-month forward rates, which are obtained from the Bloomberg financial data source) are taken into account
- Flattener yield curve scenario (the Bank identified two scenarios. Scenario of an increase in short-term interest rates and a decline in long-term interest rates, and a shock resulting from an increase in short-term interest rates with a slight increase in long-term interest rates)
- VaR based shock (yield curve shift based on its volatility during the previous year, with 95 % confidence interval)
- Steepener yield curve scenario (increase in long-term interest rates with a slight rise in short-term interest rates).

The result of the scenario having the worst impact on the sum of EVE and NII represents capital requirements for the interest rate risk.

The Group regularly performs also stress testing scenarios, using them to measure its vulnerability in stressful market conditions. In addition to the standardised stress test in the form of a parallel yield curve shift by +/–200 basis points using the zero-interest-rate floor, the Bank carries out also other upward and downward shifts in the yield curves of various proportions that were summarised by the Bank in line with the *Basel standards on the interest rate risk management in the banking book*. For its internal purposes, the Group calculates the impact of the change on EVE and NII in cases of the following shifts in the yield curve:

- Parallel upward yield curve shift by 200 basis points
- Parallel downward yield curve shift by 200 basis points using the zero-interest-rate floor
- Steepener yield curve shock (resulting from a decline in short-term interest rates and an increase in long-term interest rates)
- Flattener yield curve shock (resulting from an increase in short-term interest rates and a decline in long-term interest rates)
- Increase in short-term interest rates shock
- Decline in short-term interest rates shock.

The 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. In addition to the standardised stress test analysis, the Group implements several scenarios for day-to-day internal management and stress testing scenarios, separately for each currency and maturity handled. The Group reports its exposure to interest rate risk at the ALCO Committee meetings and in the scope of the Chief Risk Officer's Report, on a monthly basis.

Analysis of sensitivity to yield curve shifts

Nova KBM Group	31/12/2018			31/12/2017		
	Net present value	Interest income	Total	Net present value	Interest income	Total
Standardised stress test						
+200 bp	(746)	5,711	**4,965**	7,344	4,801	**12,145**
–200 bp using 0 % interest-rate floor	(7,352)	1,511	**(5,841)**	(8,262)	1,075	**(7,187)**
Parallel yield curve shift						
Upward parallel yield curve shift	(718)	5,605	**4,887**	7,380	4,679	**12,059**
Downward parallel yield curve shift	87,746	(19,350)	**68,396**	(10,633)	(4,722)	**(15,355)**
Change in the yield curve slope						
Steepener yield curve shock	16,226	(13,839)	**2,387**	9,823	(3,111)	**6,712**
Flattener yield curve shock	(13,522)	2,415	**(11,107)**	(8,888)	3,931	**(4,957)**
Change in short-term interest rates						
Increase in short-term interest rates shock	(12,850)	3,327	**(9,523)**	(5,890)	5,112	**(778)**
Decline in short-term interest rates shock	36,669	(21,248)	**15,421**	6,184	(5,176)	**1,008**

Nova KBM	31/12/2018			31/12/2017		
	Net present value	Interest income	Total	Net present value	Interest income	Total
Standardised stress test						
+200 bp	3,799	2,224	**6,023**	10,201	5,445	**15,646**
–200 bp using 0 % interest-rate floor	(7,409)	1,306	**(6,103)**	(8,304)	1,185	**(7,119)**
Parallel yield curve shift						
Upward parallel yield curve shift	3,827	2,118	**5,945**	10,237	5,322	**15,559**
Downward parallel yield curve shift	83,791	(17,713)	**66,078**	(13,708)	(5,365)	**(19,073)**
Change in the yield curve slope						
Steepener yield curve shock	15,552	(12,757)	**2,795**	9,102	(3,614)	**5,488**
Flattener yield curve shock	(11,697)	(632)	**(12,329)**	(7,688)	4,552	**(3,136)**
Change in short-term interest rates						
Increase in short-term interest rates shock	(9,752)	(688)	**(10,440)**	(3,907)	5,894	**1,987**
Decline in short-term interest rates shock	34,242	(19,543)	**14,699**	4,114	(5,961)	**(1,847)**

As at 31 December 2018, the result of the standardised stress test suggested that potential loss arising from an increase in interest rates by 200 basis points would equal 0.12 % of the Group's regulatory capital, while as at 31 December 2017, potential profit equalled 1.28 % of the Group's regulatory capital. As at 31 December 2018, potential loss arising from a decline in interest rates by 200 basis points (using the zero-interest-rate floor) would equal 1.22 % of the Group's regulatory capital, while at 31 December 2017, potential loss equalled 1.44 % of the Group's regulatory capital, which is in line with the regulatory limit in both years.

As at 31 December 2018, the result with the largest negative change in the economic value of equity in six stress test scenarios equalled 2.25 % of the Group's tier-1 capital, while as at 31 December 2017, it equalled 1.85 % of the Group's tier-1 capital, which is in line with the regulatory limit in both years.

Impact of yield curve shifts on net present value

Nova KBM Group	31/12/2018				31/12/2017			
	EUR	USD	CHF	Total	EUR	USD	CHF	Total
Standardised stress test								
+200 bp	(550)	(128)	(68)	**(746)**	7,952	(535)	(73)	**7,344**
–200 bp using 0 % interest-rate floor	(7,449)	130	(33)	**(7,352)**	(8,788)	555	(29)	**(8,262)**
Parallel yield curve shift								
Upward parallel yield curve shift	(550)	(128)	(40)	**(718)**	7,952	(535)	(37)	**7,380**
Downward parallel yield curve shift	87,572	130	44	**87,746**	(11,233)	563	37	**(10,633)**
Change in the yield curve slope								
Steepener yield curve shock	16,099	87	40	**16,226**	9,548	238	37	**9,823**
Flattener yield curve shock	(13,359)	(116)	(47)	**(13,522)**	(8,490)	(353)	(45)	**(8,888)**
Change in short-term interest rates								
Increase in short-term interest rates shock	(12,637)	(157)	(56)	**(12,850)**	(5,296)	(538)	(56)	**(5,890)**
Decline in short-term interest rates shock	36,454	158	57	**36,669**	5,562	565	57	**6,184**

Nova KBM	31/12/2018				31/12/2017			
	EUR	USD	CHF	Total	EUR	USD	CHF	Total
Standardised stress test								
+200 bp	3,995	(128)	(68)	**3,799**	10,809	(535)	(73)	**10,201**
–200 bp using 0 % interest-rate floor	(7,506)	130	(33)	**(7,409)**	(8,830)	555	(29)	**(8,304)**
Parallel yield curve shift								
Upward parallel yield curve shift	3,995	(128)	(40)	**3,827**	10,809	(535)	(37)	**10,237**
Downward parallel yield curve shift	83,617	130	44	**83,791**	(14,308)	563	37	**(13,708)**
Change in the yield curve slope								
Steepener yield curve shock	15,425	87	40	**15,552**	8,827	238	37	**9,102**
Flattener yield curve shock	(11,534)	(116)	(47)	**(11,697)**	(7,290)	(353)	(45)	**(7,688)**
Change in short-term interest rates								
Increase in short-term interest rates shock	(9,539)	(157)	(56)	**(9,752)**	(3,313)	(538)	(56)	**(3,907)**
Decline in short-term interest rates shock	34,027	158	57	**34,242**	3,492	565	57	**4,114**

Impact of yield curve shifts on net interest income

Nova KBM Group	31/12/2018				31/12/2017			
	EUR	USD	CHF	Total	EUR	USD	CHF	Total
Standardised stress test								
+200 bp	6,336	(1,026)	401	**5,711**	4,922	(366)	245	**4,801**
–200 bp using 0 % interest-rate floor	1,775	(513)	249	**1,511**	742	255	78	**1,075**
Parallel yield curve shift								
Upward parallel yield curve shift	6,336	(1,026)	295	**5,605**	4,922	(366)	123	**4,679**
Downward parallel yield curve shift	(18,520)	(513)	(317)	**(19,350)**	(4,964)	365	(123)	**(4,722)**
Change in the yield curve slope								
Steepener yield curve shock	(13,014)	(529)	(296)	**(13,839)**	(3,373)	365	(103)	**(3,111)**
Flattener yield curve shock	3,176	(1,067)	306	**2,415**	4,248	(448)	131	**3,931**
Change in short-term interest rates								
Increase in short-term interest rates shock	4,133	(1,145)	339	**3,327**	5,498	(557)	171	**5,112**
Decline in short-term interest rates shock	(20,233)	(588)	(427)	**(21,248)**	(5,560)	556	(172)	**(5,176)**

Nova KBM	31/12/2018				31/12/2017			
	EUR	USD	CHF	Total	EUR	USD	CHF	Total
Standardised stress test								
+200 bp	2,849	(1,026)	401	**2,224**	5,566	(366)	245	**5,445**
–200 bp using 0 % interest-rate floor	1,570	(513)	249	**1,306**	852	255	78	**1,185**
Parallel yield curve shift								
Upward parallel yield curve shift	2,849	(1,026)	295	**2,118**	5,565	(366)	123	**5,322**
Downward parallel yield curve shift	(16,883)	(513)	(317)	**(17,713)**	(5,607)	365	(123)	**(5,365)**
Change in the yield curve slope								
Steepener yield curve shock	(11,932)	(529)	(296)	**(12,757)**	(3,876)	365	(103)	**(3,614)**
Flattener yield curve shock	129	(1,067)	306	**(632)**	4,869	(448)	131	**4,552**
Change in short-term interest rates								
Increase in short-term interest rates shock	118	(1,145)	339	**(688)**	6,280	(557)	171	**5,894**
Decline in short-term interest rates shock	(18,528)	(588)	(427)	**(19,543)**	(6,345)	556	(172)	**(5,961)**

As at 31 December 2018, the result of the scenario for day-to-day internal management having the worst impact on the sum of economic value of equity (EVE) and net interest income (NII) was €0.6 million, while as at 31 December 2017, it was €7,5 million, and complied with the regulatory limit in both years.

According to the basis point value method, if the rate of return was changed by one basis point, the value of the position of the euro currency portfolio would change by €4 thousand as at 31 December 2018, while at 31 December 2017, the value of the position of the euro currency portfolio changed by €46 thousand. A more detailed breakdown of the Group's statement of financial position by interest rate maturity as at 31 December 2018 and 31 December 2017 is presented in the tables Interest rate risk as at 31 December 2018 and Interest rate risk as at 31 December 2017, which show the distribution of items with regard to the interest rate repricing periods.

Interest rate risk

Nova KBM Group						31/12/2018
	Interest-bearing	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Interest-sensitive assets						
Cash, cash balances at the central bank and demand deposits at banks	385,191	385,191	0	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	26,234	2,600	84	23,550	0	0
Financial assets designated at fair value through other comprehensive income	1,401,470	53,992	66,209	112,087	1,038,949	130,233
Financial assets measured at amortised cost	2,992,994	449,965	1,280,411	862,565	301,883	98,170
Total interest-sensitive assets	**4,805,889**	**891,748**	**1,346,704**	**998,202**	**1,340,832**	**228,403**
Interest-sensitive liabilities						
Financial liabilities measured at amortised cost	4,187,864	3,117,278	259,684	549,452	260,648	802
– deposits from banks and central bank	21,451	10,433	11,018	0	0	0
– deposits from customers	3,772,247	3,072,474	192,146	449,914	56,911	802
– loans and advances to banks	394,284	34,489	56,520	99,538	203,737	0
– debt securities	0	0	0	0	0	0
– other financial liabilities	(118)	(118)	0	0	0	0
Total interest-sensitive liabilities	**4,187,864**	**3,117,278**	**259,684**	**549,452**	**260,648**	**802**
Interest sensitivity gap	**618,025**	**(2,225,530)**	**1,087,020**	**448,750**	**1,080,184**	**227,601**

Nova KBM Group	Interest-bearing	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
						31/12/2017
Interest-sensitive assets						
Cash in hand, and cash balances at central bank	460,650	460,650	0	0	0	0
Financial assets designated at fair value through profit or loss	3,000	0	2,000	0	1,000	0
Available-for-sale financial assets	1,522,787	39,281	72,594	77,464	1,020,876	312,572
Loans	2,580,955	485,572	1,092,651	784,332	187,798	30,602
Held-to-maturity financial assets	83,846	0	0	5,000	62,752	16,094
Total interest-sensitive assets	**4,651,238**	**985,503**	**1,167,245**	**866,796**	**1,272,426**	**359,268**
Interest-sensitive liabilities						
Financial liabilities measured at amortised cost	4,086,991	2,955,951	259,177	604,401	266,289	1,173
– deposits from banks and central bank	51,860	49,180	2,600	80	0	0
– deposits from customers	3,636,834	2,867,590	201,555	508,136	58,453	1,100
– loans and advances to banks	396,795	37,679	55,022	96,185	207,836	73
– debt securities	1,500	1,500	0	0	0	0
– subordinated liabilities	0	0	0	0	0	0
– other financial liabilities	2	2	0	0	0	0
Total interest-sensitive liabilities	**4,086,991**	**2,955,951**	**259,177**	**604,401**	**266,289**	**1,173**
Interest sensitivity gap	**564,247**	**(1,970,448)**	**908,068**	**262,395**	**1,006,137**	**358,095**

Nova KBM	Interest-bearing	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
						31/12/2018
Interest-sensitive assets						
Cash, cash balances at the central bank and demand deposits at banks	382,980	382,980	0	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	26,235	2,600	85	23,550	0	0
Financial assets designated at fair value through other comprehensive income	1,401,470	53,992	66,209	112,087	1,038,949	130,233
Financial assets measured at amortised cost	2,897,247	419,071	1,411,353	724,391	249,318	93,114
Total interest-sensitive assets	**4,707,932**	**858,643**	**1,477,647**	**860,028**	**1,288,267**	**223,347**
Interest-sensitive liabilities						
Financial liabilities measured at amortised cost	4,186,360	3,122,203	258,854	546,572	257,929	802
– deposits from banks and central bank	21,451	10,433	11,018	0	0	0
– deposits from customers	3,777,643	3,077,870	192,146	449,914	56,911	802
– loans and advances to banks	387,384	34,018	55,690	96,658	201,018	0
– debt securities	0	0	0	0	0	0
– other financial liabilities	(118)	(118)	0	0	0	0
Total interest-sensitive liabilities	**4,186,360**	**3,122,203**	**258,854**	**546,572**	**257,929**	**802**
Interest sensitivity gap	**521,572**	**(2,263,560)**	**1,218,793**	**313,456**	**1,030,338**	**222,545**

Nova KBM	Interest-bearing	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
						31/12/2017
Interest-sensitive assets						
Cash in hand, and cash balances at central bank	455,252	455,252	0	0	0	0
Financial assets designated at fair value through profit or loss	3,000	0	2,000	0	1,000	0
Available-for-sale financial assets	1,522,701	39,281	72,594	77,421	1,020,833	312,572
Loans	2,537,558	465,470	1,223,556	672,755	147,161	28,616
Held-to-maturity financial assets	83,846	0	0	5,000	62,752	16,094
Total interest-sensitive assets	**4,602,357**	**960,003**	**1,298,150**	**755,176**	**1,231,746**	**357,282**
Interest-sensitive liabilities						
Financial liabilities measured at amortised cost	4,102,203	2,987,896	257,256	597,498	258,453	1,100
– deposits from banks and central bank	51,860	49,180	2,600	80	0	0
– deposits from customers	3,670,261	2,900,777	201,782	508,149	58,453	1,100
– loans and advances to banks	378,580	36,437	52,874	89,269	200,000	0
– debt securities	1,500	1,500	0	0	0	0
– subordinated liabilities	0	0	0	0	0	0
– other financial liabilities	2	2	0	0	0	0
Total interest-sensitive liabilities	**4,102,203**	**2,987,896**	**257,256**	**597,498**	**258,453**	**1,100**
Interest sensitivity gap	**500,154**	**(2,027,893)**	**1,040,894**	**157,678**	**973,293**	**356,182**

The tables show only the distribution of interest-sensitive items by individual time buckets with regard to the first interest rate repricing period or the contractual maturity.

Figures in the tables present:

- Nominal value of debt securities (not their market value or amortised cost)
- Loans after taking into account impairments (excluding interest, fees and commissions, and outstanding unpaid principal amounts of customers classified in all credit rating categories)
- Future cash flows from interest on loans, deposits and securities.

Average interest rates (%)

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Average interest rate on assets	2.98	2.93	2.66	2.64
Average interest rate on liabilities	0.07	0.13	0.07	0.13

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. The Parent Bank controls its exposure to foreign exchange risk by maintaining neutral position in individual foreign currencies.

The Bank pursues the aggregate closed position for all currencies on a daily basis. The aggregate open position for all currencies is limited by its impact on the Parent Bank's capital adequacy. The Parent Bank monitors its exposure in each currency by using the value at risk (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 closed position for each foreign currency is monitored daily, and the Parent Bank calculates the daily result of assumed foreign exchange risk due to discrepancies from the neutral foreign exchange position. In case of an increase in volatility, the Parent Bank reduces the allowable open position in individual currencies, in accordance with the adopted methodology. Any changes in volatility are reviewed by the Parent Bank on a monthly basis.

The Group controls its exposure to foreign exchange risk by maintaining target positions in individual currencies. The Group companies monitor currency risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The Group regularly monitors its exposure to the foreign exchange risk in its statement of financial position and off-balance-sheet items by individual currencies. The Group's exposure to the foreign exchange risk in USD, CHF and HRK is presented below.

A more detailed breakdown of the open foreign exchange position as at 31 December 2018 and 31 December 2017 is presented in tables on Foreign exchange risk below.

A 10-day VaR of the open foreign exchange position is calculated by the Parent Bank on the basis of one-year data and a 99-percent confidence interval. This data suggest with a 99-percent probability that by holding an unchanged currency position, the loss over the 10 consecutive business days would not exceed €42 thousand, taking into account the highest level of exposure to foreign exchange risk during 2018. The range of VaR movement for the Bank is presented in the table below.

10-day VaR of the Bank's foreign exchange position in 2018

Nova KBM	Highest	Lowest	Average
	42	10	23

10-day VaR of the Bank's foreign exchange position in 2017

Nova KBM	Highest	Lowest	Average
	232	12	32

Foreign exchange risk

Nova KBM Group						31/12/2018
	EUR	USD	CHF	HRK	Other currencies	Total
Financial assets						
Cash in hand, cash balances at the central bank and demand deposits at banks	482,049	2,819	2,015	3,815	3,560	**494,258**
Financial assets held for trading	2,177	140	0	0	0	**2,317**
Non-trading financial assets mandatorily at fair value through profit or loss	39,692	0	0	0	0	**39,692**
Financial assets designated at fair value through profit or loss	0	0	0	0	0	**0**
Financial assets measured at fair value through other comprehensive income	1,451,953	13,179	0	0	9,036	**1,474,168**
Financial assets measured at amortised cost	2,740,202	22,976	36,678	0	6,549	**2,806,405**
Other assets*	181,138	17	0	0	142	**181,297**
Total assets	**4,897,211**	**39,131**	**38,693**	**3,815**	**19,287**	**4,998,137**
Financial liabilities						
Financial liabilities held for trading	1,350	101	0	0	0	**1,451**
Financial liabilities designated at fair value through profit or loss	60	0	0	0	0	**60**
Financial liabilities measured at amortised cost	4,148,953	38,985	24,889	3,840	12,373	**4,229,040**
Other liabilities*	758,045	10,169	0	19	(647)	**767,586**
Total liabilities	**4,908,408**	**49,255**	**24,889**	**3,859**	**11,726**	**4,998,137**
Assets-liabilities mismatch	**(11,197)**	**(10,124)**	**13,804**	**(44)**	**7,561**	**0**
Derivatives	20,114	0	(13,806)	0	(6,314)	**(6)**
Assets-liabilities, including equity and derivatives, mismatch	**8,917**	**(10,124)**	**(2)**	**(44)**	**1,247**	**(6)**

Nova KBM Group						31/12/2017
	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash in hand, and cash balances at central bank	533,070	4,444	1,452	2,877	4,678	**546,521**
Financial assets held for trading	1,524	0	0	0	0	**1,524**
Financial assets designated at fair value through profit or loss	17,237	0	0	0	0	**17,237**
Available-for-sale financial assets	1,597,935	23,646	0	0	0	**1,621,581**
Loans	2,402,972	8,191	43,024	505	9,757	**2,464,449**
Held-to-maturity financial assets	88,700	0	0	0	0	**88,700**
Other assets	187,003	14	0	501	2,299	**189,817**
Total assets	**4,828,441**	**36,295**	**44,476**	**3,883**	**16,734**	**4,929,829**
Liabilities						
Financial liabilities held for trading	1,024	0	0	0	0	**1,024**
Financial liabilities measured at amortised cost	4,089,282	36,117	27,432	2,167	12,847	**4,167,845**
Other liabilities	784,170	9,832	0	(28,250)	(4,792)	**760,960**
Total liabilities and equity	**4,874,476**	**45,949**	**27,432**	**(26,083)**	**8,055**	**4,929,829**
Assets-liabilities, including equity, mismatch	**(46,035)**	**(9,654)**	**17,044**	**29,966**	**8,679**	**0**
Derivatives	17,050	0	(16,920)	0	6	**136**
Assets-liabilities, including equity and derivatives, mismatch	**(28,985)**	**(9,654)**	**124**	**29,966**	**8,685**	**136**

Nova KBM						31/12/2018
	EUR	USD	CHF	HRK	Other currencies	Total
Financial assets						
Cash in hand, cash balances at the central bank and demand deposits at banks	479,837	2,819	2,015	3,815	3,560	**492,046**
Financial assets held for trading	1,207	140	0	0	0	**1,347**
Non-trading financial assets mandatorily at fair value through profit or loss	39,692	0	0	0	0	**39,692**
Financial assets designated at fair value through profit or loss	0	0	0	0	0	**0**
Financial assets measured at fair value through other comprehensive income	1,451,953	13,179	0	0	9,036	**1,474,168**
Financial assets measured at amortised cost	2,657,587	22,973	36,678	0	6,549	**2,723,787**
Other assets*	246,663	17	0	0	142	**246,822**
Total assets	**4,876,939**	**39,128**	**38,693**	**3,815**	**19,287**	**4,977,862**
Financial liabilities						
Financial liabilities held for trading	1,350	101	0	0	0	**1,451**
Financial liabilities designated at fair value through profit or loss	60	0	0	0	0	**60**
Financial liabilities measured at amortised cost	4,139,267	38,985	24,889	3,840	12,373	**4,219,354**
Other liabilities*	747,456	10,169	0	19	(647)	**756,997**
Total liabilities	**4,888,133**	**49,255**	**24,889**	**3,859**	**11,726**	**4,977,862**
Assets-liabilities mismatch	**(11,194)**	**(10,127)**	**13,804**	**(44)**	**7,561**	**0**
Derivatives	20,114	0	(13,806)	0	(6,314)	**(6)**
Assets-liabilities, including equity and derivatives, mismatch	**8,920**	**(10,127)**	**(2)**	**(44)**	**1,247**	**(6)**

Nova KBM						31/12/2017
	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash in hand, and cash balances at central bank	528,181	4,444	1,452	2,816	4,168	**541,061**
Financial assets held for trading	509	0	0	0	0	**509**
Financial assets designated at fair value through profit or loss	17,237	0	0	0	0	**17,237**
Available-for-sale financial assets	1,597,852	23,646	0	0	0	**1,621,498**
Loans	2,358,982	8,189	43,024	5	9,307	**2,419,507**
Held-to-maturity financial assets	88,700	0	0	0	0	**88,700**
Other assets	225,379	14	0	0	0	**225,393**
Total assets	**4,816,840**	**36,293**	**44,476**	**2,821**	**13,475**	**4,913,905**
Liabilities						
Financial liabilities held for trading	1,023	0	0	0	0	**1,023**
Financial liabilities measured at amortised cost	4,100,420	36,117	27,432	2,109	12,805	**4,178,883**
Other liabilities	724,137	9,832	0	30	0	**733,999**
Total liabilities and equity	**4,825,580**	**45,949**	**27,432**	**2,139**	**12,805**	**4,913,905**
Assets-liabilities, including equity, mismatch	**(8,740)**	**(9,656)**	**17,044**	**682**	**670**	**0**
Derivatives	17,050	0	(16,920)	0	6	**136**
Assets-liabilities, including equity and derivatives, mismatch	**8,310**	**(9,656)**	**124**	**682**	**676**	**136**

Foreign exchange sensitivity analysis

	31/12/2018			31/12/2017		
		Impact on profit or loss			Impact on profit or loss	
	Exchange rate change against EUR (%)	Nova KBM Group	Nova KBM	Exchange rate change against EUR (%)	Nova KBM Group	Nova KBM
USD	+9 %	(911)	(911)	+8 %	(772)	(772)
CHF	+11 %	(0)	(0)	+11 %	14	14
HRK	+3 %	(1)	(1)	+4 %	1,199	27
Other currencies	+6 %	75	75	+6 %	521	41

The Bank determines the exchange rate change based on volatility. The table shows the Bank's sensitivity to exchange rate changes. 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					31/12/2018
	Total	Slovenia	Total foreign countries	European Union	Other
Assets					
Cash in hand, cash balances at the central bank and demand deposits at banks	**494,258**	469,802	**24,456**	22,226	2,230
Financial assets held for trading	**2,317**	2,192	**125**	125	0
Non-trading financial assets mandatorily at fair value through profit or loss	**39,692**	37,727	**1,965**	1,965	0
Financial assets designated at fair value through profit or loss	**0**	0	**0**	0	0
Financial assets measured at fair value through other comprehensive income	**1,474,168**	351,405	**1,122,763**	985,502	137,261
Financial assets measured at amortised cost	**2,806,405**	2,482,926	**323,479**	266,194	57,285
Other assets	**181,297**	181,254	**43**	11	32
Total assets	**4,998,137**	**3,525,306**	**1,472,831**	**1,276,023**	**196,808**
Liabilities					
Financial liabilities held for trading	**1,451**	270	**1,181**	1,181	0
Financial liabilities designated at fair value through profit or loss	**60**	60	**0**	0	0
Financial liabilities measured at amortised cost	**4,229,040**	4,173,109	**55,931**	51,992	3,939
Other liabilities	**767,586**	617,291	**150,295**	150,274	21
Total liabilities	**4,998,137**	**4,790,730**	**207,407**	**203,447**	**3,960**
Assets-liabilities mismatch	**0**	**(1,265,424)**	**1,265,424**	**1,072,576**	**192,848**

Nova KBM Group					31/12/2017
	Total	Slovenia	Total foreign countries	European Union	Other
Assets					
Cash in hand, and cash balances at central bank	**546,521**	509,177	**37,344**	31,054	6,290
Financial assets held for trading	**1,524**	1,151	**373**	373	0
Financial assets designated at fair value through profit or loss	**17,237**	17,237	**0**	0	0
Available-for-sale financial assets	**1,621,581**	415,927	**1,205,654**	1,050,884	154,770
Loans	**2,464,449**	2,355,657	**108,792**	100,797	7,995
Held-to-maturity financial assets	**88,700**	72,802	**15,898**	15,898	0
Other assets	**189,817**	187,453	**2,364**	40	2,324
Total assets	**4,929,829**	**3,559,404**	**1,370,425**	**1,199,046**	**171,379**
Liabilities					
Financial liabilities held for trading	**1,024**	893	**131**	131	0
Financial liabilities measured at amortised cost	**4,167,845**	4,050,120	**117,725**	98,353	19,372
Other liabilities	**760,960**	553,897	**207,063**	211,845	(4,782)
Total liabilities and equity	**4,929,829**	**4,604,910**	**324,919**	**310,329**	**14,590**
Assets-liabilities, including equity, mismatch	**0**	**(1,045,506)**	**1,045,506**	**888,717**	**156,789**

Nova KBM					31/12/2018
	Total	Slovenia	Total foreign countries	European Union	Other
Assets					
Cash in hand, cash balances at the central bank and demand deposits at banks	**492,046**	467,590	**24,456**	22,226	2,230
Financial assets held for trading	**1,347**	1,222	**125**	125	0
Non-trading financial assets mandatorily at fair value through profit or loss	**39,692**	37,727	**1,965**	1,965	0
Financial assets designated at fair value through profit or loss	**0**	0	**0**	0	0
Financial assets measured at fair value through other comprehensive income	**1,474,168**	351,405	**1,122,763**	985,502	137,261
Financial assets measured at amortised cost	**2,723,787**	2,400,308	**323,479**	266,194	57,285
Other assets	**246,822**	246,783	**39**	11	28
Total assets	**4,977,862**	**3,505,035**	**1,472,827**	**1,276,023**	**196,804**
Liabilities					
Financial liabilities held for trading	**1,451**	270	**1,181**	1,181	0
Financial liabilities designated at fair value through profit or loss	**60**	60	**0**	0	0
Financial liabilities measured at amortised cost	**4,219,354**	4,163,434	**55,920**	51,982	3,938
Other liabilities	**757,997**	606,702	**150,295**	150,274	21
Total liabilities	**4,977,862**	**4,770,466**	**207,396**	**203,437**	**3,959**
Assets-liabilities mismatch	**0**	**(1,265,431)**	**1,265,431**	**1,072,586**	**192,845**

Nova KBM					31/12/2017
	Total	Slovenia	Total foreign countries	European Union	Other
Assets					
Cash in hand, and cash balances at central bank	**541,061**	507,250	**33,811**	30,992	2,819
Financial assets held for trading	**509**	136	**373**	373	0
Financial assets designated at fair value through profit or loss	**17,237**	17,237	**0**	0	0
Available-for-sale financial assets	**1,621,498**	415,844	**1,205,654**	1,050,884	154,770
Loans	**2,419,507**	2,313,656	**105,851**	100,938	4,913
Held-to-maturity financial assets	**88,700**	72,802	**15,898**	15,898	0
Other assets	**225,393**	216,755	**8,638**	3	8,635
Total assets	**4,913,905**	**3,543,680**	**1,370,225**	**1,199,088**	**171,137**
Liabilities					
Financial liabilities held for trading	**1,023**	892	**131**	131	0
Financial liabilities measured at amortised cost	**4,178,883**	4,061,295	**117,588**	98,284	19,304
Other liabilities	**733,999**	583,881	**150,118**	150,109	9
Total liabilities and equity	**4,913,905**	**4,646,068**	**267,837**	**248,524**	**19,313**
Assets-liabilities, including equity, mismatch	**0**	**(1,102,388)**	**1,102,388**	**950,564**	**151,824**

Financial assets of foreign issuers measured at fair value

Country of issuer	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Australia	12,240	13,362	12,240	13,362
Austria	75,614	69,697	75,614	69,697
Belgium	67,049	66,899	67,049	66,899
Bulgaria	0	17,605	0	17,605
Czech Republic	34,730	36,012	34,730	36,012
Denmark	23,409	38,731	23,409	38,731
Finland	34,859	25,062	34,859	25,062
France	131,902	147,067	131,902	147,067
Ireland	43,465	43,314	43,465	43,314
Italy	5,473	14,557	5,473	14,557
Japan	3,109	3,142	3,109	3,142
Canada	32,010	32,229	32,010	32,229
Latvia	0	10,165	0	10,165
Luxembourg	43,225	34,721	43,225	34,721
Hungary	18,321	19,004	18,321	19,004
Germany	50,706	67,104	50,706	67,104
The Netherlands	117,106	112,389	117,106	112,389
Norway	28,126	26,435	28,126	26,435
Poland	74,502	76,539	74,502	76,539
Romania	8,731	26,241	8,731	26,241
Slovakia	31,521	23,819	31,521	23,819
Spain	81,060	77,693	81,060	77,693
Sweden	74,776	75,747	74,776	75,747
United Kingdom	69,054	68,518	69,054	68,518
USA	61,775	79,602	61,775	79,602
Total	**1,122,763**	**1,205,654**	**1,122,763**	**1,205,654**

4.5 Operational risk

Operational risk (OT) is included in all business processes of the Bank, therefore a great importance is attached to the management of operational risk. The Bank has established a systematic recording of OT events, which is coordinated by the Operational Risk Management Department. Recording of reporting on incurred OT events includes all employees in the Bank and the entire Nova KBM Group. Regular reporting about operational risk events to senior management is carried out on a monthly and quarterly basis. At the monthly level, it is dealt with by the Supervisory Board of the Bank under the CRO report, while the quarterly report is dealt with by the Operational Risk Committee.

The Bank identifies and distinguishes operational risk events to the following:

- Financial loss events

Loss events arising from operational risk and resulting either in financial loss (impact on the profit and loss account – TPL) or misstatement of items in TPL. In 2018, the Bank defined as financial loss events all the events the gross loss of which reached or exceeded €50.

- Non-financial and potential events

A non-financial event arising from operational risk is the event producing an effect of regulatory nature, or an effect relating to customers, market/competitors, and/or reputation.

A potential event arising from operational risk is the event with no financial/non-financial effects, while having the potential to cause such effects.

The Bank classifies measured loss arising from operational risk in accordance with the guidelines of the Basel capital framework, i.e. by operating segments and type of loss events, and the Regulation (EU) 575/2013, Article 324 thereof (CRR Regulation).

The Bank has a system in place that enables quick action in case of occurrence of important loss events, and for each such event, holders and deadlines are defined to prevent any repetition of such events, and to reduce the existing risk.

Since not all operational risk losses can be measured, the Bank assesses them additionally, yet separately, under its annual risk profile. The determination of the risk profile with respect to operational risk is of particular importance, given that this risk makes up the largest portion of loss events, which cannot be reliably measured; therefore, they have to be assessed.

The Bank has an Operational Risk Register (ORR) and a RCSA questionnaire, both adapted to Basel II categorisation of loss events, which enables the Bank to ensure a better comparison between the reported operational risk events and the assessed risks and, therefore, a higher-quality of operational risk analyses. With a purpose of better risk management, the Bank has in place also an operational risk appetite and monitoring of key risk indicators (KRI). Key risk indicators and operational risk self-assessments enable the Bank to identify possible future risks, which are reduced by the system of managing appropriate security and organisational corrective measures.

In 2018, the Bank devoted particular attention to the establishment of control points for OT event reporting, the quality of data on OT events, upgrade of the OT event reporting application, automation of operational risk management processes, upgrading ICAAP internal models and risk appetite, implementation of outsourcing policies, and to the improvement of the claim settlement process by insurance companies.

The management of operational risks is the duty of all Bank employees, and the Bank affects the awareness and appropriate action in cases of incidents through continuous education of employees in the Bank and the Nova KBM Group.

In comparison with the capital requirement for operational risk, the net loss arising from loss events of the Nova KBM Group represents a very small share.

4.6 Capital risk

Capital risk arises from inadequate size of capital, inadequate structure of capital with regard to the volume and the method of operation, or from difficulties in acquiring new capital, particularly in case of the need for a rapid increase in capital, or in the event of unfavourable conditions in the business environment. The Group has in place the Risk Management Strategy, including the Risk Appetite Statement, and the system of limits supported by the early warning system, policies, methodologies, and relevant procedures and mechanisms to ensure adequate structure and size of its capital.

The Group manages its capital and capital requirement at all the three reporting levels by:

- Managing, monitoring and measuring actual and planned regulatory capital through an assessment of the need of increasing the regulatory capital through recapitalisation or by raising subordinated instruments, taking into account statutory restrictions
- Managing, monitoring and measuring actual and planned capital requirements
- Managing, monitoring and measuring movements in actual and planned capital adequacy ratio
- Monitoring the Bank's key performance indicators related to the management of capital and capital requirements
- Long-term planning of capital, capital requirements and capital adequacy
- Established system of limits supported by the early warning system (EWS)
- Implementing stress tests based on which the Bank assesses sustainability of its business plan and the planned capital and capital requirements
- Managing its risk appetite and risk-bearing capacity
- Monitoring and timely implementing amendments to legislation.

Capital requirements under the Basel Pillar I

The Group calculates capital requirements for credit risk using the standardised approach. The Group appointed Moody's rating agency as a suitable external credit rating agency to determine the risk weight based on external ratings for the following categories:

- Exposure to central governments and central banks
- Exposure to regional governments or local authorities
- Exposure to public sector entities
- Exposure to institutions
- Exposure to companies.

The Group calculates capital requirements for market risks in accordance with the standardised approach and does not use internal models for the time being.

The capital requirement for operational risk is calculated according to the basic indicator approach.

Capital requirements under the Basel Pillar II

The Group's internal capital represents additional, internal capital requirements for covering the risks that are not covered or not sufficiently covered within the minimum capital requirements under the Basel Pillar I capital framework. The Group calculates its internal capital using the going-concern approach, and has a harmonised policy of internal capital adequacy assessment process, methodology for risk identification and assessment, risk measurement methodology based on which the Group assesses the need for internal capital allocation, and the stress-testing methodology established at the Group level.

Composition of regulatory capital and capital requirements

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Tier-1 capital	**600,136**	**574,406**	**604,910**	**576,011**
Paid-in capital instruments	150,000	150,000	150,000	150,000
Paid-in capital surplus	403,302	403,302	403,302	403,302
(-) Own CET1 capital instruments	0	0	0	0
Retained earnings and value adjustments from previous years in respect of investment property	64,025	44,746	56,139	33,685
Profit/loss for the current financial year	0	0	0	0
Accumulated other comprehensive income	17,814	5,447	18,260	5,617
Other reserves	20,340	20,543	20,228	20,228
(-) Intangible assets	(27,768)	(27,197)	(17,096)	(15,364)
(-) Deferred tax assets	(26,059)	(20,211)	(24,406)	(19,234)
(-) Deductions from CET1 capital for the net impact of impairments and provisions and the fair-valued assets	(1,518)	(2,224)	(1,517)	(2,223)
Additional tier-1 (AT1) capital	**0**	**0**	**0**	**0**
Tier-2 (T2) capital	**0**	**0**	**0**	**0**
Total equity	**600,136**	**574,393**	**604,910**	**576,011**
Risk weighted exposure amounts for credit risk	**2,640,202**	**2,444,044**	**2,803,784**	**2,578,706**
Central governments or central banks	11,177	5,148	11,177	4,825
Regional governments or local authorities	2,621	3,113	2,620	2,975
Public sector entities	5,498	20,401	5,283	20,373
Multilateral development banks	0	0	0	0
International organisations	0	0	0	0
Institutions	173,209	186,498	171,955	185,501
Corporates	979,064	685, 623	1,262,429	963,841
Retail exposures	964,848	968,911	707,445	754,780
Exposures secured by mortgages on immovable property	171,364	119,910	171,364	119,910
Exposures in default	150,476	215,102	142,439	191,145
Items associated with particular high risk	21,281	41,315	190,672	167,318
Collective investment undertakings	5,409	5,353	5,409	5,353
Equity	9,786	2,271	9,786	2,271
Other items	145,468	190,400	123,205	160,415
Risk weighted exposure amounts for market risks	**19,999**	**47,619**	**16,121**	**27,970**
Traded debt instruments	0	0	0	0
Equity instruments and funds	16,111	27,946	16,111	27,946
Foreign exchange	0	15,593	0	0
Funds	3,878	4,056	0	0
Credit value adjustment	10	24	10	24
Risk weighted exposure amounts for operational risk	**320,477**	**356,382**	**268,560**	**308,371**
Total risk weighted exposure amount	**2,980,677**	**2,848,045**	**3,088,465**	**2,915,047**
Total capital adequacy ratio	20.13 %	20.17 %	19.59 %	19.76 %
Tier-1 capital adequacy ratio	20.13 %	20.17 %	19.59 %	19.76 %
CET1 capital adequacy ratio	20.13 %	20.17 %	19.59 %	19.76 %

5 Fair value of financial assets and financial liabilities

Where possible, the Group determines the fair value of financial instruments on the basis of exchange rates provided by the Bloomberg data source. The Group starts measuring 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 Group divides fair values of financial instruments into three levels.

Classified **into Level 1** are investments whose fair value is determined entirely on the basis of prices quoted on one or more active markets.

Classified **into Level 2** are investments 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, exchange rates, and the volatility of currencies and interest rates. Included in Level 2 are also investments in illiquid bonds that are valued based on the Bloomberg BVAL exchange rate.

Classified **into Level 3** are investments whose fair value is estimated on the basis of valuation models, which take into account subjective variables not publicly available.

Analysis of fair value hierarchy

Nova KBM Group	31/12/2018			
	Total	Level 1	Level 2	Level 3
Financial assets				
Financial assets held for trading	**2,317**	970	1,347	0
– derivatives	**1,347**	0	1,347	0
– equity instruments	**970**	970	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	**39,692**	10,436	0	29,256
– equity instruments	**16,980**	10,436	0	6,544
– loans and advances	**22,712**	0	0	22,712
Financial assets measured at fair value through other comprehensive income	**1,474,168**	1,419,110	51,498	3,560
– debt financial instruments	**1,445,386**	1,419,110	26,276	0
– equity instruments	**28,782**	0	25,222	3,560
Financial liabilities				
Financial liabilities held for trading	**1,451**	0	1,451	0
– derivatives	**1,451**	0	1,451	0
Financial liabilities designated at fair value through profit or loss	**60**	0	0	60
– loans and advances	**60**	0	0	60

Nova KBM	31/12/2018			
	Total	Level 1	Level 2	Level 3
Financial assets				
Financial assets held for trading	**1,347**	0	1,347	0
– derivatives	**1,347**	0	1,347	0
– equity instruments	**0**	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	**39,692**	10,436	0	29,256
– equity instruments	**16,980**	10,436	0	6,544
– loans and advances	**22,712**	0	0	22,712
Financial assets measured at fair value through other comprehensive income	**1,474,168**	1,419,110	51,498	3,560
– debt financial instruments	**1,445,386**	1,419,110	26,276	0
– equity instruments	**28,782**	0	25,222	3,560
Financial liabilities				
Financial liabilities held for trading	**1,451**	0	1,451	0
– derivatives	**1,451**	0	1,451	0
Financial liabilities designated at fair value through profit or loss	**60**	0	0	60
– loans and advances	**60**	0	0	60

Nova KBM Group	31/12/2017			
	Total	Level 1	Level 2	Level 3
Financial assets				
Derivatives	**510**	0	510	0
Financial assets held for trading	**1,014**	1,014	0	0
– debt financial instruments	**0**	0	0	0
– equity instruments	**1,014**	1,014	0	0
Available-for-sale financial assets	**1,621,581**	1,564,864	52,078	4,639
– debt financial instruments	**1,589,125**	1,562,286	26,839	0
– equity instruments	**32,456**	2,578	25,239	4,639
Financial assets designated at fair value through profit or loss	**17,237**	17,237	0	0
– debt financial instruments	**3,264**	3,264	0	0
– equity instruments	**13,973**	13,973	0	0
Financial liabilities				
Derivatives	**1,024**	0	1,024	0

Nova KBM	31/12/2017			
	Total	Level 1	Level 2	Level 3
Financial assets				
Derivatives	**509**	0	509	0
Financial assets held for trading	**0**	0	0	0
– debt financial instruments	**0**	0	0	0
– equity instruments	**0**	0	0	0
Available-for-sale financial assets	**1,621,498**	1,564,864	51,995	4,639
– debt financial instruments	**1,589,042**	1,562,286	26,756	0
– equity instruments	**32,456**	2,578	25,239	4,639
Financial assets designated at fair value through profit or loss	**17,237**	17,237	0	0
– debt financial instruments	**3,264**	3,264	0	0
– equity instruments	**13,973**	13,973	0	0
Financial liabilities				
Derivatives	**1,023**	0	1,023	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.

Transfers	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 or 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 or funds	Valuation of shares and investment funds that were 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 was 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 was reclassified to Level 1. The market price of the underlying instrument is available.

Analysis of transfers between fair value hierarchy levels

In 2017, the Bank reclassified most of its investments in debt securities subject to exchange rates from the Bloomberg data source from Level 2 to Level 1. The Bank argues that Bloomberg has become a MTF trading venue (organised market) and the Bloomberg's price reflects fair value, since most deals are concluded just through the Bloomberg information system. Namely, other sources do not provide liquidity of the price.

In 2018, there was no transfer made between the fair value hierarchy levels. The table below shows transfers between levels made in 2017.

31/12/2017	Nova KBM Group					Nova KBM
	From Level 1 to Level 2	From Level 2 to Level 1	From Level 1 to Level 3	From Level 1 to Level 2	From Level 2 to Level 1	From Level 1 to Level 3
Financial assets held for trading	0	0	0	0	0	0
Available-for-sale financial assets	0	1,562,285	0	0	1,562,285	0
– debt financial instruments	0	1,562,285	0	0	1,562,285	0
Financial assets designated at fair value through profit or loss	0	3,264	0	0	3,264	0
– debt financial instruments	0	3,264	0	0	3,264	0

Determining the fair value of financial assets classified in Level 2

The Group classifies into Level 2 of the fair value hierarchy those less liquid debt financial instruments that are valued on the basis of the Bloomberg BVAL exchange rate, and debt financial instruments and derivatives 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 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 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 business interests and shares of companies cannot be determined on the basis of current prices on an active market, the 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).

Interests and shares of such companies are valued by the 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 Group uses the market comparison approach, and within this approach, it uses the method of comparable listed companies.

The method of comparable listed companies is the most appropriate method used to assess the value of assets classified into 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 various categories from financial statements are used as the denominator. When using the method of comparable listed companies, the basic financial categories of the assessed company are multiplied by market multiples derived from comparable listed companies.

Determining the fair value of financial assets classified in Level 3

If the fair value of interests 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 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 not publicly available on markets.

Interests and shares of such companies are valued by the 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 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 for 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 well as the expected constant long-term growth rate of net cash flow (between 2 % and 2.5 %).

Use of unobservable inputs

The assessment of the fair value of interests and shares classified into 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 interests and shares classified into Level 3, the 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 growth rate of normalised net cash flows on the estimated value or fair value. The sensitivity analysis aims to present changes in fair values of interests and shares (classified in Level 3) deriving from the range of increase or decrease in the value of key parameters.

Movements in financial assets classified in Level 3, in 2018

	As at 1/1/2018	Revaluation	Derecognition	As at 31/12/2018
Non-trading financial assets mandatorily at fair value through profit or loss				
– shares	2,951	3,632	(304)	6,279
– interests	265	0	0	265
– loans and advances	20,463	2,249	0	22,712
Total	**23,679**	**5,881**	**(304)**	**29,256**
Financial assets measured at fair value through other comprehensive income				
– shares	992	179	0	1,171
– interests	431	1,957	0	2,388
Total	**1,423**	**2,136**	**0**	**3,559**
Financial liabilities designated at fair value through profit or loss				
– loans and advances	0	60	0	60
Total	**0**	**60**	**0**	**60**

As at 31 December 2018, all of the Group's investments classified in Level 3 were attributable to the portfolio of the Parent Bank. In 2018, changes in the value of third-level investments resulted from the revaluation of investments or the sale of non-strategic investments.

Movements in financial assets classified in Level 3, in 2017

Available-for-sale financial assets	Nova KBM Group			Nova KBM		
	Total	Shares	Interests	Total	Shares	Interests
As at 1/1/2017	**3,090**	**2,353**	**737**	**3,090**	**2,353**	**737**
Revaluation	**1,549**	1,591	(42)	**1,549**	1,591	(42)
Rounding adjustments – reconciliation of balances with the statement of financial position	**0**	(1)	1	**0**	(1)	1
As at 31/12/2017	**4,639**	**3,943**	**696**	**4,639**	**3,943**	**696**

Fair value of financial instruments measured at amortised cost

Nova KBM Group					31/12/2018
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash in hand, and cash balances at central bank	494,258	494,258	494,258	0	0
Loans and advances to banks	97,930	97,930	0	97,930	0
Loans to customers	2,603,719	2,652,099	0	0	2,652,099
Other financial assets	31,735	31,735	0	0	31,735
Held-to-maturity financial assets	73,021	75,912	65,907	10,005	0
Financial liabilities					
Deposits from banks	21,380	21,060	0	21,060	0
Deposits from customers	3,772,188	3,774,221	0	3,774,221	0
Loans from banks	384,654	384,972	0	384,972	0
Loans from customers	0	0	0	0	0
Debt securities	0	0	0	0	0
Other financial liabilities	50,819	50,819	0	0	50,819

Nova KBM Group					31/12/2017
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash in hand, and cash balances at central bank	546,521	546,521	546,521	0	0
Loans and advances to banks	42,842	42,842	0	42,842	0
Loans to customers	2,366,167	2,385,055	0	0	2,385,055
Other financial assets	55,440	55,440	0	0	55,440
Held-to-maturity financial assets	88,700	96,014	85,836	10,178	0
Financial liabilities					
Financial liabilities to the central bank	0	0	0	0	0
Deposits from banks	51,863	51,883	0	51,883	0
Deposits from customers	3,638,391	3,640,729	0	3,640,729	0
Loans from banks	396,153	396,578	0	396,578	0
Loans from customers	0	0	0	0	0
Debt securities	1,502	1,502	0	1,502	0
Subordinated liabilities	0	0	0	0	0
Other financial liabilities	79,936	79,936	0	0	79,936

Nova KBM					31/12/2018
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash in hand, and cash balances at central bank	492,046	492,046	492,046	0	0
Loans and advances to banks	97,905	97,905	0	97,905	0
Loans to customers	2,522,033	2,570,413	0	0	2,570,413
Other financial assets	30,828	30,828	0	0	30,828
Held-to-maturity financial assets	73,021	75,910	65,907	10,003	0
Financial liabilities					
Deposits from banks	21,379	21,059	0	21,059	0
Deposits from customers	3,777,304	3,779,337	0	3,779,337	0
Loans from banks	378,026	378,344	0	378,344	0
Loans from customers	0	0	0	0	0
Debt securities	0	0	0	0	0
Other financial liabilities	42,645	42,645	0	0	42,645

Nova KBM					31/12/2017
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash in hand, and cash balances at central bank	541,061	541,061	541,061	0	0
Loans and advances to banks	42,806	42,806	0	42,806	0
Loans to customers	2,322,531	2,341,419	0	0	2,341,419
Other financial assets	54,170	54,170	0	0	54,170
Held-to-maturity financial assets	88,700	96,014	85,836	10,178	0
Financial liabilities					
Financial liabilities to the central bank	0	0	0	0	0
Deposits from banks	51,862	51,882	0	51,882	0
Deposits from customers	3,671,799	3,674,137	0	3,674,137	0
Loans from banks	378,912	379,337	0	379,337	0
Loans from customers	0	0	0	0	0
Debt securities	1,502	1,502	0	1,502	0
Subordinated liabilities	0	0	0	0	0
Other financial liabilities	74,808	74,808	0	0	74,808

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. Amortised cost.

The table presents 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, the Parent Bank 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

							1/1–31/12/2018
	Banking	Lease	Fund management	Other	Total	Inter-segment relationships	Relationships with third parties
A. Net income/expenses	**147,488**	**21,514**	**5,066**	**(178)**	**173,890**	**(5,196)**	**168,694**
Interest income	99,623	22,227	3	216	**122,069**	(5,996)	116,073
– income on financial assets measured at amortised cost and FVOCI	98,140	22,227	3	216	**120,586**	(5,995)	114,591
– other interest income	1,482	0	0	0	**1,482**	0	1,482
Interest expenses	(5,906)	(6,549)	0	0	**(12,455)**	6,025	(6,430)
Net interest income	**93,717**	**15,678**	**3**	**216**	**109,614**	**29**	**109,643**
Dividend income	5,829	0	0	0	**5,829**	(5,126)	703
Fee and commission income	70,601	3,893	6,894	0	**81,388**	(549)	80,839
Fee and commission expenses	(31,228)	(4,266)	(1,767)	(1)	**(37,262)**	503	(36,759)
Net fee and commission income	**39,373**	**(373)**	**5,127**	**(1)**	**44,126**	**(46)**	**44,080**
Net gains/losses at derecognition of financial assets and liabilities not measured at FVTPL	4,999	90	1	0	**5,090**	(1)	5,089
Net gains/losses on financial assets and liabilities held for trading	1,596	0	(44)	0	**1,552**	0	1,552
Net gains/losses on non-trading financial assets mandatorily at FVTPL	6,815	0	0	0	**6,815**	0	6,815
Net gains/losses on financial assets and liabilities to be designated at FVTPL	(60)	0	0	0	**(60)**	0	(60)
Net gains/losses from foreign exchange rate differences	(96)	101	(1)	(39)	**(35)**	5	(30)
Net gains/losses on derecognition of non-financial assets	(3,489)	6	5	(442)	**(3,920)**	(1)	(3,921)
Other net operating income and loss	(1,196)	6,012	(25)	88	**4,879**	(56)	4,823
B. Other items by segments	**(75,222)**	**(12,936)**	**(3,852)**	**(255)**	**(92,265)**	**62**	**(92,203)**
Administrative costs	(89,575)	(9,403)	(2,678)	(255)	**(101,911)**	62	(101,849)
Depreciation and amortisation	(6,621)	(5,411)	(1,153)	0	**(13,185)**	(194)	(13,379)
Provisions	8,572	1,348	(33)	0	**9,887**	(1,455)	8,432
Impairments	11,374	530	12	0	**11,916**	(3,187)	8,729
Net profit/loss from non-current assets held for sale and related liabilities	1,028	0	0	0	**1,028**	(791)	237
C. Profit							
PROFIT/LOSS FROM CONTINUING OPERATIONS	72,266	8,578	1,214	(433)	**81,625**	(10,761)	70,864
Income tax on continuing operations	3,254	(1,345)	(231)	(48)	**1,630**	0	1,630
NET PROFIT/LOSS FROM CONTINUING OPERATIONS	75,520	7,232	982	(481)	**83,253**	(10,759)	72,494
NET PROFIT/LOSS FOR THE FINANCIAL YEAR	75,520	7,232	982	(481)	**83,253**	(10,759)	72,494
E. Segment assets and liabilities							
Total assets	4,977,862	411,611	10,625	251	**5,400,349**	(402,212)	4,998,137
– non-current assets held for sale and discontinuing operations	13,172	0	0	0	**13,172**	(3,511)	9,661
Liabilities (excluding equity) by segments	4,254,413	310,417	753	0	**4,565,583**	(297,838)	4,267,745
Total equity	723,449	101,194	9,872	251	**834,766**	(104,374)	730,392
Increase in property, plant and equipment and intangible assets	13,470	28,342	259		**42,071**	969	43,040

The column „Inter-segment relationships" includes the following items: intra-group income and expenses, income from dividends from subsidiaries, impacts on impairments as a result of changing over to a harmonised customer classification across the Group, impairments of equity investments and loans given to subsidiaries, intra-group assets and liabilities, investments in subsidiaries and the proportional share of equity of subsidiaries, and other consolidation entries.

								1/1–31/12/2017
	Banking	Lease	Fund management	Real estate activity	Other	Total	Inter-segment relationships	Relationships with third parties
A. Net income/expenses	**131,442**	**4,957**	**5,834**	**(35)**	**(1,060)**	**141,138**	**(1,784)**	**142,922**
Interest income	88,747	5,481	10	1	214	**94,453**	1,509	92,944
Interest expenses	(10,163)	(2,293)	0	0	(1,283)	**(13,739)**	(3,364)	(10,375)
Net interest income	**78,584**	**3,188**	**10**	**1**	**(1,069)**	**80,714**	**(1,855)**	**82,569**
Dividend income	1,926	0	0	0	0	**1,926**	0	1,926
Fee and commission income	69,738	1,722	6,655	0	0	**78,115**	452	77,663
Fee and commission expenses	(29,560)	(1,484)	(1,638)	(2)	(2)	**(32,686)**	(479)	(32,207)
Net fee and commission income	**40,178**	**238**	**5,017**	**(2)**	**(2)**	**45,429**	**(27)**	**45,456**
Realised gains/losses on financial assets and liabilities not measured at FVTPL	7,227	(70)	807	0	0	**7,964**	1	7,963
Net gains on financial assets and liabilities held for trading	3,991	0	28	0	0	**4,019**	2	4,017
Gains on financial assets and liabilities designated at FVTPL	830	0	0	0	0	**830**	0	830
Net gains/losses from foreign exchange rate differences	(2,231)	158	0	0	532	**(1,541)**	0	(1,541)
Net gains on derecognition of assets	(749)	402	0	11	(915)	**(1,251)**	1	(1,252)
Other net operating income and loss	1,686	1,041	(28)	(45)	394	**3,048**	94	2,954
B. Other items by segments	**(95,848)**	**(3,223)**	**(3,651)**	**(378)**	**(4,903)**	**(108,003)**	**(3,870)**	**(104,133)**
Administrative costs	(100,477)	(4,319)	(2,525)	(404)	(442)	**(108,167)**	(126)	(108,041)
Depreciation and amortisation	(8,384)	(1,500)	(1,113)	(6)	0	**(11,003)**	(10)	(10,993)
Provisions	570	1,314	(13)	32	0	**1,903**	(638)	2,541
Impairments	12,146	1,282	0	0	(4,461)	**8,967**	(3,321)	12,288
Share of profits of associates and joint ventures accounted for using the equity method	225	0	0	0	0	**225**	225	0
Net profit from non-current assets and disposal groups classified as held for sale	72	0	0	0	0	**72**	0	72
C. Profit or loss								
PROFIT/LOSS FROM CONTINUING OPERATIONS	35,594	1,734	2,183	(413)	(5,963)	**33,135**	(5,654)	38,789
Income tax on continuing operations	10,219	(187)	(415)	0	(109)	**9,508**	(25)	9,533
NET PROFIT/LOSS FROM CONTINUING OPERATIONS	45,813	1,547	1,768	(413)	(6,072)	**42,643**	(5,679)	48,322
Net loss after tax from discontinuing operations	0	0	0	0	0	**0**	0	0
NET PROFIT/LOSS FOR THE FINANCIAL YEAR	45,813	1,547	1,768	(413)	(6,072)	**42,643**	(5,679)	48,322
D. Segment assets and liabilities								
Total assets	4,913,905	382,497	11,545	0	9,105	**5,317,052**	387,223	4,929,829
– non-current assets held for sale and discontinuing operations	8,035	69	0	0	0	**8,104**	0	8,104
– long-term equity investments in associates and joint ventures accounted by using the equity method	85,762	0	0	0	0	**85,762**	85,762	0
Liabilities (excluding equity) by segments	4,230,848	321,008	915	0	15,066	**4,567,837**	335,422	4,232,415
Total equity	683,057	61,489	10,630	0	(5,961)	**749,215**	51,801	697,414
Increase in property, plant and equipment and intangible assets	8,696	5,638	186	0	0	**14,520**	0	14,520

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 investments and loans given to 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

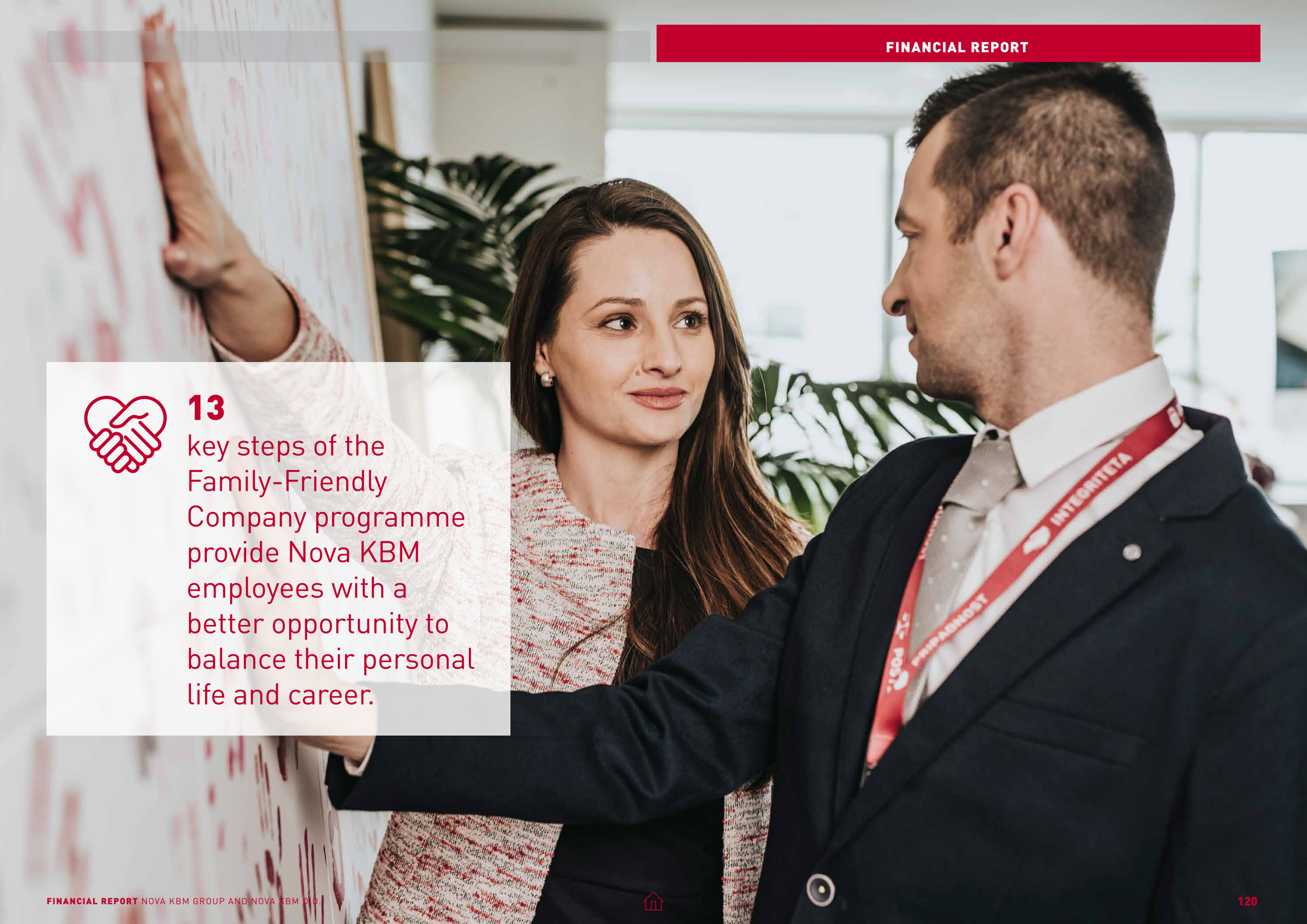
Business activity/ Name of the company	31/12/2018			1/1/–31/12/2018	
	Non-current assets	Number of employees	Turnover	Profit or loss before tax	Income tax
Slovenia – total	**221,942**	**1,494**	**174,500**	**80,470**	**(1,678)**
Banking – total	**198,548**	**1,338**	**148,516**	**72,266**	**(3,254)**
Nova KBM	198,548	1,338	148,516	72,266	(3,254)
Leasing – total	**19,317**	**123**	**20,918**	**6,992**	**1,345**
Summit Leasing	19,317	123	20,918	6,992	1,345
Fund management	**4,077**	**33**	**5,066**	**1,214**	**231**
KBM Infond	4,077	33	5,066	1,214	231
Other	**0**	**0**	**0**	**(2)**	**0**
M-Pay	0	0	0	(2)	0
Total deconsolidated companies	**0**	**0**	**418**	**1,155**	**48**
KBM Leasing – in liquidation	0	0	(839)	164	0
KBM ASCO	0	0	(178)	(431)	48
KBM Leasing Hrvatska – in liquidation	0	0	1,435	1,422	0
Total	**221,942**	**1,494**	**174,918**	**81,625**	**(1,630)**

In accordance with the recommendation provided by the European Banking Authority (EBA) under question ID 2014_1045, the category „Turnover" comprises net banking income before consolidation adjustments and elimination of transactions with subsidiaries. They include all income and expenses for the business period, without administrative costs, amortisation and depreciation, impairments, and provisions.

The item „Non-current assets" comprises property, plant and equipment, intangible assets, investment property, and long-term equity investments in subsidiaries at the reporting date. The Group has received no public subsidies.

The number of employees at the reporting date is expressed in full-time equivalent terms.

Business activity/ Name of the company	31/12/2017			1/1–31/12/2017	
	Non-current assets	Number of employees	Turnover	Profit or loss before tax	Income tax
Slovenia – total	**204,154**	**1,534**	**142,901**	**43,259**	**(9,615)**
Banking – total	**181,012**	**1,396**	**131,739**	**38,594**	**(10,219)**
Nova KBM	181,012	1,396	131,739	38,594	(10,219)
Leasing – total	**18,182**	**105**	**5,313**	**2,470**	**187**
KBM Leasing – in liquidation	90	2	(38)	748	0
Gorica Leasing – in liquidation	104	2	788	998	0
Summit Leasing	17,988	101	4,563	724	187
Fund management	**4,960**	**33**	**5,834**	**2,183**	**415**
KBM Infond	4,960	33	5,834	2,183	415
Other	**0**	**0**	**15**	**12**	**2**
M-Pay	0	0	15	12	2
Eastern Europe – total	**2**	**2**	**(1,431)**	**(6,711)**	**107**
Banking – total	**0**	**0**	**(1,075)**	**(5,975)**	**107**
KBM ASCO	0	0	(1,075)	(5,975)	107
Leasing – total	**2**	**2**	**(356)**	**(736)**	**0**
KBM Leasing Hrvatska – in liquidation	2	2	(356)	(736)	0
Total deconsolidated companies	**0**	**7**	**(35)**	**(413)**	**0**
KBM Invest	**0**	**7**	**(35)**	**(413)**	**0**
Total	**204,156**	**1,543**	**141,435**	**36,135**	**(9,508)**



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key steps of the Family-Friendly Company programme provide Nova KBM employees with a better opportunity to balance their personal life and career.

6.3 Reconciliation of operating segments

Income	2018	2017
Segment income – turnover	174,918	141,435
Elimination of inter-segment items	(6,513)	(2,522)
Consolidation adjustments	526	4,081
Consolidated segment income	168,931	142,994

Profit from continuing operations		
Profit from continuing operations	81,625	36,135
Consolidation adjustments	(10,761)	5,654
Consolidated profit from continuing operations	70,864	41,789

Assets		
Segment assets	5,400,349	5,317,052
Consolidation adjustments	(104,480)	(69,305)
Elimination of inter-segment items	(297,732)	(317,918)
Consolidated segment assets	4,998,137	4,929,829

Liabilities		
Segment liabilities	4,565,583	4,564,837
Consolidation adjustments	(106)	(17,505)
Elimination of inter-segment items	(297,732)	(317,917)
Consolidated segment liabilities	4,267,745	4,229,415

Notes to the income statement items

7 Interest income and interest expenses

7.1 Analysis of interest by type

	Nova KBM Group				Nova KBM			
	2018		2017		2018		2017	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Regular interest	112,190	6,430	89,316	10,375	95,757	5,906	85,194	10,163
Default interest	3,883	0	3,628	0	3,866	0	3,553	0
Total	**116,073**	**6,430**	**92,944**	**10,375**	**99,623**	**5,906**	**88,747**	**10,163**
Net interest income	**109,643**		**82,569**		**93,717**		**78,584**	

7.2 Analysis of interest by segments

	Nova KBM Group				Nova KBM			
	2018		2017		2018		2017	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Non-financial companies	33,168	98	25,477	251	28,304	94	23,091	251
Government	11,390	80	15,534	295	11,385	80	15,523	295
Banks	2,513	2,472	2,611	2,768	2,506	2,048	2,563	2,557
Central bank	1,876	1,379	0	2,543	1,876	1,379		2,543
Other financial organisations	2,383	147	1,776	476	8,376	52	3,296	476
Households	64,743	2,254	47,546	4,042	47,176	2,253	44,274	4,041
Total	**116,073**	**6,430**	**92,944**	**10,375**	**99,623**	**5,906**	**88,747**	**10,163**
Net interest income	**109,643**		**82,569**		**93,717**		**78,584**	

7.3 Analysis of interest and interest expenses by type of assets and liabilities

	Nova KBM Group		Nova KBM	
	2018		2018	
	Current	Non-current	Current	Non-current
Income on financial assets measured at amortised cost and FVOCI	**26,631**	**87,960**	**25,615**	**72,526**
Financial assets designated at fair value through other comprehensive income	13,153	711	13,150	711
Financial assets measured at amortised cost	11,284	87,249	10,479	71,815
– from loans	11,284	85,529	10,479	70,095
– from debt securities	0	1,720	0	1,720
Other assets	213	0	5	0
Interest from financial liabilities resulting from negative interest rate	1,981	0	1,981	0
Other interest income	**1,482**	**0**	**1,482**	**0**
Financial assets held for trading	159	0	159	0
Non-trading financial assets mandatorily at fair value through profit or loss	1,323	0	1,323	0
Total by maturity	**28,113**	**87,960**	**27,097**	**72,526**
Total	**116,073**		**99,623**	
Interest expenses	**2,520**	**3,910**	**2,121**	**3,785**
Financial liabilities held for trading	0	126	0	126
Financial liabilities measured at amortised cost	1,020	3,784	621	3,659
Interest for other liabilities	1,500	0	1,500	0
Total by maturity	**2,520**	**3,910**	**2,121**	**3,785**
Total	**6,430**		**5,906**	
Net interest income	**109,643**		**93,717**	

	Nova KBM Group		Nova KBM	
	2017		2017	
	Current	Non-current	Current	Non-current
Financial assets held for trading	101	0	101	0
Financial assets designated at fair value through profit or loss	150	0	150	0
Available-for-sale financial assets	16,391	326	16,385	326
Loans and deposits given (including finance leases and other financial assets)	11,369	62,322	10,648	58,900
Held-to-maturity financial assets	0	2,146	0	2,146
Other assets	139	0	91	0
Total by maturity	**28,150**	**64,794**	**27,375**	**61,372**
Total	**92,944**		**88,747**	
Interest expenses	**3,976**	**6,399**	**3,811**	**6,352**
Financial liabilities held for trading	0	79	0	79
Financial liabilities measured at amortised cost	1,151	6,320	986	6,273
Interest for other liabilities	2,825	0	2,825	0
Total by maturity	**3,976**	**6,399**	**3,811**	**6,352**
Total	**10,375**		**10,163**	
Net interest income	**82,569**		**78,584**	

8 Dividend income

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Dividends from financial assets held for trading	**6**	**5**	**6**	**5**
– from shares and interests of other issuers	6	5	6	5
Dividends from financial assets designated at fair value through profit or loss	**416**	**891**	**416**	**891**
– from shares and interests of other issuers	416	891	416	891
Financial assets designated at fair value through other comprehensive income	**281**	**-**	**281**	**-**
– from shares and interests of other issuers	281	-	281	-
Dividends from equity investments in subsidiaries, associates and joint ventures accounted by using the investment method	**-**	**-**	**5,126**	**-**
– from equity investment in subsidiaries	-	-	5,126	-
Dividends from available-for-sale financial assets	**-**	**1,030**	**-**	**1,030**
– from shares and interests of other issuers	-	1,030	-	1,030
Total	**703**	**1,926**	**5,829**	**1,926**

9 Fee and commission income and fee and commission expenses

9.1 Analysis of fees and commissions by type

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Fee and commission income	**80,839**	**77,663**	**70,601**	**69,738**
Guarantees given	2,091	2,340	2,091	2,340
Services provided to other Group companies	0	0	634	525
Local payment transactions	40,186	39,337	40,186	39,339
Transactions on current accounts	12,985	12,084	12,985	12,084
Payment card operations	6,675	6,806	6,675	6,806
Cross-border payment transactions	1,592	1,733	1,592	1,733
Brokerage and agency services	2,448	1,187	1,143	777
Transactions in securities for customers	2,343	2,246	2,343	2,246
Credit transactions	5,395	4,980	2,780	3,634
Safekeeping of valuables and other items	157	137	157	137
Other services	6,967	6,813	15	117
Fee and commission expenses	**36,759**	**32,207**	**31,228**	**29,560**
Local banking services	807	981	807	981
Banking services abroad	3,759	3,425	3,759	3,420
Brokerage and agency services	4,668	3,032	1,101	1,081
Stock exchange transactions and other transactions in securities	634	634	633	634
Payment transactions	25,950	23,571	24,357	23,138
Other services	941	564	571	306
Net fee and commission income	**44,080**	**45,456**	**39,373**	**40,178**

9.2 Analysis of fees and commissions by segments

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Fee and commission income	**80,839**	**77,663**	**70,601**	**69,738**
Non-financial companies	32,472	32,470	31,959	32,472
Government	498	579	495	579
Banks	5,879	5,272	5,879	5,272
Other financial organisations	10,289	7,786	3,566	1,508
Households	31,701	31,556	28,702	29,907
Fee and commission expenses	**36,759**	**32,207**	**31,228**	**29,560**
Net fee and commission income	**44,080**	**45,456**	**39,373**	**40,178**

9.3 Fee and commission income and fee and commission expenses relating to brokerage for customers

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Fee and commission income related to investment services and activities and ancillary investment services and activities for customers	**9,599**	**8,554**	**2,733**	**1,934**
Receipt, transmission and execution of orders	2,761	2,058	2,683	1,901
Management of financial instruments	6,818	6,486	30	23
Investment advice	12	0	12	0
Administration of book-entry securities accounts of customers	8	10	8	10
Fee and commission expenses related to investment services and activities and ancillary investment services and activities for customers	**497**	**312**	**497**	**312**
Fees and commissions relating to the Central Securities Clearing Corporation and similar organisations	481	299	481	299
Fees and commissions relating to the stock exchange and similar organisations	16	13	16	13

10 Net gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss

10.1 Net gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss (IFRS 9)

Nova KBM Group			2018
	Gains	Losses	Net gains
Financial assets measured at fair value through other comprehensive income	3,987	501	3,486
Financial assets measured at amortised cost	4,526	2,923	1,603
– loans and advances	4,430	2,867	1,563
– other financial assets	96	56	40
Total	**8,513**	**3,424**	**5,089**

Nova KBM			2018
	Gains	Losses	Net gains
Financial assets measured at fair value through other comprehensive income	3,987	501	3,486
Financial assets measured at amortised cost	4,023	2,510	1,513
– loans and advances	3,927	2,454	1,473
– other financial assets	96	56	40
Total	**8,010**	**3,011**	**4,999**

10.2 Net realised gains on financial assets and liabilities not measured at fair value through profit or loss (IAS 39)

Nova KBM Group			2017
	Realised gains	Realised losses	Net realised gains
Available-for-sale financial assets	2,358	585	1,773
Loans and advances (including finance leases)	9,752	3,594	6,158
Other financial assets and liabilities	111	79	32
Total	**12,221**	**4,258**	**7,963**

Nova KBM	2017		
	Realised gains	Realised losses	Net realised gains
Available-for-sale financial assets	1,552	585	967
Loans and advances (including finance leases)	9,602	3,375	6,227
Other financial assets and liabilities	111	78	33
Total	**11,265**	**4,038**	**7,227**

11 Net gains on financial assets and liabilities held for trading

Nova KBM Group	2018			2017		
	Gains	Losses	Net gains/ losses	Gains	Losses	Net gains
Trading in equity instruments	0	45	(45)	26	0	26
Trading in foreign exchange (purchase/ sale)	1,829	500	1,329	2,086	782	1,304
Trading in derivatives	2,807	2,539	268	3,952	1,265	2,687
– futures/forwards	1,006	1,268	(262)	2,855	777	2,078
– swaps	1,340	1,271	69	490	333	157
– other derivatives	461	0	461	607	155	452
Total	**4,636**	**3,084**	**1,552**	**6,064**	**2,047**	**4,017**

Nova KBM	2018			2017		
	Gains	Losses	Net gains/ losses	Gains	Losses	Net gains
Trading in foreign exchange (purchase/ sale)	1,828	500	1,329	2,086	782	1,304
Trading in derivatives	2,807	2,539	268	3,952	1,265	2,687
– futures/forwards	1,006	1,268	(262)	2,855	777	2,078
– swaps	1,340	1,271	69	490	333	157
– other derivatives	461	0	461	607	155	452
Total	**4,635**	**3,039**	**1,596**	**6,038**	**2,047**	**3,991**

The Group uses derivatives (futures/forwards) to economically hedge its exposure to foreign exchange risk. Their effects are linked to the effects arising from foreign exchange rate differences (Note 13).

12 Net gains on non-trading financial assets mandatorily at fair value through profit or loss

Nova KBM Group	2018			2017		
Nova KBM	Gains	Losses	Net gains	Gains	Losses	Net gains
Non-trading financial assets mandatorily at fair value through profit or loss (IFRS 9)	19,222	12,407	6,815	-	-	-
Financial assets designated at fair value through profit or loss (IAS 39)	-	-	-	4,149	3,319	830
Total	**19,222**	**12,407**	**6,815**	**4,149**	**3,319**	**830**

13 Net losses from foreign exchange rate differences

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Foreign exchange gains	14,351	20,484	14,244	19,498
Foreign exchange losses	14,381	22,025	14,340	21,729
Total	**(30)**	**(1,541)**	**(96)**	**(2,231)**

14 Net losses on derecognition of non-financial assets

Nova KBM Group	2018			2017		
	Gains	Losses	Net gains/ losses	Gains	Losses	Net gains/ losses
Derecognition of items of property, plant and equipment	81	59	22	489	198	291
Derecognition of intangible assets	113	3,893	(3,780)	0	1,005	(1,005)
Derecognition of investment property	62	442	(380)	797	1,744	(947)
Derecognition of other assets other than those held for sale	362	145	217	411	2	409
Total	**618**	**4,539**	**(3,921)**	**1,697**	**2,949**	**(1,252)**

Nova KBM	2018			2017		
	Gains	Losses	Net gains/ losses	Gains	Losses	Net gains/ losses
Derecognition of items of property, plant and equipment	41	57	(16)	95	26	69
Derecognition of intangible assets	113	3,892	(3,779)	0	1,005	(1,005)
Derecognition of investment property	62	0	62	1	0	1
Derecognition of other assets other than those held for sale	362	118	244	186	0	186
Total	**578**	**4,067**	**(3,489)**	**282**	**1,031**	**(749)**

15 Other net operating income (losses)

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Income	**13,490**	**12.849**	**4,778**	**7,824**
Income from non-banking services	0	224	0	0
Income from investment property leased out under operating leases	10,417	4,638	3,554	2,928
Other operating income	3,073	7,987	1,224	4,896
Expenses	**8,667**	**9,895**	**5,974**	**6,138**
Taxes	98	73	68	31
Contributions	651	718	627	683
Other charges	0	9	0	0
Membership fees and similar fees	218	184	179	158
Expenses for investment property leased out under operating leases	1,230	494	20	473
Single Resolution Fund and deposit guarantee scheme	4,520	3,632	4,520	3,632
Other operating expenses	1,950	4,785	560	1,161
Total	**4,823**	**2,954**	**(1,196)**	**1,686**

The Group's lease income (operating lease) amounted to €5.067 thousand.

16 Administrative costs

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Staff costs	**64,758**	**61,311**	**57,687**	**57,788**
Gross salaries	47,737	46,511	42,294	43,911
Social security contributions	3,621	3,261	2,848	2,937
Pension insurance contributions	3,597	3,699	3.470	3,583
Transportation allowances	1,194	1,140	1,057	1,086
Meal allowances	1,863	1,884	1,659	1,792
Severance benefits and early retirement payments	1,779	19	1,779	3
Supplementary pension insurance premiums	1,080	1,176	1,037	1,123
Pay for annual leave	3,112	3,004	2,812	2,863
Solidarity aid and long-service bonuses	23	35	14	31
Other staff costs	752	582	717	459
General and administrative costs	**37,091**	**46,730**	**31,888**	**42,689**
Costs of materials	637	864	497	787
Costs of energy	1,295	1,205	1,136	1,123
Costs of professional literature	34	37	25	31
Other costs of materials	104	181	100	181
Costs of renting business premises	2,815	4,043	2,607	3,979
Postal costs	3,241	2,268	2,705	2,240
Transport costs	1,134	1,799	1,134	1,799
Information system costs	1,150	2,527	1,077	2,527
Costs of other services	5,457	5,779	4,787	5,020
Business travel expenses	427	282	253	224
Maintenance costs of fixed assets	7,858	8,551	6,564	7,957
Advertising costs	3,114	3,474	2,708	3,198
Entertainment costs	358	266	162	181
Costs related to consulting, auditing, accounting and other services	7,795	13,882	6,652	11,992
School fees, scholarships and other training costs	541	255	485	236
Cost of insurance	962	1,138	873	1,084
Other administrative costs	169	179	123	130
Total administrative costs	**101,849**	**108,041**	**89,575**	**100,477**

In order to properly present financial information to investors or the regulator, the Bank recognised restructuring costs (extraordinary costs related to the restructuring of the Bank and the Group) in the amount of €8,193 thousand in 2018 (€9,723 thousand in 2017). At the Group level, these expenses amounted to €10,135 thousand (€13,699 thousand in 2017).

Remuneration of auditors

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Audit of the annual report	197	250	168	221
Other audit services	92	204	48	155
Total	**289**	**454**	**217**	**376**

In 2018 and 2017, the Group did not order other non-audit services.

17 Depreciation and amortisation

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Depreciation of property, plant and equipment (Note 32.1)	8,361	5,369	2,891	3,876
Amortisation of intangible assets (Note 33)	5,018	5,624	3,730	4,508
Total	**13,379**	**10,993**	**6,621**	**8,384**

18 Provisions

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Provisions for restructuring costs (Note 39)	(4,700)	(3,407)	(4,700)	(3,411)
Provisions for tax claims and other pending legal issues (Note 39)	7,963	(1,220)	7,982	(1,694)
Provisions for pensions and similar benefits (Note 39)	1,237	(286)	1,279	(288)
Provisions for off-balance-sheet liabilities (Note 39)	3,930	5,227	4,011	5,963
Other provisions (Note 39)	2	2,227	0	0
Total	**8,432**	**2,541**	**8,572**	**570**

19 Impairments

19.1 (Creation)/reversal of impairments of financial assets not measured at fair value through profit or loss

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Financial assets measured at fair value through other comprehensive income (IFRS 9)	(534)	-	(534)	-
– debt securities	(534)	-	(534)	-
Financial assets measured at amortised cost (IFRS 9)	12,591	-	15,433	-
– debt securities	(23)	-	(23)	-
– demand deposits at banks	(1)	-	(1)	-
– loans and advances to banks	(4)	-	(4)	-
– loans to customers	13,050	-	15,885	-
– other financial assets	(431)	-	(424)	-
Loans	-	24,612	-	18,883
– demand deposits at banks	-	28	-	28
– loans and advances to banks (Note 29.1)	-	(194)	-	0
– loans to customers (Note 29.2)	-	26,098	-	19,741
– other financial assets (Note 29.3)	-	(1,320)	-	(886)
Total	**12,057**	**24,612**	**14,899**	**18,883**

19.2 (Creation)/reversal of impairments of equity investment in subsidiaries, associates and joint ventures

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Impairments of equity investments in subsidiaries, associates and joint ventures	**(2,979)**	**0**	**(3,300)**	**(4,990)**

In 2018, the Parent Bank impaired the equity investment in the subsidiary KBM ASCO in the amount of €3,300 thousand.

19.3 (Creation)/reversal of impairments of non-financial assets

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Property, plant and equipment (Note 32.1)	(188)	0	(188)	0
Investment property (Note 32.2)	12	(2,355)	0	0
Other assets (Note 35.1)	(173)	(9,969)	(37)	(1,747)
Total	**(349)**	**(12,324)**	**(225)**	**(1,747)**

20 Income tax on continuing operations

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Income tax on continuing operations	(168)	(714)	1,417	0
Deferred tax relating to continuing operations	1,798	10,247	1,837	10,219
Total	**1,630**	**9,533**	**3,254**	**10,219**

20.1 Reconciliation of effective tax rate

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Profit before tax	70,864	38,789	72.266	35,594
Income tax calculated using the official tax rate	13,464	7,369	13.731	6,763
Non-taxable income	(1,842)	(1,525)	(1,229)	(733)
Allowable tax expenses	(12,871)	3,047	(13,501)	1,591
Effects of non-recognised deferred taxes in respect of investment impairments for a company in the Nova KBM Group	0	(5,082)	0	(5,082)
Tax reliefs	(38)	(1,612)	0	(1,587)
Other adjustments	(343)	(11,730)	(2,255)	(11,171)
Total income taxes	**(1,630)**	**(9,533)**	**(3,254)**	**(10,219)**

Most of the Parent Bank's non-taxable income relates to dividend income and income that is similar to dividends. The Parent Bank excluded from its 2018 tax base the dividend income and income that is similar to dividends totalling €6,081 thousand (€3,824 thousand in 2017).

The largest item among other adjustments is the amount of adjustments made in respect of deferred tax assets.

In 2018, the Parent Bank recorded tax loss. The reason is the recognition of tax expenses arising from the impairment of equity investments in the past years due to disposal of these investments (KBM Leasing – in liquidation, KBM Leasing Hrvatska – in liquidation, KBM ASCO, Serbia). In 2017, the Parent Bank did not record tax liability (covering tax loss in the amount of 50 % of the determined tax base and the use of tax relief).

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employees, through diligent work, step by step, implement the strategy of the Bank and contribute to progress at all levels of operations.

21 Basic earnings per share

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Net profit for the financial year (€000)	72,277	47,835	75,520	45,813
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 (€)	**7.23**	**4.78**	**7.55**	**4.58**

Basic earnings per share are calculated as the ratio between the net profit/loss reported for the period and the weighted average number of ordinary no-par-value shares.

The Nova KBM Group discloses basic net earnings per share for the purpose of ensuring continuity in disclosure although according to IAS 33, such disclosure is not required.

Notes to the statement of financial position items

22 Cash in hand, cash balances at the central bank, and demand deposits at banks

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash in hand	109,116	85,812	109,116	85,812
Cash balances at central bank	355,484	419,644	355,484	419,644
Demand deposits at banks	29,658	41,065	27,446	35,605
Total	**494,258**	**546,521**	**492,046**	**541,061**

22.1 Cash and cash equivalents

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash in hand, cash balances at the central bank and demand deposits at banks	494,258	546,521	492,046	541,061
Loans and advances to banks	47,839	17,526	47,839	17,332
Total	**542,097**	**564,047**	**539,885**	**558,393**

23 Financial assets held for trading

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Derivatives	**1,347**	**509**	**1,347**	**509**
Equity instruments	**970**	**1,015**	**0**	**0**
– equity instruments issued by other issuers	970	1,015	0	0
Total	**2,317**	**1,524**	**1,347**	**509**
Unquoted	2,317	1,524	1,347	509

No assets held in the 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.

23.1 Movements in financial assets held for trading

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
As at 1/1	**1,524**	**1,119**	**509**	**232**
Increase during the year	**965**	**441**	**913**	**281**
– acquisition	0	100	0	0
– change in fair value (recovery and reversal of impairment)	965	341	913	281
Decrease during the year	**172**	**36**	**75**	**4**
– disposal (sale and redemption)	0	4	0	4
– change in fair value (impairment and reversal of recovery)	172	32	75	0
As at 31/12	**2,317**	**1,524**	**1,347**	**509**

24 Non-trading financial assets mandatorily at fair value through profit or loss (IFRS 9)

	Nova KBM Group	Nova KBM
	31/12/2018	31/12/2018
Equity instruments	16,980	16,980
Loans and advances	22,712	22,712
Total	**39,692**	**39,692**

24.1 Movements in non-trading asssets mandatorily at fair value through profit or loss (IFRS 9)

Nova KBM Group Nova KBM	Equity instruments	Loans and other financial assets	Total
As at 1/1	**19,776**	**20,282**	**40,058**
Increase during the year	**4,995**	**14,225**	**19,220**
– change in fair value (recovery and reversal of impairment)	3,646	14,225	17,871
– other	1,349	0	1,349
Decrease during the year	**7,791**	**11,795**	**19,586**
– disposal (sale and redemption)	5,138	2,043	12,374
– change in fair value (impairment and reversal of recovery)	2,622	9,752	7,181
– interest received	31	0	31
As at 31/12	**16,980**	**22,712**	**39,692**

25 Financial assets designated at fair value through profit or loss (IAS 39)

	Nova KBM Group	Nova KBM
	31/12/2017	31/12/2017
Equity instruments	13,973	13,973
Debt securities	3,264	3,264
Total	**17,237**	**17,237**
Quoted	17,237	17,237

The Group did not receive any financial assets of this portfolio from the realisation of collateral provided as security for loans.

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.

25.1 Movements in financial assets designated at fair value through profit or loss (IAS 39)

	Nova KBM Group	Nova KBM
	2017	2017
As at 1/1	**86,732**	**86,732**
Increase during the year	**5,353**	**5,353**
– change in fair value (recovery and reversal of impairment)	2,042	2,042
– deferred interest	151	151
– other	3,160	3,160
Decrease during the year	**74,848**	**74,848**
– disposal (sale and redemption)	69,648	69,648
– change in fair value (impairment and reversal of recovery)	4,416	4,416
– deferred interest	176	176
– interest received	608	608
As at 31/12	**17,237**	**17,237**

26 Financial assets at fair value through other comprehensive income (IFRS 9)

26.1 Analysis by type and segments

	Nova KBM Group	Nova KBM
	31/12/2018	31/12/2018
Equity instruments	**28,782**	**28,782**
General government sector	25,222	25,222
Other financial companies	3,560	3,560
Debt securities	**1,445,386**	**1,445,386**
General government sector	820,806	820,806
Credit institutions	394,070	394,070
Other financial companies	83,557	83,557
Non-financial companies	146,953	146,953
Total	**1,474,168**	**1,474,168**
Quoted	1,445,386	1,445,386
Unquoted	28,782	28,782

As at 31 December 2018, the amount of pledged assets in the portfolio designated at fair value through other comprehensive income was €385,299 thousand. All of the said assets were pledged with the Bank of Slovenia for the Pool of Collateral, Guarantee Scheme, and the Single Resolution Fund.

Financial assets measured at fair value through other comprehensive income have no characteristics to qualify as subordinated debt.

26.2 Movements in financial assets measured at fair value through other comprehensive income (IFRS 9)

Nova KBM Group Nova KBM	Equity instruments	Debt securities	Total
As at 1/1/2018	**28,619**	**1,604,215**	**1,632,834**
Recognition of additional financial assets	0	118,422	118,422
Interest	0	(20,836)	(20,836)
Net revaluation through equity	163	(18,293)	(18,130)
Derecognition of financial assets upon sale or maturity	0	(241,608)	(241,608)
Net gains/losses on sale (Note 10.1)	0	3,486	3,486
As at 31/12/2018	**28,782**	**1,445,386**	**1,474,168**

For equity financial instruments held by the Nova KBM Group for strategic reasons (participating interests), the option of measuring at fair value through other comprehensive income was chosen. During the reporting period, the Group did not transfer cumulative profits and losses within equity. Dividends recognised in respect to equity instruments measured at FVOCI amount to €278 thousand.

Nova KBM Group Nova KBM	31/12/2018
Visa INC.	1,172
Single Resolution Fund	25,222
BANKART d.o.o.	2,378
SWIFT LA HULPE	10
Total	**28,782**

27 Available-for-sale financial assets (IAS 39)

27.1 Analysis by type and quotation

	Nova KBM Group	Nova KBM
	31/12/2017	31/12/2017
Equity instruments measured at fair value	32,456	32,456
Debt securities	1,589,125	1,589,042
– issued by the state and the central bank	941,942	941,942
– issued by banks	438,246	438,246
– issued by other issuers	208,937	208,854
Total	**1,621,581**	**1,621,498**
Quoted	1,589,215	1,589,132
Unquoted	32,366	32,366
Total	**1,621,581**	**1,621,498**

27.2 Movements in available-for-sale financial assets

Nova KBM Group	Equity instruments	Debt securities	Total
As at 1/1/2017	**33,002**	**1,551,512**	**1,584,514**
Recognition of additional financial assets	0	428,665	428,665
Interest	0	(17,776)	(17,776)
Net revaluation through equity	1,111	(6,438)	(5,327)
Derecognition of financial assets upon disposal	(2,537)	(67,876)	(70,413)
Derecognition of financial assets upon maturity	0	(299,855)	(299,855)
Net gains/losses on sale (Note 10.2)	880	893	1,773
As at 31/12/2017	**32,456**	**1,589,125**	**1,621,581**

Nova KBM	Equity instruments	Debt securities	Total
As at 1/1/2017	**30,707**	**1,551,388**	**1,582,095**
Recognition of additional financial assets	0	428,665	428,665
Interest	0	(17,780)	(17,780)
Net revaluation through equity	1,790	(6,438)	(4,648)
Derecognition of financial assets upon disposal	(115)	(67,876)	(67,991)
Derecognition of financial assets upon maturity	0	(299,810)	(299,810)
Net gains/losses on sale (Note 10.2)	74	893	967
As at 31/12/2017	**32,456**	**1,589,042**	**1,621,498**

28 Financial assets measured at amortised cost (IFRS 9)

	Nova KBM Group	Nova KBM
	31/12/2018	31/12/2018
Debt securities	73,021	73,021
Loans and advances to banks	97,930	97,905
Loans to customers	2,603,719	2,522,033
Other financial assets	31,735	30,828
Total	**2,806,405**	**2,723,787**

Movements in impairments and gross amounts in accordance with IFRS 9 for the 2018 financial year are presented in Chapter 4.1.6.

28.1 Debt securities

	Nova KBM Group	Nova KBM
	31/12/2018	31/12/2018
Non-current securities issued by the central bank	64,467	64,467
Non-current securities issued by other issuers	8,587	8,587
Impairments	(33)	(33)
Total – net amount	**73,021**	**73,021**
Impairment	**33**	**33**
Total – gross amount	**73,054**	**73,054**

28.2 Loans and advances to banks

	Nova KBM Group	Nova KBM
	31/12/2018	31/12/2018
Current loans	97,911	97,911
Impairment of current loans	(6)	(6)
Non-current loans	25	0
Total – net amount	**97,930**	**97,905**
Impairment	**6**	**6**
Total – gross amount	**97,936**	**97,911**

28.3 Loans to customers

	Nova KBM Group	Nova KBM
	31/12/2018	31/12/2018
Current loans	314,381	289,788
Impairment of current loans	(45,631)	(44,089)
Non-current loans	2,476,324	2,412,452
Impairment of non-current loans	(142,011)	(136,774)
Claims under guarantees	2,571	2,571
Impairment of claims under guarantees	(1,915)	(1,915)
Total – net amount	**2,603,719**	**2,522,033**
Impairment	**189,557**	**182,778**
Total – gross amount	**2,793,276**	**2.704.811**

28.4 Other financial assets

	Nova KBM Group	Nova KBM
	31/12/2018	31/12/2018
Claims for fees and commissions	1,888	1,414
Accounts receivables	1,070	653
Claims accounted for	20,764	20,751
Claims for court fees	622	622
Other	7,391	7,388
Total – net amount	**31,735**	**30,828**
Impairment	**2,933**	**2,351**
Total – gross amount	**34,668**	**33,179**

As at 31 December 2018, claims in the Group's accounts were mostly made of claims accounted for in respect of transactions with households (transactions under credit and charge cards).

29 Loans and receivables (IAS 39)

	Nova KBM Group	Nova KBM
	31/12/2017	31/12/2017
Loans and advances to banks	42.842	42,806
Loans to customers	2,366,167	2,322,531
Other financial assets	55,440	54,170
Total	**2,464,449**	**2,419,507**

29.1 Loans and advances to banks

	Nova KBM Group	Nova KBM
	31/12/2017	31/12/2017
Current loans	43,676	42,334
Impairment of current loans	(1,342)	0
Non-current loans	508	472
Total – net amount	**42,842**	**42,806**
Impairment	**1,342**	**0**
Total – gross amount	**44,184**	**42,806**

Movements in impairments of loans and advances to banks

	Nova KBM Group	Nova KBM
	2017	2017
As at 1/1	**1,105**	**3**
Additional impairment of principals	194	0
Foreign exchange rate differences	46	0
Other	(3)	(3)
As at 31/12	**1,342**	**0**

29.2 Loans to customers

	Nova KBM Group	Nova KBM
	31/12/2017	31/12/2017
Current loans	335,838	304,812
Impairment of current loans	(81,829)	(70,020)
Non-current loans	2,409,644	2,364,686
Impairment of non-current loans	(299,663)	(279,111)
Claims under guarantees	5,550	5,353
Impairment of claims under guarantees	(3,373)	(3,189)
Total – net amount	**2,366,167**	**2,322,531**
Impairment	**384,865**	**352,320**
Total – gross amount	**2,751,032**	**2,674,851**

Movements in impairments of loans to customers

	Nova KBM Group	Nova KBM
	2017	2017
As at 1/1	**484,183**	**448,719**
Additional impairment/(reversal of impairment) of principals	(26,098)	(19,741)
Additional impairment/(reversal of impairment) of interest	1,914	1,916
Additional impairment/(reversal of impairment) of fees	84	84
Write-offs of loans and advances to customers	(82,437)	(79,115)
Foreign exchange rate differences	527	0
Assets acquired through business combination	5,574	0
Other	1,118	457
As at 31/12	**384,865**	**352,320**

29.3 Other financial assets

	Nova KBM Group	Nova KBM
	31/12/2017	31/12/2017
Claims for fees and commissions	2,215	1,688
Accounts receivables	826	118
Surplus of funds arising from fiduciary operations	15	12
Claims accounted for	47,783	47,783
Claims for court fees	827	827
Other	3,774	3,742
Total – net amount	**55,440**	**54,170**
Impairment	**5,451**	**2,620**
Total – gross amount	**60,891**	**56,790**

Movements in impairments of other financial assets

	Nova KBM Group	Nova KBM
	2017	2017
As at 1/1	**9,962**	**2,069**
Assets acquired through business combination	504	317
Additional impairment of principals	1,320	886
Additional impairment/(reversal of impairment) of interest	(6)	(6)
Additional impairment of fees	57	57
Write-offs of other financial assets	(5,861)	(170)
Foreign exchange rate differences	8	1
Other	(533)	(534)
As at 31/12	**5,451**	**2,620**

30 Held-to-maturity financial assets (IAS 39)

	Nova KBM Group	Nova KBM
	31/12/2017	31/12/2017
Debt securities	**88,700**	**88,700**
– non-current securities issued by the state and the central bank	80,124	80,124
– non-current securities issued by other issuers	8,576	8,576
Total	**88,700**	**88,700**
Quoted	88,700	88,700
Total	**88,700**	**88,700**

30.1 Movements in held-to-maturity financial assets (IAS 39)

	Nova KBM Group	Nova KBM
	2017	2017
As at 1/1	**90,216**	**90,216**
Increase during the year	**2,145**	**2,145**
– other (deferred interest)	2,145	2,145
Decrease during the year	**3,661**	**3,661**
– disposal (sale and redemption)	263	263
– other (interest received)	3,398	3,398
As at 31/12	**88,700**	**88,700**

31 Long-term equity investments in subsidiaries, associates and joint ventures

		Nova KBM
	31/12/2018	31/12/2017
Equity investments in other Group companies	**109,417**	**85,762**
– equity investments in other subsidiary financial organisations	109,417	77,152
– equity investments in non-financial subsidiary companies	0	8,610
Total	**109,417**	**85,762**

31.1 Movements in investments in the equity of subsidiaries, associates and joint ventures

		Nova KBM
	2018	2017
As at 1/1	**85,762**	**55,476**
Increase during the year	**66,642**	**44,417**
– acquisition	0	44,417
– recapitalisation	66,642	0
Decrease during the year	**42,987**	**14,131**
– derecognition upon the acquisition/liquidation of a subsidiary company	0	4,291
– impairments	3,300	4,990
– repayment of investment	4,000	4,850
– disposal	32,167	0
Realised losses	10	0
Movement to non-current assets held for sale	3,510	0
As at 31/12	**109,417**	**85,762**

In 2018, increases in equity investments in subsidiaries relate to the recapitalisation of the subsidiary Summit Leasing Slovenija in the amount of €65,000 thousand, and the purchase of a 5-percent stake in KBM Infond in the amount of €1,642 thousand.

The largest proportion of decreased equity investments relate to:

- Sale of the subsidiaries KBM Leasing Hrvatska – in liquidation, KBM ASCO (€1,300 thousand), and KBM Leasing – in liquidation (€30,867 thousand)
- Repayment of the equity investment of KBM ASCO (€4,000 thousand), and
- Reclassification of equity investments to non-current assets held for sale (KBM Infond, and M-Pay).

In 2017, increases in equity investments in subsidiaries related to the acquisition of a 100-percent stake in the subsidiary Summit Leasing Slovenija in the amount of €44,417 thousand.

In accordance with the Nova KBM Group's restructuring plan, the subsidiary KBM Invest ceased its operation in 2017, and the investment in company's equity in the amount of €4,291 thousand was derecognised.

Other decreases in equity investments in subsidiaries relate to:

- Impairment of the equity investment in the subsidiary KBM ASCO in the amount of €4,990 thousand, and a partial repayment of the equity investment in the amount of €4,000 thousand
- Repayment of additional equity of KBM Infond in the amount of €850 thousand.

31.2 Information about companies in which the Bank holds at least a 20-percent equity stake

	31/12/2018		31/12/2018				31/12/2018
Company Name	Total equity	Net profit/ loss	Equity attributable to Nova KBM	Acquisition cost	Equity stake (%)	Voting rights (%)	Investment value
Investments in the equity of other customers							
Summit Leasing Slovenija	101,194	5,646	101,194	109,417	100.00	100.00	109,417
Total				**109,417**			**109,417**

32 Tangible assets

32.1 Property, plant and equipment

Nova KBM Group	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
As at 1/1/2018	**100,333**	**19,632**	**54,202**	**136**	**174,303**
Assets acquired through business combination/(deconsolidation)	(230)	(18)	(134)	0	**(382)**
Transfers between types of assets	(13,133)	1,871	842	(2,802)	**(13,222)**
Additions	0	202	29,144	3,992	**33,338**
Disposals	(443)	(1,644)	(27,443)	(11)	**(29,541)**
As at 31/12/2018	**86,527**	**20,043**	**56,611**	**1,315**	**164,496**
Accumulated depreciation					
As at 1/1/2018	**53,388**	**18,053**	**32,573**	**1**	**104,015**
Assets acquired through business combination/(deconsolidation)	(144)	88	(38)	0	**(94)**
Transfers between types of assets	(5,520)	(1)	(30)	0	**(5,551)**
Depreciation (Note 17)	1,408	903	6,050	0	**8,361**
Disposals	(414)	(1,606)	(5,053)	0	**(7,073)**
Revaluation (Note 19.3)	188	0	0	0	**188**
As at 31/12/2018	**48,906**	**17,437**	**33,502**	**1**	**99,846**
Book value at 1/1/2018	**46,945**	**1,579**	**21,629**	**135**	**70,288**
Book value at 31/12/2018	**37,621**	**2,606**	**23,109**	**1,314**	**64,650**

Nova KBM Group	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
As at 1/1/2017	**104,031**	**23,214**	**32,911**	**659**	**160,815**
Assets acquired through business combination	0	721	24,040	0	**24,761**
Transfers between types of assets	(3,281)	1,020	(1,230)	(1,103)	**(4,594)**
Additions	148	213	5,579	602	**6,542**
Disposals	(565)	(5,536)	(7,100)	(22)	**(13,223)**
Foreign exchange rate differences	0	0	2	0	**2**
As at 31/12/2017	**100,333**	**19,632**	**54,202**	**136**	**174,303**
Accumulated depreciation					
As at 1/1/2017	**53,172**	**21,669**	**28,659**	**1**	**103,501**
Assets acquired through business combination	0	623	5,279	0	**5,902**
Transfers between types of assets	(1,442)	299	(1,556)	0	**(2,699)**
Additions	5	8	46	0	**59**
Depreciation (Note 17)	2,012	958	2,399	0	**5,369**
Disposals	(359)	(5,504)	(2,256)	0	**(8,119)**
Foreign exchange rate differences	0	0	2	0	**2**
As at 31/12/2017	**53,388**	**18,053**	**32,573**	**1**	**104,015**
Book value at 1/1/2017	**50,859**	**1,545**	**4,252**	**658**	**57,314**
Book value at 31/12/2017	**46,945**	**1,579**	**21,629**	**135**	**70,288**

Nova KBM	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
As at 1/1/2018	**99,869**	**18,323**	**30,191**	**139**	**148,522**
Transfers between types of assets	(13,133)	1,871	842	(2,802)	**(13,222)**
Additions	0	0	0	3,992	**3,992**
Disposals	(443)	(1,460)	(1,132)	(11)	**(3,046)**
As at 31/12/2018	**86,293**	**18,734**	**29,901**	**1,318**	**136,246**
Accumulated depreciation					
As at 1/1/2018	**52,788**	**17,033**	**26,976**	**1**	**96,797**
Transfers between types of assets	(5,525)	(1)	(30)	0	**(5,556)**
Depreciation (Note 17)	1,389	739	763	0	**2,891**
Disposals	(414)	(1,459)	(1,085)	0	**(2,958)**
Revaluation (Note 19.3)	188	0	0	0	**188**
As at 31/12/2018	**48,426**	**16,312**	**26,624**	**0**	**91,362**
Book value at 1/1/2018	**47,081**	**1,290**	**3,215**	**139**	**51,725**
Book value at 31/12/2018	**37,867**	**2,422**	**3,277**	**1,318**	**44,884**

Nova KBM	Land and buildings	Computer equipment	Other equipment	Finance leases	PPE in progress	Total
Cost						
As at 1/1/2017	**102,989**	**22,758**	**30,376**	**129**	**662**	**156,914**
Transfers between types of assets	(3,223)	1,020	311	(129)	(1,103)	**(3,124)**
Additions	103	9	149	0	602	**863**
Disposals	0	(5,464)	(645)	0	(22)	**(6,131)**
As at 31/12/2017	**99,869**	**18,323**	**30,191**	**0**	**139**	**148,522**
Accumulated depreciation						
As at 1/1/2017	**52,157**	**21,255**	**26,627**	**129**	**0**	**100,168**
Transfers between types of assets	(1,377)	299	(84)	(129)	0	**(1,291)**
Additions	5	8	46	0	0	**59**
Depreciation (Note 17)	2,003	904	969	0	0	**3,876**
Disposals	0	(5,433)	(582)	0	0	**(6,015)**
As at 31/12/2017	**52,788**	**17,033**	**26,976**	**0**	**0**	**96,797**
Book value at 1/1/2017	**50,832**	**1,503**	**3,749**	**0**	**662**	**56,746**
Book value at 31/12/2017	**47,081**	**1,290**	**3,215**	**0**	**139**	**51,725**

As at 31 December 2018, the cost of the Group's fully amortised property, plant and equipment still in use amounted to €42,990 thousand (€41,553 thousand as at 31 December 2017).

The Group's liabilities to suppliers of property, plant and equipment amounted to €2,992 thousand as at 31 December 2018 (€19 thousand as at 31 December 2017).

In 2018, the Nova KBM Group had no property, plant and equipment under finance lease.

No items of property, plant and equipment were pledged by the Group as at 31 December 2018.

32.2 Investment property

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
As at 1/1	**28,576**	**37,807**	**28,161**	**30,459**
Transfers between types of assets	(862)	(6,807)	(862)	(5,186)
Additions	1	2,934	0	2,932
Disposals	(148)	(3,247)	(148)	(44)
Change in fair value (Note 19.3)	12	(2,355)	0	0
Other changes	(1)	244	(1)	0
As at 31/12	**27,578**	**28,576**	**27,150**	**28,161**

In 2018, the Group's lease income amounted to €3,606 thousand, value added tax included (€3,945 thousand in 2017).

Direct operating expenses of the Group related to investment property amounted to €57 thousand in 2018 (€44 thousand in 2017).

Fair value of all major investment property items is determined by an authorised valuer.

Items of investment property are not subject to any sale restrictions.

Investment properties are recognised in financial statements in accordance with the fair value model.

33 Intangible assets

Nova KBM Group	Computer software	Intangible assets in preparation	Goodwill	Other intangible assets	Total
Cost					
As at 1/1/2018	**77,801**	**6,504**	**7,299**	**11,516**	**103,120**
Assets acquired through business combination/ (deconsolidation)	(359)	0	0	(13)	**(372)**
Transfer between types of assets	3,639	(4,965)	0	1,326	**0**
Additions	63	9,478	0	161	**9,702**
Disposals	(3,269)	(3,892)	0	(1)	**(7,162)**
As at 31/12/2018	**77,875**	**7,125**	**7,299**	**12,989**	**105,288**
Accumulated depreciation					
As at 1/1/2018	**68,839**	**0**	**0**	**7,084**	**75,923**
Assets acquired through business combination/ (deconsolidation)	(275)	0	0	(3)	**(278)**
Transfer between types of assets	1	0	0	(1)	**0**
Depreciation (Note 17)	3,782	0	0	1,236	**5,018**
Disposals	(3,143)	0	0	0	**(3,143)**
As at 31/12/2018	**69,204**	**0**	**0**	**8,316**	**77,520**
Book value at 1/1/2018	**8,962**	**6,504**	**7,299**	**4,432**	**27,197**
Book value at 31/12/2018	**8,671**	**7,125**	**7,299**	**4,673**	**27,768**

The Group may freely dispose of its intangible assets, and none of these assets are pledged as collateral.

As at 31 December 2018, the cost of the Group's fully amortised intangible assets still in use amounted to €58,991 thousand (€55,818 thousand as at 31 December 2017).

The Group's liabilities to suppliers of intangible assets amounted to €2,185 thousand as at 31 December 2018 (€2,224 thousand as at 31 December 2017).

In accordance with IAS 36, Nova KBM carried out a test of any impairment of goodwill. A certified business value appraiser assessed that a recoverable amount of the investment in the 100-percent stake of Summit Leasing Slovenija exceeds the carrying amount of the equity investment in the subsidiary, which proves that there are no indications of impairment of goodwill.

In 2018, the Parent Bank capitalised development costs, which are shown among intangible assets in progress.

Nova KBM Group	Computer software	Intangible assets in preparation	Goodwill	Other intangible assets	Total
Cost					
As at 1/1/2017	**81,472**	**2,340**	**0**	**10,699**	**94,511**
Assets acquired through business combination	0	0	7,299	1,242	**8,541**
Transfer between types of assets	3,270	(3,668)	0	(509)	**(907)**
Additions	45	7,832	0	101	**7,978**
Disposals	(6,986)	0	0	(17)	**(7,003)**
As at 31/12/2017	**77,801**	**6,504**	**7,299**	**11,516**	**103,120**
Accumulated depreciation					
As at 1/1/2017	**70,410**	**0**	**0**	**5,638**	**76,048**
Assets acquired through business combination	0	0	0	1,088	**1,088**
Transfer between types of assets	(142)	0	0	(699)	**(841)**
Depreciation (Note 17)	4,549	0	0	1,075	**5,624**
Disposals	(5,978)	0	0	(18)	**(5,996)**
As at 31/12/2017	**68,839**	**0**	**0**	**7,084**	**75,923**
Book value at 1/1/2017	**11,062**	**2,340**	**0**	**5,061**	**18,463**
Book value at 31/12/2017	**8,962**	**6,504**	**7,299**	**4,432**	**27,197**

Nova KBM	Computer software	Intangible assets in preparation	Other intangible assets	Total
Cost				
As at 1/1/2018	**76,281**	**6,453**	**406**	**83,140**
Transfer between types of assets	3,590	(4,916)	1,326	**0**
Additions	0	9,478	0	**9,478**
Disposals	(3,263)	(3,892)	0	**(7,155)**
As at 31/12/2018	**76,608**	**7,123**	**1,732**	**85,463**
Accumulated depreciation				
As at 1/1/2018	**67,627**	**0**	**149**	**67,776**
Transfer between types of assets	1	0	(1)	**0**
Amortisation (Note 17)	3,690	0	40	**3,730**
Disposals	(3,140)	0	0	**(3,140)**
As at 31/12/2018	**68,178**	**0**	**188**	**68,366**
Book value at 1/1/2018	**8,654**	**6,453**	**257**	**15,364**
Book value at 31/12/2018	**8,430**	**7,123**	**1,544**	**17,097**

Nova KBM	Computer software	Intangible assets in preparation	Other intangible assets	Total
Cost				
As at 1/1/2017	**79,874**	**2,289**	**915**	**83,078**
Transfer between types of assets	3,270	(3,668)	(509)	**(907)**
Additions	0	7,832	0	**7,832**
Disposals	(6,863)	0	0	**(6,863)**
As at 31/12/2017	**76,281**	**6,453**	**406**	**83,140**
Accumulated depreciation				
As at 1/1/2017	**69,159**	**0**	**806**	**69,965**
Transfer between types of assets	(142)	0	(699)	**(841)**
Amortisation (Note 17)	4,466	0	42	**4,508**
Disposals	(5,856)	0	0	**(5,856)**
As at 31/12/2017	**67,627**	**0**	**149**	**67,776**
Book value at 1/1/2017	**10,715**	**2,289**	**109**	**13,113**
Book value at 31/12/2017	**8,654**	**6,453**	**257**	**15,364**

34 Tax assets and liabilities

34.1 Tax assets

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Current income tax assets	152	114	0	18
Deferred tax assets (Note 34.3)	23,561	20,592	21,908	19,371
Total	**23,713**	**20,706**	**21,908**	**19,389**

The amount of €152 thousand under item current income tax assets represents the claim of the Nova KBM Group against the FURS arising from the difference between the amount of tax prepayments made during 2018 and the reported tax liability for the year. The Parent Bank's deferred tax assets totalled €21,908 thousand net or €26,764 thousand gross.

34.2 Tax liabilities

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Current income tax liabilities	414	393	8	8
Deferred tax liabilities (Note 34.3)	**0**	**0**	**0**	**0**
Total	**414**	**393**	**8**	**8**

In 2018, the Group recorded balancing payment of income tax liabilities in the amount of €406 thousand. The parent Bank recorded tax loss.

34.3 Net deferred taxes

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Deferred tax assets (Note 34.1)	**23,561**	**20,592**	**21,908**	**19,371**
– relating to tax loss	23,928	20,050	23,928	20,050
– relating to available-for-sale financial assets	-	(4,672)	-	(4,672)
– relating to financial assets designated at FVOCI	(2,498)	-	(2,498)	-
– relating to financial assets measured at amortised cost	6	-	6	-
– relating to other provisions for employees	530	759	472	702
– other	1,595	4,455	0	3,291
Deferred tax liabilities (Note 34.2)	**0**	**0**	**0**	**0**

	Nova KBM Group		Nova KBM	
	1/1-31/12/2018	1/1-31/12/2017	1/1-31/12/2018	1/1-31/12/2017
(Net) impact of transition to IFRS 9	**18)**	**-**	**(456)**	**-**
Included in profit or loss	**(358)**	**10,247**	**(319)**	**10,219**
– relating to tax loss	3,878	7,616	3,878	7,616
– relating to available-for-sale financial assets	-	(644)	-	(644)
– relating to revaluation of FVOCI	103	-	103	-
– relating to revaluation of amortised cost	4	-	4	-
– relating to other provisions for employees	(195)	(21)	(200)	(36)
– other	(4,148)	3,296	(4,104)	3,283
Other comprehensive income	**3,309**	**917**	**3,312**	**823**
– relating to available-for-sale financial assets	-	977	-	883
–relating to financial assets, equity and debt securities at FVOCI	3,343	-	3,343	-
– relating to provisions for retirement benefits	(34)	(60)	(31)	(60)

The Group recorded net deferred tax assets totalling €23,561 thousand (the respective amount for the Parent Bank was €21,908 thousand). The largest part of them was attributed to deferred tax assets recorded for tax losses. For a portion of its uncovered tax loss totalling €125,936 thousand, the Parent Bank recorded deferred tax assets in the amount of €23,928 thousand. Residual tax loss for which the Parent Bank has not made deferred tax assets amounts to €778,977 thousand.

The negative amount of €2,498 thousand included in the line item „Deferred tax assets – relating to financial assets designated at fair value through other comprehensive income" is the result of disclosing net deferred taxes by types. Deferred tax assets relating to financial assets designated at fair value through other comprehensive income total €2,358 thousand, and total liabilities for these assets amount to €4,856 thousand.

In 2018, the Parent Bank disposed of the equity investment in KBM Leasing Hrvatska – in liquidation and, consequently, derecognised deferred tax assets relating to impairment of the investment in the amount of €3,291 thousand.

35 Other assets

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Inventory	20,097	26,135	11,498	15,019
– assets received in settlement of claims	2,593	5,768	10,029	13,205
– other inventory	17,504	20,367	1,469	1,814
Claims arising from advance payments	4,529	1,351	259	208
Prepayments and accrued income	2,796	6,569	1,371	1,662
Other claims	505	891	66	68
Total – net amount	**27,927**	**34,946**	**13,194**	**16,957**
Impairment	**34,053**	**50,601**	**33,123**	**35,845**
Total – gross amount	**61,980**	**85,547**	**46,317**	**52,802**

Real estate held for sale, totalling €8,887 thousand (€9,628 thousand in 2017), movable and immovable assets seized under lease agreements totalling €147 thousand (€2,040 thousand in 2017), and the stock of vehicles totalling €8,454 thousand (€7,183 thousand in 2017) accounted for the largest portion of the Group's inventory as at 31 December 2018.

35.1 Movements in impairments of other assets

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
As at 1/1	**50,649**	**43,293**	**35,844**	**34,351**
Assets acquired through business combination/(deconsolidation)	(12,403)	28	0	0
Additional impairment/(reversal of impairment) (Note 19.3)	173	9,969	37	1,747
Write-offs of other assets	(4,350)	(3,531)	(2,758)	(303)
Foreign exchange rate differences	0	20	0	0
Other	(16)	822	0	50
As at 31/12	**34,053**	**50,601**	**33,123**	**35,845**

36 Non-current assets held for sale and discontinuing operations

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Items of property, plant and equipment held for sale	8,934	2,694	8,934	2,625
Items of investment property held for sale	727	5,410	727	5,410
Equity investments in Group companies held for sale	0	0	3,511	0
Total	**9,661**	**8,104**	**13,172**	**8,035**

In December 2018, the two equity investments in the subsidiary KBM Infond (intention to sell) and M-Pay (resolution on summary winding-up the company), were reclassified to non-current assets held for sale in individual financial statements of the Parent Bank.

In accordance with the adopted accounting policy on non-materiality, both companies are fully consolidated in the consolidated financial statements. Assets and liabilities, comprehensive income and cash flows of discontinuing operations are presented below.

36.1 Comprehensive income of discontinuing operations

	KBM Infond		M-Pay	
ITEM DESCRIPTION	1/1–31/12/2018	1/1–31/12/2017	1/1–31/12/2018	1/1–31/12/2017
Income of discontinuing operations	6,961	7,514	0	15
Expenses of discontinuing operations	(5,747)	(5,331)	(2)	(3)
Profit/loss of discontinuing operations before tax	1,214	2,183	(2)	12
Income tax on discontinuing operations	(232)	(415)	0	(2)
NET LOSS FOR THE FINANCIAL YEAR AFTER TAX	**982**	**1,768**	**(2)**	**10**
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX	**29**	**(563)**	**0**	**0**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**31**	**(13)**	**0**	**0**
Actuarial gains/losses for pension schemes recognised in retained earnings/loss	34	(14)	0	0
Income tax relating to items that will not be reclassified to profit or loss	(3)	1	0	0
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**(2)**	**(550)**	**0**	**0**
Gains/losses in respect of investment in debt financial instruments designated at fair value through other comprehensive income	**(2)**	**(679)**	**0**	**0**
Valuation gains/losses taken to equity	(1)	127	0	0
Transfer of gains/losses to profit or loss	(1)	(806)	0	0
Income tax related to other comprehensive income	0	129	0	0
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**1,011**	**1,205**	**(2)**	**10**
a) Attributable to owners of the parent	786	876	(1)	5
b) Attributable to non-controlling interests	225	329	(1)	5

36.2 Cash flows from discontinuing operations

	KBM Infond		M-Pay	
ITEM DESCRIPTION	1/1–31/12/2018	1/1–31/12/2017	1/1–31/12/2018	1/1–31/12/2017
CASH FLOWS FROM OPERATING ACTIVITIES	**2,079**	**4,710**	**226**	**12**
CASH FLOWS FROM INVESTING ACTIVITIES	**(271)**	**(186)**	**0**	**0**
Cash payments on investing activities	(271)	(186)	0	0
CASH FLOWS FROM FINANCING ACTIVITIES	**(1,768)**	**(1,519)**	**0**	**0**
Cash payments on financing activities	(1,768)	(1,519)	0	0
of which:				
– dividend paid to major owner	(1,286)	(515)	0	0
– dividend paid to non-controlling interests	(482)	(154)	0	0
Net (decrease) in cash and cash equivalents	**40**	**3,005**	**226**	**12**
Opening balance of cash and cash equivalents	4,780	1,775	24	12
Closing balance of cash and cash equivalents	**4,820**	**4,780**	**250**	**24**

36.3 Assets and liabilities of discontinuing operations

	KBM Infond		M-Pay	
ITEM DESCRIPTION	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash in hand, cash balances at the central bank, and demand deposits at banks	4,836	4,780	249	23
Financial assets held for trading	969	1,014	0	0
Financial assets measured at FVOCI	0	83	0	0
Financial assets measured at amortised cost	497	567	0	231
Tangible assets	842	719	0	0
Intangible assets	3,235	4,241	0	0
Current income tax assets	166	19	2	0
Other assets	80	122	0	0
TOTAL ASSETS	**10,625**	**11,545**	**251**	**254**
Financial liabilities measured at amortised cost	545	523	0	0
Provisions	187	190	0	0
Tax liabilities	0	180	0	0
Other liabilities	20	22	0	0
TOTAL LIABILITIES	**752**	**915**	**0**	**0**
TOTAL EQUITY	**9,873**	**10,630**	**251**	**254**
Equity attributable to major owners	7,679	7,731	126	127
Equity attributable to non-controlling interests	2,194	2,899	125	127
TOTAL LIABILITIES AND EQUITY	**10,625**	**11,545**	**251**	**254**
Net assets – individually	9,873	10,630	251	254
Net assets – consolidated	4,209	5,902	63	64

37 Financial liabilities held for trading

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Derivatives	1,451	1,024	1,451	1,023
– forwards	135	92	135	91
– swaps	1,046	202	1,046	202
– other derivatives	270	730	270	730
Total	**1,451**	**1,024**	**1,451**	**1,023**

38 Financial liabilities measured at amortised cost

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Deposits (Note 38.1, 38.3)	3,793,567	3,690,254	3,798,683	3,723,661
Loans (Note 38.2, 38.3)	384,654	396,153	378,026	378,912
Debt securities	0	1,502	0	1,502
Other financial liabilities (Note 38.4)	50,819	79,936	42,645	74,808
Total	**4,229,040**	**4,167,845**	**4,219,354**	**4,178,883**

38.1 Deposits by type of customers and maturity

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Deposits from banks and central banks	**21,379**	**51,863**	**21,379**	**51,862**
– demand deposits	8,447	34,308	8,447	34,308
– non-current deposits	12,932	17,555	12,932	17,554
Deposits from customers	**3,772,188**	**3,638,391**	**3,777,304**	**3,671,799**
– demand deposits	2,893,688	2,613,772	2,898,001	2,646,143
– current deposits	296,789	357,271	297,592	358,281
– non-current deposits	581,711	667,348	581,711	667,375
Total	**3,793,567**	**3,690,254**	**3,798,683**	**3,723,661**

38.2 Loans by type of customers and maturity

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Loans from banks and central banks	**384,654**	**396,153**	**378,026**	**378,912**
– current loans	4,009	0	0	0
– non-current loans	380,645	396,153	378,026	378,912
Total	**384,654**	**396,153**	**378,026**	**378,912**

38.3 Deposits and loans by segments

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Deposits	**3,793,567**	**3,690,254**	**3,798,683**	**3,723,661**
– from banks and central bank	21,379	51,863	21,379	51,862
– from non-financial companies	647,414	568,734	647,418	568,730
– from the state	69,993	78,764	69,993	78,764
– from other financial organisations	86,675	73,895	91,787	107,290
– from non-residents	18,168	47,253	18,168	47,270
– from non-profit institutions serving households	70,872	72,961	70,872	72,961
– from households	2,879,066	2,796,784	2,879,066	2,796,784
Loans	**384,654**	**396,153**	**378,026**	**378,912**
– loans from banks and central bank	384,654	396,153	378,026	378,912
Total	**4,178,221**	**4,086,407**	**4,176,709**	**4,102,573**

38.4 Other financial liabilities

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Liabilities for fees and commissions	3	5	3	4
Liabilities arising from gross salaries of employees	3,649	3,829	3,193	3,429
Liabilities to suppliers	6,953	9,881	4,305	6,540
Liabilities arising from payment card transactions	4,342	29,466	4,342	29,466
Liabilities arising from ATM transactions	2,115	2,599	2,115	2,599
Liabilities in respect of funds provided by customers for cross-border payments	9,518	4,153	9,518	4,153
Liabilities in respect of cash transactions	849	6,338	849	6,338
Liabilities in respect to profit participation – dividend, share	14	8	0	0
Accruals and deferred income	15,815	11,676	14,784	10,486
Other financial liabilities	7,506	11,981	3,481	11,793
Surplus of funds arising from fiduciary operations	55	0	55	0
Total	**50,819**	**79,936**	**42,645**	**74,808**

39 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
As at 1/1/2018	**4,084**	**15,305**	**6,864**	**9,757**	**9,950**	**45,959**
Assets acquired through business combination/ (deconsolidation)	(3)	(273)	(23)	0	(105)	**(404)**
Net creation/reversal of provisions through profit or loss (Note 18)	4,700	(7,963)	(1,237)	(3,930)	(2)	**(8,432)**
– provisions made during the year	4,700	852	51	10,869	0	**16,472**
– provisions (reversed) during the year	0	(8,815)	(1,288)	(14,799)	(2)	**(24,904)**
Net (reversal of) provisions through equity	0	0	(334)	0	0	**(334)**
Provisions used during the year	(3,818)	(3,951)	(289)	0	0	**(8,057)**
Other	0	1,519	0	(163)	625	**1,981**
As at 31/12/2018	**4,963**	**4,637**	**4,981**	**5,664**	**10,468**	**30,713**

Considering legal opinions obtained, the Group had €9,608 thousand of provisions set aside for legal actions as at 31 December 2018 (€15,305 as at 31 December 2017).

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
As at 1/1/2017	**4,860**	**16,714**	**6,938**	**28,314**	**2,394**	**59,220**
Assets acquired through business combination	0	0	276	0	0	**276**
Net creation/(reversal) of provisions through profit or loss (Note 18)	3,407	1,220	286	(5,227)	(2,227)	**(2,541)**
– provisions made during the year	3,411	4,473	365	21,973	0	**30,222**
– provisions (reversed) during the year	(4)	(3,253)	(79)	(27,200)	(2,227)	**(32,763)**
Net (reversal of) provisions through equity	0	0	(526)	0	0	**(526)**
Provisions used during the year	(4,183)	(2,629)	(110)	0	0	**(6,922)**
Other	0	0	0	(9,845)	9,783	**(62)**
As at 31/12/2017	**4,084**	**15,305**	**6,864**	**13,242**	**9,950**	**49,445**

In 2017, the Parent Bank transferred the provision of €9,781 thousand from the Provisions for off-balance-sheet liabilities arising from the issued guarantee to Other provisions, as the provision has no longer met the criteria for recognition in the original category (the potential debtor went bankrupt).

Nova KBM	Provisions for restructuring costs	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance-sheet liabilities	Other provisions	Total
As at 1/1/2018	**4,088**	**15,032**	**6,238**	**9,907**	**9,844**	**45,109**
Net creation/(reversal) of provisions through profit or loss (Note 18)	4,700	(7,982)	(1,279)	(4,011)	0	**(8,572)**
– provisions made during the year	4,700	832	9	10,969	0	**16,510**
– provisions (reversed) during the year	0	(8,814)	(1,288)	(14,980)	0	**(25,082)**
Net reversal of provisions through equity	0	0	(323)	0	0	**(323)**
Provisions used during the year	(3,825)	(3,952)	(263)	0	0	**(8,040)**
Other	0	1,519	0	(208)	624	**1.935**
As at 31/12/2018	**4,963**	**4,617**	**4,373**	**5,688**	**10,468**	**30,109**

Nova KBM	Provisions for restructuring costs	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance-sheet liabilities	Other provisions	Total
As at 1/1/2017	**4,860**	**15,967**	**6,695**	**29,202**	**61**	**56,785**
Net creation/(reversal) of provisions through profit or loss (Note 18)	3,411	1,694	288	(5,963)	0	**(570)**
– provisions made during the year	3,411	4,400	335	20,738	0	**28,884**
– provisions (reversed) during the year	0	(2,706)	(47)	(26,701)	0	**(29,454)**
Net reversal of provisions through equity	0	0	(652)	0	0	**(652)**
Provisions used during the year	(4,183)	(2,629)	(93)	0	0	**(6,905)**
Other	0	0	0	(9,845)	9,783	**(62)**
As at 31/12/2017	**4,088**	**15,032**	**6,238**	**13,394**	**9,844**	**48,596**

40 Other liabilities

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Liabilities arising from advance payments received	1,977	1,845	4	11
Liabilities in respect of taxes and contributions	1,423	1,593	1,309	1,512
Accruals and deferred income	2,667	10,270	2,118	815
Total	**6,067**	**13,708**	**3,431**	**2,338**

41 Share capital

Nova KBM Nova KBM Group	31/12/2018	31/12/2017
Ordinary shares	**150,000**	**150,000**
– subscribed by non-residents	150,000	150,000

In 2018 and 2017, the Group did not purchase or sell treasury shares. As at 31 December 2018, no treasury shares were held by the Parent Bank, nor were shares of the Parent Bank held by any of the Group companies.

42 Share premium

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Paid-in capital surplus	403,302	403,302	403,302	403,302
Total	**403,302**	**403,302**	**403,302**	**403,302**

43 Accumulated other comprehensive income

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Accumulated other comprehensive income/(loss) in respect of actuarial gains on defined benefit pension plans	314	16	446	153
– revaluation	360	30	493	169
– deferred taxes	(46)	(14)	(47)	(16)
Accumulated other comprehensive income relating to change in fair value of investment in equity instruments	1,943	-	1,943	-
– revaluation	2,399	-	2,399	-
– deferred taxes	(456)	-	(456)	-
Accumulated other comprehensive income relating to investments in debt financial instruments designated at fair value	15,871	-	15,871	-
– revaluation	18,763	-	18,763	-
– other reclassifications	831	-	831	-
– deferred taxes	(3,723)	-	(3,723)	-
Accumulated other comprehensive income in respect of available-for-sale financial assets	-	29,877	-	29,876
– revaluation	-	36,885	-	36,884
– deferred taxes	-	(7,008)	-	(7,008)
Total	**18,128**	**29,893**	**18,260**	**30,029**

43.1 Movements in accumulated other comprehensive income

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
As at 1/1	**32,083**	**33,571**	**31,219**	**33,201**
Net change arising from the valuation of available-for-sale financial assets	-	(5,141)	-	(4,648)
– recognised gains/losses	-	(3,588)	-	(3,682)
– transfer of gains to profit or loss	-	(1,553)	-	(966)
Net change in accumulated other comprehensive income in respect of actuarial gains on defined benefit pension plans	367	546	322	652
Net change in disposal of investments in equity instruments	164	-	164	-
Net change in accumulated other comprehensive income relating to investments in debt financial instruments designated at fair value	(18,293)	-	(18,292)	-
– recognised gains/losses	(14,807)	-	(14,807)	-
– transfer of gains to profit or loss	(3,486)	-	(3,485)	-
Net change in deferred taxes	3,272	917	3,312	824
Other	535	0	534	0
As at 31/12	**18,128**	**29,893**	**18,260**	**30,029**

44 Reserves from profit

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Regulatory reserves	3,630	3,833	3,518	3,518
Other reserves from profit	16,710	16,710	16,710	16,710
Total	**20,340**	**20,543**	**20,228**	**20,228**

45 Retained earnings (including net profit for the financial year)

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Retained earnings from previous years	64,024	44,746	56,139	33,685
Net profit for the financial year	72,277	46,089	75,520	45,813
Total	**136,301**	**90,835**	**131,659**	**79,498**

46 Distributable profit

	Nova KBM	
	31/12/2018	31/12/2017
Net profit for the financial year	**75,520**	**45,813**
Retained earnings from previous years	79,498	63,850
Transition to IFRS 9	22,455	-
Payment of dividends	(45,813)	(30,167)
Other	(1)	2
Distributable profit	**131,659**	**79,498**

The allocation of distributable profit is subject to a decision of the Shareholders' Meeting of the Bank.

22,000+
Bank@Work programme customers benefit from its accessibility at their work places and save a significant number of steps in managing their finances.

Other notes

47 Commitments and contingent liabilities by type

	Nova KBM Group			Nova KBM		
	31/12/2018			31/12/2018		
	Current	Non-current	Total	Current	Non-current	Total
Financial guarantees	70,009	28,580	**98,589**	70,009	28,580	98,589
Service guarantees	101,948	50,906	**152,854**	101,948	50,906	152,854
Total guarantees	**171,957**	**79,486**	**251,443**	**171,957**	**79,486**	**251,443**
Approved and undrawn loans	212,794	43,153	**255,947**	212,794	50,553	263,347
Approved and undrawn overdrafts	280,295	0	**280,295**	280,299	0	280,295
Total commitments and contingent liabilities	**493,089**	**43,153**	**536,242**	**493,093**	**50,553**	**543,646**
Derivatives	**23,555**	**295,815**	**319,370**	**23,555**	**295,815**	**319,370**
Total	**688,601**	**418,454**	**1,107,055**	**688,605**	**425,854**	**1,114,459**

	Nova KBM Group			Nova KBM		
	31/12/2017			31/12/2017		
	Current	Non-current	Total	Current	Non-current	Total
Financial guarantees	66,863	33,256	**100,119**	66,863	32,356	99,219
Service guarantees	88,089	59,124	**147,213**	88,102	60,024	148,126
Total guarantees	**154,952**	**92,380**	**247,332**	**154,965**	**92,380**	**247,345**
Approved and undrawn loans	165,652	51,759	**217,411**	165,652	82,408	248,060
Approved and undrawn overdrafts	237,353	0	**237,353**	237,362	0	237,362
Total commitments and contingent liabilities	**403,005**	**51,759**	**454,764**	**403,014**	**82,408**	**485,422**
Derivatives	**38,797**	**259,439**	**298,236**	**63,876**	**234,360**	**298,236**
Total	**596,754**	**403,578**	**1,000,332**	**621,855**	**409,148**	**1,031,003**

Liabilities under rental agreements

	Nova KBM Group			Nova KBM		
	Annual amount in 2019	2–5 years 2020-2023	Over 5 years	Annual amount in 2019	2– 5 years 2020-2023	Over 5 years
Business premises, parking places	838	2,317	3,483	826	2,272	3,483
Computer software	118	163	383	116	153	383
Information channels	437	1,748	4,371	437	1,748	4,371
Other equipment	1,811	2,335	84	1,811	2,335	84
Total	**3,204**	**6,563**	**8,321**	**3,190**	**6,508**	**8,321**

The most significant rental agreements of the Group have been made for rental of business premises and information channels.

The Group has not entered into any irrevocable rental agreements.

Receivables under rental agreements

	Nova KBM Group			Nova KBM		
	Annual amount in 2019	2–5 years 2020-2023	Over 5 years	Annual amount in 2019	2–5 years 2020-2023	Over 5 years
Business premises, parking places and apartments	3,803	15,103	12,359	3,770	14,975	12,359
Total	**3,803**	**15,103**	**12,359**	**3,770**	**14,975**	**12,359**

The most significant rental agreements have been made for renting out business premises and apartments.

48 Derivatives

48.1 Analysis of derivatives by type

	Nova KBM Group			Nova KBM		
	31/12/2018			31/12/2018		
	Current	Non-current	Total	Current	Non-current	Total
Forwards	**21,336**	**0**	**21,336**	**21,336**	**0**	**21,336**
– trading	21,336	0	**21,336**	21,336	0	**21,336**
Other derivatives	**2,219**	**0**	**2,219**	**2,219**	**0**	**2,219**
– trading	2,219	0	**2,219**	2,219	0	**2,219**
Swaps	**0**	**295,815**	**295,815**	**0**	**295,815**	**295,815**
– trading	0	295,815	**295,815**	0	295,815	**295,815**
Total	**23,555**	**295,815**	**319,370**	**23,555**	**295,815**	**319,370**

	Nova KBM Group			Nova KBM		
	31/12/2017			31/12/2017		
	Current	Non-current	Total	Current	Non-current	Total
Forwards	**36,578**	**0**	**36,578**	**36,578**	**0**	**36,578**
– trading	36,578	0	**36,578**	36,578	0	**36,578**
Other derivatives	**2,219**	**0**	**2,219**	**2,219**	**0**	**2,219**
– trading	2,219	0	**2,219**	2,219	0	**2,219**
Swaps	**0**	**259,439**	**259,439**	**0**	**259,439**	**259,439**
– trading	0	259,439	**259,439**	0	259,439	**259,439**
Total	**38,797**	**259,439**	**298,236**	**38,797**	**259,439**	**298,236**

48.2 Derivatives held for trading purposes

				Nova KBM Group				Nova KBM
				31/12/2018				31/12/2018
Type of risk	Type of derivative	Book value taken to the statement of financial position		Off-balance-sheet value	Type of derivative	Book value taken to the statement of financial position		Off-balance-sheet value
		Assets	Liabilities			Assets	Liabilities	
Interest rate risk	Interest rate swaps	1,222	1,046	295,815	Interest rate swaps	1,222	1,046	295,815
Equity instrument price risk	Other derivatives	0	270	2,219	Other derivatives	0	270	2,219
Foreign exchange risk	Currency forwards	125	135	21,336	Currency forwards	125	135	21,336
Total		**1,347**	**1,451**	**319,370**		**1,347**	**1,451**	**319,370**

				Nova KBM Group				Nova KBM
				31/12/2017				31/12/2017
Type of risk	Type of derivative	Book value taken to the statement of financial position		Off-balance-sheet value	Type of derivative	Book value taken to the statement of financial position		Off-balance-sheet value
		Assets	Liabilities			Assets	Liabilities	
Interest rate risk	Interest rate swaps	309	202	259,439	Interest rate swaps	309	202	259,439
Equity instrument price risk	Other derivatives	0	730	2,219	Other derivatives	0	730	2,219
Foreign exchange risk	Currency forwards	200	92	36,578	Currency forwards	200	91	36,578
Total		**509**	**1,024**	**298,236**		**509**	**1,023**	**298,236**

49 Fiduciary operations

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Non-financial companies	73	69	73	69
Government	5,525	5,308	5,525	5,308
Banks and other financial organisations	100	2,355	100	2,355
Households	15	13	15	13
Non-profit institutions serving households	1,025	1,193	1,025	1,193
Non-residents	0	3	0	0
Liabilities arising from transactions in securities	9,722	5,576	9,722	5,576
Total fiduciary and other activities	**16,460**	**14,517**	**16,460**	**14,514**

50 Brokerage transactions

	Nova KBM Group		Nova KBM	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
ASSETS	**7,947**	**5,069**	**7,947**	**5,069**
Claims of settlement and transaction accounts for customer assets	**3,730**	**1,696**	**3,730**	**1,696**
– from financial instruments	2,938	908	2,938	908
– against the Central Securities Clearing Corporation or the Bank's clearing account for sold financial instruments	761	656	761	656
– against other settlement systems and institutions for sold financial instruments (buyers)	31	132	31	132
Customers' cash	**4,217**	**3,373**	**4,217**	**3,373**
– in the settlement account for customer assets	2,418	2,249	2,418	2,249
– in banks' transaction accounts	1,799	1,124	1,799	1,124
LIABILITIES	**7,947**	**5,069**	**7,947**	**5,069**
Liabilities of settlement and transaction accounts for customer assets	**7,947**	**5,069**	**7,947**	**5,069**
– to customers from cash and financial instruments	3,939	4,141	3,939	4,141
– to the Central Securities Clearing Corporation or the Bank's clearing account for purchased financial instruments	2,462	714	2,462	714
– to other settlement systems and institutions for purchased financial instruments (suppliers)	132	71	132	71
– to the Bank or the Bank's settlement account for commissions, fees, etc.	1,414	143	1,414	143
OFF-BALANCE-SHEET ITEMS	**2,585**	**785**	**2,585**	**785**
Customers' financial instruments, itemised by service	**2,585**	**785**	**2,585**	**785**
– receipt, transmission, and execution of orders	139	84	139	84
– escrow transactions	2,446	701	2,446	701

51 Related party transactions of the Group and the Bank

In accordance with IAS 24, related parties of Nova KBM and the Nova KBM Group comprise key management personnel, other related persons and subsidiaries.

The key management personnel comprise:
- Management Board of Nova KBM
- Supervisory Board of Nova KBM
- Senior management of Nova KBM (i.e. individuals identified as persons holding the authority and responsibility for planning, guiding, and controlling the activities of Nova KBM).

Other related persons are:
- Immediate families of the key management personnel
- Key management personnel of subsidiaries (management boards) and their immediate families
- Companies controlled (significantly influenced) by the key management personnel (i.e. they are their owners or members of key management personnel).

Transactions with related parties in the disclosures below refer to the consolidated level of the Nova KBM Group and do not include transactions with the parent company Biser Bidco.

51.1 Transactions with Nova KBM's related parties

	Subsidiaries		Key management personnel		Other related parties	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Assets						
Deposits and loans given (gross amount)	292,619	283,579	69	266	42	25,034
– deposits and loans to banks	0	0	0	0	0	25,000
– loans to customers	292,618	283,547	69	266	23	33
– other financial assets	0	32	0	0	19	1
Investments in securities	109,417	85,762	0	0	2,378	421
– equity instruments	109,417	85,762	0	0	2,378	421
Liabilities						
Deposits and loans received	5,113	34,339	466	795	12,796	3,374
– deposits and loans from banks	0	0	0	0	0	0
– deposits and loans from customers	5,112	33,424	466	795	12,441	3,373
– other financial liabilities	1	915	0	0	355	1
Securities issued	0	0	0	0	0	0
– debt securities	0	0	0	0	0	0
Off-balance-sheet items	**7,404**	**31,570**	**84**	**61**	**3,739**	**23**

	Subsidiaries		Key management personnel		Other related parties	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Net interest income	5.994	2.080	2	6	1	(8)
Dividend income	5.126	515	0	0	272	944
Net fee and commission income	459	426	2	1	(4,164)	(2,959)
Other operating gains	60	47	0	0	0	0
Costs of services	0	(31)	(346)	(263)	(1,458)	(2,081)
Loan impairments	(3,508)	1,635	0	0	0	0
Provisions	(80)	(738)	0	0	0	0
Impairments of equity investments	(3,300)	(4,990)	0	0	0	0
Write-offs	(11,109)	0	0	0	0	0
Total	**(6,358)**	**(1,056)**	**(342)**	**(256)**	**(5,349)**	**(4,104)**

Costs of services comprise the invoiced costs of services provided by the Supervisory Board members of Nova KBM to the Group and include employer's contributions. The aggregate amount differs from the disclosure in Note 52 because the amount above comprises incurred costs and not actual payments made in the financial year ended 31 December 2018.

The majority of the cost of services under Other related parties comprises costs of services provided by Bankart d.o.o. The Bank considers Bankart a related party because a member of the Bank's Management Board is a member of the Bankart's Supervisory Board. Furthermore, the Bank owns 16-percent stake in Bankart.

The Bank Association of Slovenia is considered a related party because a member of the Bank's Management Board is a member of the association's Supervisory Board, and all costs related to membership of the Bank in the Bank Association of Slovenia are included under the line Costs of services.

The Bank considers Zavarovalnica Sava d.d. a related party because an immediate family member of the Bank's key management is a member of the Zavarovalnica Sava's Supervisory Board. All revenues and costs arising from the Bank's relationships with Zavarovalnica Sava are included in relevant lines in the tables above.

Dividend income disclosed under item Other related parties comprises dividends received from Bankart.

Net fee and commission expenses disclosed under item Other related parties comprise net fee expenses paid to Bankart.

Impairments of loans relate to impairments of KBM Leasing's assets up to the sale price. The impairment of the equity investment relates to KBM ASCO, while the write-off relates to KBM Leasing Hrvatska. All these companies were sold during the 2018 financial year.

51.2 Transactions with Nova KBM Group's related parties

	Key management personnel		Other related parties	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Assets				
Deposits and loans given (gross amount)	69	266	179	25,091
– deposits and loans to banks	0	0	0	25,000
– loans to customers	69	266	160	90
– other financial assets	0	0	19	1
Investments in securities	0	0	2,378	421
– equity instruments	0	0	2,378	421
Liabilities				
Deposits and loans received	466	795	13,085	3,618
– deposits and loans from banks		0		0
– deposits and loans from customers	466	795	12,730	3,617
– other financial liabilities	0	0	355	1
Securities issued	0	0	0	0
– debt securities	0	0	0	0
Off-balance-sheet items	**84**	**61**	**3,754**	**40**

	Key management personnel		Other related parties	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Net interest income	2	6	2	(29)
Dividend income	0	0	272	944
Net fee and commission income	2	1	(4.162)	(2,957)
Other operating gains	0	0	0	0
Costs of services	(346)	(263)	(1,509)	(2,853)
Loan impairments	0	0	0	0
Provisions	0	0	0	0
Impairments of equity investments	0	0	0	0
Write-offs	0	0	0	0
Total	**(342)**	**(256)**	**(5,397)**	**(4,895)**

51.3 Loans and sureties given

Nova KBM Group	Management Board members		Supervisory Board members		Other Group's employees on individual contracts	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Loans	0	0	0	0	314	1,737
Average interest rate on loans (%)	0	0	0	0	2.69	2.55
Repayments	0	0	0	0	60	534

Nova KBM	Management Board members		Supervisory Board members		Other Bank's employees on individual contracts	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Loans	0	0	0	0	190	1,464
Average interest rate on loans (%)	0	0	0	0	2.87	2.47
Repayments	0	0	0	0	26	459

51.4 Relationship between Nova KBM and its Parent Company

In 2018, there were no transactions between Nova KBM and Biser Bidco S.à r.l., its Parent Company, or Biser Topco S.à r.l., the company affiliated to its Parent Company, which could have caused damage to the Bank.

In 2018, total dividends of €45,813 thousand were distributed to the Parent Company, Biser Bidco S.à r.l. by Nova KBM.

The demurrage fee amounting to €104 thousand was paid to Biser Bidco S.à r.l.

52 Remuneration

	Nova KBM Group		Nova KBM	
	2018	2017	2018	2017
Management Board members	2,868	1,726	2,868	1,726
Of which severance pay	300	0	300	0
Members of Supervisory Board and committees in Supervisory Board	406	138	406	138
Other employees on individual contracts	7,761	5,575	6,133	4,889
Total	11.036	7,439	9,408	6,753

In accordance with Article 69 of the Companies Act (ZGD-1), the remuneration received by members of the Management Board and Supervisory Board and employees under individual contracts is disclosed in gross amounts received. The amounts presented in the above table comprise gross payments in the 2018 financial year.

Remuneration paid to Management Board members comprises: salary, bonuses, incentives, pay for annual leave, payment of supplementary pension insurance premiums, and allowance for bonuses.

Remuneration paid to Supervisory Board members comprises: payment for holding the office, reimbursement of costs, and payment of liability insurance premiums.

Remuneration paid to other employees working on individual contracts comprises: salary, bonuses, pay for annual leave, payment of supplementary pension insurance premiums, and other remuneration under employment contracts. Remuneration under this line does not include only the portion paid to senior management personnel but also the amounts paid to all persons employed under individual contracts in the Group.

Matej Falatov was a procurator between 1 April 2018 and 5 July 2018, therefore, his remuneration for this period was recorded under the senior management's remuneration. Robert Senica was a member of the Bank's Management Board until 31 March 2018.

53 Significant events after the end of the financial year

The Supervisory Board of the Bank appointed a new member of the Management Board in charge of operations (COO), i.e. Aytac Aydin, who will act as a procurator of the Bank until the regulatory requirements are met.

In January, the District Court of Maribor issued a decision on striking off the company M-Pay. As at the day when the decision is final, 1 February 2019, the company was liquidated.

No other events have occurred that were not already taken into account and would have affected disclosed items of the financial statements.