

# THE LAND MARK YEAR OF 20 13

THE 2013 CORPORATE GOVERNANCE  
STATEMENT OF NOVA KBM D.D.



# CORPORATE GOVERNANCE STATEMENT OF NOVA KBM

## 1 CORPORATE GOVERNANCE CODE

The Corporate Governance Code comprises:

- **Corporate Governance Code for Public Limited Companies (application and deviation)**
- **Code of Best Practice for WSE Listed Companies (application and deviation)**
- **Corporate Governance Code for State Capital Investments (application and deviation), including recommendations given by the manager of direct and indirect capital investments of the Republic of Slovenia**

The Ljubljana Stock Exchange, the Slovene Directors Association and the Managers' Association of Slovenia jointly formulated and adopted on 8 December 2009 the amended Corporate Governance Code (hereafter also referred to as the 'Code') which came into effect as of 1 January 2010. The said Code is available on the websites of these entities.

During 2013, Nova KBM shares were quoted on the Ljubljana Stock Exchange and the Warsaw Stock Exchange. The Bank has set out the reasons for deviations from the provisions of the Code applied during 2013 in the section headed 'Corporate governance statement of Nova KBM', which is an integral part of the Bank's 2013 Annual Report.

In setting up and developing a transparent, clear and successful governance and management system, during 2013 the Bank endeavoured, as far as practicable, to comply with regulatory provisions and the highest standards of responsible and well thought-out governance of the Bank, as laid down in the Code, thus further increasing the confidence of domestic and foreign investors, employees, and the wider public in the governance of the Bank.

In addition to striving to maximise the Bank's value, the Bank complies with these standards in order to satisfy the interests of employees, creditors, and other stakeholders, as well as of the Bank as a whole. Taking into consideration its internal and global objectives, this approach shall ensure a successful and long-term growth of the Bank's assets.

The Bank and its bodies endeavoured to fully observe the provisions of the Code that was in effect and used in 2013. However, in certain instances the Bank's operations deviated from individual provisions of the Code. In compliance with the Preamble of the Code (and the principle of 'comply or explain'), the Bank sets out below the reasons for such deviations. The reasons were mainly related to the specific circumstances under which the Bank operated due to changed conditions in the Bank and in its environment (market); to payment characteristics of the banking sector; to the specific ownership structure of the Bank; and to other circumstances which had an impact on the governance and management of the Bank.

As a result of being listed on the Warsaw Stock Exchange (WSE), in 2013 Nova KBM also complied with the Code of Best Practice for WSE Listed Companies. In its Statement of Compliance with the Code of Best Practice for WSE Listed Companies, which is an integral part of the Bank's Corporate Governance Statement, Nova KBM has provided justification and explanation for which recommendations of this code had not been complied with in 2013.

As of 31 December 2013, Nova KBM shares (KBMR) were no longer quoted on the Ljubljana Stock Exchange and the Warsaw Stock Exchange due to being cancelled as a result of extraordinary measures imposed by the Bank of Slovenia. Based on the state-sponsored recapitalisation, on 18 December 2013 the Republic of Slovenia became a 100% owner of all the newly issued shares of Nova KBM (KBMS). These shares, however, are not quoted on a stock market.

As a company in which the Republic of Slovenia holds an equity investment, in 2013 Nova KBM also complied with the Corporate Governance Code for State Capital Investments, adopted by the Management and Supervisory Boards of Slovenska odškodninska družba (SOD) on 15 May 2013 on the basis of the provisions of the Slovene Sovereign Holding Act (ZSDH). Until it is restructured into the Slovene Sovereign Holding, SOD is managing the assets of the Republic of Slovenia in accordance with ZSDH.

The purpose of this Code is to have clear rules determined in advance regarding the conduct of SOD in the management of capital investments of the Republic of Slovenia, and to set out expectations towards companies in which the Republic of Slovenia holds a capital investment, thereby complying with the principles of responsible and due care as well as principles of transparent and effective management, taking into consideration the regulatory requirements to define commitments to a more active execution of management rights.

In April 2013, SOD issued an amended and consolidated version of the Recommendations of the Manager of Direct and Indirect Capital Investments of the Republic of Slovenia. The aim of these recommendations is to set up a sound corporate governance system for state capital investments, thus ensuring that state-owned companies are better regulated and managed.

Within its Corporate Governance Statement, Nova KBM, as a company in which the state holds a capital investment, states the extent to which it complied with the Corporate Governance Code for State Capital Investments, and individual recommendations of SOD.

## **Corporate Governance Code for Public Limited Companies**

### **Point 1**

#### ***Code provision***

The key objective of a joint-stock company engaged in a revenue-generating business is to maximise the company's value. This, as well as the company's other objectives pursued in the course of its business, such as the long-term value creation for shareholders and the social and environmental aspects ensuring a sustainable development of its business, is stated in the company's articles of association.

#### ***Reason for deviation***

The objectives of the Bank are set out in each year's business policy and financial plan, and in the Bank's strategy. They are also laid down in the Corporate Governance Policy of Nova KBM. In 2013, the Management Board decided to incorporate the main and other objectives that the Bank pursues in carrying out its operations into the Bank's Articles of Association.

**Point 5.7****Code provision**

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

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

**Reason for deviation**

In 2013, remuneration of the Management Board complied with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors.

**Point 22.7****Code provision**

The company discloses the gross and net remuneration of each member of the management board and of the supervisory board. Such a disclosure is clear and comprehensible to an average investor, and includes aside from statutorily-imposed content:

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

**Reason for deviation**

With respect to the disclosure of remuneration of Management Board members, the Bank fully complies with legal requirements, as evident also from the Annual Report. In accordance with the provisions of the Companies Act and the Bank's Articles of Association, the Management Board of the Bank informs the shareholders of the Bank, at the Shareholders' Meeting at which the resolution on the appropriation of profit available for distribution is passed, about the remuneration paid to members of management and supervisory bodies for performing their duties in the previous financial year.

In 2013, the Nova KBM Supervisory Board adopted the currently applicable remuneration policy. The disclosure of remuneration provided to Management Board members in 2013 is compliant with the remuneration policy and follows the recommendations of the Code.

## **Code of Best Practice for Warsaw Stock Exchange Listed Companies (Code of Best Practice for WSE Listed Companies)**

Nova KBM sets out below a brief description of its non-compliance with certain provisions of the Code of Best Practice for WSE Listed Companies in 2013.

### **Recommendation I. 1 with respect to the scope of a company's website**

Nova KBM maintained on its website information for investors that conformed to the Slovene market standards. Nova KBM did not enable on-line broadcasts of its Shareholders' Meetings over the internet, nor did it record Shareholders' Meetings or publish the recordings on its website.

### **Rules II. 1.7 with respect to the publication on a company's website of shareholders' questions on issues on the agenda of a Shareholders' Meeting**

In 2013, Nova KBM did not publish shareholders' questions on its website because, according to Slovene legislation, shareholders do not have the right to submit questions concerning the agenda of a Shareholders' Meeting.

### **Rules II. 1.9 (a) with respect to the publication, in audio and video form, on a company's website of the minutes of a Shareholders' Meeting**

The minutes of Shareholders' Meetings are prepared in the form of a notarial record, and published as such on the Bank's website.

### **Rules IV. 2 with respect to the amendment of the rules of Shareholders' Meetings**

Rules of Shareholders' Meetings are not mandatory under Slovene legislation and Nova KBM has not adopted such rules.

### **Rules IV. 6 with respect to the date of setting the right to dividend and the date of dividend payment**

Nova KBM has usually paid dividends after the date of setting the right to dividend, within a period longer than 15 business days, as laid down in the Code of Best Practice for WSE Listed Companies.

### **Rules IV. 7 with respect to a conditional dividend payment**

Conditional dividend payments are not allowed under Slovene legislation.

### **Rules IV. 10 with respect to a company's duty to broadcast on-line its Shareholders' Meetings and to enable its shareholders to exercise their right to vote at Shareholders' Meetings using electronic communication means**

In 2013, Nova KBM did not enable on-line broadcasts of Shareholders' Meetings, nor did it enable its shareholders to exercise their right to vote at Shareholders' Meetings using electronic communication means.

## **The Corporate Governance Code for State Capital Investments (application and deviation from provisions)**

### **Point 75**

#### ***Code provision***

SOD will strive for companies with equity investments of the state to establish nomination committees as a special commission of the supervisory board. These will ensure adequate mechanisms regarding the selection of candidates for members of the supervisory board and overcome conflicts of interests which the supervisory board is faced with in the preparation of the proposal for the composition of the supervisory board. The nomination committee performs selection procedures of candidates and proposes to the supervisory board a list of candidates for appointment at the shareholders' meeting. The nomination committee may support the supervisory board in all other matters which directly relate to the interests of the members of the supervisory board and require consent of the shareholders' meeting (for example, the proposals concerning the remuneration of the members of the supervisory board).

***Reason for deviation***

The Nova KBM Supervisory Board appointed the Remuneration and Nomination Committee in 2011. Its competences comply with the Banking Act and implementing regulations of the Bank of Slovenia. In 2013 the appropriate procedures for the assessment and selection of candidates for members of the Supervisory Board were entirely carried out by the Remuneration and Nomination Committee.

**Point 87*****Code provision***

Shareholders must annually approve the remuneration policy at a shareholders' meeting. The preparation of a remuneration policy falls under the responsibility of the chairman of the supervisory board and appointment commission if formed. At the shareholders' meeting the chairman of the supervisory board presents to the shareholders the current remuneration policy and its implementation, and evaluates the function and the role of the remuneration policy. The supervisory board must ensure that the remuneration packages of the president of the management board and other members of the management board comply with the policy adopted at the shareholders' meeting.

***Reason for deviation***

With respect to the disclosure of remuneration of Management Board members, the Bank fully complies with legal requirements, as evident also from its Annual Report. In accordance with the provisions of the Companies Act and the Bank's Articles of Association, the Management Board of the Bank informs the shareholders of the Bank, at the Shareholders' Meeting at which the resolution on the appropriation of profit available for distribution is passed, about the remuneration paid to members of management and supervisory bodies for performing their duties in the previous financial year.

Remuneration of Management Board members complies with the currently applicable remuneration policy, which was adopted by the Bank's Supervisory Board in 2013. In accordance with the provisions of the Companies Act, the supervisory board of a company must adopt the remuneration policy in cases where the shareholders' meeting fails to do so.

Remuneration of Management Board members is adjusted to the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors.

**Individual recommendations of SOD****Recommendation No. 2 – Remuneration of external members of supervisory board committees and other external experts with whom the supervisory board cooperates in its work*****Reason for deviation***

In accordance with the provisions of the Corporate Governance Code for Public Limited Companies, the Criteria for Remuneration to the Members of Supervisory Bodies of Companies with State Capital Investments and a decision of the Shareholders' Meeting of Nova KBM, the amount of remuneration provided to external members of Supervisory Board committees has been determined by the Supervisory Board, taking into consideration the recommendations of the Corporate Governance Code for Public Limited Companies, the Corporate Governance Code for Companies with State Capital Investments and certain recommendations by the Capital Asset Management Agency of the Republic of Slovenia.

The remuneration provided in 2013 to external members of the Supervisory Board committees and other external experts with whom the Supervisory Board cooperates in its work was adjusted in accordance with the Corporate Governance Code for State Capital Investments, and the Recommendations of the Manager of Direct and Indirect Capital Investments of the Republic of Slovenia regarding the remuneration provided to external members of supervisory board committees

and other external experts with whom the supervisory board cooperates in its work. These documents, issued in April by SOD, largely follow the content of recommendations issued by the Capital Asset Management Agency of the Republic of Slovenia.

Taking into consideration that remuneration of the Supervisory Board and its committees is in accordance with Point 8.12 of the Corporate Governance Code for Public Limited Companies disclosed in the Annual Report, the Bank does not include this information in the report submitted by the Supervisory Board to the Shareholders' Meeting.

#### **Recommendation No. 4 – Work of the audit committee**

##### ***Reason for deviation***

The Bank does not comply with this recommendation as regards the part referring to the frequency of meetings of the Audit Committee. Meetings of the Audit Committee are convened in accordance with the decisions passed by the Supervisory Board, taking into consideration the competences of the Audit Committee, as laid down in the applicable legislation, and recommendations of good business practice applicable to the work of audit committees, and depending on the need to resolve specific issues.

#### **Recommendation No. 5 – Three-year business planning by a company/group**

##### ***Reason for deviation***

The explanation of deviation given under the recommendation No. 6 (Quarterly reporting of the performance of a company/group) can be, mutatis mutandis, applied also to this recommendation. The Bank does not prepare three-year business plans, but prepares a standard document for each year – a Business Policy and Financial Plan of the Bank and the Group. This document is formulated by the Management Board and agreed by the Supervisory Board. The summary of this document is published on the Bank's website. The planning is based on the adopted strategy.

#### **Recommendation No. 6 – Quarterly reporting of the performance of a company/group**

##### ***Reason for deviation***

The Bank deviates from this recommendation because it has set up a governance system that complies with the principle of equitable treatment of all shareholders. This means that the Management Board fully observes the principle referred to above also in exercising the right of shareholders to information. Equitable treatment of shareholders in this regard prohibits the Bank from putting certain shareholders in a privileged position that would occur if quarterly reports were submitted to SOD as the representative of the largest, but not the only, shareholder of the Bank.

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

#### **Recommendation No. 7 – Transparency of procedures of making business deals involving company expenditure (ordering goods and services, grants, sponsorships)**

##### ***Reason for deviation***

The Bank does not comply with this recommendation as regards the part referring to the transparency of procedures when making business deals in accordance with the Public Procurement Act, since this Act does not apply to banks. Nevertheless, in negotiating and making any business deals, the Management Board and competent departments of the Bank act with due care and diligence and according to the highest ethical standards, objectives, strategies and policies of the Bank, all in the best interests of the Bank.

In accordance with the regulations governing the protection of internal information, the Bank also classifies as internal information any data that concerns business or events occurring at the Bank and its affiliated companies that may have a material effect on the performance or position of the Bank and the Group as a whole. Pursuant to the regulations and its internal rules, the Bank publishes such information through the information dissemination system of the Ljubljana Stock Exchange and on its website.

With respect to the publication and reporting of grants and sponsorships as well as of any other transactions which may incur costs, the Bank respects the confidentiality of information and does not reveal any information that is classified as a business secret. Such information is not published by the Bank, since its release may have a negative impact on the Bank's customers and other business partners.

### **Recommendation No. 8 – Optimisation of labour costs in 2013 and 2014**

#### ***Reason for deviation***

In 2012 and 2013, the Management Board of the Bank adopted certain cost-cutting measures and adjusted the remuneration policy to the current economic conditions. These measures have been set out by the Management Board in the Strategy of the Bank and the Group for the period from 2010 to 2013, and in the Business Policy and Financial Plan of the Bank and the Group for 2013 and 2014. Following the initiative of the Remuneration and Nomination Committee, the Supervisory Board of the Bank requested the Management Board to reduce the operating costs across the entire Group and to start negotiations with the aim of adjusting the collective agreement to weak performance of the Bank.

Information about pay-outs relating to other types of remuneration provided under individual contracts (severance benefit paid to employees who are made redundant for business reasons, severance benefit paid upon retirement, compensation for a non-competition clause, and some other remuneration under employment contracts) is disclosed in the financial part of Nova KBM's annual reports and is publicly available.

To protect confidential information, the Bank and companies in the Nova KBM Group do not publish binding collective agreements or arrangements regulating remuneration for work, which they have entered into with representatives of the trade union.

### **Recommendation No. 9 – Risk management, internal control and internal auditing**

#### **Risk management, internal control**

#### ***Reason for deviation***

Nova KBM does not deviate from the provisions of this recommendation referring to risk management and internal control.

#### **Internal auditing**

#### ***Reason for deviation***

The Bank deviates from the recommendation stipulating that the Supervisory Board shall approve the medium-term internal audit plan, since, in accordance with the doctrine of internal audit, the formulation of such a plan is not mandatory. Irrespective of that, the Bank will formulate the medium-term internal audit plan and will submit it to the Supervisory Board.

### **Recommendation No. 11 – Attaining quality and excellence in the operations of a company/group**

In 2013, the Bank continued to hold the ISO 9001:2008 certificate (issued by the International Organization for Standardization) for its retail operations. This standard specifies the requirements for an efficient quality management system that meets the demands of customers. In terms of content, the requirements of the standard do not deviate from the criteria used by the EFQM Excellence Model to assess the development of excellence and quality improvement.



### **Recommendation No. 12 – Shareholders' Meetings**

Notwithstanding the recommendation that a Shareholders' Meeting must be convened as soon as possible and not later than 14 days following the receipt of the request from a shareholder, the Bank complies with the provision of the Companies Act, which provides that a Shareholders' Meeting must be convened as soon as possible, but not later than within two months of the receipt of such a request.

To enable the shareholders to post questions regarding the operations of the Bank, or to post questions in the period pending a Shareholders' Meeting, the Bank has set up the Investor Relations section on its website, which conforms to the Slovene market standards.

## **2 DESCRIPTION OF MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT IN CONNECTION WITH FINANCIAL REPORTING PROCEDURES**

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

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

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

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

For the purpose of obtaining a complete overview of risks to which the Bank and the Group are exposed, a Risk Profile is created once a year, which contains an assessment of the key types of risk and of the related controls. This document is reviewed by the Policy Approval Committee which is also responsible for adopting new policies and changes to the existing ones. A Risk Profile of the Bank and the Group is also presented to the Audit Committee and the Supervisory Board.

The Internal Audit Centre assesses the adequacy and efficiency of applicable internal controls, including information technology security and control, and assesses their reliability in accomplishing the strategic and implementation objectives of the Bank, at the same time taking into consideration the management of risks to which the Bank is exposed. The Internal Audit Centre reports to the Management Board, the Audit Committee and the Supervisory Board on a regular basis.

The system of internal controls and the risk management system are examined each year by external auditors appointed for the audit of the Bank's annual report.

### **3 INFORMATION AND EXPLANATIONS PROVIDED BY COMPANIES THAT ARE SUBJECT TO THE APPLICATION OF THE ACT REGULATING ACQUISITIONS (INFORMATION FROM POINT 3, 4, 6, 8 AND 9 OF THE SIXTH PARAGRAPH OF ARTICLE 70 OF THE COMPANIES ACT)**

#### **Significant direct and indirect holdership of the company's securities in the sense of achieving a qualified stake as determined by the act regulating acquisitions (Point 3 of the sixth paragraph of Article 70 of the Companies Act)**

In order to strengthen the Bank's capital base to ensure its long-term capital adequacy, on 17 December 2013 the Bank of Slovenia imposed an extraordinary measure on the Bank, requesting it to increase its share capital. On 18 December 2013, the Republic of Slovenia subscribed for and paid for all of the 10,000,000 newly issued shares of the Bank, thereby increasing its share capital by €150,000,000 (of which €43,103,340 was provided in an in-kind contribution, and €106,896,660 was provided in cash). The total issue value of shares was €870,000,000.

As of 31 December 2013, the Republic of Slovenia was a 100% shareholder of Nova KBM.

#### **Holders of securities that carry special control rights (Point 4 of the sixth paragraph of Article 70 of the Companies Act)**

As of 31 December 2013, Nova KBM had a total of 10,000,000 ordinary registered no-par value shares outstanding. All shares are of the same class and bear the same rights, meaning that no special controlling rights are attached to Nova KBM shares.

#### **Restrictions related to voting rights, in particular: (i) restrictions of voting rights to a certain stake or a certain number of votes; (ii) deadlines for executing voting rights; and (iii) agreements in which, on the basis of the company's cooperation, the financial rights arising from securities are separated from the rights of holdership of such securities (Point 6 of the sixth paragraph of Article 70 of the Companies Act)**

In accordance with the Bank's Articles of Association, no restrictions apply to the voting rights attached to the issued shares.

#### **The company's rules on appointment or replacement of members of the management or supervisory bodies (Point 8 of the sixth paragraph of Article 70 of the Companies Act)**

##### ***Management Board***

In accordance with the provisions of the Bank's Articles of Association, the Supervisory Board appoints and recalls the President and other Management Board members, whereby the President of the Management Board may propose to the Supervisory Board the appointment or discharge of individual or other Management Board members.

Management Board members are appointed for a five-year period and may be re-appointed, but no earlier than one year before the end of their term of office.

The Supervisory Board may recall the President or a member of the Management Board, if there are grounds for such recall in accordance with the second paragraph of Article 268 of the Companies Act.

Membership in the Management Board may also be terminated on request of the member himself/herself.

##### ***Supervisory Board***

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

The function of a Supervisory Board member may terminate before the expiry of his/her term of office referred to in the previous paragraph in the following cases:

- if he/she gives a written notice, or
- if he/she is recalled by the Shareholders' Meeting.

In accordance with provisions of the Companies Act and Article 30 of the Bank's Articles of Association, the Shareholders' Meeting is authorised to reach decisions with respect to amendments to the Articles of Association, whereby at least three-quarters of the share capital represented in the voting is required to pass a resolution of the Shareholders' Meeting.

#### **Authorisations of the members of the management for issuing or purchasing own shares (Point 9 of the sixth paragraph of Article 70 of the Companies Act)**

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

## **4 INFORMATION ABOUT THE FUNCTIONING OF THE SHAREHOLDERS' MEETING AND OF ITS KEY COMPETENCES, AND DESCRIPTION OF SHAREHOLDERS' RIGHTS AND THE METHOD OF THEIR EXERCISING**

### **Competences of the Shareholders' Meeting**

The Shareholders' Meeting shall decide about:

- adoption of the annual report
- appropriation of profit available for distribution
- appointment and recall of Supervisory Board members
- granting discharge to members of the Management and Supervisory Boards
- amendments to the Bank's Articles of Association
- measures to increase or decrease the Bank's share capital
- dissolution of the Bank and status changes
- appointment of the auditor
- other matters, if so provided by the Articles of Association or the applicable law.

At the Shareholders' Meeting at which a resolution on the appropriation of profit available for distribution is passed, the Management Board must inform the shareholders about the remuneration provided to members of management and supervisory bodies for performing their duties in the previous financial year. The information must include all the details required by law, and must be disclosed in the annual report, together with the policy of remuneration of members of management and supervisory bodies.

The Shareholders' Meeting is responsible for the adoption of the annual report only if the Supervisory Board did not adopt it, or if the Management Board and the Supervisory Board leave the adoption of the annual report to the discretion of the Shareholders' Meeting.

### **Call of the Shareholders' Meeting**

The Shareholders' Meeting is called by the Management Board.

The Shareholders' Meeting may also be called by the Supervisory Board, particularly in cases where the Management Board does not call the Shareholders' Meeting in time, or if the call of the Shareholders' Meeting is required for the smooth running of the Bank's operations.

The Shareholders' Meeting must be called in accordance with the law, at least once a year and when this is to the benefit of the Bank.

The Shareholders' Meeting is called in such a way that a notice of the Shareholders' Meeting, along with the content as required by law, is published on the AJPES website or in a daily newspaper distributed throughout the Republic of Slovenia, and on the Bank's website ([www.nkbm.si](http://www.nkbm.si)), no later than 30 (thirty) days prior to the date of the Shareholders' Meeting.

#### **Call of the Shareholders' Meeting on request of a minority**

The Shareholders' Meeting must be called if the shareholders holding jointly one-twentieth of the share capital request in writing for the Shareholders' Meeting to be called by the Management Board.

#### **Participation in the Shareholders' Meeting**

A shareholder, or his/her proxy or legal representative, is allowed to participate in the Shareholders' Meeting and exercise his/her right to vote, provided that he/she is entered as a shareholder in the central register of book-entry securities at the end of the fourth day prior to the date of the Shareholders' Meeting and that the Management Board has received his/her written registration no later than the end of the fourth day prior to the date of the Shareholders' Meeting.

The conditions for participating and exercising the right to vote in the Shareholders' Meeting are specified in more detail in the notice of the Shareholders' Meeting.

#### **Amendment of the agenda and proposals of shareholders**

Shareholders who jointly hold at least one-twentieth of the Bank's share capital may, after the publication of the notice of the Shareholders' Meeting, in accordance with the law, request in writing that additional items be put on the agenda. Shareholders may send their request for additional agenda items to the Bank via e-mail to the address specified by the Bank in each notice of the Shareholders' Meeting, in scanned format as an attachment, or by fax.

Pursuant to the law, shareholders may give written proposals for resolutions and voting proposals to each agenda item. Proposals for resolutions and voting proposals may be sent by shareholders, also via e-mail, to the address specified by the Bank in each notice of the Shareholders' Meeting, in scanned format as an attachment, or by fax.

#### **Chairing the Shareholders' Meeting**

The Shareholders' Meeting of the Bank is chaired by the Chairman of the Shareholders' Meeting. The Chairman of the Shareholders' Meeting is a person appointed by the convener.

#### **Adoption of resolutions**

The Shareholders' Meeting shall adopt resolutions with a bare majority of the votes cast, unless a qualified majority has been laid down by the Bank's Articles of Association or the applicable law.

#### **Shareholders' right to vote**

The right to vote of shareholders holding shares is exercised pro-rata to the number of their shares in the share capital. Each no-par value share with a voting right entitles the shareholder to one voting right.

#### **Exercising the right to vote by proxy**

Each shareholder entitled to participate in the Shareholders' Meeting may appoint a natural or legal person of full legal capacity to participate in the Shareholders' Meeting on his/her behalf and to exercise his/her voting right.

In order to be eligible to exercise the right to vote, the proxy must have a written power of attorney.

Shareholders may appoint a proxy through electronic means. The form for exercising voting rights through a proxy is available on the Bank's website. The power of attorney may be sent to the Bank, also by e-mail, to the address specified by the Bank in each notice of the Shareholders' Meeting, in scanned format as an attachment, or by fax.

The power of attorney remains deposited with the Bank.

The voting right may also be exercised through a financial institution, a shareholders' association or another person.

Further information regarding the functioning of the Shareholders' Meeting is set out in Nova KBM's Annual Report for 2013, in Section 5.3.3 'Governing bodies of Nova KBM'.

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

### **MANAGEMENT BOARD**

As of 31 December 2013, the Nova KBM Management Board had the following two members: Aleš Hauc, President, and Igor Žibrik, Member.

On 15 October 2013, the Supervisory Board appointed Igor Hustič as the third member of the Management Board, with the start of his five-year term of office being set for 1 January 2014 or the day he received the approval of the Bank of Slovenia. By 31 December 2013, Igor Hustič had not received such an approval, as a result of which he withdrew as a candidate for the Nova KBM Management Board on 2 January 2014.

Pursuant to the applicable legislation and the Bank's Articles of Association, the Management Board runs the Bank autonomously and on its own responsibility. At least two members of the Management Board jointly present and represent the Bank in accordance with provisions of the Banking Act. All Management Board members comply with legal requirements for performing their duties on the Management Board.

### **Duties of the Management Board**

The Management Board must ensure that the Bank operates in compliance with the Banking Act and the regulations issued on its basis, in compliance with the laws governing the provision of financial services carried out by the Bank and the regulations issued on their basis, in accordance with other regulations that apply to the financial and banking profession and in accordance with the highest ethical standards of governance, taking into consideration the prevention of conflicts of interest.

The Management Board must ensure that the Bank operates in compliance with the rules of risk management.

The Management Board must set up and implement adequate administrative and accounting procedures and a system of internal controls.

The Management Board regularly, at least once every quarter, reports to the Supervisory Board of any issues important for the Bank's and the Group's operations.

### **Decision-making by the Management Board**

Decisions that fall within the competence of the Management Board are, as a rule, adopted unanimously by the President and members of the Management Board. In case of disaccord, a decision is adopted with a majority of votes cast by all members of the Management Board. In making the decisions or voting, the President and each member of the Management Board have one vote.

In case of an equal number of votes, the President of the Management Board has the casting vote.

The Management Board may, by a special resolution adopted unanimously, authorise each individual member of the Management Board to make autonomous decisions in respect of individual matters and transactions that relate to the current operations of the Bank.

### **Representation of the Bank**

In all legal transactions, the Bank is represented jointly by at least two members of the Management Board.

All members of the Management Board or, alternatively, two members of the Management Board may, in writing, authorise one individual member of the Management Board to represent the Bank autonomously in entering into certain transactions or certain types of transactions.

Further details with respect to the composition and competences of the Management Board are set out in Nova KBM's Annual Report for 2013, in Section 5.3.3 'Governing bodies of Nova KBM'.

### **SUPERVISORY BOARD**

The managing of operations of Nova KBM is overseen by the Supervisory Board that, in accordance with the Bank's Articles of Association, consists of nine members.

In accordance with the Bank's Articles of Association, Supervisory Board members are appointed by the Shareholders' Meeting for a period of four years.

The function of a Supervisory Board member may terminate before expiry of his/her term of office in the following cases:

- if he/she gives a written notice, or
- if he/she is recalled by the Shareholders' Meeting.

As of 31 December 2013, the composition of the Nova KBM Supervisory Board was as follows: Peter Kukovica (Chairman), Niko Samec (Deputy Chairman), Egon Žižmond, Andrej Fatur, Keith Charles Miles FCA, Miha Glavič, Karmen Dvorjak and Peter Kavčič.

On 10 June 2013, the Nova KBM Shareholders' Meeting appointed Aljoša Tomaž as a new Supervisory Board member, replacing Dušanka Jurenc who resigned from this position on 21 November 2012. Aljoša Tomaž stepped down as a member of the Nova KBM Supervisory Board on 12 September 2013.

### **Conditions for the Supervisory Board membership**

Only a person who meets the criteria stipulated by the law can be appointed as a member of the Supervisory Board.

The Supervisory Board carries out its work in accordance with competences set out in the applicable legislation, the Bank's Articles of Association, and the Regulations on the Activities of the Supervisory Board. The Supervisory Board conducts activities for which it is competent at regular and correspondence meetings.

As a rule, the Supervisory Board convenes at least once per quarter, depending on the importance of the issue to be discussed, or at the request of the Chairman of the Supervisory Board.

### **Competences and duties of the Supervisory Board**

In addition to the powers vested in the Supervisory Board under the Companies Act and the Banking Act, the Supervisory Board also gives consent to the Management Board with respect to:

- Bank's business policy
- Bank's financial plan

- organisation of the system of internal controls
- draft annual plan of work of the Internal Audit Centre
- new issues of own securities exceeding €30 million
- all transactions regarding the acquisition and disposal of equity holdings in companies and other legal entities whose book value exceeds €550,000
- acquisition and disposal of investments in equity instruments with the purpose of portfolio investments, if such investment in any one issuer exceeds 5% of the Bank's equity
- any decisions in respect of actions resulting in status changes in companies and other legal entities in which the Bank holds a controlling stake
- formation of a banking and/or financial group or groups
- writing off claims over €1 million
- raising funds and contracting other liabilities for the Bank which in one financial year, individually or in total, exceed 25% of the Bank's equity
- concluding legal deals which, considering the Bank's total exposure, would result in the Bank's large exposure to a customer or a group of related persons, and concluding legal deals as a result of which the Bank's large exposure to a customer or a group of related persons would be increased by so much as to reach or exceed 15% of the Bank's equity, and each subsequent 5% of its equity
- concluding a transaction that results in the Bank becoming exposed to a person having a special relationship with the Bank within the meaning of provisions of Article 167 of the Banking Act
- other matters in accordance with the regulations.

Members of the Supervisory Board are required to:

- supervise the adequacy of procedures and the efficiency of the work of the internal audit
- discuss the findings of the Bank of Slovenia, the tax inspection and other supervisory bodies during the process of supervision of the Bank
- check annual and other financial reports of the Bank and draw up a written opinion on their conclusions for the Shareholders' Meeting
- explain to the Shareholders' Meeting their opinion about the annual report of the Internal Audit Centre and their opinion about the annual report of the Management Board
- act in line with the highest ethical standards of governance by taking prevention of conflicts of interest into consideration.

A member of the Bank's Supervisory Board must immediately inform the Bank of Slovenia of the following:

- his/her appointment and termination of his/her function in management and supervisory bodies of other legal entities
- legal transactions on the basis of which a member of the Supervisory Board himself/herself or a member of his/her immediate family has, directly or indirectly, acquired shares or participating interests in a legal entity, as a result of which the member of the Supervisory Board together with a member of his/her immediate family have reached or exceeded a qualified share in that legal entity, or their share has fallen below the qualified share.

The Supervisory Board is required to:

- check the annual report together with the auditor's report and the proposal of the Management Board for the appropriation of profit available for distribution
- draw up a written report for the Shareholders' Meeting in accordance with the second paragraph of Article 282 of the Companies Act.

The Supervisory Board adopts the annual report.

### **Decision-making by the Supervisory Board**

The Supervisory Board constitutes a quorum if more than one half of its members are present.

The Supervisory Board adopts its decisions with a simple majority of votes cast by the members present at the vote.

In case of an equal number of votes, the Chairman of the Supervisory Board has the casting vote.

### **Remuneration of, and reimbursement of costs incurred by, members of the Supervisory Board and Supervisory Board committees**

Total remuneration of members of the Supervisory Board and Supervisory Board committees is made up of:

- remuneration for performing the office
- meeting attendance fees
- reimbursement of costs in respect of performing the office.

For performing their office and taking over the responsibility, Supervisory Board members shall receive a basic remuneration to be determined by a Shareholders' Meeting resolution.

Supervisory Board members who are members of standing committees and working bodies shall receive an extra payment for performing their office to be determined by a Shareholders' Meeting resolution.

External members of committees and working bodies shall receive remuneration to be determined by the Supervisory Board.

In addition to reimbursement of costs for performing the office, each Supervisory Board member shall also receive an attendance fee for the attendance and time spent at the meeting, the amount of which shall be determined by a Shareholders' Meeting resolution.

External members of committees and working bodies shall receive, in addition to reimbursement of costs for performing the office, an attendance fee for the attendance and time spent at the meeting, the amount of which shall be determined by the Supervisory Board.

Further information about the activities of the Bank's Supervisory Board is set out in Nova KBM's Annual Report for 2013, in Section 3 'Report of the Supervisory Board'.

### **SUPERVISORY BOARD COMMITTEES**

The following committees carried out their work during 2013 in accordance with the Companies Act and the Banking Act: the Audit Committee, and the Remuneration and Nomination Committee.

#### **Audit Committee**

On 30 August 2012, the newly appointed Supervisory Board elected the following members to the Audit Committee: Keith Charles Miles FCA and Andrej Fatur, as representatives of the Nova KBM Supervisory Board, and Aleksander Igličar, as an external expert. On 25 October 2012, the Supervisory Board appointed John Harris, an external expert, as the fourth member of the Audit Committee. Peter Kavčič, a Supervisory Board member, was appointed as a member of the Audit Committee on 24 June 2013, while John Harris resigned as an external member of the Audit Committee on 18 December 2013.

The Audit Committee supports the Supervisory Board in overseeing the management of the Bank and the Group companies, in particular with regard to legitimacy and business ethics of their operations, the risk management systems, internal audit and the internal control systems, and financial reporting. In addition, the Audit Committee cooperates with external auditors and monitors the efficiency, objectivity and independence of their work, and undertakes duties laid down in the Bank's Articles of Association, documents of the Audit Committee and Supervisory Board resolutions.



The Audit Committee carries out its activities in accordance with the law, the Bank's Articles of Association, and the Charter which regulates the purpose and the composition of the Audit Committee, methods and conditions of its work as well as competences 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.

As a rule, the Audit Committee members adopt decisions at meetings. A quorum is constituted if at least one half of the Audit Committee members are present at the meeting, one of whom shall be Chairman or Deputy Chairman.

The Audit Committee adopts its decisions with a simple majority of votes cast by the members present at the vote. Each member has one vote. In case of an equal number of votes, the Chairman of the Audit Committee has the casting vote.

On 22 July 2011, the Shareholders' Meeting passed a resolution according to which members of the Supervisory Board who are simultaneously also members of the Audit Committee shall receive, apart from an attendance fee for their attendance and time spent at the meeting, a basic remuneration for holding their office. External members of the Audit Committee are entitled to an attendance fee, the amount of which is determined by the Shareholders' Meeting. They are also entitled to the reimbursement of costs for performing the office, the amount of which is determined by the Shareholders' Meeting as well. External members are entitled to the reimbursement of costs in the same amount as Supervisory Board members.

The Audit Committee regularly reports to the Supervisory Board about its work at the meetings of the Supervisory Board.

Further information about the activities of the Audit Committee is set out in Nova KBM's Annual Report for 2013, in Section 3 'Report of the Supervisory Board'.

### **Remuneration and Nomination Committee**

On 30 August 2012, the newly appointed Supervisory Board elected the following members to the Remuneration and Nomination Committee: Peter Kukovica, Peter Kavčič and Niko Samec, as representatives of the Nova KBM Supervisory Board, and Romana Košorok and Jure Srhoj, as external members.

Jure Srhoj resigned as an external member of the Remuneration and Nomination Committee on 6 December 2012.

On 25 April 2013, the Supervisory Board appointed Adriana Rejc Buhovac as a new external member of the Remuneration and Nomination Committee.

The Remuneration and Nomination Committee is primarily responsible for providing support to the Supervisory Board in selecting candidates for the Supervisory and Management Board of the Bank, in helping the Supervisory Board controlling and assessing the work of members of the Supervisory and Management Board, and for providing support in formulating proposals in respect of the remuneration policy, reimbursement of costs and other benefits of Management Board members. Further, it helps the Supervisory Board prepare the Bank's bonus policy and proposals with respect to the improvement of the Bank's governance policy. Support and help to the Supervisory Board is provided by the Remuneration and Nomination Committee also in all other issues and tasks laid down in the Rules of Procedure of the Supervisory Board Remuneration and Nomination Committee.

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

Provisions with respect to remuneration of, and reimbursement of costs incurred by, members of the Audit Committee shall be, mutatis mutandis, applied also to the Remuneration and Nomination Committee.

This Corporate Governance Statement is an integral part of Nova KBM's 2013 Annual Report and will be available in the Ljubljana Stock Exchange electronic information dissemination system, SEOnet, and published on the Bank's website.

Maribor, 14 February 2014

Management Board of Nova KBM d.d.



Igor Žibrik  
Member



Aleš Hauc  
President

Supervisory Board of Nova KBM d.d.



Peter Kukovica  
Chairman