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UNAUDITED REPORT ON OPERATIONS  
OF THE NOVA KBM GROUP  
AND NOVA KBM D.D.  
JANUARY – JUNE 2014

AUGUST 2014

## Corporate governance bodies as of 30 June 2014

### Management Board of Nova KBM

Aleš Hauc	<b>President</b>
Igor Žibrik	<b>Member</b>

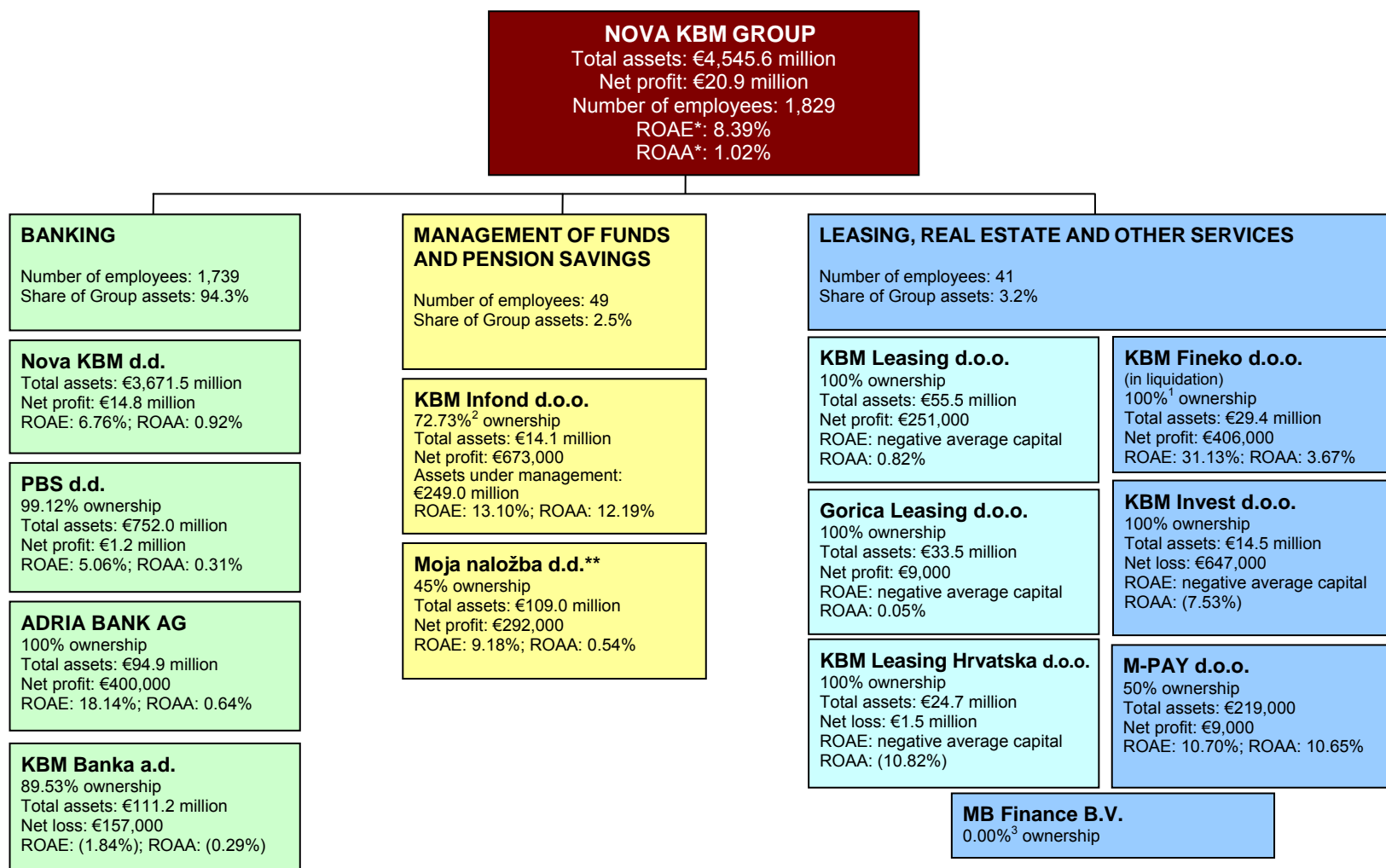
### Executive Directors of Nova KBM

Aleksander Batič  
Jernej Močnik  
Peter Kupljen  
Sabina Župec Kranjc  
Vlasta Brečko

### Supervisory Board of Nova KBM

Peter Kukovica	<b>Chairman</b>
Niko Samec	<b>Deputy Chairman</b>
Andrej Fatur	Member
Keith Charles Miles, FCA	Member
Peter Kavčič	Member
Miha Glavič	Member

Name of the parent bank:	Nova Kreditna banka Maribor d.d.
Short name of the parent bank:	Nova KBM d.d.
Registered office:	Ulica Vita Kraigherja 4, 2505 Maribor
BIC (SWIFT):	KBMASI2X
Reuters:	KBMS
IBAN:	SI56 0100 0000 0400 014
Account No.:	01000-0000400014
Registration No.:	5860580
Entry No. in the register of companies kept by the Maribor District Court:	062/10924200
VAT ID No.:	SI94314527
Share capital:	€150,000,000



\* ROAE and ROAA are presented on a pre-tax basis.

\*\* Associated company.

<sup>1</sup> KBM Fineko filed for liquidation on 29 November 2013.

<sup>2</sup> The Group's stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain amount of its own shares, the Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.

<sup>3</sup> In accordance with IFRS 10, MB Finance is regarded as a consolidated structured entity controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Group.

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# Key performance indicators of the Nova KBM Group

	2014	2013	Index
<b>Statement of financial position (€000)</b>	<b>30.06.</b>	<b>31.12.</b>	
Total assets	4,545,553	4,810,793	94
Total deposits from the non-banking sector	3,179,790	3,079,299	103
Total loans and advances to the non-banking sector	2,098,322	2,231,765	94
Total equity	611,401	560,028	109
<b>Income statement (€000)</b>	<b>H1</b>	<b>H1</b>	
Net interest income	54,989	42,670	129
Net fee and commission income	29,499	29,048	102
Net gains from trading in securities and foreign exchange	13,298	1,744	763
Other income/(expenses)	(1,453)	290	
Operating costs	(53,269)	(58,181)	92
Impairment losses and provisions	(18,973)	(81,997)	23
Profit/(loss) from continuing and discontinued operations	24,091	(66,426)	
Net profit/(loss) for the reporting period	20,876	(62,706)	
<b>Ratios</b>	<b>30.06.</b>	<b>31.12.</b>	
Net earnings/(loss) per share <sup>1</sup> (€)	3.63	(63.05)	
Book value per share <sup>2</sup> (€)	60.71	56.67	
Total capital adequacy (%)	21.35	18.13	
Tier I capital (%)	21.35	18.06	
Core Tier I capital (%)	21.35	18.06	
ROAA before tax (%)	1.02	(12.74)	
ROAE before tax (%)	8.39	(221.22)	
Operating costs/Average total assets (%)	2.26	2.35	
Cost/Income (%)	55.30	64.56	

<sup>1</sup> Net earnings/loss per share is calculated as the ratio between the annualised net profit or loss attributable to owners of the parent and the number of Bank shares outstanding on the last day of the reporting period.

<sup>2</sup> Book value per share on the last day of the reporting period is calculated as the ratio between the equity attributable to owners of the parent and the total number of Bank shares outstanding on the last day of the reporting period.

## Performance highlights for the period January – June 2014

- For the six-month period ended 30 June 2014, the Nova KBM Group (hereafter also referred to as the 'Group') posted a **net profit from continuing operations** of €20,876,000, compared to a net loss of €62,706,000 reported for the same period last year. Operating income earned by the Group increased year-on-year by 30.6%, while the amount of net provisioning charges set aside by the Group in the first half of 2014 was one-quarter that incurred in the corresponding period last year.
- **Net interest income** generated by the Group in the first six months of 2014 totalled €54,989,000, against €42,670,000 reported for the corresponding period last year.
- **Net fees and commissions** earned by the Group in the period from January through June 2014 were €29,499,000 – roughly the same as in the first half of 2013. The amount of net fee and commission income collected by the Group was sufficient to cover just over one half of its operating costs.
- In the first six months of 2014, the Group incurred **operating costs** of €53,269,000, down 8.4% on the corresponding period of 2013. The ratio of operating costs to the average total assets stood at 2.26% – an improvement of 0.09 percentage points from the end of 2013. The Group's cost-to-income ratio improved to 55.30%.
- The Group's **total assets** were €4,545,553,000 at the end of June 2014, down €265,240,000, or 5.5%, on the 2013 year-end figure. The decline in total assets was in line with the target set out in the Group's restructuring programme.
- The Group's **return on average equity before tax (ROAE)** and **return on average assets before tax (ROAA)** stood at 8.39% and 1.02%, respectively.
- As of 30 June 2014, the Group's **total equity** amounted to €611,401,000, up €51,373,000, or 9.2%, on the 2013 year-end figure. Its total capital adequacy ratio was 21.35%, compared to 18.13% reported for the end of 2013.



## Other important events

On 18 December 2013, as a result of extraordinary measures imposed by the Bank of Slovenia, the Republic of Slovenia became the sole, 100% owner of Nova KBM. In accordance with a ruling made by the Parliament of the Republic of Slovenia on 21 June 2013, Slovenska odškodninska družba started procedures to sell Nova KBM shares, and appointed, on behalf of the Ministry of Finance, Lazard Frères as the financial adviser in the transaction. On 5 March 2014, an agreement was signed with KPMG for the performance of a financial due diligence review of Nova KBM, while on 13 March 2014, the agreement was concluded for a legal due diligence review and legal advisory services in respect of the sale of Nova KBM. The legal due diligence will be conducted by White & Case, with local support being provided by Ulčar & Partners. The European Commission appointed the auditing firm Ernst & Young as the monitoring trustee responsible for overseeing the transaction. Since January 2014, all the activities to ensure a smooth selling process have been carried out intensively by Nova KBM in cooperation with all parties involved in the project.

### January

- On 2 January, Igor Hustič withdrew as a candidate for the Nova KBM Management Board after he had been nominated for that position in October 2013.
- On 30 January, Moody's Investors Service upgraded Nova KBM's long-term deposit rating to Caa1 from Caa2, at the same time changing the outlook on the rating from negative to stable. The financial strength rating was affirmed at E. Moody's also raised Nova KBM's baseline credit assessment (BCA) to caa2 from caa3.

### February

- Since 1 February, KBM Banka has been run by a two-member Executive Board, with Ljubinka Lovčević acting as the President and Vesna Užnik Đorić acting as the member.
- On 1 February, the entire Supervisory Board of M-Pay was replaced: Vlasta Brečko was appointed as the Chairman, Marko Jagodič as the Deputy Chairman, and Aleksander Batič, Miha Šlamberger and Marko Boštjančič were appointed as members of the Supervisory Board.
- On 6 February, Karmen Dvorjak resigned as a member of the Nova KBM Supervisory Board.
- On 14 February, Borut Celcer was appointed as the fifth member of the KBM Infond Supervisory Board.
- On 27 February, Uroš Lorenčič stepped down as the Chairman of the Supervisory Board of KBM Leasing, Gorica Leasing, KBM Leasing Hrvatska and KBM Invest, handing over his position in the supervisory boards of these companies to Mitja Leskovar.

## March

- On 11 March, with the aim of controlling the operations of Adria Bank and supporting the improvement of its performance, the Austrian Financial Market Authority (FMA) appointed a government commissioner to the Adria Bank Management Board. The commissioner's term of office is limited to a maximum of 18 months.
- The 25th Nova KBM Shareholders' Meeting was held on 14 March.
- Fitch Ratings affirmed the ratings of Nova KBM.
- On 19 March, Egon Žižmond resigned as a member of the Nova KBM Supervisory Board.

## April

- On 3 April, the Supervisory Board appointed Robert Senica as the third member of the Nova KBM Management Board, with his five-year term of office starting on the day he takes up the position.
- The 2013 Annual Report of the Nova KBM Group and Nova KBM was released on 30 April.

## May

- On 22 May, Slovenska odškodninska družba, on behalf of the Republic of Slovenia, published an invitation to express interest in the acquisition of a 100% shareholding in Nova KBM.
- Nova KBM infused fresh capital of €12,200,000 into Adria Bank, its Austria-based subsidiary bank, thereby increasing its shareholding to 100%.

## June

- The 26th Nova KBM Shareholders' Meeting was held on 27 June. At the session, the shareholders of Nova KBM made a ruling to reduce the number of Supervisory Board members from seven to six, at the same time requesting that the necessary adjustment to reflect this change be made to Nova KBM's Articles of Association. By making this amendment, Nova KBM complied with a recommendation of the European Commission concerning the reduction in number of Supervisory Board members. Furthermore, the Shareholders' Meeting was briefed on the operating results of Nova KBM and the Nova KBM Group for 2013, and granted discharge to the Bank Management and Supervisory Boards for their performance in 2013. Deloitte Revizija of Ljubljana was appointed as the certified auditor for the audit of the 2014 financial statements of Nova KBM and the Nova KBM Group. In addition, shareholders were given information on Nova KBM's Fit & Proper Policy.
- Aleš Hauc was appointed as the Chairman of the PBS Supervisory Board, replacing Boris Novak who took over the position of the Deputy Chairman.



## Events after the end of the reporting period

### July

- On 9 July, Fitch Ratings affirmed Nova KBM's long-term and short-term Issuer Default Ratings (IDR) at 'BB-/B', albeit with a negative outlook. The Viability Rating (VR) of Nova KBM was upgraded to 'b' from 'b-', while its 'Support Rating' (SR) and 'Support Rating Floor' (SRF) were affirmed at '3' and 'BB-', respectively.
- Nova KBM infused fresh capital of €7,485,000 into KBM Leasing Hrvatska, its Croatia-based subsidiary, which is focused on the provision of leasing services.

### August

- On 1 August, Robert Senica took up his position as the third member of the Nova KBM Management Board. The vast professional experience he has gained by working for over 13 years in the banking, commercial and finance industries will surely help him further develop the Bank's corporate and retail banking operations, the segments he was entrusted with when offered this appointment.

## Changes in the Supervisory Board of Nova KBM d.d.

Karmen Dvorjak and Egon Žižmond resigned as members of the Nova KBM Supervisory Board on 6 February and 19 March 2014, respectively.

# Statement by the Management Board

Dear Sirs,

The results of the operations of the Nova KBM Group for the first six months of the year demonstrate that the main projects set out in our restructuring programme, which the European Commission consented to last December upon the recapitalisation of Nova KBM, are gradually being implemented. The common objective of these projects is to reshape the Nova KBM Group into a more cost-efficient and profitable financial institution that builds its success on a slimmer organisational structure.

Spring of this year has brought the first signs of recovery to the Slovene economic landscape. Exports, which remained the main driver of still weak economic growth in the second quarter of the year, increased in the first five months of the year by 5.5% relative to the same period last year. The output of industrial production registered an increment as well, as did the construction industry, reflecting the work related to the repair of damage caused by the February sleet, and an increase in the building of the municipal infrastructure, the financing of which has been partially supported by EU funds. The number of registered unemployed persons is marginally decreasing, mainly due to the demand for workforce by several market service providers.

The efforts taken to restructure and rehabilitate the Slovene banking system have also started to bear fruit. This has contributed to a more positive perception of our economy by the international financial markets, causing the spreads on Slovenia's foreign debt to see a declining trend. Nevertheless, the restructuring and de-leveraging of Slovene companies remains one of the most critical challenges to be dealt with going forward.

In spite of the difficult and uncertain conditions in the financial markets and the economy in general, the Nova KBM Group reported an improvement in its results for the first half of the year compared with those of last year, certainly suggesting that we have been successful in the execution of our business strategy of ensuring stable and reliable

performance of the Nova KBM Group, refocusing on customers and on the provision of conventional banking services, and regaining customer confidence.

For the six-month period ended 30 June 2014, the Nova KBM Group reported a net profit of €20,876,000. The total income earned by the Nova KBM Group increased year-on-year by almost one-third, with net interest income and net fee and commission income amounting to €54,989,000 and €29,499,000, respectively.

Following the cleaning up and restructuring of the Nova KBM Group's loan portfolio at the end of last year, we have introduced a number of measures to improve the management of credit risk, based on which we expect the level of NPLs and provisioning charges incurred in the future to remain relatively low. The proportion of net NPLs in the Nova KBM Group's total loan portfolio registered an increase of 9.9% in the first six months of the year, mainly owing to a worsening in the quality of several loans granted in the past. However, despite this deterioration, net provisioning charges set aside by the Nova KBM Group were relatively low at €18,973,000, indicating a downturn in the number of new defaulting customers.

Operating costs (staff costs, general and administration costs) were 8.4% below those reported for the same period last year. As of 30 June 2014, the Nova KBM Group had 1,829 employees, down 204 on the end of June 2013, reflecting our commitment to gradually reduce the number of staff. As a responsible employer, we have so far implemented mostly so-called soft measures when making employees redundant.

The cost-to-income ratio of the Nova KBM Group improved to 55.30% in the first six months of the year. At the end of June 2014, the total assets of the Nova KBM Group amounted to €4,545,553,000, a decrease of 5.5% from the end of 2013. Both figures, the cost-to-income ratio and the level of total assets, complied with the requirements of the

European Commission. The Nova KBM Group's equity reached €611,401,000, up 9.2% on the 2013 year-end figure, with its total capital adequacy ratio standing at 21.35%.

The ratio between debt and equity financing, one of the key limiting factors that banks consider when deciding on providing financing to companies, has seen a decline in Slovenia, which has an impact on the flow of debt financing. The companies have not only reduced their borrowing from banks, but have also started to cut down on their levels of inter-company financing. Strained liquidity conditions and the fear of insolvency discourage commercial companies from providing lending to either suppliers or buyers. The continuation of de-leveraging, without the companies seeking to acquire new funding, will hardly provide an impetus for stronger growth. The demand of households for loans is weak too, due to a relatively limited disposable income of households and their reluctance to spend money on consumer goods. These factors have contributed to a 3.3% increase in customer deposits placed with the Nova KBM Group in the first six months of the year, while the volume of net loans outstanding to the non-banking sector saw a marginal contraction in the same period. As a result, the loan-to-deposit ratio (gross LTD ratio) declined in the first half of the year by 5.91 percentage points, to 85.73% as of 30 June 2014. In spite of this deterioration in the LTD ratio, the Nova KBM Group continues to make determined efforts to strengthen its relationships with customers, for example by closely monitoring their operations, while participating in the restructuring processes of companies. Moreover, by providing funding to businesses that have the ability to deliver profitable results, it plays an important role in generating fresh momentum for economic growth.

The Nova KBM Group is in the process of restructuring: more extensive consolidation

activities, including the sale of leasing subsidiaries, the end of the liquidation proceedings against KBM Fineko, and a decision concerning the future of Adria Bank, are expected to be implemented in the second half of the year, with the outcome of these activities having an impact on the year-end results of the Nova KBM Group. Apart from that, it is expected that the extraordinary costs incurred by the Nova KBM Group will see an increase this year as a result of the asset quality review and stress tests that Nova KBM was obliged to undergo in order to comply with the Eurozone rules. In addition, we anticipate that the level of our provisioning charges will need to be adjusted at the end of the year to reflect the economic climate and the performance of our corporate customers.

The process of selling Nova KBM, the parent company of the Nova KBM Group, entered the second stage in August. The Slovene Sovereign Holding, which runs the sale process on behalf of the Republic of Slovenia, expects to receive binding offers in October 2014. Irrespective of any change in the shareholding of Nova KBM, and irrespective of when the sale takes place, the management of Nova KBM and other companies in the Nova KBM Group are committed to pursuing the established business model. We believe that only by doing our work in a professional and responsible manner, and through the persistence and active cooperation of all stakeholders of the Nova KBM Group, will we be able to accomplish our objectives, namely: to meet the commitments set out in our restructuring programme, to provide a wide range of tailor-made first-class financial services, and to ensure a successful business future for both Nova KBM and the Nova KBM Group.

Maribor, August 2014

Management Board of Nova KBM d.d.



Robert Senica  
Member



Igor Žibrik  
Member



Aleš Hauc  
President

# Statement of management's responsibilities

(pursuant to Article 113 of the Financial Instruments Market Act)

By signing this statement, the Nova KBM Management Board **confirms** to the best of its knowledge that:

- the financial report summary has been drawn up in accordance with the appropriate accounting framework of reporting and that it provides 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 interim business report, which has been drawn up in accordance with the relevant accounting standard, provides a fair view of significant transactions with related parties.

Maribor, 28 August 2014

Management Board of Nova KBM d.d.



Robert Senica  
Member



Igor Žibrik  
Member



Aleš Hauc  
President

# Profile of the Nova KBM Group and Nova KBM d.d.

The Nova KBM Group consists of the parent company (Nova KBM), 11 subsidiary companies, and one associated company. The names of the companies and Nova KBM's shareholding in them are presented in the table below.

Nova KBM d.d. (in this report also referred to as 'Nova KBM' or the 'Bank') is a commercial bank with a tradition of understanding and supporting its retail and corporate customers to whom it provides standard banking products. The Bank's registered office is at Ulica Vita Kraigherja 4, 2505 Maribor, Slovenia.

Nova KBM is obliged to prepare consolidated financial statements.

Composition of the Nova KBM Group, including the associated company, as of 30 June 2014

Company	Position in the Group	Nova KBM's share of voting rights (%)
Nova KBM d.d.	parent bank	
Poštna banka Slovenije d.d.	subsidiary bank	99.12
Adria Bank AG	subsidiary bank	100.00
KBM Banka a.d.	subsidiary bank	89.53
KBM Fineko d.o.o. (in liquidation)	subsidiary company	100.00 <sup>3</sup>
KBM Infond d.o.o.	subsidiary company	72.73 <sup>4</sup>
KBM Leasing d.o.o.	subsidiary company	100.00
KBM Invest d.o.o.	subsidiary company	100.00
Gorica Leasing d.o.o.	subsidiary company	100.00
M-Pay d.o.o.	subsidiary company	50.00
KBM Leasing Hrvatska d.o.o.	subsidiary company	100.00
MB Finance B.V.	subsidiary company	00.00 <sup>5</sup>
Moja naložba d.d.	associated company	45.00

In May 2014, Nova KBM infused fresh capital of €12,200,000 into Adria Bank, its Austria-based subsidiary bank, thereby increasing its shareholding to 100%.

<sup>3</sup> KBM Fineko filed for liquidation on 29 November 2013.

<sup>4</sup> The Group's stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain amount of its own shares, the Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.

<sup>5</sup> In accordance with IFRS 10, MB Finance is regarded as a consolidated structured entity controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Group.

Key performance indicators of individual Group companies for the six-month period ended 30 June 2014

COMPANY	Number of employees 30.06.2014	Net profit or (loss) (€000)	Total assets (€000)	ROAE before tax (%)	ROAA before tax (%)
Nova KBM d.d.	1,185	14,822	3,671,462	6.76	0.92
Poštna banka Slovenije d.d.	238	1,196	751,963	5.06	0.31
Adria Bank AG	33	400	94,880	18.14	0.64
KBM Banka a.d.	283	(157)	111,233	(1.84)	(0.29)
KBM Fineko d.o.o. (in liquidation)	2	406	29,391	31.13	3.67
KBM Infond d.o.o.	34	673	14,118	13.10	12.19
KBM Leasing d.o.o.	11	251	55,481	*	0.82
KBM Invest d.o.o.	8	(647)	14,475	*	(7.53)
Gorica Leasing d.o.o.	12	9	33,509	*	0.05
M-Pay d.o.o.	0	9	219	10.70	10.65
KBM Leasing Hrvatska d.o.o.	8	(1,460)	24,650	*	(10.82)
Moja naložba d.d.	15	78	107,325	4.99	0.29

\* Not calculated due to negative average capital.

## Shareholder structure of Nova KBM d.d. and information on shares

As of 30 June 2014, the share capital of the Bank totalled €150,000,000 and was split into 10,000,000 ordinary no-par value shares, all of which were held by the Republic of Slovenia. Nova KBM shares, with the ticker symbol KBMS, are not quoted on a regulated stock market.

Nova KBM has issued only one class of shares which are all freely transferable and bear the same rights. Each ordinary share entitles its holder to one vote at the Bank Shareholders' Meeting. The rights of the holders of ordinary shares are set out in the relevant legislation of the Republic of Slovenia.

### Information on shares

	Nova KBM				Nova KBM Group			
	30.06.14	31.12.13	31.12.12	31.12.11	30.06.14	31.12.13	31.12.12	31.12.11
Book value per share <sup>6</sup> (€)	55.58	51.77	4.92	9.55	60.71	56.67	5.37	10.07
Net earnings/(loss) per share <sup>7</sup> (€)	2.96	(65.65)	(5.20)	(2.42)	3.63	(63.05)	(5.25)	(2.38)

<sup>6</sup> Book value per share on the last day of the reporting period is calculated as the ratio between the Bank's total equity (for the Group: equity attributable to owners of the parent) and the total number of Bank shares outstanding at the end of the reporting period.

<sup>7</sup> Net earnings or loss per share is calculated as the ratio between the Bank's annualised net profit or loss (for the Group: net profit or loss attributable to owners of the parent) and the weighted average number of Bank shares in the period. The total number of KBMS shares outstanding at the end of the reporting period was taken into account in the calculation of the 2013 net loss per share and the H1 2014 net earnings per share.



# Operating results of the Nova KBM Group

For the six-month period ended 30 June 2014, the Group reported a **pre-tax profit from continuing operations** of €24,091,000, against a loss of €66,426,000 reported for the comparable period of 2013. Income earned by the Group increased year-on-year by 30.6% and totalled €96,333,000, of which €54,989,000 was attributable to net interest income and €29,499,000 was attributable to net fee and commission income. Operating costs incurred by the Group in the first half of 2014 amounted to €53,269,000, down 8.4% on the comparable period last year, while net provisioning charges set aside by the Group from January through June 2014 totalled €18,973,000, a considerable reduction from the same period last year when these charges reached €81,997,000. After accounting for the income tax on continuing operations, the Group posted a net profit of €20,876,000 for the first six months of 2014.

**Net interest income** earned by the Group in the first six months of the year reached €54,989,000, as opposed to €42,670,000 recorded in the first half of 2013. The year-on-year decrease of 13.5% in interest income and 45.9% in interest expenses was largely due to a change in interest income earned and interest expenses incurred by Nova KBM following its recapitalisation (a part of which was provided as an in-kind contribution in the form of government bonds), the transfer of its bad assets to BAMC, the conversion of state-deposits into equity, and the write-off of its subordinated liabilities, all of which took place in December 2013. The structure of interest income and expenses by market segment and type of assets and liabilities for both the Group and the Bank is presented in the notes to the financial statements.

**Net fee and commission income** generated by the Group in the first six months of the year reached €29,499,000 – roughly the same as in the corresponding period of 2013. Nova KBM and PBS – which registered a year-on-year increase in fee earnings of 4.3% and 3.5%, respectively – contributed by far the largest proportion of the total net fees and commissions of the Group. Net fees and commissions earned by the Group in the first six months of the year were sufficient to cover 55.4% of its operating costs.

**Other non-interest income**<sup>8</sup> was €11,845,000, up from €2,034,000 earned in the same period last year, resulting mainly from the income from the sale of securities and from gains generated by Nova KBM due to share price increases in the first six months of the year.

**Operating costs** (administration costs, including depreciation and amortisation) incurred by the Group in the first six months of the year totalled €53,269,000, down 8.4% on the same period last year. As regards the composition of operating costs, staff costs accounted for 50.1% of the total operating costs, followed by general and administrative costs (35.2%), and depreciation and amortisation (14.7%). The Group's cost-to-income ratio stood at 55.30% in the first six months of the year.

The Group's **net provisioning charges** totalled €18,973,000 in the first six months of the year, compared to €81,997,000 reported for the same period last year, with loan impairment losses of €22,842,000 recognised during the period being partially offset by the release of provisions in the amount of €3,869,000. The structure of provisions and impairment losses by type of assets for both the Group and the Bank is displayed in the notes to the financial statements.

<sup>8</sup> Other non-interest income includes: dividend income; realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss; net gains or losses on financial assets and liabilities held for trading; gains or losses on financial assets and liabilities designated at fair value through profit or loss; net exchange rate differences; net gains or losses on derecognition of assets excluding non-current assets held for sale; other net operating income or loss; share of profits of associates and joint ventures accounted for using the equity method; and net gains or losses from non-current assets held for sale and liabilities associated therewith.

# Financial position of the Nova KBM Group

At the end of June 2014, the **Group's total assets** amounted to €4,545,553,000, down 5.5%, or €265,240,000, on the end of 2013. The decline in total assets was in line with the requirements of the European Commission.

On the assets side of the statement of financial position, we saw a decline in the **balance of funds kept with the central bank** and in the volume of **loans outstanding to the non-banking sector**. The former went down by €136,932,000, with Nova KBM contributing the most to this drop. The volume of loans outstanding to the non-banking sector saw a decrease of €133,443,000, mainly on account of lower business volumes registered by banks in the Group, of which Nova KBM experienced the most noticeable fall.

The funding side of the statement of financial position saw a decrease in financial liabilities to banks, while the deposits provided by customers registered an increase in the first half of the year.

The balance of **financial liabilities to the central bank** decreased in the first six months of 2014 by €328,636,000 to €154,255,000 at the end of June, largely because of the early repayment of deposits to the ECB by Nova KBM and PBS.

**Deposits and loans from banks** decreased in the first half of 2014 by €88,765,000. The largest decline in deposits was registered by Adria Bank, while the bulk of the decline in loans was attributable to Nova KBM, as a result of the regular and early repayments of loans taken out in the past.

**Deposits from customers** increased in the first six months of 2014 by €100.5 million, or 3.3%, to reach €3,179,790,000 at the end of June, with sight deposits placed with Nova KBM registering the largest increment.

As a result of both a decline in net loans outstanding to the non-banking sector and an increase in deposits from the non-banking sector, the loan-to-deposit ratio (**net LTD ratio**) contracted in the first half of the year by 6.49 percentage points, to 65.99% at the end of June 2014.

As of 30 June 2014, the Group's **total equity** amounted to €611,401,000, an increase of 9.2% from the end of last year, partially as a result of the net profit generated by the Group in the first six months of the year, and partially due to the valuation, through equity, of available-for-sale financial assets. The Group's **total capital adequacy ratio** stood at 21.35% at the end of June 2014.

## Plans for the rest of 2014

In the second half of 2014, efforts are continuing to get the Bank and the Group back on track towards becoming successful and profitable financial institutions while strengthening customer relationships by providing superb financial services. The financial plan of the Bank and the Group for 2014 anticipates that the Bank will end the year with a net profit, provided no deterioration in the economic conditions occurs. The Group is expected to report a pre-tax, pre-provision profit, while a minor loss of €0.9 million is expected after absorbing the impact of provisioning charges.

In accordance with the commitments set out in the restructuring programme, the Group must, among other steps, gradually reduce its total assets. To make this happen, the financial plan anticipates that the total assets of the Bank and the Group will come down to €3.6 billion and €4.5 billion, respectively, by the end of 2014. The loan portfolios of both the Bank and the Group were cleaned up by the end of 2013. Considering that a number of efforts have been taken to enhance credit risk management, it is expected that the level of bad loans and provisioning charges will remain relatively low in the future. Nonetheless, the realisation of this projection will to a certain degree depend on the future economic climate in Slovenia and on the monetary policy pursued by the ECB.

The capital position of the Group will remain strong throughout 2014. A more robust capital base will facilitate the access of the Bank to funding needed to support the local economy, with priority in financing being given to customers with a good credit rating. However, in its lending activity, the Group will fully take into consideration its commitment to reduce its risk-weighted assets according to the agreed timeline.

Intensive consolidation of the Group is continuing in the second half of 2014, with a focus being placed on banking and other segments that have the ability to generate profits. The restructuring programme will entail either the sale of KBM Leasing and Gorica Leasing or their integration into the operations of the Bank by the end of 2014, as well as the end of the liquidation proceedings against KBM Fineko.

# Key performance indicators of Nova KBM d.d.

	2014	2013	Index
<b>Statement of financial position (€000)</b>	<b>30.06.</b>	<b>31.12.</b>	
Total assets	3,671,462	3,909,983	94
Total deposits from the non-banking sector	2,465,956	2,364,102	104
Total loans and advances to the non-banking sector	1,735,313	1,826,371	95
Total equity	555,790	517,712	107
Total impairment losses and provisions	596,547	583,006	102
<b>Income statement (€000)</b>	<b>H1</b>	<b>H1</b>	
Net interest income	44,087	31,846	138
Net fee and commission income	21,066	20,188	104
Net gains from trading in securities and foreign exchange	10,351	408	2,537
Other (expenses)	(2,147)	(1,113)	193
Operating costs	(35,470)	(39,127)	91
Impairment losses and provisions	(20,080)	(58,646)	34
Profit/(loss) from continuing operations	17,807	(46,444)	
Net profit/(loss) for the reporting period	14,822	(44,174)	
<b>Ratios</b>	<b>30.06.</b>	<b>31.12.</b>	
Net earnings/(loss) per share <sup>9</sup> (€)	2.96	(65.65)	
Book value per share <sup>10</sup> (€)	55.58	51.77	
Total capital adequacy (%)	23.63	20.49	
Tier I capital (%)	23.63	20.45	
Core Tier I capital (%)	23.63	20.45	
ROAA before tax (%)	0.92	(15.03)	
ROAE before tax (%)	6.76	(249.42)	
Operating costs/Average total assets (%)	1.85	1.97	
Cost/Income (%)	48.35	54.45	
<b>Ratings (long-term)</b>	<b>30.06.</b>	<b>31.12.</b>	
	Caa1 (Moody's)	Caa2 (Moody's)	
	BB- (Fitch)	BB- (Fitch)	

<sup>9</sup> Annualised net profit or loss/Weighted average number of shares in the period.

<sup>10</sup> Bank's total equity at the end of the period/Total number of ordinary no-par value shares.

# **UNAUDITED INTERIM FINANCIAL REPORT OF THE NOVA KBM GROUP**

## **JANUARY – JUNE 2014**

## Interim Income Statement – Nova KBM Group

€000

ITEM DESCRIPTION	Notes	Six months ended 30.06.2014	Six months ended 30.06.2013
Interest income	9	85,159	98,474
Interest expense	9	(30,170)	(55,804)
<b>Net interest income</b>	<b>9</b>	<b>54,989</b>	<b>42,670</b>
<b>Dividend income</b>		<b>64</b>	<b>354</b>
Fee and commission income	10	44,269	45,957
Fee and commission expense	10	(14,770)	(16,909)
<b>Net fee and commission income</b>	<b>10</b>	<b>29,499</b>	<b>29,048</b>
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	11	8,429	1,415
Net gains/(losses) on financial assets and liabilities held for trading	12	(577)	2,366
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	13	4,749	(230)
Net exchange rate differences	14	697	(1,807)
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	-	(67)	123
Other net operating (loss)	-	(1,615)	(401)
Administration costs	15	(45,473)	(50,046)
Depreciation and amortisation	-	(7,796)	(8,135)
Provisions	16	3,869	2,169
Impairment losses	17	(22,842)	(84,166)
Share of profits of associates and joint ventures accounted for using the equity method	-	101	60
Net gains from non-current assets held for sale and liabilities associated therewith	-	64	154
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>	<b>-</b>	<b>24,091</b>	<b>(66,426)</b>
Income tax related to profit or loss from continuing operations	18	(3,215)	3,720
<b>NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>	<b>-</b>	<b>20,876</b>	<b>(62,706)</b>
<b>NET PROFIT/(LOSS) FOR THE REPORTING PERIOD</b>	<b>-</b>	<b>20,876</b>	<b>(62,706)</b>
a) Attributable to owners of the parent	-	18,170	(56,016)
– continuing operations	-	18,170	(56,016)
b) Attributable to non-controlling interest	-	2,706	(6,690)
Basic earnings/(loss) per share (€)	-	1.82	(0.74)
Diluted earnings/(loss) per share (€)	-	1.82	(0.74)

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



## Interim Income Statement – Nova KBM Group (by quarter)

€000

ITEM DESCRIPTION	2014		2013			
	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	41,618	43,541	34,012	48,596	46,733	51,741
Interest expense	(14,269)	(15,901)	(21,804)	(24,791)	(26,483)	(29,321)
<b>Net interest income</b>	<b>27,349</b>	<b>27,640</b>	<b>12,208</b>	<b>23,805</b>	<b>20,250</b>	<b>22,420</b>
<b>Dividend income</b>	<b>64</b>	<b>0</b>	<b>4</b>	<b>1,029</b>	<b>347</b>	<b>7</b>
Fee and commission income	22,801	21,468	22,795	23,579	23,884	22,073
Fee and commission expense	(7,492)	(7,278)	(7,981)	(8,154)	(9,015)	(7,894)
<b>Net fee and commission income</b>	<b>15,309</b>	<b>14,190</b>	<b>14,814</b>	<b>15,425</b>	<b>14,869</b>	<b>14,179</b>
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	5,790	2,639	61,526	489	907	508
Net gains/(losses) on financial assets and liabilities held for trading	285	(862)	27	139	960	1,406
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	1,053	3,696	390	(1,389)	1,273	(1,503)
Net exchange rate differences	322	375	(197)	330	(875)	(932)
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	(57)	(10)	140	281	91	32
Other net operating income/(loss)	(833)	(782)	(12,600)	(719)	(1,103)	702
Administration costs	(23,219)	(22,254)	(29,826)	(25,149)	(25,765)	(24,281)
Depreciation and amortisation	(3,855)	(3,941)	(4,121)	(4,198)	(4,109)	(4,026)
Provisions	2,597	1,272	(57,923)	1,117	(570)	2,739
Impairment losses	(17,347)	(5,495)	(571,629)	(14,837)	(61,445)	(22,721)
Share of profits/(losses) of associates and joint ventures accounted for using the equity method	66	35	(253)	19	5	55
Net gains/(losses) from non-current assets held for sale and liabilities associated therewith	(4)	68	(1,206)	150	72	82
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>	<b>7,520</b>	<b>16,571</b>	<b>(588,646)</b>	<b>(3,508)</b>	<b>(55,093)</b>	<b>(11,333)</b>
Income tax related to profit or loss from continuing operations	(3,008)	(207)	(29,335)	(713)	855	2,865
<b>NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>	<b>4,512</b>	<b>16,364</b>	<b>(617,981)</b>	<b>(4,221)</b>	<b>(54,238)</b>	<b>(8,468)</b>
<b>NET PROFIT/(LOSS) FOR THE REPORTING PERIOD</b>	<b>4,512</b>	<b>16,364</b>	<b>(617,981)</b>	<b>(4,221)</b>	<b>(54,238)</b>	<b>(8,468)</b>
a) Attributable to owners of the parent	4,367	13,803	(572,401)	(2,039)	(49,158)	(6,858)
b) Attributable to non-controlling interest	145	2,561	(45,580)	(2,182)	(5,080)	(1,610)
Basic earnings/(loss) per share (€)	0.44	1.38	(62.67)	0.36	(0.56)	(0.18)
Diluted earnings/(loss) per share (€)	0.44	1.38	(62.67)	0.36	(0.56)	(0.18)

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

## Interim Statement of Other Comprehensive Income – Nova KBM Group

€000

ITEM DESCRIPTION	Six months ended 30.06.2014	Six months ended 30.06.2013
<b>NET PROFIT/(LOSS) FOR THE REPORTING PERIOD AFTER TAX</b>	<b>20,876</b>	<b>(62,706)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX</b>	<b>30,656</b>	<b>(5,802)</b>
<b>ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>	<b>30,656</b>	<b>(5,802)</b>
Foreign currency translation differences arising from consolidation	(207)	257
– translation gains/(losses) taken to equity	(207)	257
Available-for-sale financial assets	37,255	(7,332)
– valuation gains/(losses) taken to equity	37,265	(7,320)
– transferred to profit or loss	(10)	(12)
Share of other recognised comprehensive (loss) of associates and joint ventures accounted for using the equity method	(46)	(11)
Income tax on items that may be reclassified subsequently to profit or loss	(6,346)	1,284
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE REPORTING PERIOD AFTER TAX</b>	<b>51,532</b>	<b>(68,508)</b>
a) Attributable to owners of the parent	48,712	(59,733)
b) Attributable to non-controlling interest	2,820	(8,775)

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

Interim Statement of Other Comprehensive Income – Nova KBM Group *(by quarter)*

€000

ITEM DESCRIPTION	2014		2013			
	Q2	Q1	Q4	Q3	Q2	Q1
<b>NET PROFIT/(LOSS) FOR THE REPORTING PERIOD AFTER TAX</b>	<b>4,512</b>	<b>16,364</b>	<b>(617,981)</b>	<b>(4,221)</b>	<b>(54,238)</b>	<b>(8,468)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX</b>	<b>7,480</b>	<b>23,176</b>	<b>21,385</b>	<b>(4,698)</b>	<b>2,208</b>	<b>(8,010)</b>
<b>ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>	<b>0</b>	<b>0</b>	<b>274</b>	<b>0</b>	<b>0</b>	<b>0</b>
Actuarial net gains on defined benefit pension plans recognised in retained earnings	0	0	300	0	0	0
Income tax on items that will not be reclassified subsequently to profit or loss	0	0	(26)	0	0	0
<b>ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>	<b>7,480</b>	<b>23,176</b>	<b>21,111</b>	<b>(4,698)</b>	<b>2,208</b>	<b>(8,010)</b>
Foreign currency translation differences arising from consolidation	(120)	(87)	55	(451)	(200)	457
– translation gains/(losses) taken to equity	(120)	(87)	55	(451)	(200)	457
Available-for-sale financial assets	9,165	28,090	25,062	(4,841)	2,805	(10,137)
– valuation gains/(losses) taken to equity	9,163	28,102	19,211	(4,852)	2,805	(10,125)
– transferred to profit or loss	2	(12)	5,851	11	0	(12)
Share of other recognised comprehensive income/(loss) of associates and joint ventures accounted for using the equity method	9	(55)	156	(104)	18	(29)
Income tax on items that may be reclassified subsequently to profit or loss	(1,574)	(4,772)	(4,162)	698	(415)	1,699
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE REPORTING PERIOD AFTER TAX</b>	<b>11,992</b>	<b>39,540</b>	<b>(596,596)</b>	<b>(8,919)</b>	<b>(52,030)</b>	<b>(16,478)</b>
a) Attributable to owners of the parent	11,805	36,907	(553,981)	(6,733)	(47,306)	(12,427)
b) Attributable to non-controlling interest	187	2,633	(42,615)	(2,186)	(4,724)	(4,051)

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

## Interim Statement of Financial Position – Nova KBM Group

€000

ITEM DESCRIPTION	Notes	30.06.2014	31.12.2013
Cash and balances with the central bank	19	298,546	435,478
Financial assets held for trading	20	3,101	1,786
Financial assets designated at fair value through profit or loss	21	16,887	24,586
Available-for-sale financial assets	22	1,554,211	1,466,864
Loans and advances	-	2,253,376	2,379,322
– loans and advances to banks	23	133,559	129,674
– loans and advances to customers	24	2,098,322	2,231,765
– other financial assets	25	21,495	17,883
Held-to-maturity financial assets	26	228,943	280,153
Non-current assets and disposal groups classified as held for sale and discontinued operations	-	6,443	7,868
Property, plant and equipment	-	69,855	73,677
Investment property	-	37,914	38,426
Intangible assets	-	29,812	32,863
Investments in the equity of associates and joint ventures accounted for using the equity method	-	3,012	2,957
Tax assets	-	3,273	11,699
– current tax assets	-	254	960
– deferred tax assets	-	3,019	10,739
Other assets	-	40,180	55,114
<b>TOTAL ASSETS</b>	-	<b>4,545,553</b>	<b>4,810,793</b>
Financial liabilities to the central bank	-	154,255	482,891
Financial liabilities held for trading	-	1,325	1,422
Financial liabilities measured at amortised cost	27	3,663,496	3,650,942
– deposits from banks	27	37,194	60,271
– deposits from customers	27	3,176,149	3,074,748
– loans from banks	27	349,195	414,883
– loans from customers	27	3,641	4,551
– debt securities	-	60,473	60,973
– subordinated liabilities	27	1,250	1,250
– other financial liabilities	27	35,594	34,266
Provisions	28	95,985	100,163
Tax liabilities	-	1,715	96
– current tax liabilities	-	162	88
– deferred tax liabilities	-	1,553	8
Other liabilities	-	17,376	15,251
<b>TOTAL LIABILITIES</b>	-	<b>3,934,152</b>	<b>4,250,765</b>
Share capital	29	150,000	150,000
Share premium	29	360,572	360,572
Revaluation reserves	30	39,714	8,981
Translation reserves	-	(2,677)	(2,486)
Reserves from profit	31	499	663
Retained earnings (including net profit or loss for the reporting period)	-	59,007	48,937
<b>SHAREHOLDERS' EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	-	<b>607,115</b>	<b>566,667</b>
Non-controlling interest	-	4,286	(6,639)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	-	<b>611,401</b>	<b>560,028</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	-	<b>4,545,553</b>	<b>4,810,793</b>

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

## Interim Statement of Cash Flows – Nova KBM Group

€000

Designation	ITEM DESCRIPTION	Six months ended 30.06.2014	Six months ended 30.06.2013
<b>A.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>a)</b>	<b>Total profit/(loss) before tax from continuing operations</b>	<b>24,091</b>	<b>(66,426)</b>
	Depreciation and amortisation	7,796	8,135
	Impairment of available-for-sale financial assets	2,685	16,083
	Impairment of loans and advances	20,686	68,083
	Impairment/(reversal of impairment) of held-to-maturity financial assets	(3)	13
	(Reversal of impairment) of tangible assets, investment property, intangible assets and other assets	(526)	(13)
	Share of (profits) of associates and joint ventures accounted for using the equity method	(101)	(60)
	Net (gains)/losses from exchange rate differences	(697)	1,807
	Net losses from held-to-maturity financial assets	0	155
	Net (gains)/losses from the sale of tangible assets and investment properties	67	(123)
	Other (gains) from investing activities	(4,015)	(9,257)
	Other losses from financing activities	0	3,225
	Net unrealised (gains) from non-current assets held for sale and discontinued operations and liabilities associated therewith	(64)	(154)
	Other adjustments to total net profit or loss before tax	(3,870)	(2,163)
	Cash flow from operating activities before changes in operating assets and liabilities	46,049	19,305
<b>b)</b>	<b>(Increase)/decrease in operating assets (excluding cash equivalents)</b>	<b>75,656</b>	<b>(131,772)</b>
	Net (increase) in financial assets held for trading	(1,314)	(1,041)
	Net decrease in financial assets designated at fair value through profit or loss	7,699	751
	Net (increase) in available-for-sale financial assets	(52,917)	(264,899)
	Net decrease in loans and advances	105,892	128,421
	Net decrease in non-current assets held for sale	887	471
	Net decrease in other assets	15,409	4,525
<b>c)</b>	<b>(Decrease) in operating liabilities</b>	<b>(312,154)</b>	<b>(154,868)</b>
	Net (decrease) in financial liabilities to the central bank	(328,635)	(6,329)
	Net (decrease) in financial liabilities held for trading	(97)	(106)
	Net increase/(decrease) in deposits and loans received, measured at amortised cost	15,254	(128,297)
	Net (decrease) in debt securities in issue, measured at amortised cost	(500)	(18,647)
	Net increase/(decrease) in other liabilities	1,824	(1,489)
<b>d)</b>	<b>Cash flow from operating activities (a + b + c)</b>	<b>(190,449)</b>	<b>(267,335)</b>
<b>e)</b>	<b>Income taxes refunded</b>	<b>487</b>	<b>1,458</b>
<b>f)</b>	<b>Net cash flow from operating activities (d + e)</b>	<b>(189,962)</b>	<b>(265,877)</b>

€000

Designation	ITEM DESCRIPTION	Six months ended 30.06.2014	Six months ended 30.06.2013
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>a)</b>	<b>Receipts from investing activities</b>	<b>103,508</b>	<b>292,274</b>
	Receipts from the sale of tangible assets and investment properties	1,736	914
	Receipts from the sale of intangible assets	1	0
	Receipts from the disposal of associates – discontinued operations	0	50,034
	Receipts from non-current assets or liabilities held for sale	117	362
	Receipts from the sale of held-to-maturity financial assets	101,654	240,964
<b>b)</b>	<b>Cash payments on investing activities</b>	<b>(51,357)</b>	<b>(18,704)</b>
	(Cash payments to acquire tangible assets and investment properties)	(3,125)	(4,900)
	(Cash payments to acquire intangible assets)	(1,739)	(1,947)
	(Cash payments to acquire held-to-maturity financial assets)	(46,493)	(11,857)
<b>c)</b>	<b>Net cash flow from investing activities (a + b)</b>	<b>52,151</b>	<b>273,570</b>
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>a)</b>	<b>Cash proceeds from financing activities</b>	<b>0</b>	<b>100,000</b>
	Cash proceeds from the issuance of subordinated liabilities	0	100,000
<b>b)</b>	<b>Cash payments on financing activities</b>	<b>(1)</b>	<b>(414)</b>
	(Dividends and share in profits paid)	(1)	0
	(Repayments of subordinated liabilities)	0	(32)
	(Other cash payments related to financing activities)	0	(382)
<b>c)</b>	<b>Net cash flow from financing activities (a + b)</b>	<b>(1)</b>	<b>99,586</b>
<b>D.</b>	<b>Effects of change in exchange rates on cash and cash equivalents</b>	<b>461</b>	<b>46</b>
<b>E.</b>	<b>Net increase/(decrease) in cash and cash equivalents (Af + Bc + Cc)</b>	<b>(137,812)</b>	<b>107,279</b>
<b>F.</b>	<b>Opening balance of cash and cash equivalents</b>	<b>557,246</b>	<b>332,522</b>
<b>G.</b>	<b>Closing balance of cash and cash equivalents (D + E + F)</b>	<b>419,895</b>	<b>439,847</b>

Reconciliation of cash and cash equivalents as of 30 June 2014 with the statement of financial position items is presented in Note 19.1.

The balance of cash and cash equivalents as of 30 June 2013 amounted to €439,847,000 and was made up of cash and balances with the central bank, in the amount of €336,782,000, and loans and advances to banks with an original maturity of up to three months, in the amount of €103,065,000.

### Cash Flows from Interest, Dividends and Participation in Profits

€000

ITEM DESCRIPTION	Six months ended 30.06.2014	Six months ended 30.06.2013
Interest paid	(40,857)	(59,615)
Interest received	85,905	89,341
Dividends and participation in profits paid	(1)	0
Dividends and participation in profits received	0	215

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



## Interim Statement of Changes in Equity – Nova KBM Group

Interim Statement of Changes in Equity for the six months ended 30.06.2014

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Translation reserves	Reserves from profit	Retained earnings (including net profit for the reporting period)	Equity attributable to owners of the parent	Non-controlling interest	Total shareholders' equity
<b>OPENING BALANCE FOR THE REPORTING PERIOD</b>	150,000	360,572	8,981	(2,486)	663	48,937	566,667	(6,639)	560,028
<b>Total comprehensive income for the period after tax</b>	0	0	30,733	(191)	0	18,170	48,712	2,820	51,532
Recapitalisation of subsidiaries	0	0	0	0	0	(8,264)	(8,264)	8,264	0
Appropriation of (accounting for) dividends	0	0	0	0	0	0	0	(95)	(95)
Transfer of net profit to reserves from profit	0	0	0	0	(164)	164	0	0	0
Other	0	0	0	0	0	0	0	(64)	(64)
<b>CLOSING BALANCE FOR THE REPORTING PERIOD</b>	150,000	360,572	39,714	(2,677)	499	59,007	607,115	4,286	611,401

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

## Interim Statement of Changes in Equity for the six months ended 30.06.2013

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Translation reserves	Reserves from profit	Retained losses (including net loss for the reporting period)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Non-controlling interest	Total shareholders' equity
<b>OPENING BALANCE FOR THE REPORTING PERIOD</b>	40,814	165,775	(1,149)	(2,365)	289,741	(281,237)	(1,412)	210,167	43,037	253,204
<b>Total comprehensive (loss) for the period after tax</b>	0	0	(3,959)	242	0	(56,016)	0	(59,733)	(8,775)	(68,508)
New share capital subscribed (paid)	100,000	0	0	0	0	0	0	100,000	0	100,000
Appropriation of (accounting for) dividends	0	0	0	0	0	0	0	0	(95)	(95)
Transfer of net profit to reserves from profit	0	0	0	0	91	(91)	0	0	0	0
Other	0	0	0	0	1	0	0	1	(75)	(74)
<b>CLOSING BALANCE FOR THE REPORTING PERIOD</b>	140,814	165,775	(5,108)	(2,123)	289,833	(337,344)	(1,412)	250,435	34,092	284,527

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

## 1 General information

Nova KBM d.d. (hereafter also referred to as 'Nova KBM' or the 'Bank') is the parent company of the Nova KBM Group (hereafter also referred to as the 'Group') which, as of 30 June 2014, comprised the parent company and 11 subsidiary companies.

Nova KBM d.d. is a commercial bank with a tradition of understanding and supporting its retail and corporate customers to whom it provides standard banking products. The Bank's registered office is at Ulica Vita Kraigherja 4, 2505 Maribor, Republic of Slovenia.

As of 30 June 2014, the share capital of the Bank totalled €150,000,000 and was split into 10,000,000 ordinary no-par value shares, all of which were held by the Republic of Slovenia.

The Bank is obliged to prepare consolidated financial statements.

## 2 Definition of the Group

The Group is composed of the parent bank and its subsidiary companies.

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

<sup>1</sup> KBM Fineko filed for liquidation on 29 November 2013. Since the company is still controlled by Nova KBM, it is fully consolidated in the Group's financial statements.

<sup>2</sup> The Group's stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain amount of its own shares, the Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.

<sup>3</sup> In accordance with IFRS 10, MB Finance is regarded as a consolidated structured entity controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Group.

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

In May 2014, Nova KBM infused fresh capital of €12,200,000 into Adria Bank, its Austria-based subsidiary bank, thereby increasing its shareholding to 100%.

The company Istra Plan, which is 100% owned by KBM Fineko (now in the process of liquidation), is not regarded as a business entity, as a result of which only assets of this company, totalling €1,085,000, are included in the Group's consolidated financial statements.

### 3 Basis for the presentation of consolidated financial statements

The financial statements of the Group for the six-month period ended 30 June 2014 were authorised for issue on 25 July 2014 by the Nova KBM Management Board.

#### 3.1 Statement of compliance and purpose of financial statements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereafter 'IFRSs') as endorsed by the European Union.

The interim financial report is prepared in a condensed form and includes selected explanatory notes as requested in accordance with IAS 34 – Interim Financial Reporting.

The interim financial statements are unaudited. They have been prepared assuming that the Group will continue as a going concern in the foreseeable future and that it will be able to meet its liabilities when due.

#### 3.2 Presentation and functional currency

Items included in the consolidated financial statements are presented in euro, which is the functional and presentation currency of the Group.

All amounts in the consolidated financial statements and in the notes to the consolidated financial statements are expressed in thousands of euros except where stated otherwise. Slight discrepancies in totals may occur due to rounding adjustments. Euro figures in the text are stated as whole numbers, rounded to the nearest thousand.

### 4 Significant accounting policies

The accounting policies used by the Group are presented in detail in its Annual Report for 2013.

Adopted accounting policies have been consistently applied in both reporting periods presented in these financial statements.

During the interim reporting period and in 2013, the Group did not reclassify any of its financial assets into another category.

Newly adopted standards and interpretations in effect since 1 January 2014 are presented below:

- **IFRS 10** – Consolidated Financial Statements; adopted by the EU on 11 December 2012.
- **IFRS 11** – Joint Arrangements; adopted by the EU on 11 December 2012.
- **IFRS 12** – Disclosure of Interests in Other Entities; adopted by the EU on 11 December 2012.
- **IAS 27** (revised in 2011) – Separate Financial Statements; adopted by the EU on 11 December 2012.
- **IAS 28** (revised in 2011) – Investments in Associates and Joint Ventures; adopted by the EU on 11 December 2012.
- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 11** – Joint Arrangements, and **IFRS 12** – Disclosures of Interests in Other Entities – Transition Guidance; adopted by the EU on 4 April 2013.
- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 12** – Disclosure of Interests in Other Entities, and **IAS 27** (revised in 2011) – Separate Financial Statements – Investment Entities; adopted by the EU on 20 November 2013.

- **Amendments to IAS 32** – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012.
- **Amendments to IAS 36** – Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets; adopted by the EU on 19 December 2013.
- **Amendments to IAS 39** – Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting; adopted by the EU on 19 December 2013.
- **IFRIC 21** – Levies (effective for annual periods beginning on or after 1 January 2014).

The amendments to the existing standards have not led to any material changes in the Group's accounting policies.

Standards and interpretations issued by the International Accounting Standards Board (IASB) but, as of the date of this interim report, not yet adopted for use by the EU are set out below:

- **IFRS 9** – Financial Instruments and subsequent amendments (effective date has not been yet determined).
- **Amendments to IAS 19** – Employee Benefits – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2010 – 2012) resulting from the annual improvement project of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2011 – 2013) resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **IFRS 15** – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IAS 16 and IAS 38** – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IFRS 11** – Accounting for Acquisition of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016).

The Group has not early adopted any standard or interpretation issued but not yet effective. It anticipates that the adoption of these standards, revisions and interpretations will have no material impact on its financial statements in the period of initial application.

## 5 Risk exposure

The Bank's Management Board delegates risk oversight and management to the senior management (policy holders). The policy holders, together with officers responsible for particular policies, determine the method of measuring individual risks.

The organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the adopted rules of procedure, each risk management policy has to be approved by the Policy Approval Committee.

Further details with respect to risk management are provided in the Group's Annual Report for 2013.

### 5.1 Credit risk

#### Analysis of exposure to credit risk

	Loans to customers		Loans to banks	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
<b>Net disbursed loans</b>	<b>2,098,322</b>	<b>2,231,765</b>	<b>133,559</b>	<b>129,674</b>
<b>Individual impairment</b>				
Gross amount	1,026,668	1,057,140	12,798	9,617
Impairment	(541,935)	(509,385)	(2,513)	(2,547)
Net amount	484,733	547,755	10,285	7,070
<b>Collective impairment</b>				
Credit rating A	966,027	1,026,876	0	0
Credit rating B	361,035	409,305	0	0
Credit rating C	206,742	207,286	0	0
Credit rating D	32,425	16,146	0	0
Credit rating E	68,773	59,831	0	0
<b>Gross amount</b>	<b>1,635,002</b>	<b>1,719,444</b>	<b>0</b>	<b>0</b>
<b>Impairment</b>	<b>(85,654)</b>	<b>(80,572)</b>	<b>0</b>	<b>0</b>
<b>Net amount</b>	<b>1,549,348</b>	<b>1,638,872</b>	<b>0</b>	<b>0</b>
<b>Net non-impaired loans</b>	<b>64,241</b>	<b>45,138</b>	<b>123,274</b>	<b>122,604</b>
<b>Total net loans</b>	<b>2,098,322</b>	<b>2,231,765</b>	<b>133,559</b>	<b>129,674</b>

#### Overdue and unpaid claims

30.06.2014					
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	14	0	0	2,483	2,497
State	30	4	0	3	37
Legal entities	36,514	5,487	11,262	524,116	577,379
Households	3,243	1,694	3,613	55,853	64,403
<b>Total</b>	<b>39,801</b>	<b>7,185</b>	<b>14,875</b>	<b>582,455</b>	<b>644,316</b>



	31.12.2013				
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	0	0	0	2,523	2,523
State	124	5	0	3	132
Legal entities	72,377	29,476	8,403	445,765	556,021
Households	4,658	1,227	1,090	51,635	58,610
<b>Total</b>	<b>77,159</b>	<b>30,708</b>	<b>9,493</b>	<b>499,926</b>	<b>617,286</b>

### NPLs in the total loan portfolio

	30.06.2014	31.12.2013
Total gross loan portfolio	2,861,983	2,953,943
Total net loan portfolio	2,231,881	2,361,439
Net NPLs (overdue over 90 days; credit ratings D and E)	466,602	424,407
Net NPLs/total net loan portfolio (%)	20.91	17.97

### Analysis of NPLs by industry sectors

Industry sector	30.06.2014			31.12.2013		
	Total net loans	Net NPLs	Share of NPLs (%)	Total net loans	Net NPLs	Share of NPLs (%)
Households	887,617	29,407	3.31	929,943	26,030	2.80
Agriculture and hunting, forestry, fishing	30,907	6,520	21.10	31,667	5,602	17.69
Mining	1,172	683	58.28	1,307	252	19.28
Manufacturing industry	403,186	133,613	33.14	436,937	121,969	27.91
Electricity, gas and steam supply	55,502	5,367	9.67	64,646	10,808	16.72
Water supply, waste and sewage management, rehabilitation of the environment	16,385	777	4.74	16,701	808	4.84
Construction	79,661	31,568	39.63	87,809	31,042	35.35
Trade, maintenance and repair of motor vehicles	210,617	87,115	41.36	236,731	78,014	32.95
Transportation and storage	55,829	5,548	9.94	58,917	1,266	2.15
Accommodation and food service activities	42,963	19,768	46.01	45,143	17,447	38.65
Information and communication activities	26,157	12,322	47.11	30,520	7,946	26.04
Financial intermediation	194,459	29,718	15.28	203,651	23,296	11.44
Real estate activities	47,506	37,261	78.43	48,323	32,454	67.16
Professional, scientific and technical activities	60,940	24,515	40.23	69,533	22,427	32.25
Other various business activities	12,587	2,360	18.75	10,818	2,768	25.59
Public administration and defence services, compulsory social security activities	34,995	191	0.55	14,643	189	1.29
Education	3,334	332	9.96	3,628	329	9.07
Health and welfare security	24,466	9,007	36.81	24,423	9,150	37.46
Arts, entertainment and recreation	33,414	29,074	87.01	35,802	31,064	86.77
Other activities	10,184	1,456	14.30	10,297	1,546	15.01
<b>Total net loans</b>	<b>2,231,881</b>	<b>466,602</b>	<b>20.91</b>	<b>2,361,439</b>	<b>424,407</b>	<b>17.97</b>

## 5.2 Liquidity risk

### Analysis of liquidity risk as of 30 June 2014

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Assets</b>						
Cash and balances with the central bank	298,546	298,546	0	0	0	0
Financial assets held for trading	3,101	3,101	0	0	0	0
Financial assets designated at fair value through profit or loss	16,887	16,887	0	0	0	0
Available-for-sale financial assets	1,554,211	1,554,211	0	0	0	0
Loans and advances	2,253,376	542,949	101,416	418,983	696,127	493,901
Held-to-maturity financial assets	228,943	11,599	2,332	113,970	68,633	32,409
Other assets*	190,489	29,052	7,983	11,920	26,689	114,845
<b>Total assets</b>	<b>4,545,553</b>	<b>2,456,345</b>	<b>111,731</b>	<b>544,873</b>	<b>791,449</b>	<b>641,155</b>
<b>Liabilities</b>						
Financial liabilities to the central bank	154,255	3	0	154,213	39	0
Financial liabilities held for trading	1,325	1,325	0	0	0	0
Financial liabilities measured at amortised cost	3,663,496	1,772,959	427,837	1,004,101	356,231	102,368
Other liabilities*	726,477	36,859	6,851	64,217	47,216	571,334
<b>Total liabilities and equity</b>	<b>4,545,553</b>	<b>1,811,146</b>	<b>434,688</b>	<b>1,222,531</b>	<b>403,486</b>	<b>673,702</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>0</b>	<b>645,199</b>	<b>(322,957)</b>	<b>(677,658)</b>	<b>387,963</b>	<b>(32,547)</b>
<b>Guarantees</b>	<b>280,975</b>	<b>27,174</b>	<b>24,349</b>	<b>93,770</b>	<b>92,784</b>	<b>42,898</b>

\* Assets and liabilities without a direct impact on liquidity.

### Analysis of liquidity risk as of 31 December 2013

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Assets</b>						
Cash and balances with the central bank	435,478	435,478	0	0	0	0
Financial assets held for trading	1,786	1,786	0	0	0	0
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	0	0
Available-for-sale financial assets	1,466,864	1,466,864	0	0	0	0
Loans and advances	2,379,322	610,924	122,390	365,565	768,226	512,217
Held-to-maturity financial assets	280,153	10,853	17,447	130,314	89,128	32,411
Other assets*	222,604	65,239	1,238	9,697	31,716	114,714
<b>Total assets</b>	<b>4,810,793</b>	<b>2,615,730</b>	<b>141,075</b>	<b>505,576</b>	<b>889,070</b>	<b>659,342</b>
<b>Liabilities</b>						
Financial liabilities to the central bank	482,891	3	3,000	9	479,879	0
Financial liabilities held for trading	1,422	1,422	0	0	0	0
Financial liabilities measured at amortised cost	3,650,942	1,742,042	480,014	949,538	369,241	110,107
Other liabilities*	675,538	18,278	5,922	40,536	47,021	563,781
<b>Total liabilities and equity</b>	<b>4,810,793</b>	<b>1,761,745</b>	<b>488,936</b>	<b>990,083</b>	<b>896,141</b>	<b>673,888</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>0</b>	<b>853,985</b>	<b>(347,861)</b>	<b>(484,507)</b>	<b>(7,071)</b>	<b>(14,546)</b>
<b>Guarantees</b>	<b>295,381</b>	<b>34,533</b>	<b>22,504</b>	<b>95,624</b>	<b>97,614</b>	<b>45,106</b>

\* Assets and liabilities without a direct impact on liquidity.

### 5.3 Interest rate risk

#### Analysis of interest rate risk as of 30 June 2014

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Assets</b>								
Cash and balances with the central bank	298,546	80,456	218,090	218,090	0	0	0	0
Financial assets held for trading	3,101	2,014	1,087	1,087	0	0	0	0
Financial assets designated at fair value through profit or loss	16,887	16,887	0	0	0	0	0	0
Available-for-sale financial assets	1,554,211	18,673	1,535,538	23,282	62,143	312,606	927,120	210,387
Loans and advances	2,253,376	129,903	2,123,473	813,518	463,144	725,546	108,252	13,013
Held-to-maturity financial assets	228,943	228	228,715	10,367	1,998	112,927	70,030	33,393
Other assets	40,180	40,180	0	0	0	0	0	0
<b>Total assets</b>	<b>4,395,244</b>	<b>288,341</b>	<b>4,106,903</b>	<b>1,066,344</b>	<b>527,285</b>	<b>1,151,079</b>	<b>1,105,402</b>	<b>256,793</b>
<b>Liabilities</b>								
Financial liabilities to the central bank	154,255	0	154,255	52	0	154,203	0	0
Financial liabilities held for trading	1,325	1,121	204	204	0	0	0	0
Financial liabilities measured at amortised cost	3,663,496	20,849	3,642,647	1,789,054	452,515	1,209,667	189,066	2,345
Other liabilities	17,376	17,376	0	0	0	0	0	0
<b>Total liabilities</b>	<b>3,836,452</b>	<b>39,346</b>	<b>3,797,106</b>	<b>1,789,310</b>	<b>452,515</b>	<b>1,363,870</b>	<b>189,066</b>	<b>2,345</b>
<b>Assets-liabilities mismatch</b>	<b>558,792</b>	<b>248,995</b>	<b>309,797</b>	<b>(722,966)</b>	<b>74,770</b>	<b>(212,791)</b>	<b>916,336</b>	<b>254,448</b>

The table above shows the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

## Analysis of interest rate risk as of 31 December 2013

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Assets</b>								
Cash and balances with the central bank	435,478	80,880	354,598	354,598	0	0	0	0
Financial assets held for trading	1,786	1,779	7	7	0	0	0	0
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	0	0	0	0
Available-for-sale financial assets	1,466,864	40,107	1,426,757	27,390	82,491	299,451	819,499	197,926
Loans and advances	2,379,322	127,765	2,251,557	1,117,752	540,747	480,408	98,908	13,742
Held-to-maturity financial assets	280,153	1,697	278,456	10,247	16,248	128,522	90,212	33,227
Other assets	55,114	55,114	0	0	0	0	0	0
<b>Total assets</b>	<b>4,643,303</b>	<b>331,928</b>	<b>4,311,375</b>	<b>1,509,994</b>	<b>639,486</b>	<b>908,381</b>	<b>1,008,619</b>	<b>244,895</b>
<b>Liabilities</b>								
Financial liabilities to the central bank	482,891	668	482,223	8,164	3,001	11	471,047	0
Financial liabilities held for trading	1,422	976	446	446	0	0	0	0
Financial liabilities measured at amortised cost	3,650,942	12,665	3,638,277	1,800,906	566,899	1,130,336	137,826	2,310
Other liabilities	15,251	15,251	0	0	0	0	0	0
<b>Total liabilities</b>	<b>4,150,506</b>	<b>29,560</b>	<b>4,120,946</b>	<b>1,809,516</b>	<b>569,900</b>	<b>1,130,347</b>	<b>608,873</b>	<b>2,310</b>
<b>Assets-liabilities mismatch</b>	<b>492,797</b>	<b>302,368</b>	<b>190,429</b>	<b>(299,522)</b>	<b>69,586</b>	<b>(221,966)</b>	<b>399,746</b>	<b>242,585</b>

The table above shows the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

## 5.4 Foreign exchange risk

### Analysis of foreign exchange risk as of 30 June 2014

	EUR	USD	CHF	HRK	Other currencies	Total
<b>Assets</b>						
Cash and balances with the central bank	276,047	866	1,077	2,596	17,960	298,546
Financial assets held for trading	3,071	0	0	0	30	3,101
Financial assets designated at fair value through profit or loss	16,887	0	0	0	0	16,887
Available-for-sale financial assets	1,546,466	0	0	0	7,745	1,554,211
Loans and advances	2,118,219	29,013	80,014	4,740	21,390	2,253,376
Held-to-maturity financial assets	228,716	0	0	0	227	228,943
Other assets	179,444	0	0	2,448	8,597	190,489
<b>Total assets</b>	<b>4,368,850</b>	<b>29,879</b>	<b>81,091</b>	<b>9,784</b>	<b>55,949</b>	<b>4,545,553</b>
<b>Liabilities</b>						
Financial liabilities to the central bank	154,255	0	0	0	0	154,255
Financial liabilities held for trading	1,325	0	0	0	0	1,325
Financial liabilities measured at amortised cost	3,568,348	29,738	19,031	240	46,139	3,663,496
Other liabilities	754,545	2	0	(16,052)	(12,018)	726,477
<b>Total liabilities and equity</b>	<b>4,478,473</b>	<b>29,740</b>	<b>19,031</b>	<b>(15,812)</b>	<b>34,121</b>	<b>4,545,553</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>(109,623)</b>	<b>139</b>	<b>62,060</b>	<b>25,596</b>	<b>21,828</b>	<b>0</b>
Derivatives	62,193	0	(62,366)	0	0	(173)
<b>Assets-liabilities (including equity and derivatives) mismatch</b>	<b>(47,430)</b>	<b>139</b>	<b>(306)</b>	<b>25,596</b>	<b>21,828</b>	<b>(173)</b>

### Analysis of foreign exchange risk as of 31 December 2013

	EUR	USD	CHF	HRK	Other currencies	Total
<b>Assets</b>						
Cash and balances with the central bank	418,729	764	1,419	750	13,816	435,478
Financial assets held for trading	1,672	0	0	0	114	1,786
Financial assets designated at fair value through profit or loss	24,586	0	0	0	0	24,586
Available-for-sale financial assets	1,451,678	0	0	0	15,186	1,466,864
Loans and advances	2,209,864	27,741	90,210	25,160	26,347	2,379,322
Held-to-maturity financial assets	279,906	0	0	0	247	280,153
Other assets	206,191	0	0	1,711	14,702	222,604
<b>Total assets</b>	<b>4,592,626</b>	<b>28,505</b>	<b>91,629</b>	<b>27,621</b>	<b>70,412</b>	<b>4,810,793</b>
<b>Liabilities</b>						
Financial liabilities to the central bank	482,891	0	0	0	0	482,891
Financial liabilities held for trading	1,422	0	0	0	0	1,422
Financial liabilities measured at amortised cost	3,552,062	28,379	19,578	192	50,731	3,650,942
Other liabilities	701,403	3	0	(14,540)	(11,328)	675,538
<b>Total liabilities and equity</b>	<b>4,737,778</b>	<b>28,382</b>	<b>19,578</b>	<b>(14,348)</b>	<b>39,403</b>	<b>4,810,793</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>(145,152)</b>	<b>123</b>	<b>72,051</b>	<b>41,969</b>	<b>31,009</b>	<b>0</b>
Derivatives	73,515	0	(73,823)	0	0	(308)
<b>Assets-liabilities (including equity and derivatives) mismatch</b>	<b>(71,637)</b>	<b>123</b>	<b>(1,772)</b>	<b>41,969</b>	<b>31,009</b>	<b>(308)</b>

## 5.5 Capital risk

	30.06.2014	31.12.2013
<b>Original own funds</b>		
Paid-up share capital	150,000	150,000
Share premium	360,572	360,572
Reserves and retained earnings or losses	60,117	68,381
Revaluation excesses (PP) – prudential filters	22,482	(18,319)
Non-controlling interest	-	(6,639)
(-) Intangible long-term assets	(29,812)	(32,863)
(-) Other country specific deductions	(26,369)	(22)
<b>Total</b>	<b>536,990</b>	<b>521,110</b>
<b>Additional own funds I</b>		
Subordinated debt I	0	1,000
Other	0	2,565
<b>Total</b>	<b>0</b>	<b>3,565</b>
<b>(-) Deductions from original own funds and additional own funds I</b>		
(-) Deductions from original own funds	0	(1,479)
(-) Deductions from additional own funds I	0	(1,479)
<b>Total</b>	<b>0</b>	<b>(2,958)</b>
<b>Total equity (for solvency purposes)</b>	<b>536,990</b>	<b>521,717</b>
<b>Capital requirements</b>		
<b>Capital requirements for credit risk</b>	<b>174,909</b>	<b>196,510</b>
Central governments and central banks	534	0
Regional governments and local authorities	115	251
Administrative bodies	225	445
Institutions	7,471	10,728
Corporates	40,479	55,607
Retail banking	60,203	67,916
Secured by real estate	2,679	3,120
Past due items	42,941	7,340
Items belonging to regulatory high-risk categories	8,294	32,941
Collective investment undertakings	546	823
Other items	11,422	17,339
<b>Total capital requirements for market risks</b>	<b>3,121</b>	<b>5,854</b>
Debt securities	179	193
Equity instruments	2,942	4,113
Foreign exchange	0	1,548
<b>Capital requirement for operational risk</b>	<b>23,138</b>	<b>27,791</b>
<b>Total</b>	<b>201,168</b>	<b>230,155</b>
Total capital adequacy ratio	21.35%	18.13%
Tier I capital ratio	21.35%	18.06%
Core Tier I capital ratio	21.35%	18.06%

## 6 Fair value of financial assets and financial liabilities

	30.06.2014		31.12.2013	
	Book value	Fair value	Book value	Fair value
<b>Financial assets</b>				
Cash and balances with the central bank	298,546	298,546	435,478	435,478
Financial assets held for trading	3,101	3,101	1,786	1,786
Financial assets designated at fair value through profit or loss	16,887	16,887	24,586	24,586
Available-for-sale financial assets	1,554,211	1,554,211	1,466,864	1,466,864
Loans and advances to banks	133,559	137,519	129,674	134,665
Loans and advances to customers	2,098,322	2,106,932	2,231,765	2,239,964
Other financial assets	21,495	21,495	17,883	17,883
Held-to-maturity financial assets	228,943	234,325	280,153	280,605
<b>Financial liabilities</b>				
Financial liabilities to the central bank	154,255	154,172	482,891	482,274
Financial liabilities held for trading	1,325	1,325	1,422	1,422
Deposits from banks	37,194	37,198	60,271	60,354
Deposits from customers	3,176,149	3,184,853	3,074,748	3,084,106
Loans from banks	349,195	350,379	414,883	416,038
Loans from customers	3,641	3,645	4,551	4,555
Debt securities	60,473	65,877	60,973	66,132
Subordinated liabilities	1,250	1,250	1,250	1,250
Other financial liabilities	35,594	35,594	34,266	34,266

### Analysis of fair value hierarchy

	30.06.2014				31.12.2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Derivatives	205	0	205	0	612	0	612	0
Financial assets held for trading	2,896	2,896	0	0	1,174	1,174	0	0
– debt securities	1,087	1,087	0	0	7	7	0	0
– equity instruments	1,809	1,809	0	0	1,167	1,167	0	0
Available-for-sale financial assets	1,554,210	1,124,862	425,851	3,497	1,466,864	1,434,154	29,543	3,167
– debt securities	1,535,537	1,109,686	425,851	0	1,432,102	1,402,559	29,543	0
– equity instruments	18,673	15,176	0	3,497	34,762	31,595	0	3,167
Financial assets designated at fair value through profit or loss	16,887	16,887	0	0	24,586	24,586	0	0
– equity instruments	16,887	16,887	0	0	24,586	24,586	0	0
<b>Financial liabilities</b>								
Derivatives	1,325	0	1,325	0	1,422	0	1,422	0



Level 1 includes financial assets whose fair value is determined on the basis of prices quoted on active markets.

Level 2 includes financial assets whose fair value is estimated on the basis of valuation models which take into account variables derived from public market data (such as market interest rates).

Level 3 includes financial assets whose fair value is estimated on the basis of valuation models which take into account subjective variables that are not publicly available.

Financial assets designated at fair value through profit or loss (equity financial instruments) form part of forward sales. Their valuation is linked to the valuation of underlying forward contracts.

### Analysis of transitions between Level 1, Level 2 and Level 3

	30.06.2014		
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 3
Financial assets held for trading	0	0	0
Available-for-sale financial assets	396,831	0	0
– debt securities	396,831	0	0
– equity instruments	0	0	0
Financial assets designated at fair value through profit or loss	0	0	0

	31.12.2013		
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 3
Financial assets held for trading	0	0	0
Available-for-sale financial assets	2,000	28,757	1,527
– debt securities	2,000	25,209	0
– equity instruments	0	3,548	1,527
Financial assets designated at fair value through profit or loss	0	0	0

The Group starts measuring financial assets according to the valuation model that takes into account available market prices once it establishes that the market is not active. Debt securities with a determinable cash flow and without an available market price are valued at the end of each month using the discounted cash flow model. The interest rate used for discounting is the sum of the interest rate of a risk-free instrument of comparable maturity, and a margin for credit risk. The transition from Level 2 to Level 1 is a result of re-availability of a financial asset's market price. The price of a financial asset 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. The transition from Level 1 to Level 3 is the result of a valuation of a financial asset that was previously recorded at the market price.

**Movements in financial assets included in Level 3**

	Available-for-sale financial assets		
	Total	Shares	Participating interests
<b>1 January 2014</b>	<b>3,167</b>	<b>2,553</b>	<b>614</b>
– change due to sale	(928)	(928)	0
– change due to debt-to-equity swaps	2,035	2,035	0
– shares received back from BAMC	834	834	0
– change due to revaluation	(1,611)	(1,611)	0
<b>30 June 2014</b>	<b>3,497</b>	<b>2,883</b>	<b>614</b>
<b>1 January 2013</b>	<b>11,608</b>	<b>11,002</b>	<b>606</b>
– acquisition	13	0	13
– transfer of shares to BAMC	(9,238)	(9,238)	0
– revaluation of shares	(743)	(738)	(5)
– transition to Level 3 due to the valuation of shares	1,527	1,527	0
<b>31 December 2013</b>	<b>3,167</b>	<b>2,553</b>	<b>614</b>

The table above presents changes within Level 3 of the fair value hierarchy. The increase in the value of available-for-sale financial assets, which we saw in the first six months of 2014, was largely the result of Nova KBM converting into equity its claims against several companies, but also due to BAMC returning some shares to Nova KBM. This increase was partially offset by the sale and revaluation of shares.

## 7 Reporting by operating segments

### Analysis by operating segments as of 30 June 2014

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationships	Relationships to third parties
<b>A. Net income/expense</b>	<b>93,984</b>	<b>(53)</b>	<b>2,359</b>	<b>459</b>	<b>13</b>	<b>96,762</b>	<b>594</b>	<b>96,168</b>
Interest income	88,621	2,117	0	308	2	91,048	5,889	85,159
Interest expense	(31,419)	(3,952)	(5)	(665)	0	(36,041)	(5,871)	(30,170)
<b>Net interest income</b>	<b>57,202</b>	<b>(1,835)</b>	<b>(5)</b>	<b>(357)</b>	<b>2</b>	<b>55,007</b>	<b>18</b>	<b>54,989</b>
<b>Dividend income</b>	<b>488</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>488</b>	<b>424</b>	<b>64</b>
Fee and commission income	41,915	28	2,703	0	0	44,646	377	44,269
Fee and commission expense	(14,412)	(152)	(475)	(10)	0	(15,049)	(279)	(14,770)
<b>Net fee and commission income</b>	<b>27,503</b>	<b>(124)</b>	<b>2,228</b>	<b>(10)</b>	<b>0</b>	<b>29,597</b>	<b>98</b>	<b>29,499</b>
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	7,732	(1)	80	618	0	8,429	0	8,429
Net gains/(losses) on financial assets and liabilities held for trading	(626)	0	50	0	0	(576)	1	(577)
Net gains on financial assets and liabilities designated at fair value through profit or loss	4,748	0	0	0	0	4,748	(1)	4,749
Net exchange rate differences	629	70	0	0	0	699	2	697
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	28	(103)	0	6	0	(69)	(2)	(67)
Other net operating income/(loss)	(3,720)	1,940	6	202	11	(1,561)	54	(1,615)
<b>B. Other items by segments</b>	<b>(74,798)</b>	<b>(1,147)</b>	<b>(1,547)</b>	<b>(571)</b>	<b>(2)</b>	<b>(78,065)</b>	<b>(5,988)</b>	<b>(72,077)</b>
Administration costs	(42,852)	(1,183)	(1,033)	(571)	(2)	(45,641)	(168)	(45,473)
Depreciation and amortisation	(7,070)	(208)	(514)	(3)	0	(7,795)	1	(7,796)
Provisions	2,770	0	0	0	0	2,770	(1,099)	3,869
Impairment losses	(27,710)	244	0	3	0	(27,463)	(4,621)	(22,842)
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	(101)	101
Net gains from non-current assets held for sale and liabilities associated therewith	64	0	0	0	0	64	0	64
<b>C. Profit or loss</b>								
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	19,186	(1,200)	812	(112)	11	18,697	(5,394)	24,091
Income tax related to profit or loss from continuing operations	(2,925)	0	(139)	(129)	(2)	(3,195)	20	(3,215)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	16,261	(1,200)	673	(241)	9	15,502	(5,374)	20,876
<b>D. Segment assets and liabilities</b>								
Total assets	4,629,538	113,640	14,118	43,866	219	4,801,381	255,828	4,545,553
– non-current assets held for sale and discontinued operations	6,116	694	0	0	0	6,810	367	6,443
– investments in the equity of associates and joint ventures accounted for using the equity method	66,339	0	0	0	0	66,339	63,327	3,012
Liabilities (excluding equity) by segments	3,992,249	177,451	1,220	53,939	1	4,224,860	290,708	3,934,152
Total equity	637,289	(63,811)	12,898	(10,073)	218	576,521	(34,880)	611,401
Increase in property, plant and equipment and intangible assets	2,101	13	38	0	0	2,152	0	2,152

## Analysis by operating segments as of 30 June 2013

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter- segment relationships	Relationships to third parties
<b>A. Net income/expense</b>	<b>70,866</b>	<b>497</b>	<b>2,506</b>	<b>(73)</b>	<b>11</b>	<b>73,807</b>	<b>269</b>	<b>73,538</b>
Interest income	102,307	3,271	2	319	3	105,902	7,428	98,474
Interest expense	(56,847)	(5,120)	(35)	(1,149)	0	(63,151)	(7,347)	(55,804)
<b>Net interest income</b>	<b>45,460</b>	<b>(1,849)</b>	<b>(33)</b>	<b>(830)</b>	<b>3</b>	<b>42,751</b>	<b>81</b>	<b>42,670</b>
<b>Dividend income</b>	<b>804</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>805</b>	<b>451</b>	<b>354</b>
Fee and commission income	43,521	52	2,958	3	0	46,534	577	45,957
Fee and commission expense	(16,897)	(84)	(396)	(14)	0	(17,391)	(482)	(16,909)
<b>Net fee and commission income</b>	<b>26,624</b>	<b>(32)</b>	<b>2,562</b>	<b>(11)</b>	<b>0</b>	<b>29,143</b>	<b>95</b>	<b>29,048</b>
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	749	2	42	623	0	1,416	1	1,415
Net gains/(losses) on financial assets and liabilities held for trading	2,001	0	(69)	0	0	1,932	(434)	2,366
Net (losses) on financial assets and liabilities designated at fair value through profit or loss	(230)	0	0	0	0	(230)	0	(230)
Net exchange rate differences	(1,817)	10	0	0	0	(1,807)	0	(1,807)
Net gains on derecognition of assets excluding non-current assets held for sale	71	51	0	0	0	122	(1)	123
Other net operating income/(loss)	(2,796)	2,315	3	145	8	(325)	76	(401)
<b>B. Other items by segments</b>	<b>(130,270)</b>	<b>(3,924)</b>	<b>(1,632)</b>	<b>(702)</b>	<b>(2)</b>	<b>(136,530)</b>	<b>3,434</b>	<b>(139,964)</b>
Administration costs	(47,062)	(1,342)	(1,112)	(706)	(2)	(50,224)	(178)	(50,046)
Depreciation and amortisation	(7,113)	(480)	(520)	(20)	0	(8,133)	2	(8,135)
Provisions	2,170	0	0	0	0	2,170	1	2,169
Impairment losses	(78,419)	(2,102)	0	24	0	(80,497)	3,669	(84,166)
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	(60)	60
Net gains from non-current assets held for sale and liabilities associated therewith	154	0	0	0	0	154	0	154
<b>C. Profit or loss</b>								
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(59,404)	(3,427)	874	(775)	9	(62,723)	3,703	(66,426)
Income tax related to profit or loss from continuing operations	2,566	25	0	(131)	(2)	2,458	(1,262)	3,720
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(56,838)	(3,402)	874	(906)	7	(60,265)	2,441	(62,706)
<b>D. Segment assets and liabilities</b>								
Total assets	5,361,805	204,692	15,386	62,916	206	5,645,005	445,076	5,199,929
– non-current assets held for sale and discontinued operations	1,552	1,937	0	0	0	3,489	(1)	3,490
– investments in the equity of associates and joint ventures accounted for using the equity method	55,980	33	0	0	0	56,013	52,874	3,139
Liabilities (excluding equity) by segments	5,030,435	251,741	2,087	78,700	1	5,362,964	447,562	4,915,402
Total equity	331,370	(47,049)	13,299	(15,784)	205	282,041	(2,486)	284,527
Increase in property, plant and equipment and intangible assets	4,577	62	21	4	0	4,664	0	4,664

## 8 Transfer of assets to BAMC

On 11 July 2013, the Government of the Republic of Slovenia made a ruling that Nova KBM had met the conditions to be entitled to benefit from measures aimed at stabilising its financial position, in accordance with the first paragraph of Article 4 of the Decree on the Implementation of Measures to Strengthen Bank Stability.

According to the measures adopted for Nova KBM, it was agreed that the bad assets on the books of the Group were to be transferred to BAMC (the state-run Bank Assets Management Company). On 18 December 2013, the European Commission consented to this transfer of assets.

For the purpose of transferring assets to BAMC, assets at risk held on the books of the Group were valued on the basis of their long-term realistic economic value calculated according to the methodology described in the decree referred to above.

The legal and book transfer of assets was carried out on 20 December 2013.

In exchange for transferring the assets, the Group received from BAMC state-guaranteed bonds.

The effect of transferring the assets to BAMC was reflected in the following statement of financial position items (as of 31 December 2013):

Item	Amount
Financial assets designated at fair value through profit or loss	182
Available-for-sale financial assets	13,305
Loans and advances to customers and other financial assets	374,849
– gross value	1,015,556
– impairment	640,707
<b>Total net transfer value of assets</b>	<b>388,336</b>

## Notes to the income statement items

### 9 Interest income and expense

#### 9.1 Analysis of interest by market segments

	H1 2014		H1 2013	
	Income	Expense	Income	Expense
Non-financial companies	27,828	2,263	44,267	2,852
State	27,389	906	16,407	10,680
Banks	1,776	6,550	3,680	11,930
Other financial organisations	714	1,896	2,384	4,207
Households	23,250	17,690	25,800	24,888
Foreign persons	4,131	754	5,830	1,064
Non-profit household service providers	71	111	106	183
<b>Total</b>	<b>85,159</b>	<b>30,170</b>	<b>98,474</b>	<b>55,804</b>
<b>Net interest income</b>	<b>54,989</b>		<b>42,670</b>	

## 9.2 Analysis of interest income and expense by type of assets and liabilities

	H1 2014		H1 2013	
	Current	Non-current	Current	Non-current
<b>Interest income</b>				
Balances with the central bank (measured at amortised cost)	452	0	371	0
Financial assets held for trading	78	0	87	0
Available-for-sale financial assets	17,609	7,793	6,091	4,437
Loans and advances (including finance leases)	16,683	38,532	24,405	53,748
Held-to-maturity financial assets	240	3,711	945	8,239
Other financial assets	61	0	151	0
<b>Total by maturity</b>	<b>35,123</b>	<b>50,036</b>	<b>32,050</b>	<b>66,424</b>
<b>Total</b>	<b>85,159</b>		<b>98,474</b>	
<b>Interest expense</b>				
Financial liabilities to the central bank (measured at amortised cost)	0	469	0	1,579
Financial liabilities held for trading	0	75	0	84
Financial liabilities measured at amortised cost	7,888	21,738	13,150	40,817
Other financial liabilities (including finance leases)	0	0	174	0
<b>Total by maturity</b>	<b>7,888</b>	<b>22,282</b>	<b>13,324</b>	<b>42,480</b>
<b>Total</b>	<b>30,170</b>		<b>55,804</b>	
<b>Net interest income</b>	<b>54,989</b>		<b>42,670</b>	

As a result of transferring its bad assets to BAMC in 2013, in exchange for which it was given state-guaranteed bonds, Nova KBM registered a decline in interest earned on loans and an increase in interest income generated on available-for-sale financial assets.

## 10 Fee and commission income and expense

	H1 2014	H1 2013
<b>Fee and commission income</b>	<b>44,269</b>	<b>45,957</b>
Fees from guarantees	1,938	1,963
Domestic payment transactions	22,501	24,380
Transactions under current accounts	6,855	6,163
Payment card operations	4,062	3,980
International payment transactions	1,234	1,561
Brokerage and agency services	810	237
Transactions in securities for customers	178	177
Lending operations	3,749	4,329
Safekeeping of objects and valuables	51	35
Other services	2,891	3,132
<b>Fee and commission expense</b>	<b>14,770</b>	<b>16,909</b>
Domestic banking services	3,322	3,173
Banking services abroad	194	663
Brokerage and agency services	384	284
Stock exchange transactions and other transactions in securities	240	279
Payment transactions	9,999	11,845
Other services	631	665
<b>Net fee and commission income</b>	<b>29,499</b>	<b>29,048</b>

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

	H1 2014			H1 2013		
	Realised gains	Realised losses	Net realised gains	Realised gains	Realised losses	Net realised gains
Available-for-sale financial assets	7,615	3	7,612	385	219	166
Loans and advances (including finance leases and other financial assets)	1,175	359	816	1,505	103	1,402
Held-to-maturity financial assets	0	0	0	452	607	(155)
Financial liabilities measured at amortised cost	1	0	1	2	0	2
<b>Total</b>	<b>8,791</b>	<b>362</b>	<b>8,429</b>	<b>2,344</b>	<b>929</b>	<b>1,415</b>



## 12 Net gains or losses on financial assets and liabilities held for trading

	H1 2014			H1 2013		
	Gains	Losses	Net gains/(losses)	Gains	Losses	Net gains/(losses)
Trading in equity instruments	311	229	82	221	282	(61)
Trading in debt securities	3	0	3	15	0	15
Trading in foreign exchange (purchase/sale)	650	200	450	766	342	424
Trading in derivatives	979	2,091	(1,112)	3,480	1,492	1,988
– futures/forwards	537	1,073	(536)	3,116	1,307	1,809
– swaps	170	62	108	364	185	179
– other derivatives	272	956	(684)	0	0	0
<b>Total</b>	<b>1,943</b>	<b>2,520</b>	<b>(577)</b>	<b>4,482</b>	<b>2,116</b>	<b>2,366</b>

The Group uses derivatives (futures/forwards) for economic hedging of its exposure to foreign exchange risk. The effects of derivatives are linked to the effects arising from exchange rate differences (Note 14).

## 13 Net gains or losses on financial assets and liabilities designated at fair value through profit or loss

	H1 2014			H1 2013		
	Gains	Losses	Net gains	Gains	Losses	Net (losses)
Financial assets designated at fair value through profit or loss	6,308	1,559	4,749	2,491	2,721	(230)
<b>Total</b>	<b>6,308</b>	<b>1,559</b>	<b>4,749</b>	<b>2,491</b>	<b>2,721</b>	<b>(230)</b>

Gains and losses on financial assets designated at fair value through profit or loss are attributable to the valuation and disposal of equities and bonds for which a joint-selling agreement has been made by the Bank.

## 14 Net exchange rate differences

	H1 2014	H1 2013
Foreign exchange gains	7,390	19,895
Foreign exchange losses	6,693	21,702
<b>Net foreign exchange gain/(loss)</b>	<b>697</b>	<b>(1,807)</b>

## 15 Administration costs

	H1 2014	H1 2013
<b>Staff expenses</b>	<b>26,707</b>	<b>28,805</b>
Gross salaries	20,194	21,946
Social security and pension insurance contribution	3,605	4,028
Pay for annual leave	600	643
Other staff costs	2,308	2,188
<b>General and administrative expenses</b>	<b>18,766</b>	<b>21,241</b>
Costs of materials	1,630	1,999
Costs of services	10,694	13,198
Maintenance costs of fixed assets	3,334	3,233
Advertising costs	1,762	1,410
Other administrative costs	1,346	1,401
<b>Total administration costs</b>	<b>45,473</b>	<b>50,046</b>

## 16 Provisions

	H1 2014	H1 2013
Provisions for off-balance sheet liabilities	(7,110)	(2,793)
Provisions for tax claims and other pending legal issues	3,137	406
Other provisions	104	218
<b>Total</b>	<b>(3,869)</b>	<b>(2,169)</b>

## 17 Impairment losses

	H1 2014	H1 2013
Financial assets not measured at fair value through profit or loss	23,368	84,179
Other assets	(526)	(13)
<b>Total impairment losses</b>	<b>22,842</b>	<b>84,166</b>

### 17.1 Impairment of financial assets not measured at fair value through profit or loss

	H1 2014	H1 2013
Financial assets measured at cost	1,685	10,750
Available-for-sale financial assets designated at fair value	1,000	5,333
Loans and advances (including finance leases and other financial assets) measured at amortised cost	20,686	68,083
– loans and advances to banks	(368)	(35)
– loans and advances to customers	20,680	73,935
– other financial assets	374	(5,817)
Held-to-maturity financial assets measured at amortised cost	(3)	13
<b>Total impairment of financial assets not measured at fair value through profit or loss</b>	<b>23,368</b>	<b>84,179</b>

## 18 Income tax related to profit or loss from continuing operations

	H1 2014	H1 2013
Income tax expense related to profit or loss from continuing operations	296	131
Deferred tax from continuing operations	2,919	(3,851)
<b>Total</b>	<b>3,215</b>	<b>(3,720)</b>

## Notes to the statement of financial position items

### 19 Cash and balances with the central bank

	30.06.2014	31.12.2013
Cash in hand	70,640	68,994
Obligatory deposits with the central bank	214,970	357,130
Other deposits with the central bank	12,936	9,354
<b>Total</b>	<b>298,546</b>	<b>435,478</b>

Obligatory deposit funds are available to finance day-to-day operations and are therefore considered as cash equivalent.

#### 19.1 Cash and cash equivalents

	30.06.2014	31.12.2013
Cash and balances with the central bank	298,546	435,478
Loans and advances to banks	121,349	121,768
<b>Total</b>	<b>419,895</b>	<b>557,246</b>

### 20 Financial assets held for trading

	30.06.2014	31.12.2013
Derivatives	205	612
Equity instruments	1,809	1,167
Debt securities	1,087	7
<b>Total</b>	<b>3,101</b>	<b>1,786</b>
Quoted	1,407	364
Unquoted	1,694	1,422
<b>Total</b>	<b>3,101</b>	<b>1,786</b>

No assets of this portfolio are 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.

## 20.1 Movements in financial assets held for trading

	H1 2014	2013
<b>1 January</b>	<b>1,786</b>	<b>1,572</b>
<b>Increase during the year</b>	<b>3,720</b>	<b>4,828</b>
– acquisition	3,946	4,136
– exchange rate differences	2	0
– change in fair value (recovery and reversal of impairment)	(285)	136
– other (deferred interest, realised gains)	57	556
<b>Decrease during the year</b>	<b>2,405</b>	<b>4,614</b>
– disposal (sale and redemption)	2,307	3,879
– change in fair value (impairment and reversal of recovery)	59	663
– exchange rate differences	1	2
– other (deferred interest, realised losses)	38	70
<b>30 June/31 December</b>	<b>3,101</b>	<b>1,786</b>

## 21 Financial assets designated at fair value through profit or loss

	30.06.2014	31.12.2013
Equity instruments that are quoted on a stock exchange	16,887	24,586

As of 30 June 2014, no assets of this portfolio were pledged as collateral, and during the six-month period ended 30 June 2014, the Group did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

Financial assets designated at fair value through profit or loss include equity instruments for which the Bank has entered into a joint-selling agreement.

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.

### 21.1 Movements in financial assets designated at fair value through profit or loss

	H1 2014	2013
<b>1 January</b>	<b>24,586</b>	<b>34,563</b>
<b>Increase during the year</b>	<b>6,307</b>	<b>9,134</b>
– change in fair value (recovery and reversal of impairment)	4,643	9,134
– other	1,664	0
<b>Decrease during the year</b>	<b>14,006</b>	<b>19,111</b>
– disposal (sale and redemption)	12,447	8,046
– change in fair value (impairment and reversal of recovery)	1,551	2,252
– transfer to BAMC	0	182
– other	8	8,631
<b>30 June/31 December</b>	<b>16,887</b>	<b>24,586</b>

## 22 Available-for-sale financial assets

### 22.1 Analysis by type and market segments

	30.06.2014	31.12.2013
<b>Equity instruments designated at fair value</b>	<b>16,708</b>	<b>33,125</b>
<b>Equity instruments measured at acquisition cost</b>	<b>1,966</b>	<b>1,636</b>
<b>Debt securities</b>	<b>1,535,537</b>	<b>1,432,103</b>
– issued by the state and the central bank	1,444,664	1,294,633
– issued by banks	58,910	105,402
– issued by other issuers	31,963	32,067
<b>Total</b>	<b>1,554,211</b>	<b>1,466,864</b>
Quoted	1,520,027	1,451,551
Unquoted	34,184	15,313
<b>Total</b>	<b>1,554,211</b>	<b>1,466,864</b>

As of 30 June 2014, assets of this portfolio worth €811,268,000 were pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors. In the six-month period ended 30 June 2014, the Group did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

None of the instruments included in the portfolio of available-for-sale financial assets have the characteristics to qualify as subordinated debt.

### 22.2 Movements in available-for-sale financial assets

	Equity instruments		Debt securities	Total
	At fair value	At cost		
<b>1 January 2014</b>	<b>33,125</b>	<b>1,636</b>	<b>1,432,103</b>	<b>1,466,864</b>
Recognition of new financial assets	0	2,949	261,669	264,618
Interest	0	0	1,632	1,632
Net exchange rate differences	6	0	(221)	(215)
Net revaluation through equity	2,155	0	35,100	37,255
Net impairment through profit or loss	(1,000)	(1,685)	0	(2,685)
Derecognition of financial assets upon disposal	(21,084)	(1,600)	(37,574)	(60,258)
Derecognition of financial assets upon maturity	0	0	(160,612)	(160,612)
Net gains on sale	3,506	666	3,440	7,612
<b>30 June 2014</b>	<b>16,708</b>	<b>1,966</b>	<b>1,535,537</b>	<b>1,554,211</b>

	Equity instruments		Debt securities	Total
	At fair value	At cost		
<b>1 January 2013</b>	<b>50,810</b>	<b>23,225</b>	<b>515,378</b>	<b>589,413</b>
Recognition of new financial assets	8,343	10,763	1,162,938	1,182,044
Interest	0	0	9,741	9,741
Net exchange rate differences	11	0	(136)	(125)
Net revaluation through equity	161	0	12,728	12,889
Net impairment through profit or loss	(14,440)	(18,482)	(8,230)	(41,152)
Derecognition of financial assets upon disposal	(11,359)	0	(30,200)	(41,559)
Derecognition of financial assets upon maturity	0	0	(206,852)	(206,852)
Transfer to BAMC	0	(13,305)	0	(13,305)
Net gains/(losses) on sale	(401)	(565)	(23,264)	(24,230)
<b>31 December 2013</b>	<b>33,125</b>	<b>1,636</b>	<b>1,432,103</b>	<b>1,466,864</b>

## 23 Loans and advances to banks

	30.06.2014	31.12.2013
Sight deposits	23,947	25,447
Impairment of sight deposits	(3)	(1)
Current loans	112,044	106,709
Impairment of current loans	(2,441)	(2,501)
Non-current loans	81	65
Impairment of non-current loans	(69)	(45)
<b>Total – net amount</b>	<b>133,559</b>	<b>129,674</b>
<b>Impairment</b>	<b>2,513</b>	<b>2,547</b>
<b>Total – gross amount</b>	<b>136,072</b>	<b>132,221</b>

## 24 Loans and advances to customers

	30.06.2014	31.12.2013
Current loans	620,687	623,657
Impairment of current loans	(176,273)	(183,970)
Non-current loans	2,093,269	2,187,224
Impairment of non-current loans	(443,005)	(398,338)
Claims under guarantees	11,955	10,841
Impairment of claims under guarantees	(8,311)	(7,649)
<b>Total – net amount</b>	<b>2,098,322</b>	<b>2,231,765</b>
<b>Impairment</b>	<b>627,589</b>	<b>589,957</b>
<b>Total – gross amount</b>	<b>2,725,911</b>	<b>2,821,722</b>

## 24.1 Movements in impairment of loans and advances to customers

	H1 2014	2013
<b>1 January</b>	<b>589,957</b>	<b>641,358</b>
Net impairment of principal	20,680	567,596
– additional impairment of principal	98,263	811,451
– reversal of impairment of principal	(77,583)	(243,855)
Additional impairment of interest	8,951	30,794
Additional impairment of fees	41	4
Write-off of loans and advances to customers	(15,371)	(19,967)
Exchange rate differences	(119)	(98)
Transfer to BAMC	0	(640,039)
Other	23,450	10,309
<b>30 June/31 December</b>	<b>627,589</b>	<b>589,957</b>

Recognition of additional impairment/reversal of impairment of interest and fees on loans given to customers is reflected in profit or loss (Note 9: Interest income and expense, and Note 10: Fee and commission income and expense).

## 25 Other financial assets

	30.06.2014	31.12.2013
Cheques	49	278
Claims for fees and commissions	1,683	1,890
Claims for advance payments	0	0
Accounts receivables	5,684	1,014
Surplus arising from authorised transactions for customers	0	16
Other financial assets	14,079	14,685
<b>Total – net amount</b>	<b>21,495</b>	<b>17,883</b>
<b>Impairment</b>	<b>5,297</b>	<b>4,853</b>
<b>Total – gross amount</b>	<b>26,792</b>	<b>22,736</b>

### 25.1 Movements in impairment of other financial assets

	H1 2014	2013
<b>1 January</b>	<b>4,853</b>	<b>10,053</b>
Net impairment of principal	374	(4,701)
– additional impairment of principal	697	3,277
– reversal of impairment of principal	(323)	(7,978)
Additional impairment of interest	13	29
Additional impairment of fees	270	498
Write-off of other financial assets	(213)	(384)
Exchange rate differences	0	22
Transfer to BAMC	0	(668)
Other	0	4
<b>30 June/31 December</b>	<b>5,297</b>	<b>4,853</b>

Recognition of additional impairment/reversal of impairment of interest and fees on other financial assets is reflected in profit or loss (Note 9: Interest income and expense, and Note 10: Fee and commission income and expense).



## 26 Held-to-maturity financial assets

	30.06.2014	31.12.2013
<b>Debt securities</b>		
– current securities issued by the state and the central bank	27,802	35,722
– non-current securities issued by the state and the central bank	167,668	210,770
– non-current securities issued by banks and savings banks	24,424	24,791
– current securities issued by other issuers	227	248
– non-current securities issued by other issuers	8,822	8,622
<b>Total</b>	<b>228,943</b>	<b>280,153</b>
Quoted	228,716	279,906
Unquoted	227	247
<b>Total</b>	<b>228,943</b>	<b>280,153</b>

As of 30 June 2014, assets of this portfolio worth €174,990,000 were pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.

### 26.1 Movements in held-to-maturity financial assets

	H1 2014	2013
<b>1 January</b>	<b>280,153</b>	<b>500,108</b>
<b>Increase during the year</b>	<b>50,446</b>	<b>56,128</b>
– acquisition	46,493	41,485
– gains	0	903
– reversal of impairment	3	108
– other (deferred interest)	3,950	13,632
<b>Decrease during the year</b>	<b>101,656</b>	<b>276,083</b>
– disposal (sale and redemption)	95,901	259,511
– losses	0	4,295
– impairment	0	816
– exchange rate differences	2	39
– other (interest received)	5,753	11,422
<b>30 June/31 December</b>	<b>228,943</b>	<b>280,153</b>

## 27 Financial liabilities measured at amortised cost

	30.06.2014	31.12.2013
Deposits	3,213,343	3,135,019
Loans	352,836	419,434
Debt securities	60,473	60,973
Subordinated liabilities	1,250	1,250
Other financial liabilities	35,594	34,266
<b>Total</b>	<b>3,663,496</b>	<b>3,650,942</b>

## 27.1 Deposits by type of customers and maturity

	30.06.2014	31.12.2013
<b>Deposits from banks</b>	<b>37,194</b>	<b>60,271</b>
– sight deposits	1,738	1,520
– current deposits	34,951	57,924
– non-current deposits	505	827
<b>Deposits from customers</b>	<b>3,176,149</b>	<b>3,074,748</b>
– sight deposits	1,441,039	1,349,936
– current deposits	730,514	742,991
– non-current deposits	1,004,596	981,821
<b>Total</b>	<b>3,213,343</b>	<b>3,135,019</b>

## 27.2 Loans by type of customers and maturity

	30.06.2014	31.12.2013
<b>Loans from banks</b>	<b>349,195</b>	<b>414,883</b>
– current loans	4,457	7,710
– non-current loans	344,738	407,173
<b>Loans from customers</b>	<b>3,641</b>	<b>4,551</b>
– current loans	0	1
– non-current loans	3,641	4,550
<b>Total</b>	<b>352,836</b>	<b>419,434</b>

## 27.3 Subordinated liabilities

Issuer	Currency	Date of maturity	Interest rate	30.06.2014	31.12.2013
<b>Subordinated debt</b>					
Adria Bank AG	EUR	perpetual; call option on each 28.12.	variable	1,250	1,250
<b>Total</b>				<b>1,250</b>	<b>1,250</b>

Subordinated liabilities are included in the calculation of capital adequacy. Capital risk is presented in Note 5.5.

## 27.4 Other financial liabilities

	30.06.2014	31.12.2013
Liabilities for fees and commissions	40	73
Liabilities for gross salaries of employees	3,073	3,367
Liabilities to suppliers	2,285	5,097
Liabilities related to payment card transactions	5,548	7,629
Liabilities related to ATM transactions	2,418	1,785
Liabilities related to funds provided by customers for payments abroad	6,172	595
Liabilities related to cash transactions	5,502	2,524
Liabilities arising from participation in profits – dividends	170	75
Accruals and deferred income	6,804	6,999
Surplus arising from authorised transactions for customers	50	139
Other financial liabilities	3,532	5,983
<b>Total</b>	<b>35,594</b>	<b>34,266</b>

## 28 Provisions

	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
<b>1 January 2014</b>	<b>11,280</b>	<b>17,785</b>	<b>6,549</b>	<b>64,060</b>	<b>489</b>	<b>100,163</b>
Net creation of provisions through profit or loss	(331)	3,137	435	(7,110)	0	(3,869)
– provisions made during the period	0	3,137	706	25,094	0	28,937
– provisions reversed during the period	(331)	0	(271)	(32,204)	0	(32,806)
Provisions used during the period	0	(62)	(229)	0	(12)	(303)
Exchange rate differences	0	(1)	(3)	(2)	0	(6)
<b>30 June 2014</b>	<b>10,949</b>	<b>20,859</b>	<b>6,752</b>	<b>56,948</b>	<b>477</b>	<b>95,985</b>

	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
<b>1 January 2013</b>	<b>0</b>	<b>4,400</b>	<b>7,598</b>	<b>34,143</b>	<b>489</b>	<b>46,630</b>
Net creation of provisions through profit or loss	11,280	13,554	(116)	29,919	0	54,637
– provisions made during the year	11,280	15,998	538	54,882	22	82,720
– provisions reversed during the year	0	(2,444)	(654)	(24,963)	(22)	(28,083)
Net reversal of provisions through equity	0	0	(300)	0	0	(300)
Provisions used during the year	0	(166)	(629)	0	0	(795)
Exchange rate differences	0	(3)	(4)	(2)	0	(9)
<b>31 December 2013</b>	<b>11,280</b>	<b>17,785</b>	<b>6,549</b>	<b>64,060</b>	<b>489</b>	<b>100,163</b>

## 29 Share capital

	30.06.2014	31.12.2013
<b>Ordinary shares</b>	<b>150,000</b>	<b>150,000</b>
– subscribed by the state	150,000	150,000

In 2013, Nova KBM was recapitalised by the state. The details of this state-sponsored recapitalisation are set out in the Bank's and the Group's Annual Report for 2013.

The paid-in capital surplus is included in the share premium, a portion of which was used at the end of 2013 to cover the losses incurred by the Group.

In the six-month period ended 30 June 2014 and during 2013, the Group did not purchase or sell treasury shares. A total of 136,000 Nova KBM shares worth €1,412,000 which PBS received in 2010 (it took over the possession of shares that were provided as collateral for securing a loan) were cancelled on 18 December 2013 in accordance with the Bank of Slovenia decision. As a result, no treasury shares were held by the Group at the end of 2013.

## 30 Revaluation reserves

	30.06.2014	31.12.2013
Revaluation reserves in respect of available-for-sale financial assets	39,441	8,708
– revaluation	47,548	10,502
– deferred taxes	(8,107)	(1,794)
Other revaluation reserves	273	273
– revaluation	299	299
– deferred taxes	(26)	(26)
<b>Total</b>	<b>39,714</b>	<b>8,981</b>

### 30.1 Movements in revaluation reserves

	H1 2014	2013
<b>1 January</b>	<b>8,981</b>	<b>(1,149)</b>
Net change in valuation of available-for-sale financial assets	37,046	11,824
– gains recognised in revaluation reserves	37,056	5,976
– transferred from revaluation reserves to profit or loss	(10)	5,848
Net change in other revaluation reserves	0	299
Exchange rate differences	0	1
Net change in deferred taxes	(6,313)	(1,993)
Other	0	(1)
<b>30 June/31 December</b>	<b>39,714</b>	<b>8,981</b>

Gains recognised in revaluation reserves were derived mainly from the recovery in the value of the Republic of Slovenia bonds.

## 31 Reserves from profit

	30.06.2014	31.12.2013
Regulatory reserves	499	663
<b>Total</b>	<b>499</b>	<b>663</b>

### 31.1 Movements in reserves from profit

	H1 2014	2013
<b>1 January</b>	<b>663</b>	<b>289,741</b>
Decrease in regulatory reserves	(164)	(12,953)
Decrease in statutory reserves	0	(174,184)
Decrease in reserves for treasury shares	0	(1,412)
Decrease in other reserves	0	(100,529)
<b>30 June/31 December</b>	<b>499</b>	<b>663</b>

## Other notes

### 32 Commitments and contingent liabilities by type

	30.06.2014		Total
	Current	Non-current	
Financial guarantees	42,415	43,892	86,307
Service guarantees	102,045	92,623	194,668
<b>Total guarantees</b>	<b>144,460</b>	<b>136,515</b>	<b>280,975</b>
<b>Unsecured letters of credit</b>	<b>36</b>	<b>0</b>	<b>36</b>
Approved and undrawn loans	53,129	25,933	79,062
Approved and undrawn overdrafts	190,284	1,183	191,467
Approved credit lines	5,695	0	5,695
<b>Total commitments and contingent liabilities</b>	<b>249,108</b>	<b>27,116</b>	<b>276,224</b>
<b>Derivatives</b>	<b>139,892</b>	<b>0</b>	<b>139,892</b>
<b>Total</b>	<b>533,496</b>	<b>163,631</b>	<b>697,127</b>

	31.12.2013		Total
	Current	Non-current	
Financial guarantees	46,797	45,634	92,431
Service guarantees	106,145	96,806	202,951
<b>Total guarantees</b>	<b>152,942</b>	<b>142,440</b>	<b>295,382</b>
<b>Unsecured letters of credit</b>	<b>128</b>	<b>0</b>	<b>128</b>
Approved and undrawn loans	69,714	1,039	70,753
Approved and undrawn overdrafts	184,838	1,196	186,034
Approved credit lines	9,696	0	9,696
<b>Total commitments and contingent liabilities</b>	<b>264,248</b>	<b>2,235</b>	<b>266,483</b>
<b>Derivatives</b>	<b>123,713</b>	<b>40,000</b>	<b>163,713</b>
<b>Total</b>	<b>541,031</b>	<b>184,675</b>	<b>725,706</b>

## 33 Related party transactions

### 33.1 Statement of financial position and off-balance sheet items

	Associates	
	30.06.2014	31.12.2013
<b>Assets</b>		
Loans and advances given (gross amount)	2	1
– loans and advances to customers	2	1
Investment in securities	2,237	2,237
– equity instruments	2,237	2,237
<b>Liabilities</b>		
Deposits and loans received	1,705	1,759
– deposits and loans from customers	1,705	1,749
– other financial liabilities	0	10
Off-balance sheet items	3	4

	Key management personnel		Other related persons	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
<b>Assets</b>				
Loans and advances given (gross amount)	278	297	3,931	5,166
– loans and advances to customers	278	297	3,931	5,166
Investment in securities	0	0	382	382
– equity instruments	0	0	382	382
<b>Liabilities</b>				
Deposits and loans received	449	574	1,103	1,560
– deposits and loans from customers	449	574	1,096	1,442
– other financial liabilities	0	0	7	118
Off-balance sheet items	50	69	363	371

Key management personnel include members of the Management Board, executive directors and members of the Supervisory Board of the Bank.

Other related persons of the Group include:

- immediate family of the key management personnel
- entities, the owners or key management personnel of which are members of key management personnel of the Group or of their immediate family
- key management personnel of subsidiaries (management board and executive directors)
- immediate family of the key management personnel of subsidiaries
- entities, the owners or key management personnel of which are members of key management personnel of subsidiaries or of their immediate family.

Transactions with related persons are conducted on an arm's length basis.

### 33.2 Income statement

	Associates	
	H1 2014	H1 2013
Net interest income	(44)	(44)
Net fee and commission income	8	6
Costs of services	0	(16)
Impairment of loans	0	0
Impairment of investments	0	0
Write-offs	0	0
<b>Total</b>	<b>(36)</b>	<b>(54)</b>

	Key management personnel		Other related persons	
	H1 2014	H1 2013	H1 2014	H1 2013
Net interest income	(2)	(8)	175	896
Net fee and commission income	0	0	(215)	(226)
Costs of services	(162)	(169)	(708)	(687)
Impairment of loans	0	0	52	35
Provisions	0	0	0	0
Write-offs	0	0	0	0
<b>Total</b>	<b>(164)</b>	<b>(177)</b>	<b>(696)</b>	<b>18</b>

### 33.3 Loans and guarantees given

	Management Board members		Supervisory Board members		Other Group employees on individual contracts	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Loans	19	6	32	47	2,447	2,539
Average interest rate on loans (%)	8.30	8.48	3.70	3.66	3.48	3.48
Repayments	1	0	4	12	265	490

## 34 Exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions

Exposure to:	30.06.2014	31.12.2013
<b>Bank of Slovenia</b>	<b>187,689</b>	<b>329,921</b>
– settlement account	180,418	323,191
– other	7,271	6,730
<b>Republic of Slovenia</b>	<b>1,340,828</b>	<b>1,396,878</b>
– bonds	579,570	705,739
– other securities	326,557	276,472
– loans	24,243	1,765
– loans guaranteed by the Republic of Slovenia, by type	407,849	411,335
– other	1,708	666
<b>State-owned institutions</b>	<b>446,767</b>	<b>440,272</b>
– loans	209,418	212,252
– securities	99,328	88,632
– commitments and contingent liabilities	78,179	83,504
– other	59,842	55,884
<b>Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions</b>	<b>1,975,284</b>	<b>2,167,071</b>
Share in total assets (%)	43.46	45.05
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	901	901
<b>Total assets</b>	<b>4,545,553</b>	<b>4,810,793</b>

## 35 Remuneration

	H1 2014	H1 2013
<b>Management Board members</b>	<b>136</b>	<b>138</b>
Aleš Hauc	68	69
Igor Žibrik	68	69
<b>Supervisory Board members</b>	<b>69</b>	<b>79</b>
<b>Members of Supervisory Board committees</b>	<b>36</b>	<b>38</b>
<b>Other Group employees on individual contract</b>	<b>3,610</b>	<b>4,041</b>
<b>Total</b>	<b>3,851</b>	<b>4,296</b>

Remuneration paid to Management Board members comprises: salary, pay for annual leave, awards, bonuses, and the payment of supplementary pension insurance premiums.



Remuneration paid to members of the Supervisory Board, the Audit Committee, and the Remuneration and Nomination Committee comprises: a payment for holding the office, meeting attendance fees, reimbursement of costs, seminar participation fees, and the payment of liability insurance premiums.

Remuneration paid to other Group employees working on individual contracts comprises: salary, pay for annual leave, bonuses, the payment of supplementary pension insurance premiums, and other remuneration under employment contracts (severance benefits paid to employees who are made redundant for business reasons, severance benefits paid upon retirement, compensation for a non-competition clause, and some other remuneration under employment contracts).

The total amount paid in the first six months of 2014 to Aleš Hauc, President of the Management Board, and Igor Žibrik, Management Board Member, for meeting attendances, reimbursement of costs, and bonuses in respect of their work on supervisory boards of subsidiaries and the associated company of the Group was €31,000 and €35,000, respectively.

### **36 Events after the statement of financial position date**

In July 2014, Nova KBM infused fresh capital of €7,485,000 into KBM Leasing Hrvatska, its Croatia-based subsidiary, which is focused on the provision of leasing services.

# **UNAUDITED INTERIM FINANCIAL REPORT OF NOVA KBM d.d.**

## **JANUARY – JUNE 2014**

## Interim Income Statement – Nova KBM d.d.

€000

ITEM DESCRIPTION	Notes	Six months ended 30.06.2014	Six months ended 30.06.2013
Interest income	7	68,417	78,713
Interest expense	7	(24,330)	(46,867)
<b>Net interest income</b>	<b>7</b>	<b>44,087</b>	<b>31,846</b>
<b>Dividend income</b>	<b>8</b>	<b>488</b>	<b>797</b>
Fee and commission income	9	22,909	22,399
Fee and commission expense	9	(1,843)	(2,211)
<b>Net fee and commission income</b>	<b>9</b>	<b>21,066</b>	<b>20,188</b>
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	10	6,024	788
Net gains/(losses) on financial assets and liabilities held for trading	11	(971)	1,640
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	12	4,748	(230)
Net exchange rate differences	13	550	(1,790)
Net gains on derecognition of assets excluding non-current assets held for sale	-	44	72
Other net operating (loss)	-	(2,743)	(2,136)
Administration costs	14	(29,802)	(33,283)
Depreciation and amortisation	-	(5,668)	(5,844)
Provisions	15	3,029	2,334
Impairment losses	16	(23,109)	(60,980)
Net gains from non-current assets held for sale and liabilities associated therewith	-	64	154
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>	<b>-</b>	<b>17,807</b>	<b>(46,444)</b>
Income tax related to profit or loss from continuing operations	17	(2,985)	2,270
<b>NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>	<b>-</b>	<b>14,822</b>	<b>(44,174)</b>
<b>NET PROFIT/(LOSS) FOR THE REPORTING PERIOD</b>	<b>-</b>	<b>14,822</b>	<b>(44,174)</b>
Basic earnings/(loss) per share (€)	-	1.48	(0.58)
Diluted earnings/(loss) per share (€)	-	1.48	(0.58)

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

## Interim Income Statement – Nova KBM d.d. (by quarter)

€000

ITEM DESCRIPTION	2014		2013			
	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	33,727	34,690	27,448	39,746	37,257	41,456
Interest expense	(11,469)	(12,861)	(17,939)	(20,473)	(21,981)	(24,886)
<b>Net interest income</b>	<b>22,258</b>	<b>21,829</b>	<b>9,509</b>	<b>19,273</b>	<b>15,276</b>	<b>16,570</b>
<b>Dividend income</b>	<b>488</b>	<b>0</b>	<b>4</b>	<b>1,010</b>	<b>797</b>	<b>0</b>
Fee and commission income	11,915	10,994	11,734	12,046	11,858	10,541
Fee and commission expense	(1,058)	(785)	(1,212)	(1,001)	(1,541)	(670)
<b>Net fee and commission income</b>	<b>10,857</b>	<b>10,209</b>	<b>10,522</b>	<b>11,045</b>	<b>10,317</b>	<b>9,871</b>
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	3,754	2,270	62,950	295	640	148
Net gains/(losses) on financial assets and liabilities held for trading	43	(1,014)	(202)	(376)	558	1,082
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	1,052	3,696	390	(1,389)	1,281	(1,511)
Net exchange rate differences	154	396	(99)	546	(919)	(871)
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	0	44	(42)	55	39	33
Other net operating (loss)	(1,472)	(1,271)	(11,486)	(1,054)	(1,545)	(591)
Administration costs	(15,398)	(14,404)	(21,023)	(16,936)	(17,321)	(15,962)
Depreciation and amortisation	(2,780)	(2,888)	(2,967)	(2,977)	(2,966)	(2,878)
Provisions	4,436	(1,407)	(46,875)	1,243	38	2,296
Impairment losses	(14,427)	(8,682)	(588,291)	(10,388)	(46,526)	(14,454)
Net gains from non-current assets held for sale and liabilities associated therewith	0	64	63	150	72	82
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>	<b>8,965</b>	<b>8,842</b>	<b>(587,547)</b>	<b>497</b>	<b>(40,259)</b>	<b>(6,185)</b>
Income tax related to profit or loss from continuing operations	(3,065)	80	(25,221)	(55)	678	1,592
<b>NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>	<b>5,900</b>	<b>8,922</b>	<b>(612,768)</b>	<b>442</b>	<b>(39,581)</b>	<b>(4,593)</b>
<b>NET PROFIT/(LOSS) FOR THE REPORTING PERIOD</b>	<b>5,900</b>	<b>8,922</b>	<b>(612,768)</b>	<b>442</b>	<b>(39,581)</b>	<b>(4,593)</b>
Basic earnings/(loss) per share (€)	0.59	0.89	(65.36)	0.29	(0.46)	(0.12)
Diluted earnings/(loss) per share (€)	0.59	0.89	(65.36)	0.29	(0.46)	(0.12)

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

## Interim Statement of Other Comprehensive Income – Nova KBM d.d.

€000

ITEM DESCRIPTION	Six months ended 30.06.2014	Six months ended 30.06.2013
<b>NET PROFIT/(LOSS) FOR THE REPORTING PERIOD AFTER TAX</b>	<b>14,822</b>	<b>(44,174)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX</b>	<b>23,256</b>	<b>(1,424)</b>
<b>ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>	<b>23,256</b>	<b>(1,424)</b>
Available-for-sale financial assets	28,020	(1,676)
– valuation gains/(losses) taken to equity	28,020	(1,676)
Income tax on items that may be reclassified subsequently to profit or loss	(4,764)	252
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE REPORTING PERIOD AFTER TAX</b>	<b>38,078</b>	<b>(45,598)</b>

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

## Interim Statement of Other Comprehensive Income – Nova KBM d.d. (by quarter)

€000

ITEM DESCRIPTION	2014		2013			
	Q2	Q1	Q4	Q3	Q2	Q1
<b>NET PROFIT/(LOSS) FOR THE REPORTING PERIOD AFTER TAX</b>	<b>5,900</b>	<b>8,922</b>	<b>(612,768)</b>	<b>442</b>	<b>(39,581)</b>	<b>(4,593)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX</b>	<b>6,611</b>	<b>16,645</b>	<b>14,801</b>	<b>(4,145)</b>	<b>1,537</b>	<b>(2,961)</b>
<b>ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>	<b>0</b>	<b>0</b>	<b>268</b>	<b>0</b>	<b>0</b>	<b>0</b>
Actuarial net gains on defined benefit pension plans recognised in retained earnings	0	0	293	0	0	0
Income tax on items that will not be reclassified subsequently to profit or loss	0	0	(25)	0	0	0
<b>ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>	<b>6,611</b>	<b>16,645</b>	<b>14,533</b>	<b>(4,145)</b>	<b>1,537</b>	<b>(2,961)</b>
Available-for-sale financial assets	7,966	20,054	17,292	(4,876)	1,807	(3,483)
– valuation gains/(losses) taken to equity	7,966	20,054	11,447	(4,876)	1,807	(3,483)
– transferred to profit or loss	0	0	5,845	0	0	0
Income tax on items that may be reclassified subsequently to profit or loss	(1,355)	(3,409)	(2,759)	731	(270)	522
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE REPORTING PERIOD AFTER TAX</b>	<b>12,511</b>	<b>25,567</b>	<b>(597,967)</b>	<b>(3,703)</b>	<b>(38,044)</b>	<b>(7,554)</b>

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

## Interim Statement of Financial Position – Nova KBM d.d.

€000

ITEM DESCRIPTION	Notes	30.06.2014	31.12.2013
Cash and balances with the central bank	18	186,283	334,830
Financial assets held for trading	19	388	612
Financial assets designated at fair value through profit or loss	20	16,887	24,586
Available-for-sale financial assets	21	1,295,751	1,210,799
Loans and advances	-	1,902,683	1,988,824
– loans and advances to banks	22	157,414	151,294
– loans and advances to customers	23	1,735,313	1,826,371
– other financial assets	24	9,956	11,159
Held-to-maturity financial assets	25	110,505	192,437
Non-current assets and disposal groups classified as held for sale and discontinued operations	-	976	780
Property, plant and equipment	-	54,982	58,010
Investment property	-	2,339	2,339
Intangible assets	-	15,941	18,329
Investments in the equity of subsidiaries, associates and joint ventures accounted for using the equity method	26	66,339	54,139
Tax assets	-	2,542	10,290
– current tax assets	-	2	2
– deferred tax assets	-	2,540	10,288
Other assets	-	15,846	14,008
<b>TOTAL ASSETS</b>	-	<b>3,671,462</b>	<b>3,909,983</b>
Financial liabilities to the central bank	-	152,174	426,002
Financial liabilities held for trading	-	1,120	976
Financial liabilities measured at amortised cost	27	2,868,693	2,869,463
– deposits from banks	27	3,645	51,982
– deposits from customers	27	2,462,317	2,359,553
– loans from banks	27	304,957	357,910
– loans from customers	27	3,639	4,549
– debt securities	-	68,605	69,284
– other financial liabilities	27	25,530	26,185
Provisions	28	80,791	83,851
Other liabilities	-	12,894	11,979
<b>TOTAL LIABILITIES</b>	-	<b>3,115,672</b>	<b>3,392,271</b>
Share capital	29	150,000	150,000
Share premium	29	360,572	360,572
Revaluation reserves	30	30,396	7,140
Net profit for the reporting period	-	14,822	0
<b>TOTAL SHAREHOLDERS' EQUITY</b>	-	<b>555,790</b>	<b>517,712</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	-	<b>3,671,462</b>	<b>3,909,983</b>

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

## Interim Statement of Cash Flows – Nova KBM d.d.

€000

Designation	ITEM DESCRIPTION	Six months ended 30.06.2014	Six months ended 30.06.2013
<b>A.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>a)</b>	<b>Total profit/(loss) before tax from continuing operations</b>	<b>17,807</b>	<b>(46,444)</b>
	Depreciation and amortisation	5,668	5,844
	Impairment of available-for-sale financial assets	2,671	16,099
	Impairment of loans and advances	20,418	44,881
	Impairment of tangible assets, investment property, intangible assets and other assets	20	0
	Net (gains)/losses from exchange rate differences	(550)	1,790
	Net losses from held-to-maturity financial assets	0	155
	Net (gains) from the sale of tangible assets and investment properties	(44)	(72)
	Other (gains) from investing activities	(2,738)	(7,099)
	Other losses from financing activities	0	3,079
	Net unrealised (gains) from non-current assets held for sale and discontinued operations and liabilities associated therewith	(64)	(154)
	Other adjustments to total net profit or loss before tax	(3,029)	(2,334)
	Cash flow from operating activities before changes in operating assets and liabilities	40,159	15,745
<b>b)</b>	<b>(Increase) in operating assets (excluding cash equivalents)</b>	<b>(6,058)</b>	<b>(118,406)</b>
	Net (increase)/decrease in financial assets held for trading	226	(48)
	Net decrease in financial assets designated at fair value through profit or loss	7,699	231
	Net (increase) in available-for-sale financial assets	(59,603)	(219,130)
	Net decrease in loans and advances	47,674	101,050
	Net (increase)/decrease in non-current assets held for sale	(196)	437
	Net (increase) in other assets	(1,858)	(946)
<b>c)</b>	<b>(Decrease) in operating liabilities</b>	<b>(271,144)</b>	<b>(151,329)</b>
	Net increase/(decrease) in financial liabilities to the central bank	(273,828)	1,426
	Net increase in financial liabilities held for trading	144	444
	Net increase/(decrease) in deposits and loans received, measured at amortised cost	2,336	(142,690)
	Net (decrease) in debt securities in issue, measured at amortised cost	(679)	(10,525)
	Net increase in other liabilities	883	16
<b>d)</b>	<b>Cash flow from operating activities (a + b + c)</b>	<b>(237,043)</b>	<b>(253,990)</b>
<b>e)</b>	<b>Income taxes</b>	<b>0</b>	<b>0</b>
<b>f)</b>	<b>Net cash flow from operating activities (d + e)</b>	<b>(237,043)</b>	<b>(253,990)</b>



€000

Designation	ITEM DESCRIPTION	Six months ended 30.06.2014	Six months ended 30.06.2013
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>a)</b>	<b>Receipts from investing activities</b>	<b>84,759</b>	<b>266,711</b>
	Receipts from the sale of tangible assets and investment properties	577	205
	Receipts from the disposal of subsidiaries, associates and joint ventures – discontinued operations	0	50,034
	Receipts from non-current assets or liabilities held for sale	0	362
	Receipts from the sale of held-to-maturity financial assets	84,182	215,110
	Other receipts from investing activities	0	1,000
<b>b)</b>	<b>Cash payments on investing activities</b>	<b>(15,994)</b>	<b>(3,512)</b>
	(Cash payments to acquire tangible assets and investment properties)	(2,459)	(2,586)
	(Cash payments to acquire intangible assets)	(1,335)	(926)
	(Cash payments for investments in the equity of subsidiaries, associates and joint ventures)	(12,200)	0
<b>c)</b>	<b>Net cash flow from investing activities (a + b)</b>	<b>68,765</b>	<b>263,199</b>
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>a)</b>	<b>Cash proceeds from financing activities</b>	<b>0</b>	<b>100,000</b>
	Cash proceeds from the issuance of subordinated liabilities	0	100,000
<b>b)</b>	<b>Cash payments on financing activities</b>	<b>(1)</b>	<b>0</b>
	(Dividends paid)	(1)	0
<b>c)</b>	<b>Net cash flow from financing activities (a + b)</b>	<b>(1)</b>	<b>100,000</b>
<b>D.</b>	<b>Effects of change in exchange rates on cash and cash equivalents</b>	<b>584</b>	<b>(290)</b>
<b>E.</b>	<b>Net increase/(decrease) in cash and cash equivalents (Af + Bc + Cc)</b>	<b>(168,279)</b>	<b>109,209</b>
<b>F.</b>	<b>Opening balance of cash and cash equivalents</b>	<b>453,124</b>	<b>220,530</b>
<b>G.</b>	<b>Closing balance of cash and cash equivalents (D + E + F)</b>	<b>285,429</b>	<b>329,449</b>

Reconciliation of cash and cash equivalents as of 30 June 2014 with the statement of financial position items is presented in Note 18.1.

The balance of cash and cash equivalents as of 30 June 2013 amounted to €329,449,000 and was made up of cash and balances with the central bank, in the amount of €266,331,000, and loans and advances to banks with an original maturity of up to three months, in the amount of €63,118,000.

### Cash Flows from Interest, Dividends and Participation in Profits

€000

ITEM DESCRIPTION	Six months ended 30.06.2014	Six months ended 30.06.2013
Interest paid	(34,468)	(49,642)
Interest received	64,117	68,569
Dividends paid	(1)	0
Dividends and participation in profits received	0	207

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

## Interim Statement of Changes in Equity – Nova KBM d.d.

### Interim Statement of Changes in Equity for the six months ended 30.06.2014

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Net profit for the reporting period	Total shareholders' equity
OPENING BALANCE FOR THE REPORTING PERIOD	150,000	360,572	7,140	0	517,712
Total comprehensive income for the period after tax	0	0	23,256	14,822	38,078
CLOSING BALANCE FOR THE REPORTING PERIOD	150,000	360,572	30,396	14,822	555,790

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

### Interim Statement of Changes in Equity for the six months ended 30.06.2013

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained (losses) (including net loss for the reporting period)	Total shareholders' equity
OPENING BALANCE FOR THE REPORTING PERIOD	40,814	165,775	(2,092)	275,044	(286,972)	192,569
Total comprehensive (loss) for the period after tax	0	0	(1,424)	0	(44,174)	(45,598)
New share capital subscribed (paid)	100,000	0	0	0	0	100,000
CLOSING BALANCE FOR THE REPORTING PERIOD	140,814	165,775	(3,516)	275,044	(331,146)	246,971

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

## 1 General information

Nova KBM d.d. (hereafter also referred to as 'Nova KBM' or the 'Bank') is the parent company of the Nova KBM Group (hereafter also referred to as the 'Group') which, as of 30 June 2014, comprised the parent company and 11 subsidiary companies.

Nova KBM d.d. is a commercial bank with a tradition of understanding and supporting its retail and corporate customers to whom it provides standard banking products. The Bank's registered office is at Ulica Vita Kraigherja 4, 2505 Maribor, Republic of Slovenia.

As of 30 June 2014, the share capital of the Bank totalled €150,000,000 and was split into 10,000,000 ordinary no-par value shares, all of which were held by the Republic of Slovenia.

The Bank is obliged to prepare consolidated financial statements.

## 2 Basis for the presentation of financial statements

The financial statements of the Bank for the six-month period ended 30 June 2014 were authorised for issue on 16 July 2014 by the Nova KBM Management Board.

### 2.1 Statement of compliance and purpose of financial statements

The financial statements are prepared in accordance with International Financial Reporting Standards (hereafter 'IFRSs') as endorsed by the European Union.

The interim financial report is prepared in a condensed form and includes selected explanatory notes as requested in accordance with IAS 34 – Interim Financial Reporting.

The interim financial statements are unaudited. They have been prepared assuming that the Bank will continue as a going concern in the foreseeable future and that it will be able to meet its liabilities when due.

### 2.2 Presentation and functional currency

Items included in the financial statements are presented in euro, which is the functional and presentation currency of the Bank.

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros except where stated otherwise. Slight discrepancies in totals may occur due to rounding adjustments. Euro figures in the text are stated as whole numbers, rounded to the nearest thousand.

## 3 Significant accounting policies

The accounting policies used by the Bank are presented in detail in its Annual Report for 2013.

Adopted accounting policies have been consistently applied in both reporting periods presented in these financial statements.

During the interim reporting period and in 2013, the Bank did not reclassify any of its financial assets into another category.

Newly adopted standards and interpretations in effect since 1 January 2014 are presented below:

- **IFRS 10** – Consolidated Financial Statements; adopted by the EU on 11 December 2012.
- **IFRS 11** – Joint Arrangements; adopted by the EU on 11 December 2012.
- **IFRS 12** – Disclosure of Interests in Other Entities; adopted by the EU on 11 December 2012.
- **IAS 27** (revised in 2011) – Separate Financial Statements; adopted by the EU on 11 December 2012.
- **IAS 28** (revised in 2011) – Investments in Associates and Joint Ventures; adopted by the EU on 11 December 2012.
- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 11** – Joint Arrangements, and **IFRS 12** – Disclosures of Interests in Other Entities – Transition Guidance; adopted by the EU on 4 April 2013.
- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 12** – Disclosure of Interests in Other Entities, and **IAS 27** (revised in 2011) – Separate Financial Statements – Investment Entities; adopted by the EU on 20 November 2013.
- **Amendments to IAS 32** – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012.
- **Amendments to IAS 36** – Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets; adopted by the EU on 19 December 2013.
- **Amendments to IAS 39** – Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting; adopted by the EU on 19 December 2013.
- **IFRIC 21** – Levies (effective for annual periods beginning on or after 1 January 2014).

The amendments to the existing standards have not led to any material changes in the Bank's accounting policies.

Standards and interpretations issued by the International Accounting Standards Board (IASB) but, as of the date of this interim report, not yet adopted for use by the EU are set out below:

- **IFRS 9** – Financial Instruments and subsequent amendments (effective date has not been yet determined).
- **Amendments to IAS 19** – Employee Benefits – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2010 – 2012) resulting from the annual improvement project of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2011 – 2013) resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **IFRS 15** – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IAS 16 and IAS 38** – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).

- **Amendments to IFRS 11** – Accounting for Acquisition of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016).

The Bank has not early adopted any standard or interpretation issued but not yet effective. It anticipates that the adoption of these standards, revisions and interpretations will have no material impact on its financial statements in the period of initial application.

## 4 Risk exposure

The Bank's Management Board delegates risk oversight and management to the senior management (policy holders). The policy holders, together with officers responsible for particular policies, determine the method of measuring individual risks.

The organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the adopted rules of procedure, each risk management policy has to be approved by the Policy Approval Committee.

Further details with respect to risk management are provided in the Bank's Annual Report for 2013.

### 4.1 Credit risk

#### Analysis of exposure to credit risk

	Loans to customers		Loans to banks	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
<b>Net disbursed loans</b>	<b>1,735,313</b>	<b>1,826,371</b>	<b>157,414</b>	<b>151,294</b>
<b>Individual impairment</b>				
Gross amount	766,013	788,637	58,379	56,909
Impairment	(402,530)	(389,705)	(20,968)	(20,396)
Net amount	363,483	398,932	37,411	36,513
<b>Collective impairment</b>				
Credit rating A	823,623	859,638	0	0
Credit rating B	266,657	312,845	0	0
Credit rating C	198,765	202,157	0	0
Credit rating D	30,628	26,140	0	0
Credit rating E	50,723	40,603	0	0
<b>Gross amount</b>	<b>1,370,396</b>	<b>1,441,383</b>	<b>0</b>	<b>0</b>
<b>Impairment</b>	<b>(60,386)</b>	<b>(57,166)</b>	<b>0</b>	<b>0</b>
<b>Net amount</b>	<b>1,310,010</b>	<b>1,384,217</b>	<b>0</b>	<b>0</b>
<b>Net non-impaired loans</b>	<b>61,820</b>	<b>43,222</b>	<b>120,003</b>	<b>114,781</b>
<b>Total net loans</b>	<b>1,735,313</b>	<b>1,826,371</b>	<b>157,414</b>	<b>151,294</b>

#### Overdue and unpaid claims

30.06.2014					
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	14	0	0	2	16
State	26	0	0	0	26
Legal entities	25,412	1,586	5,562	262,057	294,617
Households	2,499	602	3,404	35,413	41,918
<b>Total</b>	<b>27,951</b>	<b>2,188</b>	<b>8,966</b>	<b>297,472</b>	<b>336,577</b>

31.12.2013					
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	0	0	0	2	2
State	119	0	0	0	119
Legal entities	47,986	23,346	3,264	233,257	307,853
Households	3,161	960	599	32,464	37,184
<b>Total</b>	<b>51,266</b>	<b>24,306</b>	<b>3,863</b>	<b>265,723</b>	<b>345,158</b>

### NPLs in the total loan portfolio

	30.06.2014	31.12.2013
Total gross loan portfolio	2,376,611	2,444,932
Total net loan portfolio	1,892,727	1,977,665
Net NPLs (overdue over 90 days; credit ratings D and E)	404,146	379,405
Net NPLs/total net loan portfolio (%)	21.35	19.18

### Analysis of NPLs by industry sectors

Industry sector	30.06.2014			31.12.2013		
	Total net loans	Net NPLs	Share of NPLs (%)	Total net loans	Net NPLs	Share of NPLs (%)
Households	782,053	25,024	3.20	822,832	21,415	2.60
Agriculture and hunting, forestry, fishing	22,178	2,348	10.59	20,210	2,199	10.88
Mining	333	230	69.07	394	215	54.57
Manufacturing industry	305,622	100,071	32.74	332,199	87,478	26.33
Electricity, gas and steam supply	48,128	4,184	8.69	56,701	9,779	17.25
Water supply, waste and sewage management, rehabilitation of the environment	4,982	315	6.32	4,185	458	10.94
Construction	43,804	11,597	26.47	45,730	10,339	22.61
Trade, maintenance and repair of motor vehicles	133,183	55,323	41.54	147,284	52,595	35.71
Transportation and storage	50,577	5,053	9.99	53,520	500	0.93
Accommodation and food service activities	31,569	12,778	40.48	32,233	11,024	34.20
Information and communication activities	14,915	7,921	53.11	13,783	7,680	55.72
Financial intermediation	261,152	75,687	28.98	266,076	71,979	27.05
Real estate activities	40,419	31,123	77.00	44,847	34,592	77.13
Professional, scientific and technical activities	60,181	36,192	60.14	64,035	31,530	49.24
Other various business activities	7,440	1,169	15.71	6,854	1,036	15.12
Public administration and defence services, compulsory social security activities	29,764	0	0.00	8,479	0	0.00
Education	3,143	307	9.77	3,391	297	8.76
Health and welfare security	21,321	9,007	42.24	21,030	9,150	43.51
Arts, entertainment and recreation	28,303	25,364	89.62	30,157	26,643	88.35
Other activities	3,660	453	12.38	3,725	496	13.32
<b>Total net loans</b>	<b>1,892,727</b>	<b>404,146</b>	<b>21.35</b>	<b>1,977,665</b>	<b>379,405</b>	<b>19.18</b>

## 4.2 Liquidity risk

### Analysis of liquidity risk as of 30 June 2014

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Assets</b>						
Cash and balances with the central bank	186,283	186,283	0	0	0	0
Financial assets held for trading	388	388	0	0	0	0
Financial assets designated at fair value through profit or loss	16,887	16,887	0	0	0	0
Available-for-sale financial assets	1,295,751	1,295,751	0	0	0	0
Loans and advances	1,902,683	424,469	126,780	350,497	596,202	404,735
Held-to-maturity financial assets	110,505	11,216	334	40,773	30,436	27,746
Other assets*	158,965	3,238	0	2,242	14,009	139,476
<b>Total assets</b>	<b>3,671,462</b>	<b>1,938,232</b>	<b>127,114</b>	<b>393,512</b>	<b>640,647</b>	<b>571,957</b>
<b>Liabilities</b>						
Financial liabilities to the central bank	152,174	0	0	152,174	0	0
Financial liabilities held for trading	1,120	1,120	0	0	0	0
Financial liabilities measured at amortised cost	2,868,693	1,303,329	334,322	821,235	310,744	99,063
Other liabilities*	649,475	24,019	4,417	58,327	42,005	520,707
<b>Total liabilities and equity</b>	<b>3,671,462</b>	<b>1,328,468</b>	<b>338,739</b>	<b>1,031,736</b>	<b>352,749</b>	<b>619,770</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>0</b>	<b>609,764</b>	<b>(211,625)</b>	<b>(638,224)</b>	<b>287,898</b>	<b>(47,813)</b>
<b>Guarantees</b>	<b>236,905</b>	<b>21,756</b>	<b>58,532</b>	<b>37,444</b>	<b>80,406</b>	<b>38,767</b>

\* Assets and liabilities without a direct impact on liquidity.

### Analysis of liquidity risk as of 31 December 2013

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Assets</b>						
Cash and balances with the central bank	334,830	334,830	0	0	0	0
Financial assets held for trading	612	612	0	0	0	0
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	0	0
Available-for-sale financial assets	1,210,799	1,210,799	0	0	0	0
Loans and advances	1,988,824	497,630	85,997	338,783	653,898	412,516
Held-to-maturity financial assets	192,437	10,607	10,963	82,147	60,976	27,744
Other assets*	157,895	11,514	0	0	14,031	132,350
<b>Total assets</b>	<b>3,909,983</b>	<b>2,090,578</b>	<b>96,960</b>	<b>420,930</b>	<b>728,905</b>	<b>572,610</b>
<b>Liabilities</b>						
Financial liabilities to the central bank	426,002	0	0	0	426,002	0
Financial liabilities held for trading	976	976	0	0	0	0
Financial liabilities measured at amortised cost	2,869,463	1,275,456	367,547	756,963	363,503	105,994
Other liabilities*	613,542	12,242	3,976	34,304	41,308	521,712
<b>Total liabilities and equity</b>	<b>3,909,983</b>	<b>1,288,674</b>	<b>371,523</b>	<b>791,267</b>	<b>830,813</b>	<b>627,706</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>0</b>	<b>801,904</b>	<b>(274,563)</b>	<b>(370,337)</b>	<b>(101,908)</b>	<b>(55,096)</b>
<b>Guarantees</b>	<b>250,991</b>	<b>32,613</b>	<b>17,509</b>	<b>79,077</b>	<b>80,840</b>	<b>40,952</b>

\* Assets and liabilities without a direct impact on liquidity.

### 4.3 Interest rate risk

#### Analysis of interest rate risk as of 30 June 2014

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Assets</b>								
Cash and balances with the central bank	186,283	40,422	145,861	145,861	0	0	0	0
Financial assets held for trading	388	388	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	16,887	16,887	0	0	0	0	0	0
Available-for-sale financial assets	1,295,751	13,579	1,282,172	0	40,054	301,295	788,524	152,299
Loans and advances	1,902,683	38,453	1,864,230	622,165	417,752	711,525	96,036	16,752
Held-to-maturity financial assets	110,505	0	110,505	10,367	0	40,365	31,234	28,539
Other assets	15,846	15,846	0	0	0	0	0	0
<b>Total assets</b>	<b>3,528,343</b>	<b>125,575</b>	<b>3,402,768</b>	<b>778,393</b>	<b>457,806</b>	<b>1,053,185</b>	<b>915,794</b>	<b>197,590</b>
<b>Liabilities</b>								
Financial liabilities to the central bank	152,174	0	152,174	0	0	152,174	0	0
Financial liabilities held for trading	1,120	1,120	0	0	0	0	0	0
Financial liabilities measured at amortised cost	2,868,693	169	2,868,524	1,355,836	342,970	1,004,412	164,326	980
Other liabilities	12,894	12,894	0	0	0	0	0	0
<b>Total liabilities</b>	<b>3,034,881</b>	<b>14,183</b>	<b>3,020,698</b>	<b>1,355,836</b>	<b>342,970</b>	<b>1,156,586</b>	<b>164,326</b>	<b>980</b>
<b>Assets-liabilities mismatch</b>	<b>493,462</b>	<b>111,392</b>	<b>382,070</b>	<b>(577,443)</b>	<b>114,836</b>	<b>(103,401)</b>	<b>751,468</b>	<b>196,610</b>

The table above shows the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.



## Analysis of interest rate risk as of 31 December 2013

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Assets</b>								
Cash and balances with the central bank	334,830	41,113	293,717	293,717	0	0	0	0
Financial assets held for trading	612	612	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	0	0	0	0
Available-for-sale financial assets	1,210,799	29,820	1,180,979	0	56,798	258,050	716,583	149,548
Loans and advances	1,988,824	39,351	1,949,473	902,426	440,697	517,075	72,487	16,788
Held-to-maturity financial assets	192,437	0	192,437	9,999	10,368	81,449	62,060	28,561
Other assets	14,008	14,008	0	0	0	0	0	0
<b>Total assets</b>	<b>3,766,096</b>	<b>149,490</b>	<b>3,616,606</b>	<b>1,206,142</b>	<b>507,863</b>	<b>856,574</b>	<b>851,130</b>	<b>194,897</b>
<b>Liabilities</b>								
Financial liabilities to the central bank	426,002	0	426,002	0	0	0	426,002	0
Financial liabilities held for trading	976	976	0	0	0	0	0	0
Financial liabilities measured at amortised cost	2,869,463	297	2,869,166	1,322,221	449,454	931,384	165,125	982
Other liabilities	11,979	11,979	0	0	0	0	0	0
<b>Total liabilities</b>	<b>3,308,420</b>	<b>13,252</b>	<b>3,295,168</b>	<b>1,322,221</b>	<b>449,454</b>	<b>931,384</b>	<b>591,127</b>	<b>982</b>
<b>Assets-liabilities mismatch</b>	<b>457,676</b>	<b>136,238</b>	<b>321,438</b>	<b>(116,079)</b>	<b>58,409</b>	<b>(74,810)</b>	<b>260,003</b>	<b>193,915</b>

The table above shows the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

#### 4.4 Foreign exchange risk

##### Analysis of foreign exchange risk as of 30 June 2014

	EUR	USD	CHF	HRK	Other currencies	Total
<b>Assets</b>						
Cash and balances with the central bank	181,785	594	739	2,028	1,137	186,283
Financial assets held for trading	388	0	0	0	0	388
Financial assets designated at fair value through profit or loss	16,887	0	0	0	0	16,887
Available-for-sale financial assets	1,295,751	0	0	0	0	1,295,751
Loans and advances	1,791,784	26,913	76,346	740	6,900	1,902,683
Held-to-maturity financial assets	110,505	0	0	0	0	110,505
Other assets	158,965	0	0	0	0	158,965
<b>Total assets</b>	<b>3,556,065</b>	<b>27,507</b>	<b>77,085</b>	<b>2,768</b>	<b>8,037</b>	<b>3,671,462</b>
<b>Liabilities</b>						
Financial liabilities to the central bank	152,174	0	0	0	0	152,174
Financial liabilities held for trading	1,120	0	0	0	0	1,120
Financial liabilities measured at amortised cost	2,818,097	27,466	15,054	472	7,604	2,868,693
Other liabilities	649,475	0	0	0	0	649,475
<b>Total liabilities and equity</b>	<b>3,620,866</b>	<b>27,466</b>	<b>15,054</b>	<b>472</b>	<b>7,604</b>	<b>3,671,462</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>(64,801)</b>	<b>41</b>	<b>62,031</b>	<b>2,296</b>	<b>433</b>	<b>0</b>
Derivatives	62,193	0	(62,366)	0	0	(173)
<b>Assets-liabilities (including equity and derivatives) mismatch</b>	<b>(2,608)</b>	<b>41</b>	<b>(335)</b>	<b>2,296</b>	<b>433</b>	<b>(173)</b>

##### Analysis of foreign exchange risk as of 31 December 2013

	EUR	USD	CHF	HRK	Other currencies	Total
<b>Assets</b>						
Cash and balances with the central bank	331,681	536	1,156	599	858	334,830
Financial assets held for trading	612	0	0	0	0	612
Financial assets designated at fair value through profit or loss	24,586	0	0	0	0	24,586
Available-for-sale financial assets	1,210,799	0	0	0	0	1,210,799
Loans and advances	1,869,467	25,664	86,836	235	6,622	1,988,824
Held-to-maturity financial assets	192,437	0	0	0	0	192,437
Other assets	157,895	0	0	0	0	157,895
<b>Total assets</b>	<b>3,787,477</b>	<b>26,200</b>	<b>87,992</b>	<b>834</b>	<b>7,480</b>	<b>3,909,983</b>
<b>Liabilities</b>						
Financial liabilities to the central bank	426,002	0	0	0	0	426,002
Financial liabilities held for trading	976	0	0	0	0	976
Financial liabilities measured at amortised cost	2,820,215	26,221	15,853	159	7,015	2,869,463
Other liabilities	613,542	0	0	0	0	613,542
<b>Total liabilities and equity</b>	<b>3,860,735</b>	<b>26,221</b>	<b>15,853</b>	<b>159</b>	<b>7,015</b>	<b>3,909,983</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>(73,258)</b>	<b>(21)</b>	<b>72,139</b>	<b>675</b>	<b>465</b>	<b>0</b>
Derivatives	73,515	0	(73,823)	0	0	(308)
<b>Assets-liabilities (including equity and derivatives) mismatch</b>	<b>257</b>	<b>(21)</b>	<b>(1,684)</b>	<b>675</b>	<b>465</b>	<b>(308)</b>

## 4.5 Capital risk

	30.06.2014	31.12.2013
<b>Original own funds</b>		
Paid-up share capital	150,000	150,000
Share premium	360,572	360,572
Reserves and retained earnings or losses	702	702
Revaluation excesses (PP) – prudential filters	29,693	(702)
(-) Intangible long-term assets	(15,941)	(18,329)
(-) Other country specific deductions	(29,937)	(21)
<b>Total</b>	<b>495,089</b>	<b>492,222</b>
<b>Additional own funds I</b>		
Other	0	2,117
<b>Total</b>	<b>0</b>	<b>2,117</b>
<b>(-) Deductions from original own funds and additional own funds I</b>		
(-) Deductions from original own funds	0	(1,119)
(-) Deductions from additional own funds I	0	(1,119)
<b>Total</b>	<b>0</b>	<b>(2,238)</b>
<b>Total equity (for solvency purposes)</b>	<b>495,089</b>	<b>492,101</b>
<b>Capital requirements</b>		
<b>Capital requirements for credit risk</b>	<b>147,504</b>	<b>167,097</b>
Central governments and central banks	438	0
Regional governments and local authorities	57	142
Administrative bodies	128	46
Institutions	5,559	9,545
Corporates	31,190	38,527
Retail banking	49,267	56,361
Secured by real estate	2,642	3,120
Past due items	32,543	2,465
Items belonging to regulatory high-risk categories	17,474	34,688
Collective investment undertakings	274	524
Other items	7,932	21,679
<b>Total capital requirements for market risks</b>	<b>2,800</b>	<b>4,119</b>
Debt securities	172	193
Equity instruments	2,628	3,926
<b>Capital requirement for operational risk</b>	<b>17,312</b>	<b>20,897</b>
<b>Total</b>	<b>167,616</b>	<b>192,113</b>
Total capital adequacy ratio	23.63%	20.49%
Tier I capital ratio	23.63%	20.45%
Core Tier I capital ratio	23.63%	20.45%

## 5 Fair value of financial assets and financial liabilities

	30.06.2014		31.12.2013	
	Book value	Fair value	Book value	Fair value
<b>Financial assets</b>				
Cash and balances with the central bank	186,283	186,283	334,830	334,830
Financial assets held for trading	388	388	612	612
Financial assets designated at fair value through profit or loss	16,887	16,887	24,586	24,586
Available-for-sale financial assets	1,295,751	1,295,751	1,210,799	1,210,799
Loans and advances to banks	157,414	161,374	151,294	156,285
Loans and advances to customers	1,735,313	1,744,413	1,826,371	1,835,125
Other financial assets	9,956	9,956	11,159	11,159
Held-to-maturity financial assets	110,505	114,595	192,437	193,305
<b>Financial liabilities</b>				
Financial liabilities to the central bank	152,174	152,091	426,002	425,385
Financial liabilities held for trading	1,120	1,120	976	976
Deposits from banks	3,645	3,649	51,982	52,065
Deposits from customers	2,462,317	2,470,677	2,359,553	2,368,603
Loans from banks	304,957	306,141	357,910	359,065
Loans from customers	3,639	3,643	4,549	4,553
Debt securities	68,605	74,009	69,284	74,443
Other financial liabilities	25,530	25,530	26,185	26,185

### Analysis of fair value hierarchy

	30.06.2014				31.12.2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Derivatives	205	0	205	0	612	0	612	0
Financial assets held for trading	183	183	0	0	0	0	0	0
– equity instruments	183	183	0	0	0	0	0	0
Available-for-sale financial assets	1,295,751	879,142	413,327	3,282	1,210,799	1,178,297	29,475	3,027
– debt securities	1,282,172	868,845	413,327	0	1,180,979	1,151,504	29,475	0
– equity instruments	13,579	10,297	0	3,282	29,820	26,793	0	3,027
Financial assets designated at fair value through profit or loss	16,887	16,887	0	0	24,586	24,586	0	0
– equity instruments	16,887	16,887	0	0	24,586	24,586	0	0
<b>Financial liabilities</b>								
Derivatives	1,120	0	1,120	0	976	0	976	0

Level 1 includes financial assets whose fair value is determined on the basis of prices quoted on active markets.

Level 2 includes financial assets whose fair value is estimated on the basis of valuation models which take into account variables derived from public market data (such as market interest rates).

Level 3 includes financial assets whose fair value is estimated on the basis of valuation models which take into account subjective variables that are not publicly available.

Financial assets designated at fair value through profit or loss (equity financial instruments) form part of forward sales. Their valuation is linked to the valuation of underlying forward contracts.

### Analysis of transitions between Level 1, Level 2 and Level 3

	30.06.2014		
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 3
Financial assets held for trading	0	0	0
Available-for-sale financial assets	384,342	0	0
– debt securities	384,342	0	0
– equity instruments	0	0	0
Financial assets designated at fair value through profit or loss	0	0	0

	31.12.2013		
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 3
Financial assets held for trading	0	0	0
Available-for-sale financial assets	2,000	27,807	1,527
– debt securities	2,000	24,259	0
– equity instruments	0	3,548	1,527
Financial assets designated at fair value through profit or loss	0	0	0

The Bank starts measuring financial assets according to the valuation model that takes into account available market prices once it establishes that the market is not active. Debt securities with a determinable cash flow and without an available market price are valued at the end of each month using the discounted cash flow model. The interest rate used for discounting is the sum of the interest rate of a risk-free instrument of comparable maturity, and a margin for credit risk. The transition from Level 2 to Level 1 is a result of re-availability of a financial asset's market price. The price of a financial asset 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. The transition from Level 1 to Level 3 is the result of a valuation of a financial asset that was previously recorded at the market price.

### Movements in financial assets included in Level 3

	Available-for-sale financial assets		
	Total	Shares	Participating interests
<b>1 January 2014</b>	<b>3,026</b>	<b>2,540</b>	<b>486</b>
– change due to sale	(928)	(928)	0
– change due to debt-to-equity swaps	2,035	2,035	0
– shares received back from BAMC	834	834	0
– change due to revaluation	(1,685)	(1,685)	0
<b>30 June 2014</b>	<b>3,282</b>	<b>2,796</b>	<b>486</b>
<b>1 January 2013</b>	<b>11,460</b>	<b>10,987</b>	<b>473</b>
– acquisition	13	0	13
– transfer of shares to BAMC	(9,238)	(9,238)	0
– revaluation of shares	(736)	(736)	0
– transition to Level 3 due to the valuation of shares	1,527	1,527	0
<b>31 December 2013</b>	<b>3,026</b>	<b>2,540</b>	<b>486</b>

The table above presents changes within Level 3 of the fair value hierarchy. The increase in the value of available-for-sale financial assets, which we saw in the first six months of 2014, was largely the result of the Bank converting into equity its claims against several companies, but also due to BAMC returning some shares to the Bank. This increase was partially offset by the sale and revaluation of shares.

## 6 Transfer of assets to BAMC

On 11 July 2013, the Government of the Republic of Slovenia made a ruling that Nova KBM had met the conditions to be entitled to benefit from measures aimed at stabilising its financial position, in accordance with the first paragraph of Article 4 of the Decree on the Implementation of Measures to Strengthen Bank Stability.

According to the measures adopted for Nova KBM, it was agreed that the bad assets on the books of Nova KBM were to be transferred to BAMC (the state-run Bank Assets Management Company). On 18 December 2013, the European Commission consented to this transfer of assets.

For the purpose of transferring assets to BAMC, assets at risk held on the books of the Bank were valued on the basis of their long-term realistic economic value calculated according to the methodology described in the decree referred to above.

The legal and book transfer of assets was carried out on 20 December 2013.

In exchange for transferring the assets, Nova KBM received from BAMC state-guaranteed bonds.

The effect of transferring the assets to BAMC was reflected in the following statement of financial position items (as of 31 December 2013):

Item	Amount
Financial assets designated at fair value through profit or loss	182
Available-for-sale financial assets	13,305
Loans and advances to customers and other financial assets	362,542
– gross value	971,809
– impairment	609,267
<b>Total net transfer value of assets</b>	<b>376,029</b>

## Notes to the income statement items

### 7 Interest income and expense

#### 7.1 Analysis of interest by market segments

	H1 2014		H1 2013	
	Income	Expense	Income	Expense
Non-financial companies	20,135	1,987	34,641	2,327
State	22,073	535	11,261	9,986
Banks	2,468	5,284	3,737	9,540
Other financial organisations	2,913	1,714	4,943	3,709
Households	18,612	14,381	21,096	20,646
Foreign persons	2,159	355	2,950	514
Non-profit household service providers	57	74	85	145
<b>Total</b>	<b>68,417</b>	<b>24,330</b>	<b>78,713</b>	<b>46,867</b>
<b>Net interest income</b>	<b>44,087</b>		<b>31,846</b>	

#### 7.2 Analysis of interest income and expense by type of assets and liabilities

	H1 2014		H1 2013	
	Current	Non-current	Current	Non-current
Interest income				
Balances with the central bank (measured at amortised cost)	298	0	88	0
Financial assets held for trading	78	0	87	0
Available-for-sale financial assets	16,896	4,339	5,526	1,457
Loans and advances (including finance leases)	11,131	33,413	15,046	49,913
Held-to-maturity financial assets	184	2,066	145	6,428
Other financial assets	12	0	23	0
Total by maturity	28,599	39,818	20,915	57,798
Total	68,417		78,713	
Interest expense				
Financial liabilities to the central bank (measured at amortised cost)	0	446	0	1,426
Financial liabilities held for trading	0	75	0	84
Financial liabilities measured at amortised cost	4,886	18,923	8,196	37,161
Total by maturity	4,886	19,444	8,196	38,671
Total	24,330		46,867	
Net interest income	44,087		31,846	

As a result of transferring its bad assets to BAMC in 2013, in exchange for which it was given state-guaranteed bonds, the Bank registered a decline in interest earned on loans and an increase in interest income generated on available-for-sale financial assets.

## 8 Dividend income

	H1 2014	H1 2013
Financial assets designated at fair value through profit or loss	0	207
Available-for-sale financial assets	0	64
Investments in the equity of the Group companies accounted for using the cost method	488	526
<b>Total</b>	<b>488</b>	<b>797</b>

## 9 Fee and commission income and expense

	H1 2014	H1 2013
<b>Fee and commission income</b>	<b>22,909</b>	<b>22,399</b>
Guarantees	1,600	1,681
Services provided to banks in the Group	228	438
Services provided to other Group subsidiaries	142	101
Domestic payment transactions	9,068	9,112
Transactions under current accounts	5,033	4,413
Payment card operations	3,148	2,992
International payment transactions	673	800
Brokerage and agency services	789	207
Transactions in securities for customers	172	165
Lending operations	1,962	2,415
Safekeeping of objects and valuables	43	28
Other services	51	47
<b>Fee and commission expense</b>	<b>1,843</b>	<b>2,211</b>
Domestic banking services	1,351	1,193
Banking services abroad	166	632
Brokerage and agency services	19	23
Stock exchange transactions and other transactions in securities	141	146
Payment transactions	153	203
Services of banks in the Group	11	12
Other services	2	2
<b>Net fee and commission income</b>	<b>21,066</b>	<b>20,188</b>

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

	H1 2014			H1 2013		
	Realised gains	Realised losses	Net realised gains	Realised gains	Realised losses	Net realised gains/(losses)
Available-for-sale financial assets	5,517	3	5,514	344	219	125
Loans and advances (including finance leases and other financial assets)	568	58	510	879	61	818
Held-to-maturity financial assets	0	0	0	452	607	(155)
<b>Total</b>	<b>6,085</b>	<b>61</b>	<b>6,024</b>	<b>1,675</b>	<b>887</b>	<b>788</b>



## 11 Net gains or losses on financial assets and liabilities held for trading

	H1 2014			H1 2013		
	Gains	Losses	Net gains/(losses)	Gains	Losses	Net gains/(losses)
Trading in equity instruments	58	38	20	18	62	(44)
Trading in foreign exchange (purchase/sale)	419	182	237	467	312	155
Trading in derivatives	863	2,091	(1,228)	3,298	1,769	1,529
– futures/forwards	537	1,073	(536)	3,116	1,307	1,809
– options	0	0	0	0	277	(277)
– swaps	54	62	(8)	182	185	(3)
– other derivatives	272	956	(684)	0	0	0
<b>Total</b>	<b>1,340</b>	<b>2,311</b>	<b>(971)</b>	<b>3,783</b>	<b>2,143</b>	<b>1,640</b>

The Bank uses derivatives (futures/forwards) for economic hedging of its exposure to foreign exchange risk. The effects of derivatives are linked to the effects arising from exchange rate differences (Note 13).

## 12 Net gains or losses on financial assets and liabilities designated at fair value through profit or loss

	H1 2014			H1 2013		
	Gains	Losses	Net gains	Gains	Losses	Net (losses)
Financial assets designated at fair value through profit or loss	6,307	1,559	4,748	2,491	2,721	(230)
<b>Total</b>	<b>6,307</b>	<b>1,559</b>	<b>4,748</b>	<b>2,491</b>	<b>2,721</b>	<b>(230)</b>

Gains and losses on financial assets designated at fair value through profit or loss are attributable to the valuation and disposal of equities and bonds for which a joint-selling agreement has been made by the Bank.

## 13 Net exchange rate differences

	H1 2014	H1 2013
Foreign exchange gains	3,111	9,981
Foreign exchange losses	2,561	11,771
<b>Net foreign exchange gain/(loss)</b>	<b>550</b>	<b>(1,790)</b>

## 14 Administration costs

	H1 2014	H1 2013
<b>Staff expenses</b>	<b>17,358</b>	<b>18,670</b>
Gross salaries	13,304	14,514
Social security and pension insurance contribution	2,139	2,348
Pay for annual leave	468	502
Other staff costs	1,447	1,306
<b>General and administrative expenses</b>	<b>12,444</b>	<b>14,613</b>
Costs of materials	983	1,189
Costs of services	7,399	9,622
Maintenance costs of fixed assets	2,059	2,116
Advertising costs	1,410	1,005
Other administrative costs	593	681
<b>Total administration costs</b>	<b>29,802</b>	<b>33,283</b>

## 15 Provisions

	H1 2014	H1 2013
Provisions for off-balance sheet liabilities	(5,778)	(2,920)
Provisions for tax claims and other pending legal issues	3,137	598
Other provisions	(388)	(12)
<b>Total</b>	<b>(3,029)</b>	<b>(2,334)</b>

## 16 Impairment losses

	H1 2014	H1 2013
Financial assets not measured at fair value through profit or loss	23,089	60,980
Other assets	20	0
<b>Total impairment losses</b>	<b>23,109</b>	<b>60,980</b>

### 16.1 Impairment of financial assets not measured at fair value through profit or loss

	H1 2014	H1 2013
Financial assets measured at cost	1,685	10,750
Available-for-sale financial assets designated at fair value	986	5,349
Loans and advances (including finance leases and other financial assets) measured at amortised cost	20,418	44,881
– loans and advances to banks	220	(2)
– loans and advances to customers	20,156	51,064
– other financial assets	42	(6,181)
<b>Total impairment of financial assets not measured at fair value through profit or loss</b>	<b>23,089</b>	<b>60,980</b>

## 17 Income tax related to profit or loss from continuing operations

	H1 2014	H1 2013
Deferred tax related to continuing operations	(2,985)	2,270
<b>Total</b>	<b>(2,985)</b>	<b>2,270</b>

The effective tax rate for the six-month period ended 30 June 2014 has not been calculated because the income tax liability has not been accounted for in this period.

## Notes to the statement of financial position items

### 18 Cash and balances with the central bank

	30.06.2014	31.12.2013
Cash in hand	40,421	41,113
Obligatory deposits with the central bank	141,455	289,938
Other deposits with the central bank	4,407	3,779
<b>Total</b>	<b>186,283</b>	<b>334,830</b>

Obligatory deposit funds are available to finance day-to-day operations and are therefore considered as cash equivalent.

#### 18.1 Cash and cash equivalents

	30.06.2014	31.12.2013
Cash and balances with the central bank	186,283	334,830
Loans and advances to banks	99,146	118,294
<b>Total</b>	<b>285,429</b>	<b>453,124</b>

### 19 Financial assets held for trading

	30.06.2014	31.12.2013
Derivatives	205	612
Equity instruments	183	0
<b>Total</b>	<b>388</b>	<b>612</b>
Unquoted	388	612
<b>Total</b>	<b>388</b>	<b>612</b>

No assets of this portfolio are 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.

## 19.1 Movements in financial assets held for trading

	H1 2014	2013
<b>1 January</b>	<b>612</b>	<b>1,178</b>
<b>Increase during the year</b>	<b>2,112</b>	<b>3,867</b>
– acquisition	2,459	3,831
– exchange rate differences	2	0
– change in fair value (recovery and reversal of impairment)	(407)	0
– other (deferred interest, realised gains)	58	36
<b>Decrease during the year</b>	<b>2,336</b>	<b>4,433</b>
– disposal (sale and redemption)	2,298	3,797
– change in fair value (impairment and reversal of recovery)	0	566
– other (deferred interest, realised losses)	38	70
<b>30 June/31 December</b>	<b>388</b>	<b>612</b>

## 20 Financial assets designated at fair value through profit or loss

	30.06.2014	31.12.2013
Equity instruments that are quoted on a stock exchange	16,887	24,586

As of 30 June 2014, no assets of this portfolio were pledged as collateral, and during the six-month period ended 30 June 2014, the Bank did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

Financial assets designated at fair value through profit or loss include equity instruments for which the Bank has entered into a joint-selling agreement.

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.

### 20.1 Movements in financial assets designated at fair value through profit or loss

	H1 2014	2013
<b>1 January</b>	<b>24,586</b>	<b>34,043</b>
<b>Increase during the year</b>	<b>6,307</b>	<b>9,134</b>
– change in fair value (recovery and reversal of impairment)	4,643	9,134
– other	1,664	0
<b>Decrease during the year</b>	<b>14,006</b>	<b>18,591</b>
– disposal (sale and redemption)	12,447	8,046
– change in fair value (impairment and reversal of recovery)	1,551	2,252
– other	8	8,111
– transfer to BAMC	0	182
<b>30 June/31 December</b>	<b>16,887</b>	<b>24,586</b>

## 21 Available-for-sale financial assets

### 21.1 Analysis by type and market segments

	30.06.2014	31.12.2013
<b>Equity instruments designated at fair value</b>	<b>11,824</b>	<b>28,321</b>
<b>Equity instruments measured at acquisition cost</b>	<b>1,755</b>	<b>1,499</b>
<b>Debt securities</b>	<b>1,282,172</b>	<b>1,180,979</b>
– issued by the state and the central bank	1,221,711	1,099,301
– issued by banks	39,958	60,962
– issued by other issuers	20,503	20,716
<b>Total</b>	<b>1,295,751</b>	<b>1,210,799</b>
Quoted	1,289,040	1,199,406
Unquoted	6,711	11,393
<b>Total</b>	<b>1,295,751</b>	<b>1,210,799</b>

As of 30 June 2014, assets of this portfolio worth €705,185,000 were pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors. In the six-month period ended 30 June 2014, the Bank did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

None of the instruments included in the portfolio of available-for-sale financial assets have the characteristics to qualify as subordinated debt.

### 21.2 Movements in available-for-sale financial assets

	Equity instruments		Debt securities	Total
	At fair value	At cost		
<b>1 January 2014</b>	<b>28,321</b>	<b>1,499</b>	<b>1,180,979</b>	<b>1,210,799</b>
Recognition of new financial assets	0	2,869	208,288	211,157
Interest	0	0	3,446	3,446
Net revaluation through equity	1,471	0	26,549	28,020
Net impairment through profit or loss	(986)	(1,685)	0	(2,671)
Derecognition of financial assets upon maturity	0	0	(117,834)	(117,834)
Derecognition of financial assets upon disposal	(20,408)	(1,581)	(20,691)	(42,680)
Net gains on sale	3,426	653	1,435	5,514
<b>30 June 2014</b>	<b>11,824</b>	<b>1,755</b>	<b>1,282,172</b>	<b>1,295,751</b>

	Equity instruments		Debt securities	Total
	At fair value	At cost		
<b>1 January 2013</b>	<b>45,425</b>	<b>23,081</b>	<b>348,596</b>	<b>417,102</b>
Recognition of new financial assets	8,343	10,763	1,073,958	1,093,064
Interest	0	0	6,472	6,472
Net revaluation through equity	588	0	10,152	10,740
Net impairment through profit or loss	(14,435)	(18,475)	(8,248)	(41,158)
Derecognition of financial assets upon maturity	0	0	(198,487)	(198,487)
Derecognition of financial assets upon disposal	(11,156)	0	(29,200)	(40,356)
Net (losses) on sale	(444)	(565)	(22,264)	(23,273)
Transfer to BAMC	0	(13,305)	0	(13,305)
<b>31 December 2013</b>	<b>28,321</b>	<b>1,499</b>	<b>1,180,979</b>	<b>1,210,799</b>

## 22 Loans and advances to banks

	30.06.2014	31.12.2013
Sight deposits	11,348	17,346
Impairment of sight deposits	(3)	0
Current loans	100,019	108,903
Impairment of current loans	(3)	(7,955)
Non-current loans	67,015	45,441
Impairment of non-current loans	(20,962)	(12,441)
<b>Total – net amount</b>	<b>157,414</b>	<b>151,294</b>
<b>Impairment</b>	<b>20,968</b>	<b>20,396</b>
<b>Total – gross amount</b>	<b>178,382</b>	<b>171,690</b>

## 23 Loans and advances to customers

	30.06.2014	31.12.2013
Current loans	453,537	420,225
Impairment of current loans	(121,681)	(118,665)
Non-current loans	1,737,188	1,846,670
Impairment of non-current loans	(336,092)	(323,725)
Claims under guarantees	7,504	6,347
Impairment of claims under guarantees	(5,143)	(4,481)
<b>Total – net amount</b>	<b>1,735,313</b>	<b>1,826,371</b>
<b>Impairment</b>	<b>462,916</b>	<b>446,871</b>
<b>Total – gross amount</b>	<b>2,198,229</b>	<b>2,273,242</b>

### 23.1 Movements in impairment of loans and advances to customers

	H1 2014	2013
<b>1 January</b>	<b>446,871</b>	<b>573,234</b>
Net impairment of principal	20,156	464,800
– additional impairment of principal	85,058	688,803
– reversal of impairment of principal	(64,902)	(224,003)
Additional impairment of interest	7,334	24,747
Additional impairment of fees	41	4
Write-off of loans and advances to customers	(11,486)	(7,308)
Transfer to BAMC	0	(608,606)
<b>30 June/31 December</b>	<b>462,916</b>	<b>446,871</b>

Recognition of additional impairment/reversal of impairment of interest and fees on loans given to customers is reflected in profit or loss (Note 7: Interest income and expense, and Note 9: Fee and commission income and expense).

## 24 Other financial assets

	30.06.2014	31.12.2013
Cheques	16	80
Claims for fees and commissions	1,009	1,403
Accounts receivables	292	38
Other financial assets	8,639	9,638
<b>Total – net amount</b>	<b>9,956</b>	<b>11,159</b>
<b>Impairment</b>	<b>1,630</b>	<b>1,667</b>
<b>Total – gross amount</b>	<b>11,586</b>	<b>12,826</b>

### 24.1 Movements in impairment of other financial assets

	H1 2014	2013
<b>1 January</b>	<b>1,667</b>	<b>7,721</b>
Net impairment of principal	42	(5,536)
– additional impairment of principal	314	2,343
– reversal of impairment of principal	(272)	(7,879)
Additional impairment of interest	14	28
Additional impairment of fees	116	498
Write-off of other financial assets	(209)	(383)
Transfer to BAMC	0	(661)
<b>30 June/31 December</b>	<b>1,630</b>	<b>1,667</b>

Recognition of additional impairment/reversal of impairment of interest and fees on other financial assets is reflected in profit or loss (Note 7: Interest income and expense, and Note 9: Fee and commission income and expense).

## 25 Held-to-maturity financial assets

	30.06.2014	31.12.2013
<b>Debt securities</b>		
– current securities issued by the state and the central bank	9,920	29,736
– non-current securities issued by the state and the central bank	90,596	152,739
– non-current securities issued by banks and savings banks	6,021	6,088
– non-current securities issued by other issuers	3,968	3,874
<b>Total</b>	<b>110,505</b>	<b>192,437</b>
Quoted	110,505	192,437
<b>Total</b>	<b>110,505</b>	<b>192,437</b>

As of 30 June 2014, assets of this portfolio worth €110,505,000 were pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.

## 25.1 Movements in held-to-maturity financial assets

	H1 2014	2013
<b>1 January</b>	<b>192,437</b>	<b>397,130</b>
<b>Increase during the year</b>	<b>2,250</b>	<b>40,386</b>
– acquisition	0	29,628
– gains	0	903
– other (deferred interest)	2,250	9,855
<b>Decrease during the year</b>	<b>84,182</b>	<b>245,079</b>
– disposal (sale and redemption)	80,000	232,162
– impairment	0	1,657
– losses	0	4,295
– other (interest received)	4,182	6,965
<b>30 June/31 December</b>	<b>110,505</b>	<b>192,437</b>

## 26 Investments in the equity of subsidiaries, associates and joint-ventures

	30.06.2014	31.12.2013
<b>Investments in the equity of banks in the Group</b>	<b>56,529</b>	<b>44,329</b>
– equity investments in banks in the Group	56,529	44,329
<b>Investments in the equity of other Group companies</b>	<b>9,810</b>	<b>9,810</b>
– equity investments in financial associates	2,237	2,237
– equity investments in other financial subsidiaries	6,719	6,719
– equity investments in non-financial subsidiaries	854	854
<b>Total</b>	<b>66,339</b>	<b>54,139</b>

### 26.1 Movements in investments in the equity of subsidiaries, associates and joint ventures

	H1 2014	2013
<b>1 January</b>	<b>54,139</b>	<b>55,980</b>
<b>Increase during the year</b>	<b>12,200</b>	<b>121,593</b>
– acquisition	12,200	121,593
<b>Decrease during the year</b>	<b>0</b>	<b>123,434</b>
– impairment	0	119,483
– other (realised losses)	0	3,951
<b>30 June/31 December</b>	<b>66,339</b>	<b>54,139</b>

In May 2014, the Bank infused fresh capital of €12,200,000 into Adria Bank, its Austria-based subsidiary bank.



## 26.2 Information on companies in which Nova KBM holds at least a 20% equity stake

Name and registered address of the company	Total equity as of 30.06.2014	Profit/(loss) for the six months ended 30.06.2014	Equity attributable to Nova KBM	Acquisition cost	Nova KBM's shareholding (%)	Nova KBM's voting rights (%)	Investment value as of 30.06.2014
<b>Investments in the equity of banks</b>				<b>112,041</b>			<b>56,529</b>
Adria Bank AG, Vienna	13,066	400	13,066	28,349	100.00	100.00	12,200
KBM Banka a.d., Kragujevac	16,957	(157)	15,181	30,057	89.53	89.53	3,351
Poštna banka Slovenije d.d., Maribor	51,476	1,196	51,023	53,635	99.12	99.12	40,978
<b>Investments in the equity of other companies</b>				<b>104,462</b>			<b>9,810</b>
Gorica Leasing d.o.o., Nova Gorica	(20,113)	9	(20,113)	25,610	100.00	100.00	0
KBM Fineko d.o.o., Maribor	3,883	406	3,883	854	100.00	100.00	854
KBM Infond d.o.o., Maribor	12,898	673	10,703	6,660	72.73	72.73	6,660
KBM Invest d.o.o., Maribor	(13,956)	(647)	(13,956)	25,143	100.00	100.00	0
KBM Leasing d.o.o., Maribor	(37,373)	251	(37,373)	34,062	100.00	100.00	0
KBM Leasing Hrvatska d.o.o., Zagreb	(6,325)	(1,460)	(6,325)	9,837	97.45	97.45	0
M-PAY d.o.o., Maribor	218	9	109	59	50.00	50.00	59
Moja naložba, pokojninska družba d.d., Maribor	6,693	224	3,012	2,237	45.00	45.00	2,237
<b>Total</b>				<b>216,503</b>			<b>66,339</b>

## 27 Financial liabilities measured at amortised cost

	30.06.2014	31.12.2013
Deposits	2,465,962	2,411,535
Loans	308,596	362,459
Debt securities	68,605	69,284
Other financial liabilities	25,530	26,185
<b>Total</b>	<b>2,868,693</b>	<b>2,869,463</b>

### 27.1 Deposits by type of customers and maturity

	30.06.2014	31.12.2013
<b>Deposits from banks</b>	<b>3,645</b>	<b>51,982</b>
– sight deposits	2,591	2,657
– current deposits	549	2,298
– non-current deposits	505	47,027
<b>Deposits from customers</b>	<b>2,462,317</b>	<b>2,359,553</b>
– sight deposits	1,063,621	979,958
– current deposits	540,709	545,819
– non-current deposits	857,987	833,776
<b>Total</b>	<b>2,465,962</b>	<b>2,411,535</b>

### 27.2 Loans by type of customers and maturity

	30.06.2014	31.12.2013
<b>Loans from banks</b>	<b>304,957</b>	<b>357,910</b>
– non-current loans	304,957	357,910
<b>Loans from customers</b>	<b>3,639</b>	<b>4,549</b>
– non-current loans	3,639	4,549
<b>Total</b>	<b>308,596</b>	<b>362,459</b>

### 27.3 Other financial liabilities

	30.06.2014	31.12.2013
Liabilities for fees and commissions	13	25
Liabilities for gross salaries of employees	2,241	2,445
Liabilities to suppliers	1,390	3,965
Liabilities related to payment card transactions	5,502	7,599
Liabilities related to ATM transactions	2,252	1,640
Liabilities related to funds provided by customers for payments abroad	6,145	594
Liabilities related to cash transactions	917	1,240
Liabilities arising from participation in profits – dividends	74	75
Accruals and deferred income	3,001	3,472
Surplus arising from authorised transactions for customers	49	135
Other financial liabilities	3,946	4,995
<b>Total</b>	<b>25,530</b>	<b>26,185</b>

## 28 Provisions

	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
<b>1 January 2014</b>	<b>1,680</b>	<b>15,867</b>	<b>3,940</b>	<b>61,943</b>	<b>421</b>	<b>83,851</b>
Net creation of provisions through profit or loss	(331)	3,137	(57)	(5,778)	0	(3,029)
– provisions made during the period	0	3,137	0	25,461	0	28,598
– provisions reversed during the period	(331)	0	(57)	(31,239)	0	(31,627)
Provisions used during the period	0	0	(31)	0	0	(31)
<b>30 June 2014</b>	<b>1,349</b>	<b>19,004</b>	<b>3,852</b>	<b>56,165</b>	<b>421</b>	<b>80,791</b>

	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
<b>1 January 2013</b>	<b>0</b>	<b>3,274</b>	<b>4,333</b>	<b>32,998</b>	<b>428</b>	<b>41,033</b>
Net creation of provisions through profit or loss	1,680	12,593	87	28,945	(7)	43,298
– provisions made during the period	1,680	14,580	372	52,388	0	69,020
– provisions reversed during the period	0	(1,987)	(285)	(23,443)	(7)	(25,722)
Net reversal of provisions through equity	0	0	(293)	0	0	(293)
Provisions used during the year	0	0	(187)	0	0	(187)
<b>31 December 2013</b>	<b>1,680</b>	<b>15,867</b>	<b>3,940</b>	<b>61,943</b>	<b>421</b>	<b>83,851</b>

## 29 Share capital

	30.06.2014	31.12.2013
<b>Ordinary shares</b>	<b>150,000</b>	<b>150,000</b>
– subscribed by the state	150,000	150,000

In 2013, Nova KBM was recapitalised by the state. The details of this state-sponsored recapitalisation are set out in the Bank's Annual Report for 2013.

In the six-month period ended 30 June 2014 and during 2013, the Bank did not purchase or sell treasury shares, and no treasury shares were held by the Bank at the end of 2013 or at the end of June 2014.

The paid-in capital surplus is included in the share premium, a portion of which was used at the end of 2013 to cover the losses incurred by the Bank.

## 30 Revaluation reserves

	30.06.2014	31.12.2013
Revaluation reserves in respect of available-for-sale financial assets	30,128	6,872
– revaluation	36,299	8,279
– deferred taxes	(6,171)	(1,407)
Other revaluation reserves	268	268
– revaluation	293	293
– deferred taxes	(25)	(25)
<b>Total</b>	<b>30,396</b>	<b>7,140</b>

### 30.1 Movements in revaluation reserves

	H1 2014	2013
<b>1 January</b>	<b>7,140</b>	<b>(2,092)</b>
Net change in valuation of available-for-sale financial assets	28,020	10,740
– gains recognised in revaluation reserves	28,020	4,895
– transferred from revaluation reserves to profit or loss	0	5,845
Net change in other revaluation reserves	0	293
Net change in deferred taxes	(4,764)	(1,801)
<b>30 June/31 December</b>	<b>30,396</b>	<b>7,140</b>

Gains recognised in revaluation reserves were derived mainly from the recovery in the value of the Republic of Slovenia bonds.

## Other notes

### 31 Commitments and contingent liabilities by type

	30.06.2014		
	Current	Non-current	Total
Financial guarantees	36,243	35,555	71,798
Service guarantees	81,490	83,617	165,107
<b>Total guarantees</b>	<b>117,733</b>	<b>119,172</b>	<b>236,905</b>
<b>Unsecured letters of credit</b>	<b>85</b>	<b>0</b>	<b>85</b>
Approved and undrawn loans	53,512	25,471	78,983
Approved and undrawn overdrafts	161,905	0	161,905
<b>Total commitments and contingent liabilities</b>	<b>215,417</b>	<b>25,471</b>	<b>240,888</b>
<b>Derivatives</b>	<b>133,392</b>	<b>0</b>	<b>133,392</b>
<b>Total</b>	<b>466,627</b>	<b>144,643</b>	<b>611,270</b>

	31.12.2013		
	Current	Non-current	Total
Financial guarantees	39,391	36,888	76,279
Service guarantees	89,808	84,904	174,712
<b>Total guarantees</b>	<b>129,199</b>	<b>121,792</b>	<b>250,991</b>
<b>Unsecured letters of credit</b>	<b>293</b>	<b>0</b>	<b>293</b>
Approved and undrawn loans	68,093	870	68,963
Approved and undrawn overdrafts	157,640	0	157,640
<b>Total commitments and contingent liabilities</b>	<b>225,733</b>	<b>870</b>	<b>226,603</b>
<b>Derivatives</b>	<b>112,213</b>	<b>40,000</b>	<b>152,213</b>
<b>Total</b>	<b>467,438</b>	<b>162,662</b>	<b>630,100</b>

## 32 Related party transactions

### 32.1 Statement of financial position and off-balance sheet items

	Subsidiaries		Associates	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
<b>Assets</b>				
Loans and advances given (gross amount)	243,582	323,994	2	1
– loans and advances to banks	67,009	76,283	0	0
– loans and advances to customers	176,069	247,661	2	1
– other financial assets	504	50	0	0
Investment in securities	64,101	56,752	2,237	2,237
– equity instruments	64,101	55,064	2,237	2,237
– debt securities	0	1,688	0	0
Other claims	90	165	0	0
<b>Liabilities</b>				
Deposits and loans received	11,096	53,924	1,705	1,748
– deposits and loans from banks	2,072	48,208	0	0
– deposits and loans from customers	7,806	4,616	1,705	1,748
– other financial liabilities	1,218	1,100	0	0
Securities issued	8,132	8,279	0	0
– debt securities	8,132	8,279	0	0
Subordinated liabilities	0	100	0	0
Other liabilities	0	1	0	0
Off-balance sheet items	5,675	4,063	3	4

	Key management personnel		Other related persons	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
<b>Assets</b>				
Loans and advances given (gross amount)	278	297	3,636	4,621
– loans and advances to customers	278	297	3,636	4,621
Investment in securities	0	0	348	348
– equity instruments	0	0	348	348
<b>Liabilities</b>				
Deposits and loans received	449	474	73	164
– deposits and loans from customers	449	474	66	46
– other financial liabilities	0	0	7	118
Off-balance sheet items	50	69	124	132

Key management personnel include members of the Management Board, executive directors and members of the Supervisory Board of the Bank.

Other related persons are members of the immediate family of the Bank's key management personnel, and entities whose owners or members of the key management personnel are members of the Bank's key management personnel or their immediate family.

Transactions with related persons are conducted on an arm's length basis.

## 32.2 Income statement

	Subsidiaries		Associates	
	H1 2014	H1 2013	H1 2014	H1 2013
Net interest income	5,040	6,131	(44)	(44)
Dividend income	488	526	0	0
Net fee and commission income	303	483	2	6
Costs of services	(37)	(54)	0	0
Impairment of loans	(285)	821	0	0
Provisions	(1,103)	57	0	0
Impairment of investments	0	0	0	0
Write-offs	0	0	0	0
<b>Total</b>	<b>4,406</b>	<b>7,964</b>	<b>(42)</b>	<b>(38)</b>

	Key management personnel		Other related persons	
	H1 2014	H1 2013	H1 2014	H1 2013
Net interest income	(2)	(8)	180	357
Net fee and commission income	0	0	2	25
Costs of services	(93)	(106)	(648)	(634)
Impairment of loans	0	0	52	35
Provisions	0	0	0	0
Write-offs	0	0	0	0
<b>Total</b>	<b>(95)</b>	<b>(114)</b>	<b>(414)</b>	<b>(217)</b>

## 32.3 Loans and guarantees given

	Management Board members		Supervisory Board members		Other Bank employees on individual contracts	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Loans	19	6	32	47	1,443	1,422
Average interest rate on loans (%)	8.30	8.48	3.70	3.66	3.36	3.43
Repayments	1	0	4	12	112	267

### 33 Exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions

Exposure to:	30.06.2014	31.12.2013
<b>Bank of Slovenia</b>	<b>145,848</b>	<b>293,717</b>
– settlement account	141,455	289,938
– other	4,393	3,779
<b>Republic of Slovenia</b>	<b>1,109,924</b>	<b>1,155,415</b>
– bonds	415,672	504,918
– other securities	287,316	263,594
– loans	22,742	0
– loans guaranteed by the Republic of Slovenia, by type	382,006	385,587
– other	1,287	415
<b>State-owned institutions</b>	<b>550,126</b>	<b>543,943</b>
– loans	341,685	346,021
– securities	113,595	101,117
– commitments and contingent liabilities	79,735	83,302
– other	15,111	13,503
<b>Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions</b>	<b>1,805,898</b>	<b>1,993,075</b>
Share in total assets (%)	49.19	50.97
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	901	901
<b>Total assets</b>	<b>3,671,462</b>	<b>3,909,983</b>

### 34 Remuneration

	H1 2014	H1 2013
<b>Management Board members</b>	<b>136</b>	<b>138</b>
Aleš Hauc	68	69
Igor Žibrik	68	69
<b>Supervisory Board members</b>	<b>69</b>	<b>79</b>
<b>Members of Supervisory Board committees</b>	<b>36</b>	<b>38</b>
<b>Other Bank employees on individual contracts</b>	<b>1,513</b>	<b>1,800</b>
<b>Total</b>	<b>1,754</b>	<b>2,055</b>

Remuneration paid to Management Board members comprises: salary, pay for annual leave, awards, bonuses, and the payment of supplementary pension insurance premiums.

Remuneration paid to members of the Supervisory Board, the Audit Committee, and the Remuneration and Nomination Committee comprises: a payment for holding the office, meeting attendance fees, reimbursement of costs, seminar participation fees, and the payment of liability insurance premiums.

Remuneration paid to other Bank employees working on individual contracts comprises: salary, pay for annual leave, bonuses, the payment of supplementary pension insurance premiums, and other remuneration under employment contracts (severance benefits paid to employees who are made redundant for business reasons, severance benefits paid upon retirement, compensation for a non-competition clause, and some other remuneration under employment contracts).

The total amount paid in the first six months of 2014 to Aleš Hauc, President of the Management Board, and Igor Žibrik, Management Board Member, for meeting attendances, reimbursement of costs, and bonuses in respect of their work on supervisory boards of subsidiaries and the associated company of the Group was €31,000 and €35,000, respectively.

### **35 Events after the statement of financial position date**

In July 2014, the Bank infused fresh capital of €7,485,000 into KBM Leasing Hrvatska, its Croatia-based subsidiary, which is focused on the provision of leasing services.



# Financial calendar of Nova KBM d.d. for the rest of 2014

All notices and announcements released by Nova KBM are available in the electronic dissemination system of the Ljubljana Stock Exchange ([www.ljse.si](http://www.ljse.si)), and on the Nova KBM website ([www.nkbm.si](http://www.nkbm.si)).

Type of publication or event	Anticipated date of publication or event
Preliminary information on the results of Nova KBM d.d. for the period January – September 2014	Thursday, 30 October 2014
Unaudited report on operations of the Nova KBM Group and Nova KBM d.d. for the period January – September 2014	Friday, 28 November 2014
The 2015 Business Plan of the Nova KBM Group and Nova KBM d.d.	Monday, 22 December 2014

The dates stated above are indicative only and are subject to change. Any changes in the release dates will be published on the Nova KBM website.

**Nova KBM d.d., August 2014**