



# 2014

**ANNUAL REPORT  
NOVA KBM GROUP AND NOVA KBM D.D.**

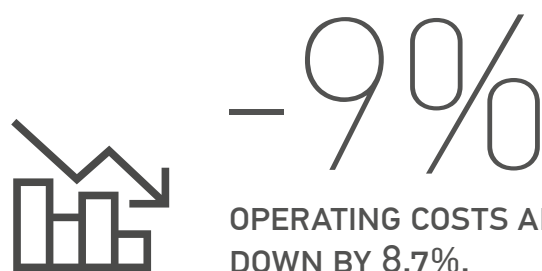
 **Nova KBM**  
READY FOR TOMORROW



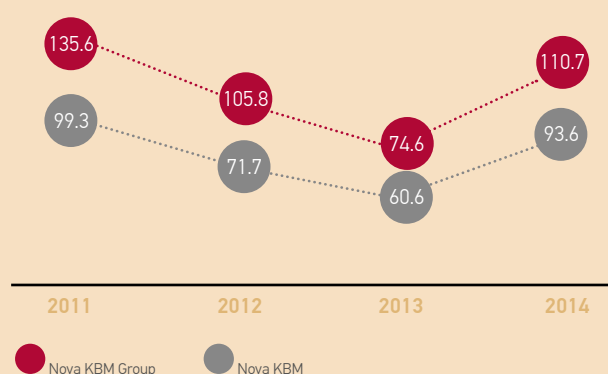
**AS THE FIRST MORNING RAY PIERCES  
THE DARKNESS, A NEW DAY IS BORN.  
OUR DREAMS FALL ASLEEP AND THE  
OPPORTUNITY TO MAKE THEM TRUE  
AWAKENS. TO TAKE OUR FUTURE INTO OUR  
OWN HANDS. TO CAPITALIZE ON EVERYTHING  
WE HAVE ACHIEVED SO FAR. TO CHOOSE THE  
SUNLIT PATH. THERE ARE 365 SUNRISES IN A YEAR.  
365 OPPORTUNITIES TO MAKE THE WORLD WE LIVE  
IN A BETTER PLACE AND THEN LOOK BACK AT OUR  
ACHIEVEMENTS AT THE END OF THE DAY AND REST  
ASSURED THAT WE ARE READY FOR TOMORROW.**



## NOVA KBM GROUP'S OPERATING COSTS (€mln)

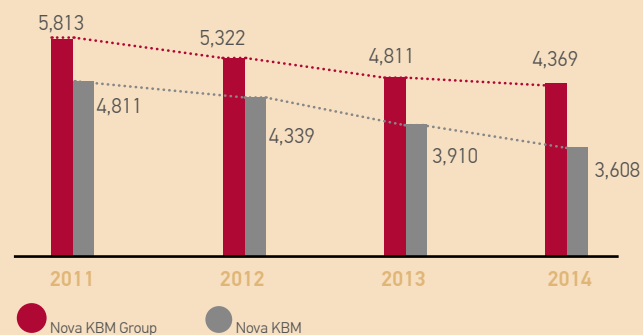


## NET INTEREST INCOME (€mln)



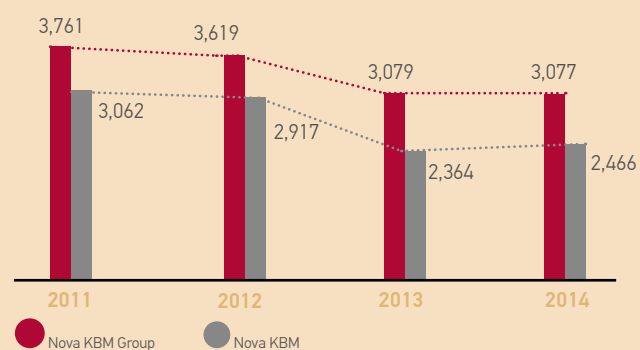
THE 2014 INTEREST MARGIN EXCEEDS THE LEVEL OF THE PREVIOUS THREE YEARS.

## TOTAL ASSETS (€mln)



THE REDUCTION IN TOTAL ASSETS IS IN LINE WITH THE COMMITMENTS GIVEN TO THE EUROPEAN COMMISSION.

## CUSTOMER DEPOSITS (€mln)



THE VOLUME OF CUSTOMER DEPOSITS REMAINS STABLE.





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## LIST OF ACRONYMS USED IN THE ANNUAL REPORT

AJPES = Agency of the Republic of Slovenia for Public Legal Records and Related Services

ALCO = Nova KBM's Assets and Liabilities Committee

AQR = Asset Quality Review

BAMC = Bank Assets Management Company

CIR = Cost-to-Income Ratio

DNT = Day-Night Safes

EBA = European Banking Authority

EC = European Commission

ECB = European Central Bank

EFQM = European Foundation for Quality Management

FURS = Financial Administration of the Republic of Slovenia

ICAAP = Internal Capital Adequacy Assessment Process

IFRSs = International Financial Reporting Standards

ILO = International Labour Organization

IMAD = Institute of Macroeconomic Analysis and Development

IS = Income Statement

MF = Ministry of Finance

NPL = Non-Performing Loan

POS = Point-Of-Sale

RAST = Nova KBM's programme aimed at reducing operating costs

RS = Republic of Slovenia

SEC = Securities

SEPA = Single Euro Payments Area

SID Banka = Slovene Export and Development Bank

SOD = Slovenska odškodninska družba (Central ownership entity of Slovenia)

SSH = Slovene Sovereign Holding

VaR = Value-at-Risk

ZBan = Banking Act

ZGD = Companies Act

ZSDH = Slovene Sovereign Holding Act

ZTFI = Financial Instruments Market Act

## Note

The assets and liabilities of KBM Banka were reclassified into discontinued operations in the Nova KBM Group's financial statements for the year ended 31 December 2014, while in the financial statements of Nova KBM for the year ended 31 December 2014, the investment in the equity of KBM Banka was reclassified as discontinued operations. The financial statements of the Nova KBM Group and Nova KBM for the year ended 31 December 2013 (with the exception of the statement of financial position) and the related notes were restated accordingly, as were the data and analysis included in the business part of the annual report.





EACH DAY OPENS UP NEW OPPORTUNITIES,  
BUT IT IS ONLY WHEN WE SEIZE THEM THAT  
THEY CAN FULLY SHINE.

**BUSINESS REPORT**

# 1 / KEY PERFORMANCE INDICATORS

## 1.1 / KEY PERFORMANCE INDICATORS OF THE NOVA KBM GROUP<sup>1</sup>

ITEM DESCRIPTION	2014	2013	2012	Index
1	2	3	4	5 = 2/3
<b>Statement of financial position (€000)</b>	<b>31.12.</b>	<b>31.12.</b>	<b>31.12.</b>	
Total assets	4,369,010	4,810,793	5,321,810	91
Total deposits from the non-banking sector measured at amortised cost	3,076,875	3,079,299	3,618,678	100
Total loans and advances to the non-banking sector measured at amortised cost	1,920,875	2,231,765	3,397,900	86
Financial assets	1,708,358	1,773,389	1,125,656	96
a) of which available-for-sale	1,482,120	1,466,864	589,413	101
b) of which held-to-maturity	206,540	280,153	500,108	74
Total equity	616,357	560,028	253,204	110
Impairment of financial assets, provisions	754,972	805,048	759,234	94
Off-balance sheet items	718,120	725,706	789,457	99
<b>Income statement (€000)</b>	<b>1.1. – 31.12.</b>	<b>1.1. – 31.12.</b>	<b>1.1. – 31.12.</b>	
Net interest income	110,726	74,603	105,844	148
Net non-interest income (including net gains or losses from discontinued operations)	55,996	101,063	105,937	55
- of which net fee and commission income	55,959	56,553	58,800	99
Staff, general and administrative costs	(89,146)	(97,883)	(104,059)	91
Depreciation and amortisation	(14,462)	(15,628)	(16,443)	93
Impairment losses and provisions	(44,514)	(720,735)	(309,466)	6
Profit/(loss) before tax from continuing and discontinued operations	18,600	(658,580)	(218,187)	
Tax expense/(income) related to profit or loss from continuing and discontinued operations	4,681	(26,328)	12,490	
Net profit/(loss)	23,281	(684,908)	(205,697)	
<b>Statement of comprehensive income (€000)</b>	<b>1.1. – 31.12.</b>	<b>1.1. – 31.12.</b>	<b>1.1. – 31.12.</b>	
Other comprehensive income before tax	40,255	13,091	28,254	308
Income tax expense related to other comprehensive income	(7,047)	(2,206)	(6,020)	319
	<b>31.12.</b>	<b>31.12.</b>	<b>31.12.</b>	
<b>Number of employees</b>	1,751	1,856	2,027	
<b>Shares</b>				
Number of shareholders	1	1	97,429	
Number of shares	10,000,000	10,000,000	39,122,968	
Accountable par value of one share (€)	15.00	15.00	1.04	
Book value per share (€)	61.34	56.67	5.37	
<b>Ratios (%)</b>				
a) Equity				
- Total capital adequacy ratio	23.30	18.13	9.17	
- Tier 1 capital ratio	23.30	18.06	8.17	
- Common Equity Tier 1 capital ratio	23.30	18.06	5.26	
b) Asset quality				
- Impairment of financial assets measured at amortised cost and provisions for commitments/Classified on- and off-balance sheet items	19.35	16.79	12.93	
- Premium for risk	2.71	23.93	6.77	
- Gross NPLs/Gross loan portfolio	23.47	18.17	17.08	
- Loan impairment losses/Gross NPLs	59.12	62.48	56.86	
c) Profitability				
- Interest margin	2.38	1.44	1.87	
- Non-interest margin	1.21	1.96	1.87	
- Margin of financial intermediation	3.59	3.40	3.73	
- ROAA before tax	0.40	(12.74)	(3.85)	
- ROAA after tax	0.50	(13.25)	(3.63)	
- ROAE before tax	3.07	(221.22)	(55.00)	
- ROAE after tax	3.85	(230.06)	(51.85)	
d) Operating costs				
- Operating costs/Average total assets	2.23	2.20	2.12	
- Cost-to-income (CIR)	62.14	64.62	56.90	
- Operating costs (excluding extraordinary costs)/Income (CIR2)	59.46	61.18	56.43	
e) Net loans and advances to customers/Deposits from customers (net LTD)	62.43	72.48	93.90	
f) Gross loans and advances to customers/Deposits from customers (gross LTD)	82.54	91.64	111.62	

<sup>1</sup> All references in this Annual Report to the 'Group' are to the Nova KBM Group.



## 1.2 / KEY PERFORMANCE INDICATORS OF NOVA KBM<sup>2</sup>

ITEM DESCRIPTION	2014	2013	2012	Index
1	2	3	4	5 = 2/3
<b>Statement of financial position (€000)</b>	<b>31.12.</b>	<b>31.12.</b>	<b>31.12.</b>	
Total assets	3,608,215	3,909,983	4,338,568	92
Total deposits from the non-banking sector measured at amortised cost	2,466,097	2,364,102	2,917,317	104
a) of which from legal and other entities that carry out economic activity	590,033	539,986	974,082	109
b) of which from households	1,876,064	1,824,116	1,943,235	103
Total loans and advances to the non-banking sector measured at amortised cost	1,593,294	1,826,371	2,891,136	87
a) of which to legal and other entities that carry out economic activity	830,681	1,003,891	2,017,969	83
b) of which to households	762,613	822,480	873,167	93
Financial assets	1,383,207	1,428,434	849,453	97
a) of which available-for-sale	1,275,213	1,210,799	417,102	105
b) of which held-to-maturity	89,950	192,437	397,130	47
Total equity	580,347	517,712	192,569	112
Impairment of financial assets, provisions	525,531	583,006	634,558	90
Off-balance sheet items	640,600	630,100	699,155	102
<b>Income statement (€000)</b>	<b>1.1. – 31.12.</b>	<b>1.1. – 31.12.</b>	<b>1.1. – 31.12.</b>	
Net interest income	93,591	60,628	71,736	154
Net non-interest income (including net gains or losses from discontinued operations)	54,364	74,666	101,057	73
- of which net fee and commission income	42,122	41,755	41,735	101
Staff, general and administrative costs	(63,179)	(71,242)	(70,157)	89
Depreciation and amortisation	(10,866)	(11,788)	(11,986)	92
Impairment losses and provisions	(43,079)	(685,758)	(304,985)	6
Profit/(loss) before tax from continuing and discontinued operations	30,831	(633,494)	(214,335)	
Tax expense/(income) related to profit or loss from continuing and discontinued operations	5,085	(23,006)	11,080	
Net profit/(loss)	35,916	(656,500)	(203,255)	
<b>Statement of comprehensive income (€000)</b>	<b>1.1. – 31.12.</b>	<b>1.1. – 31.12.</b>	<b>1.1. – 31.12.</b>	
Other comprehensive income before tax	32,311	11,033	27,765	293
Income tax expense related to other comprehensive income	(5,592)	(1,801)	(5,676)	310
	<b>31.12.</b>	<b>31.12.</b>	<b>31.12.</b>	
<b>Number of employees</b>	1,124	1,201	1,280	94
<b>Shares</b>				
Number of shareholders	1	1	97,429	100
Number of shares	10,000,000	10,000,000	39,122,968	100
Accountable par value of one share (€)	15.00	15.00	1.04	
Book value per share (€)	58.03	51.77	4.92	
<b>Ratios (%)</b>				
a) Equity				
- Total capital adequacy ratio	25.75	20.49	9.18	
- Tier 1 capital ratio	25.75	20.45	8.33	
- Common Equity Tier 1 capital ratio	25.75	20.45	4.91	
b) Asset quality				
- Impairment of financial assets measured at amortised cost and provisions for commitments/Classified on- and off-balance sheet items	17.13	16.43	13.55	
- Premium for risk	2.26	26.21	8.82	
- Gross NPLs/Gross loan portfolio	22.42	19.35	14.78	
- Loan impairment losses/Gross NPLs	54.59	59.14	67.61	
c) Profitability				
- Interest margin	2.48	1.44	1.54	
- Non-interest margin	1.44	1.77	2.17	
- Margin of financial intermediation	3.92	3.21	3.71	
- ROAA before tax	0.82	(15.03)	(4.60)	
- ROAA after tax	0.95	(15.57)	(4.36)	
- ROAE before tax	5.57	(249.42)	(65.54)	
- ROAE after tax	6.49	(258.48)	(62.15)	
d) Operating costs				
- Operating costs/Average total assets	1.96	1.97	1.76	
- Cost-to-income (CIR)	50.05	61.37	47.54	
- Operating costs (excluding extraordinary costs)/Income (CIR2)	48.21	56.26	42.49	
e) Net loans and advances to customers/Deposits from customers (net LTD)	64.61	77.25	99.10	
f) Gross loans and advances to customers/Deposits from customers (gross LTD)	81.31	96.16	118.75	
g) Liquidity				
- Liquid assets/Current financial liabilities to the non-banking sector measured at amortised cost	99.13	53.95	43.40	
- Liquid assets/Average total assets	42.62	20.66	15.66	

2 All references in this Annual Report to the 'Bank' or 'Nova KBM' are to Nova KBM d.d.

## 2 / STATEMENT BY THE MANAGEMENT BOARD



### Dear Sirs

The Nova KBM Management Board sees the year 2014 as another very important and challenging year in the history of the Bank and the Nova KBM Group. In 2014, we registered the first positive results of measures implemented with the aim of revamping the Bank and the Group in both business and organisational terms, a process which we started two years ago. Therefore, it is not a coincidence that we have designed our last year's central corporate campaign, but also this annual report you are now reading, under the slogan 'Ready for tomorrow'. Indeed, we believe that we have accomplished, and even exceeded, many goals on the road to restoring the profitability of our operations.

Despite some signs of gradual economic recovery, the market conditions in our environment continued to be tight last year. The measures aimed at stabilizing the Slovene banking system, which were adopted by the government in 2013 and from which our Bank also benefited, are understood by us as a commitment to

consistent execution of actions aimed at achieving improved operational and cost efficiency, while at the same time they strengthen the confidence of all stakeholders in the Bank.

For this reason, the priority tasks determined for Nova KBM for 2014 were derived from the commitments that the Bank and its owner, the Republic of Slovenia, have given to the European Commission and that constitute the framework of Nova KBM's restructuring programme. Throughout 2014, both the Bank and the Group delivered stable, sound and, once again, profitable performances, thereby meeting one of the key targets set for 2014. While the net profit reported by the Group hit €23,281,000, Nova KBM reported a net profit of €35,916,000 for last year.

As of 31 December 2014, the Group's total assets stood at €4,369,010,000, down 9.2%, or €441,783,000, on the 2013 year-end figure. This reduction in total assets was in line with the commitments given to the European Commission. The lending volumes were reduced too, yet we managed throughout the year to maintain a constant market share in loans to both retail and corporate segments. As an active member of bank syndicates, Nova KBM participated in corporate restructuring projects, in addition to strengthening its activities in support of the operational and financial restructuring of a number of companies.

The transfer of assets at risk to the BAMC was completed in the first half of 2014, making it possible for the specialised departments of the Bank to focus even more on the effective management of bad loans that remained on the books of Nova KBM. The measures that have been taken in this regard will be further reinforced in 2015, as will be the management of all types of risk.

We were successful in our goal of reducing the costs of both Nova KBM and the Nova KBM Group, with operating costs incurred by Nova KBM registering a year-on-year decline of just over 10%. A reduction was achieved in material and service costs as well as staff costs.



Apart from cutting costs, we are gradually reducing the number of staff, in line with the requirements set out in the restructuring programme. When making redundancies, priority is given to measures that are the least disagreeable for the employees. Furthermore, we introduced several changes to make the organisational structure of the Bank slimmer, continued downsizing our branch office network, and streamlined a number of functions. Despite some changes taking place in its broader management team, all necessary measures were taken to ensure appropriate corporate governance of Nova KBM and the smooth running of its operations.

In the area of information technology, Nova KBM undertakes in-house development of the key components of its information system, as well as architectural and systematic management of outsourcers, which enables it to take a focused approach to the design of the entire infrastructure at different levels: from processes and business software to system infrastructure. In 2014, Nova KBM entered the final stage of its in-house development and pilot use of consolidated e-banking services (Bank@Net and Poslovni Bank@Net) through uniform information support for the corporate and retail customers. Furthermore, Nova KBM's data warehouse was functionally upgraded in 2014 for the needs of application solutions that support decision-making and reporting processes. As part of the overhaul of its business processes and organisational structure, the Bank adapted and optimised the key process used to support the management of changes in the information technology support system.

At the Nova KBM Group level, work on the consolidation of activities took place last year. The process of divesting strategically less significant operations continued with the liquidation of KBM Fineko. In addition, measures were implemented to terminate the banking operations and to accomplish the envisaged closure of Adria Bank, while the liquidation proceedings against KBM Leasing and Gorica Leasing began just before the end of the year. With this extensive work and the key task of the Nova KBM Group's restructuring programme set for

2014 complete, in 2015 we will focus even more on our principal activities and key members of the Nova KBM Group, while continuing efforts to further consolidate our operations.

In addition to carrying out their day-to-day operations, the Bank and the Group met all the obligations arising from the EU-wide comprehensive asset quality review and stress tests, as well as the privatisation of Nova KBM. As the second-largest systemically important bank in Slovenia, in November 2014 Nova KBM came under the direct supervision of the ECB within the framework of the European Supervisory Mechanism, and held kick-off meetings to enable its designated staff to be introduced to an ECB supervisory team.

Our endeavours to strengthen our operations, as well as the measures taken by the regulator in this regard, were recognised by the rating agencies, which, after several years, raised the rating of Nova KBM by one notch at the beginning of 2014. Moody's Investors Service upgraded Nova KBM's long-term deposit rating to 'Caa1', at the same time changing the outlook on the rating from 'negative' to 'stable'. In the middle of the year, Fitch Ratings affirmed the long-term and short-term Issuer Default Ratings of Nova KBM at 'BB-/B' with negative outlook, while upgrading the Viability Rating to 'b' from 'b-'. Other ratings were also affirmed, i.e. the Support Rating at '3' and the Support Rating Floor at 'BB-'. The affirmation of the Support Rating and Support Rating Floor reflects Nova KBM's full state ownership, systemic importance, and the current restructuring in accordance with state-aid procedures, while the upgrade of its Viability Rating by one notch reflects its improved capital position.

The positive results reported for the end of the year by both the Bank and the Group demonstrate that the strategic and operational measures we have taken over the last two years, coupled with state aid, were appropriate ones. The implementation of these measures would not have been possible without the constructive cooperation and efforts of Bank employees. We are glad to note that last year we managed to make



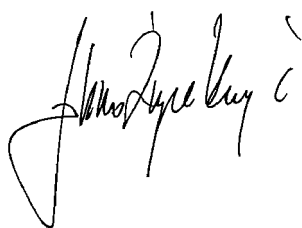
a turnaround in the operations of the Bank, and that we are now better prepared for tomorrow.

Our financial plan for 2015 envisages that Nova KBM will end the year with a net profit of €35 million (provided no significant changes in the economic climate occur), while its total assets are expected to be €3.5 billion. The Bank will further reduce its operating costs, and targets to bring them down by 3.1% in 2015. The Nova KBM Group is expected to report a net profit of €28 million, while its total assets are forecast to reach €4.3 billion by the end of 2015.

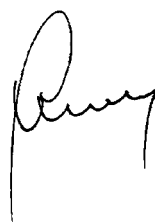
Despite the challenges that lie ahead of us, the strategic direction of Nova KBM remains unchanged: to continue delivering sound, cost-efficient and profitable performance across all key banking segments and all

services provided to retail and corporate customers. Our top priority remains our customers, and we will continue to do our best to offer them first-grade and contemporary financial solutions. Instead of pursuing business growth, preference will be given to the quality of the loan portfolio and proactive risk management. Through consistent implementation of our values, we will strive to meet the expectations of our owner, customers, business partners, and the environment in which we operate. We are convinced we can achieve our goals by working in a responsible and professional manner, and adhering to high ethical standards. Let us end this statement by expressing our sincere gratitude for the trust you have placed in us so far, while at the same time inviting you to collaborate with us also in 2015.

Management Board of Nova KBM d.d.



Sabina Župec Kranjc  
Member



Robert Senica  
President

# 3 / REPORT OF THE SUPERVISORY BOARD



From 1 January to 5 February 2014, when Karmen Dvorjak resigned from her position as a Supervisory Board member, the composition of the Nova KBM Supervisory Board was as follows: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Andrej Fatur, Miha Glavič, Peter Kavčič, Karmen Dvorjak, Egon Žižmond and Keith Charles Miles. Egon Žižmond and Keith Charles Miles resigned as members of the Supervisory Board on 19 March 2014 and 23 September 2014, respectively. On 27 June 2014, the Nova KBM Shareholders' Meeting decided to amend the Bank's Articles of Association by reducing the required number of Supervisory Board members from nine to six.

As of 31 December 2014, the Nova KBM Supervisory Board comprised the following members: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Andrej Fatur, Miha Glavič and Peter Kavčič.

The Supervisory Board carried out its function of assuring efficient supervision over the management of the Bank and the Group, and its duty of careful and scrupulous performance, on the basis of its competencies as laid down by law and other regulations as well as by internal acts of Nova KBM. The Corporate Governance Code for Public Limited Companies was also observed by the Supervisory Board in performing its duties.

Based on a review of performance of the Supervisory Board, we are of the opinion that the Supervisory Board carried out its work of supervising the Bank Management Board as well as operations of the Bank and the Group in compliance with its competencies and in an appropriate manner.

## **Method and scope of supervising the management of the Bank and the Nova KBM Group**

The work of the Supervisory Board was adequately organised and was carried out in accordance with the Rules of Procedure of the Supervisory Board. Supervisory Board members received professionally prepared materials which enabled them to be well-informed on the matters on which they had to decide. Last year, the Supervisory Board adopted certain guidelines and measures concerning the preparation of materials for the purpose of decision-making by the Supervisory Board, and requested that specific forms be used when submitting materials for either regular meetings or meetings by correspondence of the Supervisory Board.

We believe that the Supervisory Board had sufficient reports and information available to responsibly control the operations of the Bank and the work of the Internal Audit Centre, to supervise the management of the Bank during the year, and to actively participate in the creation of the governance policy and the fit and proper policy. The Supervisory Board was furnished with additional commentary or explanations when this was found necessary.

Members of the Supervisory Board took all precautionary measures to avoid any conflicts of interest that might influence their decisions. In case of conflicts of interest, the Supervisory Board members acted in accordance with law, implementing regulations of the Bank of Slovenia, and the Corporate Governance Code for Public Limited Companies. Any conflicts of interest for individual Supervisory Board members were only provisional and were not a reason for ending his/her term of office.

Members of the Supervisory Board considered the Corporate Governance Code for Companies with Capital Assets of the State, adopted by the Slovene Sovereign Holding at the end of 2014 (on 19 December 2014). Since coming into effect, this code has been taken into consideration and adhered to by the Supervisory Board in carrying out its work.

In accordance with the Corporate Governance Code for Public Limited Companies, all members of the Supervisory Board have signed a statement declaring that they meet the criteria of independence, that they are professionally qualified to act on the Supervisory Board, and that they have sufficient experience and skills to perform such work.

The Chair of the Supervisory Board did his work in accordance with the competencies and the Rules of Procedure of the Supervisory Board, and also cooperated with the Bank Management Board during Supervisory Board meetings. He regularly monitored the developments related to the operations of the Bank and promptly and consistently responded to any action that required his involvement. The Chair of the Supervisory Board encouraged other Supervisory Board members to perform their duties efficiently and actively, and involved them in the communication with the Management Board outside the regular meetings. In order for the Supervisory Board to be better informed about any important, critical and unexpected events related to the operations of the Bank, as well as to promptly and effectively respond to any such event, he suggested that a communication protocol be adopted for use in the provision of information to Supervisory Board members via e-mail. In addition, the Chair of the Supervisory Board suggested that any topical and urgent questions raised by Supervisory Board members in respect of the events mentioned above be submitted to the Bank Secretariat through him, based on which the Bank Secretariat, in cooperation with the relevant departments, should prepare responses that would be presented, as a separate agenda item, at the subsequent regular meeting of the Supervisory Board.

The Chair of the Supervisory Board chaired the meetings in such a way as to provide for responsible, transparent and prudent decision-making by the Supervisory Board. The communication of the Supervisory Board with the public was conducted exclusively through its Chair.

The composition of the Supervisory Board, the members of which have proper and complementary knowledge, experience and skills, as well as personal integrity and professional ethics, provides for responsible supervision and decisions to be reached to the benefit of the Bank. In accordance with a decision passed by the Bank Shareholders' Meeting in June 2014, the number of Supervisory Board members was reduced to reflect the commitments given to the European Commission by the Republic of Slovenia on the occasion of providing state aid to the Bank. The reduction in the number of its members made it possible for the Supervisory Board to perform its work in an even more effective and efficient manner, to conduct in-depth discussions, and to pass well-thought out decisions based on the excellent balance of experience and skills of its members.

As in previous years, Supervisory Board members came to meetings well prepared, and meetings were regularly attended by the majority of its members. There were hardly any absences from the meetings of the Supervisory Board last year. Supervisory Board members were adequately prepared for discussing relevant affairs; they presented constructive proposals and, on the basis of professionally prepared and comprehensive information provided by the Management Board, reached decisions in compliance with the adopted rules and their competencies. The Rules of Procedure of the Supervisory Board are harmonised with the applicable principles of good corporate governance. The Management Board of the Bank was invited to all Supervisory Board meetings.

The Supervisory Board believes that its members carried out their work with great responsibility and commitment. In 2014, some members of the Supervisory Board attended the supervisory board members' training programmes organised by the Slovene Directors' Association, the Deloitte Academy, and the Bank Association of Slovenia.

In addition to exhaustive materials prepared for the Supervisory Board, the Management Board of the Bank provided all necessary explanations on individual issues. Beside detailed arguments of the Management Board given directly at the meetings, the members of the Management Board were also prepared to discuss in detail any questions from the Supervisory Board members. The communication and cooperation between the Management Board and the Supervisory Board was adequate and correct.



In 2014, the self-assessment of the Supervisory Board and its committees was carried out by taking into consideration individual recommendations and analyses prepared for that purpose by Deloitte Svetovanje in the years 2013 and 2014. Based on an analysis of self-assessment of members of the Supervisory Board and its committees, which was carried out using questionnaires drafted by the Slovene Directors' Association, it was established that, as regards the preparation for the meetings, their participation in and activity at the meetings, and their contribution to formulating individual decisions reached, the Supervisory Board members had effectively performed their supervisory function during 2014 and had acted in accordance with the interests of the Bank. The Supervisory Board achieved a high overall level of governance, which enabled its members to perform their work and duties effectively.

The Supervisory Board also noted that, by taking into consideration recommendations and findings of the analysis conducted by Deloitte Svetovanje, it had managed to improve its work, particularly in the following key areas: transparency of appointment of Management Board members (in 2014, one member left the Management Board, while two new members joined it); provision of information to the Supervisory Board; control by the Supervisory Board and its committees over the Bank's strategy and planning; management of NPLs (the total level of Nova KBM's NPLs declined last year); risk management; cost management (cost-efficiency); and financial reporting. The efforts made by the Supervisory Board in the areas referred to above were aimed at ensuring the successful performance of the Bank in the long run.

Based on a self-assessment of the Supervisory Board committees (the Audit Committee, and the Remuneration and Nomination Committee), it was established that the composition of these committees (in terms of the expertise and experience of their members) was such as to ensure that the tasks carried out by them were accomplished in a thorough and efficient manner. The work carried out by these two committees provided effective support to the Supervisory Board, and the Supervisory Board was regularly and promptly informed about the issues discussed by the two committees as well as of any proposals and initiatives given by the committees. Following a reduction in the number of Supervisory Board members in accordance with the

commitments given to the European Commission referred to above, the number of members of both of the Supervisory Board committees was reduced, to four in each of the committees.

Deloitte Svetovanje considers that an improvement in the work of the Audit Committee can be achieved, in particular in the following areas: provision of an increased range of comparable financials; supervision of risk management; supervision of risks of fraud; supervision of transactions concluded with related parties; financial reporting and policy approval; supervision of the implementation of the Code of Ethics; and supervision of communication with the regulator.

In carrying out their work, both Supervisory Board committees took into consideration the recommendations and findings arising from the last year's analysis conducted by Deloitte Svetovanje. Consequently, Gojko Koprivec, an expert in banking, joined the Audit Committee for a limited period of time as an external member. Jernej Pirc, an expert in the area of information technology, was appointed as a new external member of the Audit Committee to provide necessary support in a comprehensive analysis and review of the Bank's information technology. In 2014, the Audit Committee devoted particular attention to the quality and timely provision of information to the Supervisory Board for its further consideration. Furthermore, it focused on the Bank's strategy and planning process, for the purpose of which it held several extraordinary meetings, while some of its members participated in relevant workshops. The cooperation of the Audit Committee with internal and external auditors continued at the high level of previous years. A designated external auditor participated in the meetings of the Audit Committee. The Audit Committee tried to intensify its communication with the Bank of Slovenia, as the regulator of the national banking system, and to improve the control of risks present in the identification of fraud and in related party transactions. To that effect, it strengthened its collaboration with the Corporate Security, Compliance and Control Department.

The Remuneration and Nomination Committee tried to adhere to the recommendations of Deloitte Svetovanje as regards the efforts to be made to enhance the transparency of appointment of Management Board members. Two new members joined the Nova KBM Management Board in 2014, with the Remuneration

and Nomination Committee having an active role in the appointment process. Taking into consideration the rules applicable to the appointment and term of office of Management Board members, as set out in the Bank's Articles of Association, the Remuneration and Nomination Committee first examined its competences and options in the appointment process, after which it clearly determined this process and carried it out to the end in a transparent manner. To that effect, it requested the President of the Management Board to provide, prior to submitting to the Supervisory Board a proposal for the appointment of a new Management Board member, a list of at least two candidates for the Management Board. Both of these candidates were then extensively interviewed and examined by the committee. Also, the committee checked their references and obtained additional information with respect to their skills and experience. Prior to adopting its opinion for the purpose of assisting the Supervisory Board in its decision-making, the committee waited to receive information about the fit and proper assessment of the candidates.

### **Examination of the Bank's operations and consideration of most important issues relating to the Bank's business**

In 2014, the Supervisory Board met at 11 regular meetings and ten meetings by correspondence. The most important issues discussed at the Supervisory Board meetings in 2014 were connected to the implementation of the Restructuring Programme and commitments given to the European Commission, the privatisation of the Bank, stress tests and the AQR, the 2015 financial plan, and the procedures and measures taken to reduce the level of NPLs in the Bank's loan portfolio. The Supervisory Board also discussed the measures taken to wind down the Nova KBM Group leasing companies, and the activities related to the liquidation of KBM Fineko. In addition, it regularly monitored the developments taking place in the operations of PBS and KBM Banka, and the implementation of the 2014 Business Policy and Financial Plan of Nova KBM and the Nova KBM Group.

During 2014, the Supervisory Board made a ruling requiring the Management Board to report monthly on the measures taken to reduce the volume of NPLs, on the progress made in this regard, and on the level of NPLs. In addition, it set 31 December 2014 as the deadline for the implementation of the Early Warning System that is to assist the Bank in indentifying any

difficulties in the operations of its corporate customers. The implementation of measures aimed at strengthening the Bank's capital position and financial stability was monitored by the Supervisory Board on a monthly basis, as were all the activities related to the AQR.

In addition to these key issues, the Supervisory Board deliberated on and approved the 2013 Annual Report of Nova KBM and the Nova KBM Group, as well as other materials which the Supervisory Board submitted for approval to the Shareholders' Meeting. It discussed other important affairs as well.

The Supervisory Board dealt with the following key affairs and issues in 2014:

- In January, it was given information about the transfer of assets to the BAMC and the measures taken in this regard, while throughout the year it regularly monitored the development of activities and procedures related to the cooperation between the Bank and the BAMC.
- In February, it adopted measures and procedures aimed at upgrading the Bank's corporate governance system.
- At the beginning of the year, it reviewed the unaudited 2013 report on operations of the Nova KBM Group.
- In March, it considered the Bank Management Board's proposal regarding the covering of the 2013 loss incurred by the Bank.
- It regularly monitored the progress made on the privatisation and restructuring of the Bank.
- It discussed and approved the 2013 Annual Report of Nova KBM and the Nova KBM Group.
- It discussed the materials for the 25th and 26th Bank Shareholders' Meeting, and proposed that the Shareholders' Meeting should reach appropriate decisions (for example with respect to the amendments to the Bank's Articles of Association). In addition, it proposed that the Bank's Fit and Proper Policy be presented to the Shareholders' Meeting.
- It discussed and, on a monthly basis, monitored the initiatives that had already been implemented and verified those that were planned to be implemented with the aim of reducing the level of NPLs in the Bank's loan portfolio. It also made certain suggestions in this regard, all with the purpose of accelerating the reduction in the level of NPLs.
- It discussed and considered the progress made on the implementation of the Early Warning System aimed

at helping the Bank identify any financial difficulties faced by its corporate customers.

- It was regularly informed about the development of operations in the Nova KBM Group companies, and discussed the work related to the partial integration of the operations of PBS into those of Nova KBM, as well as the proposals for recapitalisation and liquidation of several Group companies (KBM Invest, Gorica Leasing, KBM Leasing and KBM Fineko). Two of its members even made a work visit to KBM Banka to discuss options for its future operations.
- It considered the resignation of Igor Žibrik as a Management Board member, and appointed Robert Senica and Sabina Župec Kranjc as new Management Board members.
- It regularly monitored the project of replacing the Bank's central information system.
- It considered the AQR report and the report on the results of stress tests.
- It was informed of the letter sent to the management of the Nova KBM Group, setting out the findings of the pre-audit of the 2014 financial statements.
- It discussed the resignation of its members (Karmen Dvorjak, Egon Žižmond and Keith Charles Miles).
- It discussed and consented to the 2015 Business Policy and Financial Plan of Nova KBM and the Nova KBM Group.

In addition to the above stated key issues, the Supervisory Board discussed the following important matters:

- It consented to the composition of the Fit and Proper Committee, whose task is to assess, in accordance with the adopted Fit and Proper Policy, the suitability of officers holding key positions, including members of the management and supervisory bodies.
- It adopted the Corporate Governance Statement for 2013.
- It gave its consent to the upper limit of long-term borrowings of the Bank in 2014.
- It gave its consent to the annual plan of work of the Internal Audit Centre for 2014, and was informed of the 2013 Report on the Internal Audit in the Nova KBM Group.
- It was informed of the 2013 risk profile of the Bank.
- At its meeting held in August, it appointed Jernej Pirc, an expert in information technology, as an external member of the Audit Committee, while at the same time, in accordance with the commitments given to the European Commission, to reduce the number

of members of its committees, it dismissed Gojko Koprivec and Aleksander Igličar as external members of the Audit Committee, and Adriana Rejc Buhovac as an external member of the Remuneration and Nomination Committee.

- It was informed of the letters of the Bank of Slovenia to the Management and Supervisory Boards, and of the decisions, resolutions and recommendations of the Bank of Slovenia and the explanations of the Management Board in respect of these documents.
- It regularly discussed and gave its consent to the Bank's exposure to individual customers pursuant to the Banking Act, and to exposures of the Bank to persons having a special relationship with the Bank.
- It considered the Management Board's reports regarding the transfer of assets to the BAMC, and discussed any additional requirements and procedures in this respect.
- It considered the Management Board's reports regarding the progress of the project aimed at reducing the costs incurred by the Bank.
- It adopted amendments to the Rules of Procedure of the Supervisory Board, and the Rules of Procedure of the Audit Committee, and consented to the amended Rules of Procedure of the Management Board.
- In November, it appointed its member Peter Kavčič as the Chair of the Audit Committee (following the resignation of Keith Charles Miles).
- It consented to the 2014 investment and financing strategy of the Bank.

Based on the aforementioned, and Articles 272 and 281 of the Companies Act, the Supervisory Board asserts and establishes that it regularly and thoroughly monitored the operations of the Bank and the Group in 2014 within its competencies, thus adequately supervising the management and operations of the Bank and the Nova KBM Group and the work of the Internal Audit Centre.

### **Supervisory Board committees**

The following committees carried out their work during 2014 in accordance with the Companies Act and the Banking Act: the Audit Committee, and the Remuneration and Nomination Committee.

Supervisory Board committees performed their work in accordance with the respective programme of work or in accordance with decisions and duties adopted by the Supervisory Board. Supervisory Board committees



provided support to the Supervisory Board in controlling the management of the Bank and Group companies. Committees carried out their work in accordance with law, and the Bank's Articles of Association and Rules of Procedure which set out the areas and the method of work of individual committees. Committees are composed of Supervisory Board members and one or more external experts who have extensive knowledge of the area for which a particular committee is responsible and of the operations of the Bank that require specific skills.

**Review and approval of the Annual Report and consideration of the proposal of the Bank Management Board with regard to the distribution of the 2014 profit available for appropriation**

The Management Board submitted to the Supervisory Board the audited 2014 Annual Report of Nova KBM and the Nova KBM Group, together with the auditor's report, within the legal deadline. It also submitted the annual report on the internal audit of the Nova KBM Group for the year 2014.

The Supervisory Board deliberated on the audited 2014 Annual Report of Nova KBM and the Nova KBM Group. It established that the annual report gave a complete overview of the Bank's and the Group's operations in 2014. The Supervisory Board was also informed of the opinion of the certified auditor Deloitte Revizija. As

stated in this opinion, the financial statements of the Bank and the consolidated financial statements of the Group present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2014, and their financial performance and their cash flows for the year ended 31 December 2014 in accordance with International Financial Reporting Standards as endorsed by the EU, and in accordance with the requirements of the Companies Act and the Banking Act relating to the drafting of the financial statements. The external auditor is of the opinion that the business part of the annual report is also in compliance with the audited financial statements.

The Supervisory Board considered the decision passed by the Bank Management Board that the 2014 profit available for appropriation (after creating regulatory, statutory and other reserves from profit) totalled €8,530,971.86.

The Supervisory Board was also informed of the fact that Nova KBM must refrain from paying out dividends for the financial year 2014 because of the commitments it has given to the European Commission. In view of the aforementioned, the Supervisory Board proposes that the Shareholders' Meeting resolves to allocate the entire 2014 profit available for appropriation reported by Nova KBM, totalling €8,530,971.86, to retained earnings.

Maribor, 2 March 2015

Supervisory Board of Nova KBM d.d.



Peter Kukovica, Chair

## 4 / PROGRAMMES AND PROJECTS AIMED AT RESTORING THE PROFITABILITY OF THE NOVA KBM GROUP

Having benefited from a state-sponsored recapitalisation in 2013, Nova KBM started last year with a strong capital position, committed to implementing the adopted restructuring programme in order to continue its transformation into a financial institution with high positive and ethical values, while at the same time pursuing the objective of justifying the trust its customers and the owner had placed in it.

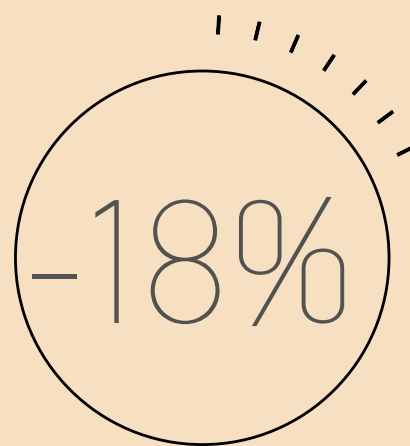
### Consistent implementation of the restructuring programme

The restructuring programme, which the European Commission consented to in 2013, encompasses 16 umbrella commitments that the Bank and the Republic of Slovenia must fulfil by the end of 2017 (hereafter referred to as the 'Restructuring Programme'). Among the most important commitments are the following:

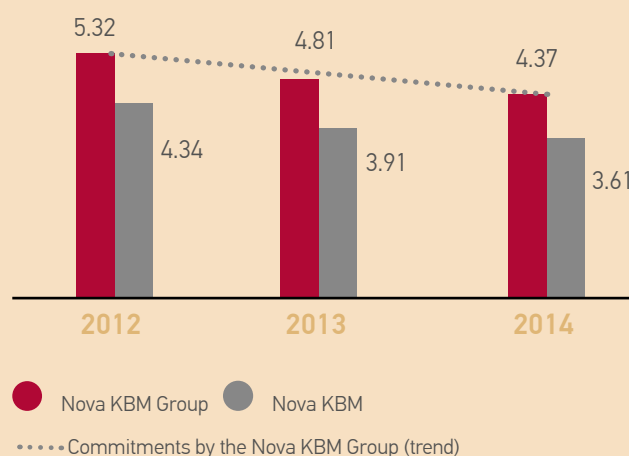
1. Gradual downsizing of total assets.
2. Reduction in operating costs and streamline of operations, including the optimisation of the Bank's branch office network.
3. Divestment and sale of non-strategic assets and focus of the Nova KBM Group on the principal banking services.
4. Overhaul of the risk management system and lending processes.
5. Enhancement of corporate governance structures.
6. Transfer of assets at risk to the BAMC.

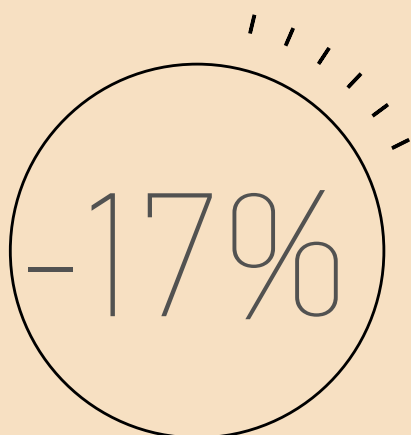
Consistent and accurate implementation of all the commitments and obligations set out in the Restructuring Programme is continuously monitored and verified by a qualified Monitoring Trustee who is independent of Nova KBM and the Republic of Slovenia. Moreover, the trustee has the qualifications necessary to execute the mandate, and is not, or will not become, exposed to any conflict of interest. The Monitoring Trustee was selected by the Bank on the basis of a call for tender, with the European Commission giving its consent to the selection.

The Nova KBM Group's **TOTAL ASSETS** declined by 17.86% over the past two years.



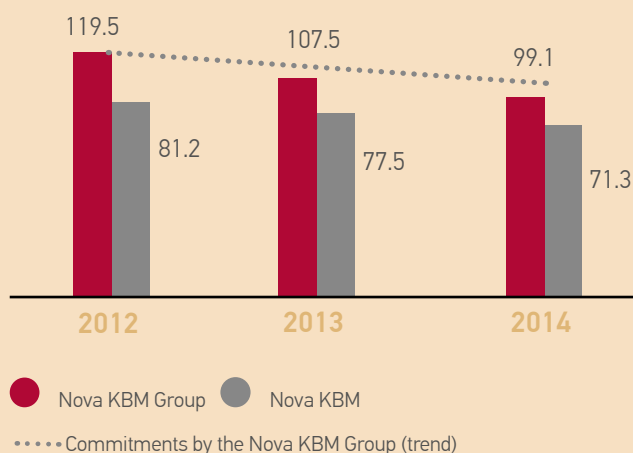
### REDUCTION IN TOTAL ASSETS (€bln)





The **COSTS** (excluding extraordinary costs) incurred by the Nova KBM Group fell by 17.07% over the past two years.

#### REDUCTION IN COSTS (excluding extraordinary costs; €mln)



#### Nova KBM Group is reducing its costs and optimising its branch office network

The management of staff, general and administrative costs of the Bank and the Nova KBM Group is becoming increasingly efficient, largely on account of the RAST project (a project aimed at reducing operating costs), which came into being at the end of 2012. The purpose of the RAST project is to draw up and implement all necessary rationalisation measures, and to set up a system of continuous cost efficiency improvement that will help the Bank streamline its operations.

The Bank started the project in February 2013, while at the Nova KBM Group level it has been in place since June 2013. The management of the Bank considers that the project is delivering positive results. Since the appointment of the new Management Board in 2012, a total of over 100 cost-cutting measures have been implemented in Nova KBM as part of the RAST project, with cost savings arising from these measures being estimated at €7.55 million. Additional estimated cost savings of €2.77 million have been achieved through the implementation of a total of 156 cost-cutting measures across the Group.

Among the most important measures completed by the Bank in 2014 were the following: branch office network optimisation; optimisation of procurement agreements; identification of product/business line profitability; outsourcing of ATMs and POS terminals; replacement of printed customer correspondence with electronic equivalents; acquisition of the status as a Visa and MasterCard principal member; introduction of a common procurement list; introduction of the option to use ATMs to make fund transfers between accounts; overhaul of the lending process; and consolidation of business premises. In addition, based on the results of a benchmark analysis and supported by employee suggestions, the Bank identified further cost-cutting measures, the implementation of which is expected to contribute to additional cost savings.

At the Group level, the following measures were being carried out in 2014: reduction of staff costs; consolidation of business premises; rationalisation of the ATM network; optimisation of agreements on the procurement, protection and the maintenance of tangible fixed assets; a reduction in advertising costs, etc.

The Restructuring Programme also places an obligation on the Bank to scale down the number of its branch



offices, both in Slovenia and in other markets where it still has a physical presence. To that effect, in 2014 the Bank started gradually optimising its branch office network, closing four of its branch offices in Slovenia by the end of the year. However, the Bank may consider opening new branch offices in locations where this would prove to be advantageous to the Bank's business. Any decision in this regard will be based on an appropriate cost-benefit analysis, taking into consideration the Bank's concern for customers and all the consequences of such a decision, including consequences for the local environment. Customers and the public in general are informed in a timely fashion on any decision reached by the Bank with respect to changes in its branch office network.

### **Divestment of the Nova KBM Group's non-strategic assets in 2014**

During 2014, important steps were taken to further consolidate the operations of the Nova KBM Group. In May, Nova KBM infused fresh capital of €12,200,000 into Adria Bank<sup>3</sup>, thereby increasing its shareholding to 100%. At the end of September 2014, the Adria Bank Shareholders' Meeting took a decision to begin the work on the termination of the banking activities of Adria Bank and its envisaged winding down. In July, Nova KBM recapitalised KBM Leasing Hrvatska<sup>4</sup>, its Croatia-based subsidiary, with €7,485,000. KBM Fineko (in liquidation)<sup>5</sup> was deleted from the court register on 2 December 2014, while the measures to initiate the liquidation of KBM Leasing<sup>6</sup> and Gorica Leasing<sup>7</sup> started being taken towards the end of last year. Although the liquidation of the two leasing companies, which is scheduled to complete in 2015, and the transfer of the leasing business to Nova KBM involved a considerable amount of work, this process was necessary as it was the key task with respect to the consolidation of the Nova KBM Group, as set out in its Restructuring Programme for 2014.

Furthermore, work was carried out to partially integrate the operations of PBS<sup>8</sup> (which is 99.12% owned by Nova

KBM) into those of Nova KBM. KBM Infond<sup>9</sup> (which is 72.73% owned by Nova KBM), M-Pay (which is 50% owned by Nova KBM) and the associated company Moja naložba<sup>10</sup> (which is 45% owned by Nova KBM) remain core members of the Nova KBM Group.

On 29 December 2014, the Nova KBM Management Board passed a decision to start the procedure for the direct sale of KBM Banka<sup>11</sup>, Kragujevac. In this regard, the implementation has begun of all the activities necessary to accomplish the sale.

In 2015, the Nova KBM Group will focus even more on its core business, while at the same time making efforts to be actively present in the key market segments. In addition, work will continue on the consolidation of the Nova KBM Group, and on the project aimed at improving the cost-efficiency of the Nova KBM Group operations and making the Nova KBM Group's organisational structure slimmer and more effective.

### **Overhaul of the risk management system and lending processes to better support corporate restructuring**

After it had been recapitalised in December 2013, Nova KBM managed throughout last year to strengthen its role in the de-leveraging and recovery of the Slovene economy. Apart from actively monitoring the operations of its corporate customers, Nova KBM participated as an important member in several bank syndicates and projects that have been set up to ensure short- and long-term restructuring of about 45 companies, always taking into consideration the Slovene Principles of the Financial Restructuring of Corporate Debt. The activities of the Bank in this area are focused mainly on helping companies that are believed to have a healthy operating basis and growth potential to ensure their repayment capabilities and future operations. By so doing, Nova KBM demonstrates that it continues to be a vital and reliable partner to many companies in these still uncertain and challenging economic times.

### **Enhancement of corporate governance structures**

The provisions of the Bank's Articles of Association referring to corporate governance have been amended

3 All references in this Annual Report to 'Adria Bank' are to Adria Bank AG.

4 All references in this Annual Report to 'KBM Leasing Hrvatska' are to KBM Leasing Hrvatska d.o.o.

5 All references in this Annual Report to 'KBM Fineko' are to KBM Fineko d.o.o. (in liquidation).

6 All references in this Annual Report to 'KBM Leasing' are to KBM Leasing d.o.o. (in liquidation).

7 All references in this Annual Report to 'Gorica Leasing' are to Gorica Leasing d.o.o. (in liquidation).

8 All references in this Annual Report to 'PBS' are to Poštna banka Slovenije d.d.

9 All references in this Annual Report to 'KBM Infond' are to KBM Infond d.o.o.

10 All references in this Annual Report to 'Moja naložba' are to Moja naložba, pokojninska družba, d.d.

11 All references in this Annual Report to 'KBM Banka' are to KBM Banka a.d.

to reflect requirements arising from the commitments given to the European Commission. In particular, the Bank specified in detail the conditions, methods, and procedures of work of the Management and Supervisory Boards. Furthermore, amendments have been made to policies and other internal documents that regulate the work of individual bodies of the Bank and the related risk management practices.

### **Transfer of assets at risk to the BAMC**

In accordance with the adopted action plan and the relevant agreement signed with the BAMC, Nova KBM continued the work related to the transfer of its assets at risk to the BAMC. All obligations placed on the Bank in this respect were duly fulfilled, and the Bank cooperated constructively with the BAMC and other parties involved in procedures related to the transfer of assets. Notification of customers whose debts were to be transferred to the BAMC was made in a timely fashion. The legal and book transfer of assets at risk was completed in December 2013, while the physical transfer of assets was conducted gradually in five tranches, the last of which was in June 2014. The Loan Workout Department with its highly skilled staff is devoting additional energy to ensuring that the assets at risk that remained on the books of Nova KBM are managed effectively.

### **Privatisation of Nova KBM**

The Restructuring Programme envisages the privatisation and the sale of the entire 100% government shareholding in Nova KBM. The sale of the Bank is, on behalf of the Republic of Slovenia, run by the SSH, which has commissioned Lazard Frères to carry out a two-level selling process. The selling process started on 22 May 2014 with the publication of an invitation to express interest in the acquisition of a 100% shareholding in Nova KBM. Following the receipt of non-binding offers, the SSH started the second phase of the selling process. The investors invited to take part in this phase were those that had submitted complete offers within the set deadline and had at the same time provided the most favourable purchase conditions. The second phase of the selling process took place in autumn, and during this period potential investors were able, in accordance with the selling process, to prepare and submit their binding offers. Due to circumstances arising after the publication of results by the ECB on the EU-wide stress tests, the bidders, in agreement with financial advisers and the

SSH, complemented their binding offers at the end of the year. The Bank met all its obligations related to the selling process on a regular and timely basis: it provided support necessary to carry out the financial and legal due diligence of its operations, and furnished potential investors with all relevant information.

### **Nova KBM took part in the EU-wide stress tests and asset quality review**

In 2014, Nova KBM took part in the most extensive assessment ever made of the resilience of the European banking system. It was carried out by ECB-selected independent international experts, and comprised an asset quality review (AQR) and stress tests. A total of 130 European banks were involved in the assessment, which lasted from November 2013 to October last year. Nova KBM, as the second-largest systemically important bank in Slovenia, actively participated in the execution of this comprehensive assessment and, despite the additional workload imposed on its employees and the obligations related to the day-to-day operations, consistently and accurately performed all its work in this regard.

While the stress tests were carried out based on the consolidated data for the end of 2013, a year that was probably the most challenging one in decades for Nova KBM, the criteria used in the stress tests that assessed the resilience of banks under the baseline and adverse scenarios in a three-year period were very stringent. The assumption of a static balance sheet was applied to the stress test carried out in Nova KBM. Before final publication, the results of the stress tests had been adjusted with the findings of the asset quality review (join-up of results). The results of the comprehensive assessment, published on 26 October 2014, revealed that, as of 31 December 2013, Nova KBM's Common Equity Tier 1 capital (CET1) ratio stood at 12.8% under the baseline scenario, which was well above the minimum requirement (8%), while under the adverse scenario its CET1 was 4.4%, suggesting that Nova KBM failed to meet the minimum ratio requirement set for this scenario (5.5%). Nova KBM's total capital shortfall to meet the 5.5% threshold, calculated in accordance with the stress test's stringent criteria, amounted to €31 million. Acting with due care and diligence, Nova KBM took into consideration the capital adjustment, which was derived from the results of the comprehensive assessment, when setting aside additional provisioning charges in 2014.

## **Nova KBM became subject to the Single Supervisory Mechanism**

Being the second largest bank in Slovenia, Nova KBM is among the systemically important banks, with the result that it became subject to the Single Supervisory Mechanism (SSM), starting from 4 November 2014. The SSM has put in place a new bank supervision system that involves the ECB and competent national supervisors of the Eurozone countries. The senior management and managers of key departments of the Bank were introduced to a supervisory team of the ECB at the kick-off meeting at the beginning of last December.

## **Overhaul of business processes**

In accordance with its strategic directions, the Bank has conducted an inventory of its business processes, defining five core ones, which are as follows: corporate banking processes; retail banking processes; financial market processes; processes related to the management of the Bank and governance of the Nova KBM Group; and supportive processes. These processes constitute the first level of the process architecture, with each of them comprising several processes that are, depending on the needs of the operations, further sub-divided (to the level of sub-processes and tasks). Apart from defining processes, the Bank has determined the association between tasks on the one hand, and the assets and sources needed to carry out those tasks on the other. Workshops on the business process changes were held throughout last year for process owners, administrators and key users. In addition, an action plan and measures have been drawn up to enable the implementation of necessary process and organisational improvements in 2015. These measures have been aligned with the commitments set out in the Restructuring Programme with respect to further reductions in the number of employees.

# 5 / PROFILE OF THE NOVA KBM GROUP AND NOVA KBM

## 5.1 / IMPORTANT EVENTS AND ACHIEVEMENTS DURING 2014



The Nova KBM Supervisory Board was presented with details of the work carried out with regard to the recapitalisation of the Bank, and considered the results of stress tests conducted in December 2013. In addition, it was informed about the withdrawal of Igor Hustič as a candidate for the Bank Management Board.

Moody's Investors Service upgraded Nova KBM's long-term deposit rating by one notch to 'Caa1', at the same time changing the outlook on the rating from 'negative' to 'stable'.



Karmen Dvorjak resigned as a member of the Nova KBM Supervisory Board.

The Nova KBM Supervisory Board consented to the financial plan of Nova KBM and the Nova KBM Group.



The Nova KBM Shareholders' Meeting discussed a proposal for amendments to the Bank's Articles of Association, and was presented with Nova KBM's Remuneration Policy.

Egon Žižmond resigned as a member of the Nova KBM Supervisory Board.

The process began to sell the Nova KBM Group leasing companies (KBM Leasing, Gorica Leasing and KBM Leasing Hrvatska).

Fitch Ratings affirmed the ratings of Nova KBM.



The Nova KBM Supervisory Board appointed Robert Senica as a new member of the Bank Management Board for a period of five years.



Slovenska odškodninska družba (SOD), 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, thereby increasing its shareholding to 100%.



By adopting an amendment to the Bank's Articles of Association, the Nova KBM Shareholders' Meeting reduced the number of members of the Nova KBM Supervisory Board from seven to six.



The Governing Board of the Bank of Slovenia granted a licence to Robert Senica to hold the office of member of the Nova KBM Management Board, with his term of office starting on 1 August 2014.

Nova KBM infused fresh capital of €7,485,000 into KBM Leasing Hrvatska, its Croatia-based subsidiary.





Igor Žibrik stepped down as a member of the Nova KBM Management Board.

Nova KBM, along with NLB, filed an initiative with the Constitutional Court of the Republic of Slovenia to start a procedure to assess the constitutionality of the Act Amending the Public Information Access Act, and made a proposal for a temporary suspension of the contested provisions of the said act.

Keith Charles Miles resigned as a member of the Nova KBM Supervisory Board.

The Adria Bank Shareholders' Meeting took a decision to begin the work on the termination of the banking activities of Adria Bank and its envisaged winding down.



The Nova KBM Supervisory Board unanimously agreed to appoint Sabina Župec Kranjc, Nova KBM's then Executive Director for Financial Markets, as a new member of the Nova KBM Management Board.

The European Central Bank and the European Banking Authority released the results of an EU-wide comprehensive assessment of banks. This was the most extensive assessment ever made of the resilience of the European banking system, and comprised an asset quality review (AQR) and stress tests.

The Slovene Sovereign Holding (SSH) received several binding offers for the acquisition of a 100% shareholding in Nova KBM.

As a co-arranger, Nova KBM participated actively in the process of the first placement of long-term bonds by the company Gorenje of Velenje (GV01).



On 4 November, the ECB fully assumed supervisory tasks and responsibilities in the framework of the Single Supervisory Mechanism (SSM), thereby taking over the monitoring of the key banks in the Eurozone. Among the 120 systemically important banking groups from across the Eurozone which came under the direct supervision of the ECB are the Slovene NLB, Nova KBM and UniCredit Banka Slovenija. The aim of this centralised supervision is to enhance the safety, viability and financial integrity of the European banking system.

Sabina Župec Kranjc was granted a Bank of Slovenia licence to hold the office of member of the Nova KBM Management Board. Her term of office started on 17 November 2014.



The Nova KBM Supervisory Board consented to the 2015 financial plan of Nova KBM and the Nova KBM Group, which constitutes the basis for further implementation of measures arising from the Restructuring Programme.

Based on the Nova KBM Group's Restructuring Programme, Nova KBM started taking measures to initiate the liquidation of KBM Leasing and Gorica Leasing.

Through debt-to-equity conversions, Nova KBM recapitalised KBM Invest<sup>12</sup>, KBM Leasing and Gorica Leasing by €19,000,000, €56,699,000 and €46,894,000, respectively.

On 31 December, the relevant court made a ruling to institute liquidation proceedings against KBM Leasing and Gorica Leasing.

KBM Fineko was deleted from the court register following the completion of liquidation proceedings.

The process of partial integration of PBS operations into those of Nova KBM began.

On 29 December, the Nova KBM Management Board passed a decision to start the procedure for the direct sale of KBM Banka. In this regard, the implementation has begun of all the activities necessary to accomplish the sale.

<sup>12</sup> All references in this Annual Report to 'KBM Invest' are to KBM Invest d.o.o.

## 5.2 / SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

In February 2015, the Supervisory Board recalled Aleš Hauc from the position of the President of the Management Board, and appointed Robert Senica, who was then a member of the Management Board, as the new President.

## 5.3 / AWARDS AND RECOGNITIONS IN 2014

### Gold Quill Award 2014

The marketing project 'Rimaj z Zlatkom' (Rhyme with Zlatko), which the Bank launched in 2012 as part of the campaign to promote its trademark 'Sveta vladar' (Ruler of the world), was granted the international Gold Quill Award 2014 for excellence in communication, in addition to being named as the best of all projects competing in the category 'External Communication'. The project was rated highly, scoring 6.8 out of the 7 available points.

### Sempler Award

At the beginning of December, the jury of the competition for the best media strategy in 2014 (SEMPLE), awarded Nova KBM the main prize – the Grand Sempler. The awarded media strategy was drawn up by the Bank to support its acclaimed marketing campaign 'Živim lajf/Teden skozi Zlatkove oči' (Living Life/A week through Zlatko's eyes) with the rap singer Zlatko, developed for the trademark 'Sveta vladar' (Ruler of the world). Apart from the main prize, Nova KBM won two golden awards, one in each of the following categories: D – Best Experiential Campaign, and E – Best Use of the Digital World. Through the innovative marketing campaign 'Živim lajf/Teden skozi Zlatkove oči' (Living Life/A week through Zlatko's eyes), the Bank successfully appealed to young target groups with a view to effectively

reaching them at a later date and making them its customers. In this campaign, Nova KBM used a pioneer communication tool, namely a live broadcast of Zlatko's private life through Google Glass.

### Competition for the best 2013 annual report

In November, at the 2013 Best Annual Report Competition organised by the Finance newspaper, Nova KBM won two second-place awards, one in the category 'Best Financial Report among Financial Institutions', and one in the category 'Best Communication Report among Financial Institutions'.

### Nomination for the Prizma Award for excellence in public relations

Nova KBM's examples of good practice have been recognised by the Slovene Public Relations Association, which grants prizes, called Prizma, for excellence in public relations. The following two projects undertaken by Nova KBM were shortlisted in November 2014 for awards as examples of good practice: the internal electronic newspaper Med Nami, in the category 'Use of Communication Skills, Tools and Media', and the charity project 'Anina zvezdica' (Ana's little star), in the category 'Social Responsibility Programmes'.

### Selection of the best investment funds by the Moje Finance magazine

In the competition for the selection of the best investment funds and fund managers, organised by the Moje Finance magazine for the fourth consecutive year, as many as three KBM Infond fund managers were ranked among the ten best fund managers in Slovenia of the last three-year period. In addition, Infond Beta, a developed markets equity fund managed by KBM Infond, was selected as the best global developed markets fund of the last three- and five-year periods.

## 5.4 / GOVERNANCE OF THE NOVA KBM GROUP AND NOVA KBM

### 5.4.1 ORGANISATIONAL STRUCTURE OF THE NOVA KBM GROUP



1 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%.

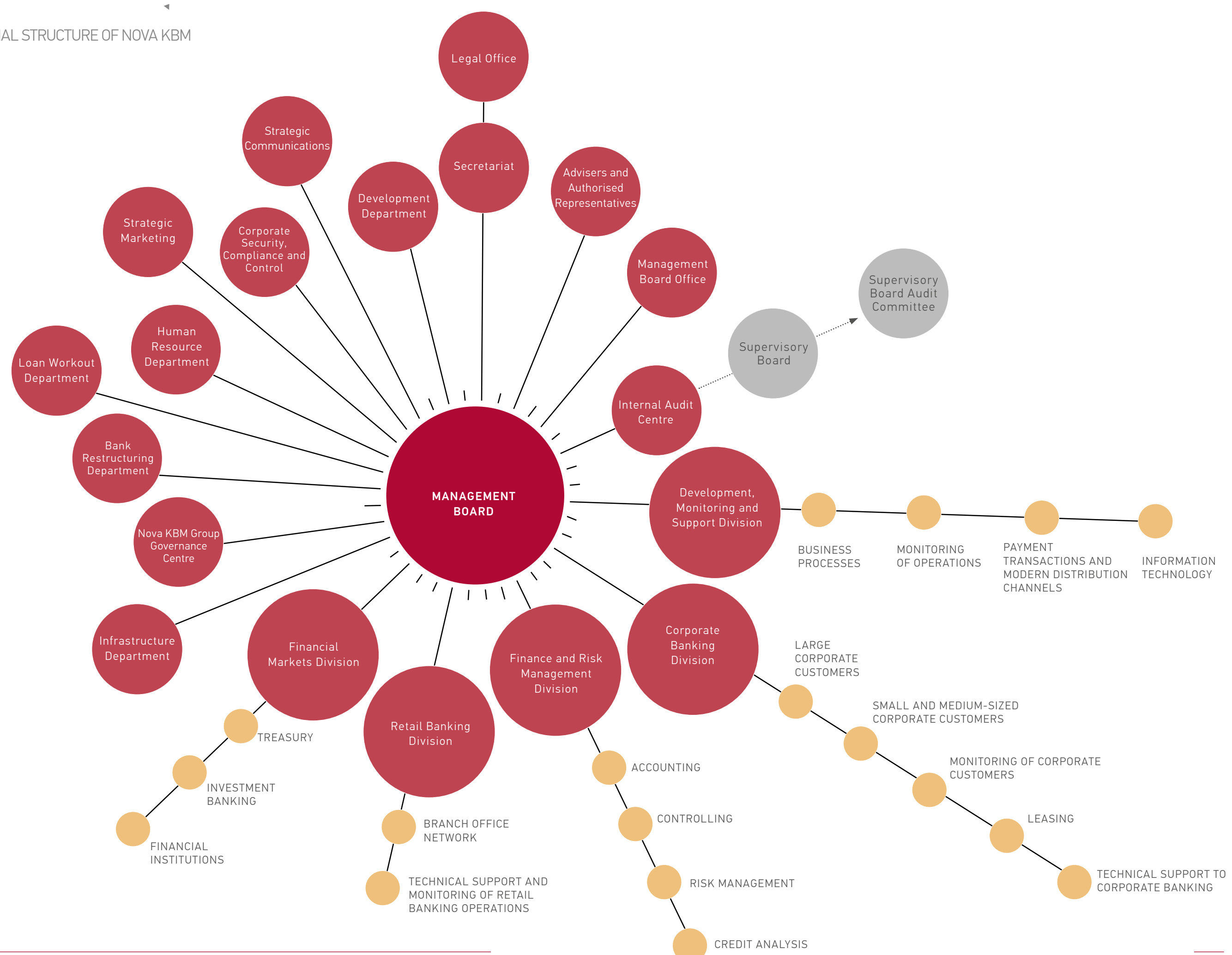
2 In accordance with IFRS 10, MB Finance is regarded as a special purpose vehicle controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity.

3 Gorica Leasing filed for liquidation on 31 December 2014.

4 KBM Leasing filed for liquidation on 31 December 2014.

In May 2014, Nova KBM infused fresh capital of €12,200,000 into Adria Bank, thereby increasing its shareholding to 100%. In July 2014, Nova KBM recapitalised KBM Leasing Hrvatska with €7,485,000, as a result of which its shareholding in this Croatian subsidiary increased to 98.54%. The liquidation proceedings against KBM Fineko were completed on 30 September 2014.

5.4.2 ORGANISATIONAL STRUCTURE OF NOVA KBM





### 5.4.3 GOVERNING BODIES OF NOVA KBM

The governance of the Bank is based on applicable legislation, the Bank's Articles of Association, and the rights and responsibilities of the Bank's governance and management bodies that follow the principles of responsible running and management of all activities of Nova KBM and the Nova KBM Group.

In compliance with Slovene legislation, the Bank has a two-tier management structure under which the relations between individual bodies are founded on mutual division of rights and responsibilities.

As of 31 December 2014, Nova KBM shares (KBMR) were no longer quoted on the Ljubljana Stock Exchange and the Warsaw Stock Exchange due to being cancelled as a result of extraordinary measures imposed by the Bank of Slovenia. Based on the state-sponsored recapitalisation, on 18 December 2013 the Republic of Slovenia became a 100% owner of all the newly issued shares of Nova KBM (KBMS). These shares, however, are not quoted on a stock market.

In view of the fact that its bonds (KBM 10) are quoted on the Vienna Stock Exchange, Nova KBM is still regarded as a public limited company under the provisions of the Financial Instruments Market Act (ZTFI). Article 99 of the ZTFI stipulates that any issuer whose securities have been accepted for trading on the regulated market in the Republic of Slovenia or another Member State falls within the definition of a public company.

Considering the situation referred to in the previous paragraph, Nova KBM, as a public limited company, fully complies in its governance system with the principles laid down in the Corporate Governance Code for Public Limited Companies (hereafter also referred to as the 'Code'), which, in addition to accomplishing the main objectives of shareholders according to internal and external global orientations, has a significant impact on the Bank's business performance and development. The Code, which was adopted on 8 December 2009 and came into being as of 1 January 2010, contains, among other things, a recommendation on formulating the Corporate Governance Policy.

Nova KBM follows the recommendations of the Code and has been regularly revising its Corporate

Governance Policy since its first formulation in 2010. In line with the recommendations of the Code, this policy stipulates the principal directions in governing the Bank, taking into consideration the Bank's long-term objectives, its values, and its responsibility toward the broader social environment, which should increase the standards or transparency of members of management and supervisory bodies as well as of other stakeholders (employees) in conducting the regular operations of the Bank. The Corporate Governance Policy is updated by the Management and Supervisory Boards on a regular basis to reflect the latest guidelines with respect to the governance of the Bank.

As a company in which the Republic of Slovenia holds an equity investment, Nova KBM also complied in 2014 with the Corporate Governance Code for Companies with State Capital Investments, which was adopted by the Management and Supervisory Boards of Slovenska odškodninska družba (SOD) on 15 May 2013 on the basis of the provisions of the Slovene Sovereign Holding Act (ZSDH). Until it was transformed into the Slovene Sovereign Holding (SSH), the SOD had managed the assets of the Republic of Slovenia in accordance with the ZSDH.

On the day it was entered into the court register, i.e. 11 June 2014, the SSH assumed all powers, competences, rights and obligations held by the SOD prior to the transformation, which enabled it to continue managing the capital investments owned by either the Republic of Slovenia directly or itself. The SSH has continued to pursue the principles and recommendations of good practice for the corporate governance of state assets, as set out in the Corporate Governance Code for Companies with State Capital Investments, adopted by the SOD on 15 May 2013. This code had been in effect and used until it was replaced by the Corporate Governance Code for Companies with Capital Assets of the State, adopted by the SSH on 19 December 2014 and published on its website on 22 December 2014.

#### **Nova KBM Management Board**

As of 31 December 2014, the Nova KBM Management Board had the following three members: Aleš Hauc (President), Robert Senica (Member) and Sabina Župec Kranjc (Member).

On 5 September 2014, Igor Žibrik, the then member of the Management Board, served notice of his resignation

from his position. The Supervisory Board was informed of Žibrik's decision on 15 September 2014, and his term of office ended on 31 October 2014.

On 3 April 2014, the Supervisory Board appointed Robert Senica as a new member of the Management Board for a period of five years. After he had been granted a Bank of Slovenia licence to hold the office of member of the Nova KBM Management Board on 8 July 2014, Senica took up his position on 1 August 2014.

On 1 October 2014, the Supervisory Board appointed Sabina Župec Kranjc as the third member of the Management Board. Her five-year term of office started on 17 November 2014, after she had been granted a Bank of Slovenia licence to hold the office of member of the Nova KBM Management Board on 11 November 2014.

At the end of 2014, Aleš Hauc was the Chair of the Supervisory Board of Moja naložba and PBS, a Supervisory Board member of the Bank Association of Slovenia, and the Deputy Chair of the KBM Banka Management Board. Robert Senica was a member of the Supervisory Board of Moja naložba, while Sabina Župec Kranjc was a member of the Supervisory Board of PBS and KBM Infond.

Management Board members conduct their duties on the basis of an employment contract that sets out the remuneration for their performance and other types of emolument, the amount of which is adjusted according to the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors.

In accordance with the Banking Act and the Bank of Slovenia Decision Regulating Risk Management and Implementation of the Adequate Internal Capital Assessment Procedure for Banks and Savings Banks, Nova KBM has set up and is implementing an appropriate remuneration policy for employees having specific roles and responsibilities, including members of the Management Board. The currently applicable remuneration policy was adopted on 10 January 2013.

Based on adopted performance criteria, the Supervisory Board takes decisions with regard to the award to be paid to the Management Board members for their

performance. The Bank discloses the remuneration of the Management Board in compliance with regulations governing that issue. The remuneration of Management Board members is disclosed in the financial part of the Annual Report.

Management Board members act also as members of supervisory bodies of the Bank's subsidiaries and the associated company, for which work they receive a payment for holding their office, attendance fees and reimbursement of costs incurred as a result of performing their duties, and are entitled to share in profits in accordance with the resolution of the Shareholders' Meeting of respective companies.

On 27 June 2014, the Nova KBM Shareholders' Meeting adopted amendments to the Bank's Articles of Association, based on which members of the Management Board are no longer entitled to a payment for acting on the supervisory boards of affiliated companies within the Nova KBM Group, but may only be reimbursed for these costs in accordance with the relevant decision adopted by the Shareholders' Meeting of the respective company.

Based on a decision passed by the Nova KBM Shareholders' Meeting, the Nova KBM Management Board members signed a statement to refrain from receiving payments for acting on supervisory boards of affiliated companies within the Nova KBM Group.

The Management Board reports regularly, or at least quarterly, to the Supervisory Board on all issues relevant to the business of the Bank and the Nova KBM Group. On the request of the Supervisory Board and in compliance with the principles of diligence and reasonable care, the Management Board also informs the Supervisory Board members on individual issues in cases where the information is linked to the business of the Bank and the Group, and such information significantly impacts, or will impact, the position of the Bank or the interests of the broader public in respect of the Bank's activities. Both bodies respect the principles that are crucial for mutual trust and the division of responsibilities.

Further information about the work and competences of the Management Board is available in the section headed 'Corporate governance statement of Nova KBM'.

## Other committees of Nova KBM

### Bank Credit Committee

On 24 November 2014, the Credit Committee for Large Corporate Customers was transformed into the Bank Credit Committee and took over the responsibilities of the former. The members of the Bank Credit Committee at the end of 2014 were: Robert Senica (Chair), Sabina Župec Kranjc (Deputy Chair), Peter Kupljen, Jernej Močnik and Borut Radolič.

The Credit Committee for SMEs and Sole Proprietors had the following members in 2014: Anton Guzej (Chair), Helga Kerec (Deputy Chair), Aleksander Batič, Saša Kebrič and Branka Vujanovič. Vladica Gregorčič and Vasja Pajntar acted as substitute members.

The Credit Committee for SMEs and Sole Proprietors was responsible for the management of credit risk arising from the Bank's exposure to this segment of customers.

On 24 November 2014, the Bank Credit Committee assumed the competences of the Credit Committee for SMEs and Sole Proprietors, which was dissolved on the same day.

### Credit Committee for Loans at Increased Risk

The Bank also has in place the Credit Committee for Loans at Increased Risk. This committee had the following members at the end of 2014: Sabina Župec Kranjc (Chair), Robert Senica (Deputy Chair), Peter Kupljen, Suzana Slamek and Borut Radolič.

### Liquidity Committee

The Liquidity Committee reviews the provision of short-term liquidity. The members of the Liquidity Committee at the end of 2014 were: Sabina Župec Kranjc (Chair), Valerija Piliš Grah (Deputy Chair), Jernej Močnik, Aleksander Batič, Peter Kupljen and Vlasta Brečko. Substitute members were Vojko Kalinič, Marjetka Šušterič and Helga Kerec. The Liquidity Committee meets daily.

### Assets and Liabilities Committee (ALCO)

The ALCO reviews the statement of financial position structure, capital adequacy, interest rate risk, structural liquidity, market risks, currency risk, profitability and the performance of profit centres, financial plans, aggregate credit risk, regulatory requirements, tax

aspects of operations and other risks associated with new products and services. The members of the ALCO at the end of 2014 were: Sabina Župec Kranjc (Chair), Aleš Hauc, Robert Senica, Peter Kupljen, Jernej Močnik, Aleksander Batič, Valerija Piliš Grah, Marjetka Šušterič and Suzana Slamek. Substitute members were Tatjana Skaza, Helga Kerec, Branka Vujanovič, Vojko Kalinič and Filip Arih.

The ALCO meets once every month.

### Policy Approval Committee

The Policy Approval Committee is responsible for: approving business policies and strategies, reconciling open issues with regard to business policies, methodologies for the calculation of adequate economic capital of the Bank, the risk matrix, assessment matrix and the risk profile, and the assessment of the Bank's economic capital for covering risks for which the Bank does not calculate the adequate internal capital. The members of the Policy Approval Committee at the end of 2014 were: Aleš Hauc (Chair), Sabina Župec Kranjc (Deputy Chair), Robert Senica, Jernej Močnik, Aleksander Batič, Vlasta Brečko, Peter Kupljen, Mitja Leskovar, Miha Šlamberger, Katarina Kolarič, Alenka Senčar, Suzana Slamek, Borut Radolič, Andreja Hojnik Šlamberger and Primož Britovšek.

### Classification Committee

The Classification Committee is responsible for the review and approval of changes in customer classification. The members of the Classification Committee at the end of 2014 were: Peter Kupljen (Chair), Marjetka Šušterič (Deputy Chair), Irena Lah (her substitute member: Gorazd Peršuh), Suzana Slamek (her substitute member: Cvetka Žirovnik), Jernej Močnik, Anton Guzej, Helga Kerec and Metka Čretnik Zavec. The Classification Committee meets on a monthly basis.

### Fit and Proper Committee

In accordance with the provisions of the Banking Act, the Companies Act and the Bank of Slovenia regulations, in 2014 the Bank set up the Fit and Proper Committee, whose task is to assess the suitability of officers holding key positions, including members of the management and supervisory bodies. The members of the Fit and Proper Committee at the end of 2014 were: Simon Tantegel (Chair), France Arhar (Deputy Chair) and Maksimiljan Juder.

## Nova KBM Supervisory Board

From 1 January to 5 February 2014, when Karmen Dvorjak resigned from her position as a Supervisory Board member, the composition of the Nova KBM Supervisory Board was as follows: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Andrej Fatur, Miha Glavič, Peter Kavčič, Karmen Dvorjak, Egon Žižmond and Keith Charles Miles.

Egon Žižmond and Keith Charles Miles resigned as members of the Supervisory Board on 19 March 2014 and 23 September 2014, respectively.

As of 31 December 2014, the Nova KBM Supervisory Board comprised the following members: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Andrej Fatur, Miha Glavič and Peter Kavčič.

Further information about the work and competences of the Supervisory Board is available in the section headed 'Corporate governance statement of Nova KBM'.

Peter Kukovica has been a Supervisory Board member since July 2012. He has a PhD in Management and Organisation. On 28 April 2014, he was appointed as a member of the Management Board of Gorenje, where he had acted as an adviser to the President of the Management Board since 17 June 2013. Until December 2012, he had served as the President of the Management Board of Iskra Sistemi, prior to which he was a member and later the President of the Management Board of Iskra MIS, and the Manager of the Tevis Recruitment Agency, among other positions.

Peter Kavčič has been a Supervisory Board member since July 2012. He has an MSc in Business Administration. He is the founder and an authorised representative of the company Vizualne komunikacije comTEC, the head of a research team in this company, and an independent adviser on strategic management.

Niko Samec has been a Supervisory Board member since July 2012. He holds a PhD in Mechanical Engineering and is a professor, as well as the Dean, at the Faculty of Mechanical Engineering of the University of Maribor. He also heads the Faculty's laboratory for combustion and environmental engineering.

Miha Glavič has been a Supervisory Board member since July 2012. He holds a BSc in Civil Engineering and

is currently serving as a Deputy Director of the Public Intermunicipal Housing Fund, Maribor. In the past, he was an Occupational Health and Safety Inspector at the Health Inspectorate of the Republic of Slovenia, among other positions.

Andrej Fatur has been a Supervisory Board member since July 2012. He holds a PhD in Law and serves as an attorney for corporate law. In addition, he is the Chair of the Public Finance Law Institute. In the past, he acted as a legal adviser to the Bank of Slovenia, among other positions.

In 2014, the amount of attendance fees and other remuneration paid to members of the Supervisory Board and Supervisory Board committees, and the method of their payment, was aligned with the Corporate Governance Code for State Capital Investments, and the Recommendations of the Manager of Direct and Indirect Capital Investments of the Republic of Slovenia regarding the remuneration paid to members of supervisory bodies. These documents were issued by the SOD in April 2013. In addition, the amount of remuneration referred to above, and the method of its payment, has been aligned with the Corporate Governance Code for Companies with Capital Assets of the State, adopted by the SSH on 19 December 2014. The total remuneration paid to Supervisory Board members consists of: a payment for holding the office, and to cover attendance fees and liability insurance, and the reimbursement of costs incurred as a result of performing their duties, as well as participation and membership fees, and the reimbursement of costs related to the payment of training, participation and membership fees.

Pursuant to the decisions passed by the Shareholders' Meeting on 22 July 2011 and 27 June 2014, in 2014 members of the Supervisory Board were entitled to receive a gross attendance fee in the amount of €275. Members of Supervisory Board committees received a gross attendance fee amounting to 80% of the attendance fees referred to in the previous sentence. The attendance fee for each meeting by correspondence amounted to 80% of the regular attendance fee. In addition to attendance fees, each Supervisory Board member received an annual basic gross payment of €13,000 for holding the office. The amount of extra remuneration paid to the Chair and Deputy Chair of the Supervisory Board and to chairs of Supervisory Board committees, the method of payment and the



limit on the total remuneration payable to them, as well as the reimbursement of costs incurred as a result of holding their office, were adjusted in 2014 to reflect the recommendations of the SOD, and the Corporate Governance Code for Companies with Capital Assets of the State, adopted by the SSH on 19 December 2014.

The Supervisory Board has also determined the remuneration to be paid to external members of Supervisory Board committees, which, for members of standing committees and bodies of the Supervisory Board, amounts to €650 gross per month. External members of non-standing committees are entitled to the same amount for the actual duration of a committee or body. External members are reimbursed for costs in the same way as Supervisory Board members.

### **Supervisory Board committees**

The following committees carried out their work during 2014 in accordance with the Companies Act and the Banking Act: the Audit Committee, and the Remuneration and Nomination Committee.

Further information about the work and competences of Supervisory Board committees is set out in the section headed 'Corporate governance statement of Nova KBM'.

### **Nova KBM Shareholders' Meeting**

The Shareholders' Meeting is the body of the Bank in which shareholders can exercise their rights, i.e. reach decisions on statutory issues, in particular issues in respect of staff decisions (appointment of Supervisory Board members, election of auditors), profit distribution (appropriation of profit available for distribution), corporate changes (e.g. amendments to the Articles of Association, increase or decrease in share capital) and legal restructurings (e.g. mergers, acquisitions, demergers, etc.) with the aim of accomplishing the fundamental economic objective – maximising the value of the Bank.

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

Two Shareholders' Meetings of Nova KBM were held in 2014.

At the Shareholders' Meeting held on 14 March 2014, a ruling was made to adjust the Bank's Articles of Association to reflect the commitments given to the European Commission. The amendments made to the Articles of Association related mainly to the rules governing the selection of members for, and the functioning of, the Management and Supervisory Boards. In addition, the provision regarding the authorised capital of the Bank was deleted, and the Shareholders' Meeting was given information about the Nova KBM Remuneration Policy.

The second Nova KBM Shareholders' Meeting in 2014 was held on 27 June. On this occasion, the shareholders of the Bank were informed about the 2013 report on the internal audit of the Nova KBM Group, the Supervisory Board's opinion, the Annual Report of the Nova KBM Group and Nova KBM for the year 2013, and the auditor's and the Supervisory Board's report on the examination of the 2013 Annual Report of the Nova KBM Group and Nova KBM. The shareholders of the Bank were also informed of the amount and the method of covering the Bank's 2013 loss, and decided to grant a discharge to the Management and Supervisory Boards for the year 2013. Furthermore, the shareholders were informed about remuneration paid to the members of the management and supervisory bodies in 2013, and they elected Deloitte Revizija for the audit of the 2014 financial statements of Nova KBM and the Nova KBM Group. The Shareholders' Meeting also passed a decision to amend the Bank's Articles of Association, and made decisions with respect to the amount of basic remuneration, attendance fees and other remuneration payable to, as well as the reimbursement of costs incurred by, members of the Supervisory Board and Supervisory Board committees. In addition, the Shareholders' Meeting considered the Nova KBM Fit and Proper Policy.

## **5.4.4 INTERNAL AUDIT CENTRE**

The Internal Audit Centre (hereafter the 'CNR') of Nova KBM performs its work in compliance with the Banking Act, the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors, and the Code of Principles of Internal Auditing. Its duties and competences are set out in the Charter of Internal Auditing, while the method of its work is regulated by the Rules Governing the Work of Internal Auditors. The CNR has organised its work in such a way

that the auditing of the Bank is performed separately from the audit reviews in the Bank's subsidiary companies. The CNR is responsible for coordinating the work of all internal auditors of the Nova KBM Group, and for the transfer of good practice. The internal auditors give assurance of their organisational independence, which was not threatened in any way during 2014.

The main duty of the CNR is to give the Management and Supervisory Boards an impartial assurance with respect to the efficiency of risk management, taking into consideration an assessment of whether the key risks are properly managed and the system of internal controls is effectively implemented. A good system of internal controls is a crucial element of the effective management of risks in accomplishing the operating objectives of the Bank.

In addition to 17 internal auditors of the Nova KBM Group who carried out audit reviews in 2014, two contract auditors were hired to perform audit reviews of Adria Bank and KBM Infond. Throughout the year, the CNR coordinated the regular reporting on the implementation of recommendations in the Nova KBM Group companies, and prepared quarterly reports on internal auditing at the Nova KBM Group level. These reports were submitted for review to the Nova KBM Management Board, the Audit Committee and the Supervisory Board.

A total of 62 audit reviews, of which 43 were scheduled and 19 were extraordinary ones, were carried out last year, encompassing all segments of the operations of the Nova KBM Group. Apart from carrying out audit reviews, the internal auditors offered advice, coordinated audit reviews conducted by external auditors as well as inspections and reviews conducted by the Bank of Slovenia, collaborated with the Investigation Committee, and followed the implementation of given recommendations.

The 2014 internal audit plan was not completely implemented, the main reasons for this being an increased number of extraordinary audit reviews, which required the involvement of internal auditors, and other extraordinary tasks that the internal auditors had to carry out last year.

In 2014, a total of 262 recommendations were implemented to improve the operations and management of both individual Group companies and

the Group as a whole. The number of non-implemented recommendations saw a significant improvement last year, falling from 23 in 2013 to eight in 2014 after having been 51 in 2012. The CNR continued to regularly monitor the implementation of recommendations given to each company within the Nova KBM Group, and reported on their findings at the meetings of the Bank Management Board.

Focus was placed last year on the audit of the management of credit and operational risks.

As part of the audit of credit risk management, several reviews were made to verify whether the corporate and retail lending procedures comply with the Bank's rules and the applicable legislation. In addition, an audit review was carried out of the management of credit risk arising from retail lending, as was a review of the monitoring of, and reporting on, collateral provided as security for loans. The CNR also carried out a review of the implementation of recommendations given to some members of the Nova KBM Group with respect to their lending processes. An improvement was noted in the functioning of internal controls in most of the reviewed areas.

The audit of operational risk management concentrated on the following key areas: information technology (a review was made of the new software support); cash operations; the human resource function; and the procedures related to the prevention of money laundering and terrorism financing. Following the reviews, several recommendations were given, particularly regarding the management of operational risk in the area of information technology. While some considerable operational risks were also identified in anti-money laundering procedures, the Bank has already taken action to combat these risks.

## 6 / SHAREHOLDERS' EQUITY OF NOVA KBM

The composition of Nova KBM's shareholders' equity at the end of 2014 and 2013 is presented in the table below.

	31.12.2014	31.12.2013
<b>1. Share capital</b>	<b>150,000</b>	<b>150,000</b>
· ordinary shares – subscribed by the state	150,000	150,000
<b>2. Share premium</b>	<b>360,572</b>	<b>360,572</b>
· paid-in capital surplus	360,572	360,572
<b>3. Accumulated other comprehensive income</b>	<b>33,859</b>	<b>7,140</b>
<b>4. Reserves from profit</b>	<b>27,389</b>	<b>0</b>
<b>5. Retained earnings (including net profit for the financial year)</b>	<b>8,527</b>	<b>0</b>
· net profit for the financial year	8,527	0
<b>TOTAL</b>	<b>580,347</b>	<b>517,712</b>

Nova KBM's shareholders' equity saw a year-on-year increment of €12.1%, or €62,635,000, partially as a result of the net profit reported for 2014, totalling €35,916,000, and partially due to an increase of €26,719,000 arising from a recovery in the market price of securities which are fair valued through equity. Of the total net profit generated by the Bank in 2014, €27,389,000 was allocated by the Management and Supervisory Boards to regulatory, statutory and other reserves

from profit, while the remaining profit balance, in the amount of €8,527,000, constitutes the profit available for appropriation, the use of which is subject to a decision of the Shareholders' Meeting.

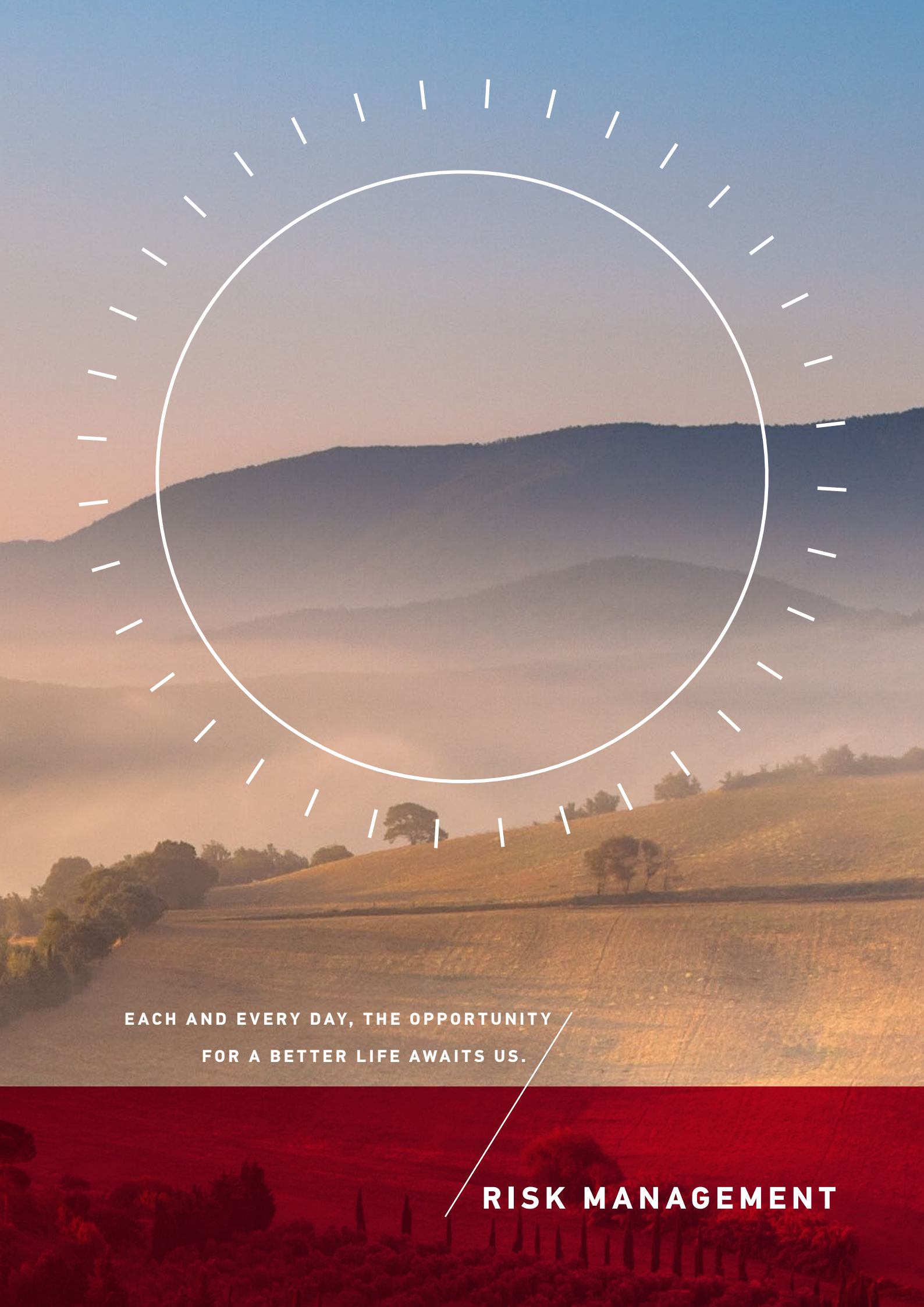
As of 31 December 2014, the share capital of the Bank totalled €150,000,000 and was split into 10,000,000 ordinary no-par-value shares, all of which were held by the Republic of Slovenia.

### Information about shares

	Nova KBM Group				Nova KBM			
	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2014	31.12.2013	31.12.2012	31.12.2011
Book value per share <sup>13</sup> (€)	61.34	56.67	5.37	10.07	58.03	51.77	4.92	9.55
Net earnings/(loss) per share <sup>14</sup> (€)	2.19	(63.05)	(5.25)	(2.38)	3.59	(65.65)	(5.20)	(2.42)

<sup>13</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>14</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 2014 net earnings and the 2013 net loss.



EACH AND EVERY DAY, THE OPPORTUNITY  
FOR A BETTER LIFE AWAITS US.

**RISK MANAGEMENT**



# 7 / DECLARATION ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS

In accordance with Article 435(e) of Regulation (EU) No. 575/2013 of the European Parliament and the European Council on prudential requirements for credit institutions and investment firms (CRR), the governance bodies of Nova KBM consisting of:

the Management Board in the following composition:

**Robert Senica, President, and Sabina Župec Kranjc, Member,**

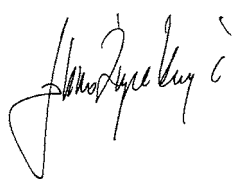
and the Supervisory Board, represented by **Peter Kukovica, Chair,**

confirm, by signing this declaration, that Nova KBM has in place adequate risk management arrangements and that its risk management function is organisationally separate up to the executive management level. Nova KBM's risk management system is adequate with regard to its risk profile, strategy and capability of taking risks.


Maribor, 2 March 2015

Management Board of Nova KBM d.d.

Supervisory Board of Nova KBM d.d.



Sabina Župec Kranjc  
Member



Robert Senica  
President



Peter Kukovica  
Chair

# 8 / RISK MANAGEMENT

In accordance with its mission, the Group will always ensure the security of its operations, assume risk in a thoughtful and responsible manner, and comply with the highest standards of risk management. The strategy of the Group defines the amount of risk the Group is capable and willing to accept in order to manage it successfully. The Group is aware of all the risks that are inherent in its operations, and categorizes these according to the type of risk, individual organisational units, business processes, and employees.

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

- the identification of all risks that arise in the operations of the Group
- the measurement or assessment of the extent of risk as well as the evaluation of the method of monitoring individual risk factors
- the continuous monitoring of the Group's exposure to specific risks, and systematic and comprehensive reporting on risk exposure
- learning and adapting in an evolving business environment, which includes regular evaluation of limits, and methodologies for establishing limits in order to ensure stable and prudent operations of the Nova KBM Group in the long run.

It is the responsibility of each Group employee to identify risks. The acceptable level and the method of measuring and monitoring the risks are defined by individuals who specialise in dealing with each type of risk. The organisational unit responsible for defining the acceptable level of specific type of risk and the method of measuring and monitoring the risks is organisationally separate from the units taking risk.

The monitoring and managing of specific types of risk are described in detail in the respective risk management policy that takes into account specific characteristics of individual risk types. For each risk management policy, one person is responsible. This person must also take

care of adjusting the respective policy to other policies while taking into account the applicable legislation and best banking practice.

The decision-maker in respect of the methodologies for measuring, monitoring, and managing risks in the Group is Nova KBM. The banking companies within the Nova KBM Group take over the methodologies that are used by Nova KBM. This allows comparability of accepted risks. Non-banking companies in the Nova KBM Group manage risks in accordance with methodologies that reflect their activities and volume of operations, while taking legal requirements into consideration. Persons responsible in the Bank for individual risk policies are acquainted with the method of managing respective risks across all Group companies and have the opportunity and obligation to influence the setting up of adequate methods of managing risks in all Group companies. Risk management procedures are conducted independently at the level of each Group company. The Group has set up methods of reporting on individual risk, which stipulate the content, the frequency, and recipients of reports.

Through an assessment of the likelihood of the realization of threats and occurrence of loss, a critical review is carried out each year of the Group's risk profile and its ability to assume specific types of risk. At the same time, an evaluation is made of the adequacy of controls established to limit individual types of risk.

All of the companies in the Nova KBM Group treat risk management as a continuous process of identifying, measuring and managing the risks that arise in their operations.

To enhance control over risk, in 2014 the Group developed several new risk management measures, such as intensive and proactive treatment of customers in financial distress, and set up a system for early detection of increased risk.

## Credit risk

Credit risk is the risk of loss resulting from the failure of a debtor to repay its debts. Nova KBM is primarily exposed to credit risk through its loan portfolio, which comprises:

- risk-bearing balance sheet items (financial assets measured at amortised cost, financial assets at cost and other financial assets that may be allocated to individual debtors)
- risk-bearing off-balance sheet items (undrawn loans, undrawn overdrafts, credit lines, guarantees given, sureties, letters of credit and similar transactions whereunder a payment obligation may be incurred by the Bank).

In the area of credit risk management, in 2014 Nova KBM made the following improvements:

- it adopted rules for the identification of restructured exposures in accordance with the relevant technical standard of the European Banking Authority
- it implemented an application used for early detection of any credit risk that may arise
- it successfully changed over to the Basel III regime.

Credit risk management in Nova KBM comprises:

- determining the target groups of customers
- continuous monitoring and analysis of debtors' performance
- determining an adequate level of provisioning charges
- ensuring compliance with the capital adequacy requirements
- monitoring the adequacy of collateral provided for securing individual financial assets and commitments
- measuring the concentration of the loan portfolio by industry sectors, market segments and collateral taken
- measuring the risk of the loan portfolio according to the average credit rating and the impairment level
- monitoring non-performing loans and assessing losses
- limiting exposure by setting up limits for individual customers and groups of related customers
- identifying credit risk in a systematic manner on the basis of early warning signals
- conducting stress testing.

Pursuant to the Bank's credit risk management policy, the loan approval process in the Bank is organisationally separate from its risk management process.

All of the companies in the Nova KBM Group comply with the requirements regarding the maximum exposure to a customer or a group of related customers, as set out in the Nova KBM Group Methodology for Determining Upper Lending Limits.

The principal goal of credit risk management is to ensure the stable and profitable performance of the Bank while assuming the necessary level of credit risk that arises from the nature of banking operations. The Nova KBM Group reduces the impact of accepted risks by complying with the following regulations, documents and rules:

- regulations of the European Central Bank and the Bank of Slovenia, which are based on the directives and regulations of the European Community
- its own risk management strategy, policies and methodologies
- rules of good banking practice.

Prior to approving any loan, the Bank carries out a thorough verification of a customer and classifies each customer into credit risk categories A to E based on its Methodology for Classifying Customers into Credit Rating Categories. During the business relationship with a customer, the Bank carries out the following procedures:

- at least once a year, it verifies the adequacy of credit rating assigned to the customer, taking into consideration financial statement data and subjective factors
- it assesses, on a daily basis, whether the credit rating assigned to the customer is compliant with the adopted classification criteria, such as the number of days payments are past-due, blocking of current accounts, and the criteria regarding the institution of insolvency proceedings
- depending on the risk classification of the customer or exposure on a single loan, it promptly sets aside an adequate level of provisioning charges for each transaction.

Using a credit rating model, the Bank promptly classifies customers into appropriate credit rating categories. Special attention is devoted to the categories of defaulting customers and non-performing exposures. In accordance with the adopted classification rules,

a customer that has been classified into one of these categories is classified into the category of cured exposures once its performance improves.

For calculating impairment losses and provisions, Nova KBM uses its own Methodology for Assessing Credit Risk Losses, which is compliant with the Bank of Slovenia Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks, the International Financial Reporting Standards and the EC directives.

In 2014, the following upgrades were made to the Bank's credit rating classification system:

- An application was implemented to enable the recording of customer classification across the entire Nova KBM Group. In addition, the Bank determined uniform collective impairment rates to be applied by all Nova KBM Group companies. The purpose of these two actions was to provide the conditions for a complete harmonisation of the monitoring of risk profiles of all Nova KBM Group companies' loan portfolios.
- Based on the rules laid down in the EBA technical standards, the Bank adopted rules for the identification of restructured exposures. Taking into consideration these rules, the Bank developed a model according to which the identification of restructured exposures in the Nova KBM Group is carried out by means of checking the credit classification of customers as well as the type and the weight of modified financing terms. These rules have an impact on the classification of assets into the category of non-performing exposures, a category about which the Bank must report to the ECB.
- The EWS application was implemented, which is used for the early detection of any credit risk that may arise. Credit risk warning signals recognised by the application are verified on a daily basis, and any indications of increased risk are automatically reported to the commercial departments.
- Rules were set up for the classification of defaulters, non-performing exposures and cured exposures. An application to monitor these classification categories was also brought into service.

### Liquidity risk

Liquidity risk management is an integral part of the Bank's prudent and secure operations. Liquidity risk is the risk of loss resulting from the Bank's inability to meet all of its payment obligations, or the risk that it

has to provide necessary funding at significantly higher than usual costs. It arises from maturity mismatches between assets and liabilities.

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

In the area of liquidity risk management, Nova KBM set up an econometric model used to determine the stability of retail deposits subject to higher outflow rates.

The Bank's principal objectives with respect to liquidity risk management are as follows:

- continuous provision of liquidity
- daily settlement of all on- and off-balance sheet liabilities that are due, across all currencies
- compliance with all regulatory requirements
- setting up liquidity risk limits which are regularly reviewed and monitored
- setting up and managing an adequate pool of assets used as collateral for the central bank credit operations
- efficient management of daily liquidity surpluses and the creation of an adequate liquidity reserve
- monitoring the liquidity gap.

The Bank regularly carries out various liquidity management scenarios, adopts measures to reduce liquidity risk, and regularly checks the adequacy and accuracy of assumptions used in the scenarios. Based on the results of adverse scenarios, the Bank has determined the necessary level of liquidity reserves to be used in the periods of most difficult and emergency liquidity situations.

During the year ended 31 December 2014, the Bank managed liquidity risk in accordance with the policy and methodologies approved by the ALCO. It fully complied with the regulations on minimum requirements concerning liquidity position, which prescribe as obligatory the Category One Liquidity Ratio (0 to 30 days), while the Category Two Liquidity Ratio (0 to 180 days) is

calculated for information purposes only. The prescribed Category One Liquidity Ratio is set at 1.0.

The ALCO reviews regular reports on the diversification of funding and on the results of the dynamic liquidity gap analysis. The latter takes into consideration the time component of cash flows and is used for the early detection of negative moments in the anticipated liquidity position. The main cash flows are assessed on the basis of a statistical analysis of time-series data on liquidity items. Negative liquidity position may arise very quickly and unexpectedly. In order to be prepared to deal with such situations, the Bank has drawn up three different stress scenarios, at two difficulty levels, the aim of which is to support the management of the Bank to adopt adequate measures for reducing liquidity risk. Stress tests are carried out on a monthly basis. The main goal of carrying out stress tests is to provide a sufficient level of liquidity reserves in strictly defined future periods, taking into account the limit on the cumulative net liquidity gap depending on the type of stress scenario. The results of stress tests are reviewed by the ALCO.

### Market risks

Market risk is a risk of loss arising due to adverse changes in financial markets (changes in the prices of financial instruments, exchange rates, interest rates). The Bank monitors market risks of trading book items and markets risks of banking book items separately. The method of monitoring and reporting as well as of limiting the exposure to market risks is set out in the market risk management policy.

The methodology used for managing market risks is based on the value-at-risk (VaR) measure and is compliant with the Basel capital requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The volatility is calculated based on historical data. The Bank has set up a system of limits to control exposure to market risks.

**Position risk** is a risk of loss arising due to a change in the price of a financial instrument that the Bank holds in its portfolio for the purpose of trading on its proprietary account. The Bank manages three trading portfolios: the portfolio of debt securities, the portfolio of equity instruments and the currency portfolio. Position risk is controlled by trading limits. Trading in securities is

limited by the highest risk value of the portfolio and stop-loss limit. In addition, stop-loss limit is defined for each transaction. Limits for foreign currency trading for the Bank's proprietary account are defined as the maximum allowable open position for the Trading Department. The limits are revised at least once a year and adopted by the ALCO. Compliance with limits is controlled on a daily basis by the Risk Management Department, which also publishes the limits on the Bank's intranet site and, in accordance with internal regulations, reports any violation of limits to the responsible authorities.

**Foreign exchange risk** represents a potential loss arising from an open foreign currency position and the volatility of foreign exchange rates. The maximum allowable 10-day VaR is established at the individual currency level just as for the entire currency portfolio. The efficiency of maintaining a balanced position by individual foreign currencies is monitored daily, whereas any violation of limits is, in accordance with internal regulations, reported to the responsible authorities.

**Interest rate risk** is a risk of loss arising due to unexpected changes in market interest rates, and derives from maturity mismatches of interest-sensitive assets and liabilities. Interest rate risk is identified, measured, managed, controlled and monitored in accordance with the methodology for measuring interest rate risk, and the interest rate risk management policy. To manage interest rate risk, the Bank calculates monthly the impact on its net interest income of interest rate changes in the next three months, as well as of the parallel shift of the yield curve by 200 basis points. The impact of changes in interest rates on the Bank's profit or loss is measured for a one-year period. In addition, the Bank regularly calculates the net present value of interest-sensitive items to determine whether, under the stress test scenario which takes into account a +/- 200 basis points change in interest rates, this value accounts for more than 20% of the Bank's equity. The exposure to interest rate risk of the Bank's portfolios is controlled by the system of limits, which is approved by the ALCO and reviewed at least on an annual basis.

### Operational risk

Operational risk is the risk of loss arising from inappropriate or failed implementation of internal processes, the actions of people, the functioning of



systems or due to external factors. Legal risk and risk of outsourcing are also included in operational risk, while strategic risk and reputational risk do not fall into this risk category.

While both the Group and the Bank calculate capital requirements for operational risk in accordance with the basic indicator approach, they also annually calculate these requirements under the standardised approach. The latter calculation, however, is made for informative purposes only. Provided the capital requirements for operational risk calculated under the standardised approach are more favourable than those calculated under the basic indicator approach, the Bank will implement the standardised approach in the future. In the second half of each year, an interim monthly assessment is made of the capital requirements for operational risk. These monthly assessments depend on the dynamics of income during the first half of the year.

Considerably fewer operational risk loss events were recorded by the Nova KBM Group in 2014 compared to 2013.

Operational risk loss events are systematically registered. The reporting on loss events captures all costs centres of the Bank and is carried out on a monthly, quarterly, half-yearly and yearly basis. Operational risk loss events are reported by the Group companies through the APIS application. The Bank has defined as an operational risk loss event any event that has a negative material effect on its operations and is recorded in its accounts.

The Bank classifies operational risk loss events by operating segment and by type of loss events, in accordance with the Basel capital directives. Since not all operational risk losses can be measured, an assessment of losses is made when evaluating the annual risk profile of the Bank. The evaluation of the risk profile with respect to operational risk is of particular importance, given that the operational risk loss events make up the largest proportion of loss events suffered by the Bank that cannot be reliably measured; they can only be, and must be, assessed.

## Capital risk and ICAAP

Capital risk arises from an inappropriate size of capital, inappropriate structure of capital with regard to the volume and the nature of business, or from difficulties in acquiring fresh capital. The Bank has set up a capital management policy and has in place procedures and mechanisms for ensuring adequate size and structure of its capital.

For the purpose of managing capital, the Bank regularly monitors the size of available and minimum regulatory capital as well as the movements in capital adequacy ratios, taking into account the regulations applied to, and projections of, capital movements, capital requirements and capital adequacy. Capital adequacy projections for the period until the end of the current year and for the next six-month period are discussed monthly by the ALCO.

The internal capital adequacy assessment process (ICAAP) is used by the Bank to continuously monitor the risks it takes in relation to its ability to accept such risks. The process involves regular assessments of available and adequate economic capital, and the creation and review of the risk profile. Available economic capital and adequate economic capital are calculated monthly for the Bank, and quarterly for the Group.

Adequate economic capital is calculated as the sum of capital requirements for the following types of risk:

- credit risk
- market risks (other than foreign exchange risk)
- operational risk
- interest rate risk arising from the banking book
- foreign exchange risk
- liquidity risk
- capital risk
- reputational risk
- strategic risk
- profitability risk arising from the movements in deposit interest rates
- risks arising from external factors.

In 2014, the Bank successfully implemented the new Basel Accord framework, known as Basel III, which has been adopted to ensure the uniform application of capital disclosure rules. The Basel III rules are, through the Capital Requirements Regulation (CRR), directly applicable across all Member States. Changing over to

the new capital accord resulted in an elevation of the capital adequacy ratio calculated by the Bank.

In accordance with the CRR, banks are required to compute their leverage ratio. The leverage ratio has two objectives: first to limit the risk of excessive leverage by constraining the building up of leverage in the banking sector, and second to act as a backstop to risk-based capital requirements. While the requirement regarding the minimum level of leverage ratio has not yet been determined, it is expected to be set at 3% and to become binding from 1 January 2018. The Bank does not foresee any difficulties in meeting the required minimum level of the leverage ratio.

# 9 / STRATEGIC DIRECTIONS OF NOVA KBM AND THE NOVA KBM GROUP

In 2013, the Bank drafted its strategic development programme for the period 2014 to 2018, the proposal of which was approved by the Supervisory Board in October 2013. The strategic development programme is aligned with the Restructuring Programme of the Bank and the Group. If Nova KBM is sold, its new owner might reach an agreement with the European Commission on the suspension of most of the commitments Nova KBM and the Nova KBM Group must meet in their operations.

The strategic development programme outlines, in particular, the following key components of the Bank's and the Group's future business models:

- strategic directions for individual business segments
- mission
- vision
- corporate values
- corporate strategic directions.

In addition, the strategic development programme defines the markets and products that are of strategic importance for the development of the Bank and the Group, and the markets and products that are considered crucial for sound performance of the Bank and the Group, taking into consideration the scarcity of capital, customer deposits and well-qualified staff.

The Nova KBM Group will withdraw from the markets and discontinue providing services that do not generate sufficient return and do not constitute the basis for profitable growth, allowing it to focus on markets and services where the Bank can demonstrate competitive advantages and achieve above-average growth.

## Strategic directions

The strategy of Nova KBM and the Nova KBM Group gives absolute priority to corporate and retail banking, taking into consideration the following corporate strategic directions:

- focus on customers (see the section headed 'Sustainable development' for further details)

- European orientation and consistent compliance with banking industry commitments (see the section headed 'Programmes and projects aimed at restoring the profitability of the Nova KBM Group')
- safety and stability of operations and deposits
- process organisation (see the section headed 'Internal development of Nova KBM' for further details)
- application of advanced business models
- efficiency and profitability of operations
- achievement of target key performance indicators (set on the basis of appropriate criteria)
- provision of resources necessary to accomplish strategic objectives (capital, funding, human resources)
- formulation and implementation of measures to achieve short-term objectives
- social responsibility (see the section headed 'Sustainable development' for further details).

As regards corporate banking, the Bank will focus on developing and strengthening operations with small and medium-sized companies, including sole proprietors and micro enterprises. This will make it possible for the Bank to minimize its exposure to credit risk by properly dispersing all types of risk arising from credit relationships.

In the retail banking segment, the Bank will invest a great deal of energy into continual upgrades of its product offerings. It will strengthen and set up long-lasting professional relationships with its customers, thereby bolstering their confidence in and loyalty to its products and services.

In the area of finance and risk management, an improvement will be made to the management of all types of risk, with emphasis on credit, liquidity, interest rate, foreign exchange and operational risks.

## Mission

Nova KBM, as the leading company within the Nova KBM Group, operates as a modern, stable and reliable bank. It builds its reputation on its more than 150 years

of tradition of providing contemporary banking and other financial services that help it establish successful partnerships with its customers, other stakeholders, and its broader environment. At the same time, it considers the satisfaction of its shareholder, investors and all other stakeholders as well as proper management of all types of banking risks to be the core principles of its business.

### **Vision**

The vision of the Bank is to ensure the stability of the business it conducts in the local area and the region in which it is present, this being supported by strong operational efficiency in all key segments, and by its ability to generate a steady return. Nova KBM, as the leading company within the Nova KBM Group, would like to continue doing business with trustworthy stakeholders to whom it will endeavour to provide contemporary products and services. In its efforts to perform successfully and profitably, the Bank will favour stability (i.e. ensuring the quality of its loan portfolios and proper management of all types of banking risks) over business growth as this will increase its safety and the safety of all its stakeholders.

### **Corporate culture**

The corporate culture of Nova KBM and the Nova KBM Group is based on the following values: unconditional honesty and integrity, commitment to work, positive approach, professional competence, responsibility, excellence, affiliation to the Bank and the Group, and zero tolerance towards any kind of fraud or illegal conduct.



# 10 / PERFORMANCE OF THE NOVA KBM GROUP AND NOVA KBM

## 10.1 / MACROECONOMIC ENVIRONMENT

### Economic environment in 2014

The economic environment in Slovenia is strengthening and the macroeconomic risks banks are exposed to are diminishing on the back of rising economic growth generated by, in particular, the favourable dynamics in exports and the improved situation in the labour market. Nevertheless, there remains a risk of lower-than-forecast GDP growth, partially due to the uncertain economic recovery in some Eurozone countries, and partially because of a potential rise in geopolitical

tensions in Ukraine and the Middle East. Domestic economic growth remains predominantly driven by foreign demand, which could lose momentum, given the uncertainty of the economic recovery in Slovenia's key trading partners. Last year, households maintained their financial surplus at the level of the end of 2013, having slightly increased their consumption as their income had risen and indebtedness had declined. In a situation of favourable growth in the export sector and deleveraging of the economy, the current account surplus is being reflected in high net savings by the private sector.

### Selected macroeconomic indicators

Indicator	2010	2011	2012	2013	2014	2014**
Real GDP growth (%)	1.3	0.7	(2.5)	(1.0)	3.2*	2.0
Inflation rate (annual average; %)	1.8	1.8	2.6	1.8	0.2*	0.3
Registered unemployment rate (%)	10.7	11.8	13.0	13.1	12.5*	13.1
Exports growth rate (%)	10.1	7.0	0.3	2.6	6.5*	3.7
Imports growth rate (%)	6.6	5.0	(3.9)	1.4	2.4*	3.1
Industrial production growth rate (%)	7.1	4.7	0.4	5.3	1.9*	2.6

\* Estimates for the last quarter.

\*\* Forecast.

Sources: IMAD, ECB and the Statistical Office of the Republic of Slovenia.

Towards the end of 2013, the required return on government bonds of most of the Eurozone countries saw a further decline. The return on 10-year government bonds of Eurozone countries reached the lowest ever level, with the periphery Eurozone countries registering the largest decline in the required return on their bonds. The decline in the required return may be attributed mainly to the measures adopted in 2014 by the ECB to stimulate the economic recovery and strengthen the functioning of the monetary transmission mechanism.

According to business tendency data, the prospects for the manufacturing sector improved at the end of 2014. Although the expectations of companies operating in the manufacturing sector had deteriorated since August, they mostly improved in December. Most companies

do not expect to see further employment growth. As regards household consumption indicators, we saw further growth in the gross wage bill, which is attributed to improved conditions in the labour market, while social transfers remained below the 2013 level. The number of registered unemployed persons has been declining since March 2014, mainly on the back of positive employment rates (IMAD; January 2015).

### Banking environment in 2014

In 2014, the shrinking of the Slovene banking system's total assets continued for the fifth consecutive year, but at a slower pace than in the two preceding years. While the contraction of funding in the previous years was largely the result of banks repaying their debts to foreign wholesale financial market participants, the



decline in funding we saw in 2014 derived from the accelerated deleveraging process, with banks repaying their debts to the Eurosystem. On the assets side of bank statements of financial position, the volume of loans outstanding to the non-banking sector went down the most, with investments shifting to more liquid assets with lower returns, and to securities. The lending volume of Slovene banks declined further in 2014, the reasons for this being the weak credit capability of companies and their reluctance to take out new loans. However, there have been some positive changes in the demand for loans recently. The leverage of companies, measured as the ratio between debt and equity financing, is declining only slowly and therefore continues to remain, on average, a significant limiting factor of companies' credit capability. Households' demand for loans remained low in 2014. Another factor that prevents banks from growing their loan portfolios, apart from weak demand, is having restrictive loan offerings, which we saw in the recent period. Standards for lending to corporate customers have been tightening throughout the period of the crisis and are currently at a very restrictive level.

Unstable funding sources and banks' credit risk aversion were also factors that prevented the banks from building their loan portfolios. An increasingly high proportion of funding is short-term in nature, which makes it practically impossible for banks to grant long-term loans. As a result, banks invest part of the funding they raise in securities. Lack of competitiveness of Slovene banks' offerings is suggested also by an increasing proportion of loans that non-financial companies contract in foreign markets.

In 2014, credit risk remained the most significant systemic risk to which the banking system was exposed, although it was mainly limited to predominantly locally-owned banks. Further development of banks' exposure to credit risk will depend greatly on the revival of lending, but also on actions taken by banks to deal with the remaining proportion of their bad assets through disposals, restructurings, write-offs and, where justified, debt-to-equity conversions. The liquidity of the Slovene banking system strengthened in 2014 compared to the previous year, as demonstrated by a relatively high value of the Category One Liquidity Ratio, a high proportion of the non-utilised pool of assets eligible as collateral for the Eurosystem credit

operations, and an increased proportion of marketable instruments that can be used for secondary liquidity purposes in the total assets. On the other hand, banks became more exposed to the risk of an interest rate rise. The difference between the average repricing periods for asset and liability interest rates lengthened by 2.3 months from December 2013 to October 2014 (Bank of Slovenia; January 2015).

### Forecast for 2015

Global economic indicators affirm that the world real GDP growth (excluding the Eurozone) will gradually pick up over the projection horizon from 2014 to 2016, rising from 3.6% in 2014 to 4.2% in 2016. Very accommodative monetary policies adopted by highly developed economies continue to support the revival of financial markets and the global economy as a whole. Recent indicators suggest a somewhat weaker outlook in the short-term, reflecting subdued trade developments, geopolitical tensions, and uncertainties about the reform process in some Eurozone countries. Nevertheless, the underlying forces to sustain a continued recovery remain in place.

Local demand is expected to benefit from the accommodative monetary policy, supported by the standard and non-standard measures adopted in June 2014, and from more favourable lending conditions. Private consumption will benefit from lower prices of primary raw materials and rising incomes, with the latter resulting from a gradual improvement of conditions in the labour market.

Taking into consideration the anticipated faster economic recovery in the international environment, further rehabilitation of the banking system, fiscal consolidation, and the beginning of the corporate sector restructuring, the IMAD forecasts that the real GDP growth rate will see a gradual increase in 2015.

The rate of inflation is expected to increase only gradually, given the ongoing weak recovery of economic activity and a decline in prices in the international markets. While the de-leveraging process of companies, which started in 2010, is expected to continue throughout this year, unfavourable lending conditions continue to prevail, certainly suggesting that a notable revival of credit activity is unlikely to take place in 2015. According to available data, the disposable income of households

saw an increase last year, raising optimism that the consumer sentiment will remain strong in 2015. Private consumption is expected to continue registering a positive trend, while the government consumption is forecast to fall further. The value-added growth is expected to increase gradually throughout 2015. With the rehabilitation of the banking system over, the performance of the financial and insurance sectors is likely to improve slowly in 2015. Value added in public services will stagnate due to further streamlining in the public sector. Growth in the manufacturing industry will rely mainly on industries with higher technology intensity and more export-oriented industries (IMAD; September 2014).

Nevertheless, several fundamentals remain positive and support the expected pick-up in 2015 and beyond (ECB; December 2014).

## 10.2 / ANALYSIS OF PERFORMANCE OF THE NOVA KBM GROUP AND NOVA KBM

### 10.2.1 NOVA KBM GROUP

#### Income statement

For the year ended 31 December 2014, the Nova KBM Group reported a net profit of €23,281,000, as opposed to a net loss of €684,908,000 incurred a year ago. Income from continuing and discontinued operations totalled €166,722,000 in 2014, down 5.1% on 2013, with most of the income deriving from net interest and net fees and commissions, which totalled €110,726,000 and €55,959,000, respectively. Operating costs amounted

to €103,608,000, a decline of 8.7% from 2013, while net provisioning charges set aside by the Group in 2014 totalled €44,514,000, a considerable reduction from 2013 when these charges reached €720,735,000.

#### Net interest income

The net interest income earned by the Group in 2014 totalled €110,726,000, an increase of 48.4% from 2013. The year-on-year increase in this category was the result of a 48.5% decline in interest expenses, partially offset by a 6.6% reduction in interest income. Nova KBM saw the largest fall in interest expenses, while a decline in interest income was registered across all segments of the Group.

#### Non-interest income

The 2014 net fee and commission income was down 1.1% from 2013. Both fee and commission income, and fee and commission expenses saw a decline last year, with fees earned on payment transactions registering the largest drop.

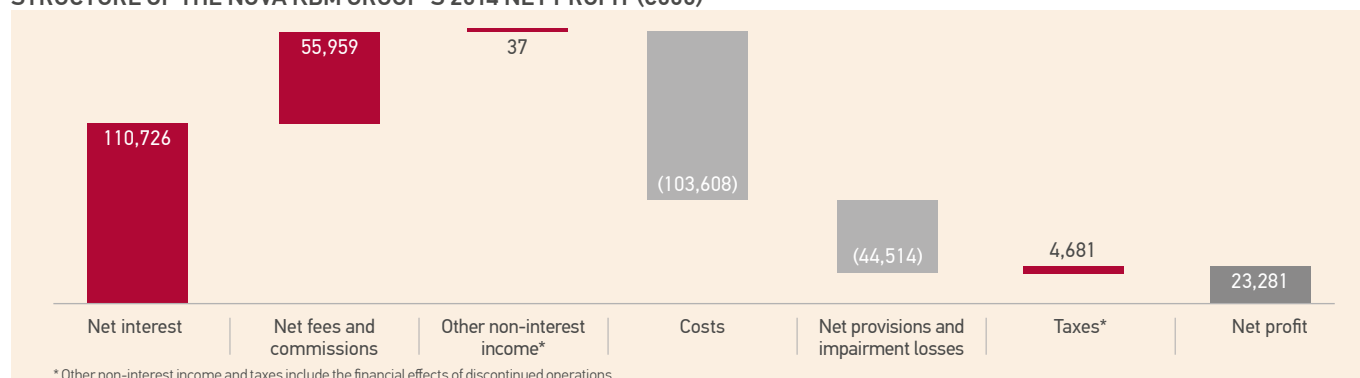
Other non-interest income<sup>15</sup> generated by the Group in 2014 totalled €37,000. In 2014, the Group incurred a loss of €19,364,000 from discontinued operations resulting from the initiation of the process of directly selling a subsidiary bank.

#### Operating costs

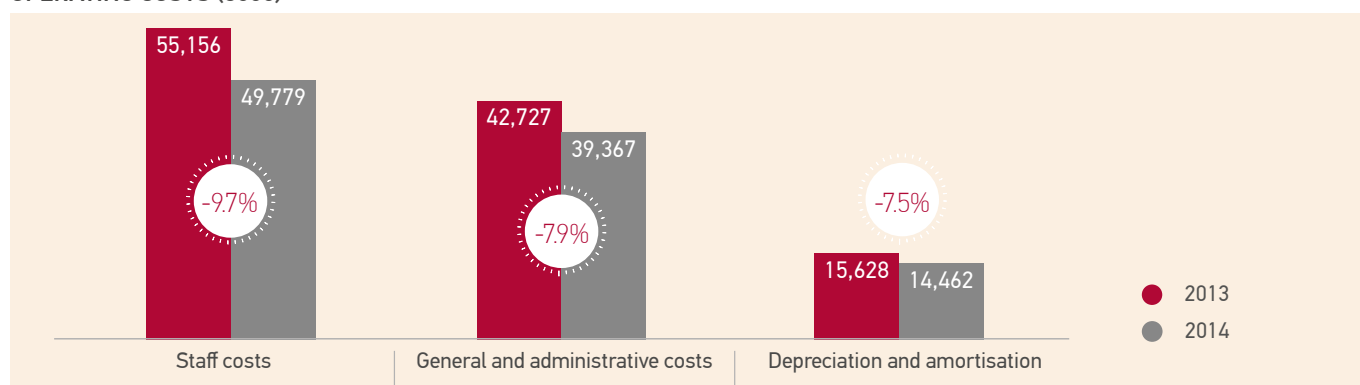
Operating costs (administration costs, including depreciation and amortisation) totalled €103,608,000 in 2014, down 8.7% on 2013, with the largest decline in

<sup>15</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 other than non-current assets held for sale; other net operating income or loss; share of profits or losses of associates and joint ventures accounted for using the equity method; net gains or losses from non-current assets and disposal groups classified as held for sale; and gains or losses from discontinued operations.

#### STRUCTURE OF THE NOVA KBM GROUP'S 2014 NET PROFIT (€000)



## OPERATING COSTS (€000)



these costs registered by Nova KBM. As regards the composition of operating costs, staff costs accounted for 48.0% of the total operating costs, followed by general and administrative costs (38.0%), and depreciation and amortisation (14.0%). The Group's cost-to-income (CIR) ratio stood at 62.14% at the end of 2014.

**Net provisions and impairment losses**

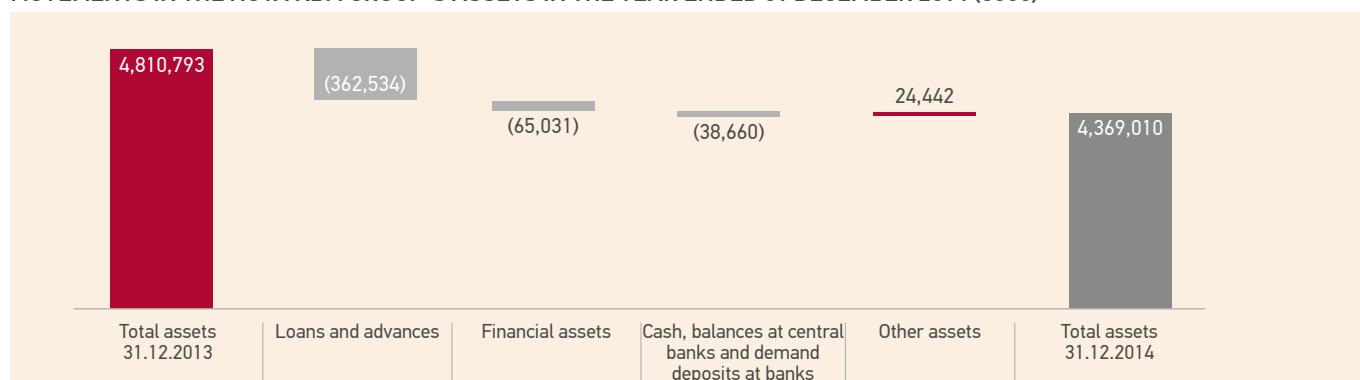
Net provisioning charges set aside by the Group in 2014 totalled €44,514,000, compared to €720,735,000 reported for 2013, with loan impairment losses of €60,011,000 recognised last year being partially offset by

the release of provisions of €15,497,000, which had been created mainly for off-balance sheet liabilities and for restructuring costs.

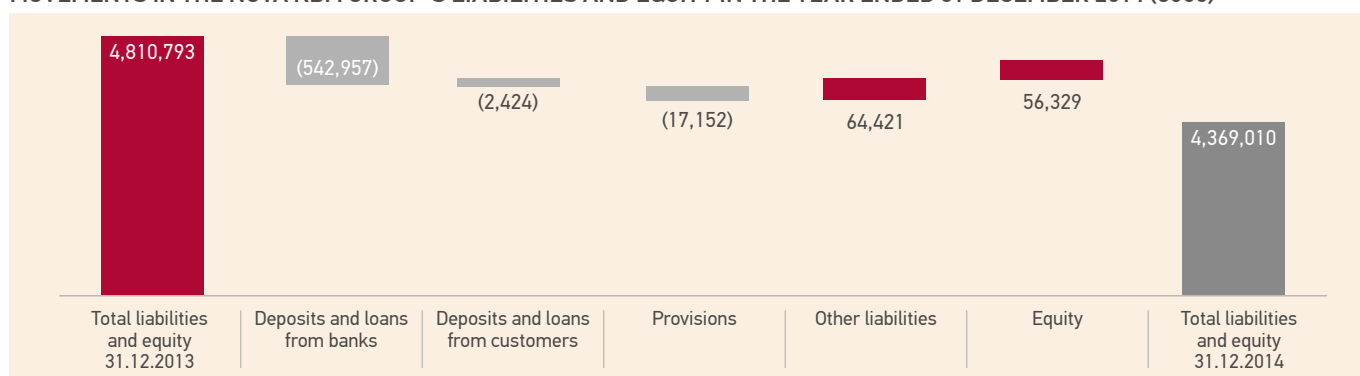
**Statement of financial position****Total assets**

As of 31 December 2014, the Group's total assets amounted to €4,369,010,000, down 9.2%, or €441,783,000 on the 2013 year-end figure. The decline in total assets was in line with the requirements of the European Commission.

## MOVEMENTS IN THE NOVA KBM GROUP'S ASSETS IN THE YEAR ENDED 31 DECEMBER 2014 (€000)



## MOVEMENTS IN THE NOVA KBM GROUP'S LIABILITIES AND EQUITY IN THE YEAR ENDED 31 DECEMBER 2014 (€000)



## Group assets and liabilities

The year-on-year decline in total assets was mainly the result of a €310,890,000 drop in net loans outstanding to the non-banking sector, but also due to a decrease of €58,357,000 in the balance of available-for-sale and held-to-maturity financial assets. This decline was partially offset by an increase of €53,405,000 in the balance of non-current assets held for sale and discontinued operations resulting from the initiation of the process of directly selling a subsidiary bank. On the liabilities side of the statement of financial position, we saw a decline in the balance of liabilities to banks, which was attributable mainly to scheduled and early repayments of funds raised in the past.

A year-on-year decline in net loans outstanding to the non-banking sector, coupled with a broadly unchanged level of customer deposits, caused the Group's net loan-to-deposit ratio to contract by 10.05 percentage points, to 62.43% at the end of 2014.

The Group is consistently implementing its Restructuring Programme and is scaling down its business volumes and risk-weighted assets in accordance with the commitments it has given to the European Commission.

## Equity

At the end of 2014, the Group's total equity amounted to €616,357,000, up 10.1% on the 2013 year-end figure.

### 10.2.2 NOVA KBM

## Income statement

For the year ended 31 December 2014, the Bank reported a pre-tax, pre-provision profit of €77,261,000, an increase of 11.2%, or €7,798,000, from a year ago. The 2014 net

profit of the Bank totalled €35,916,000, as opposed to a net loss of €656,500,000 incurred in 2013.

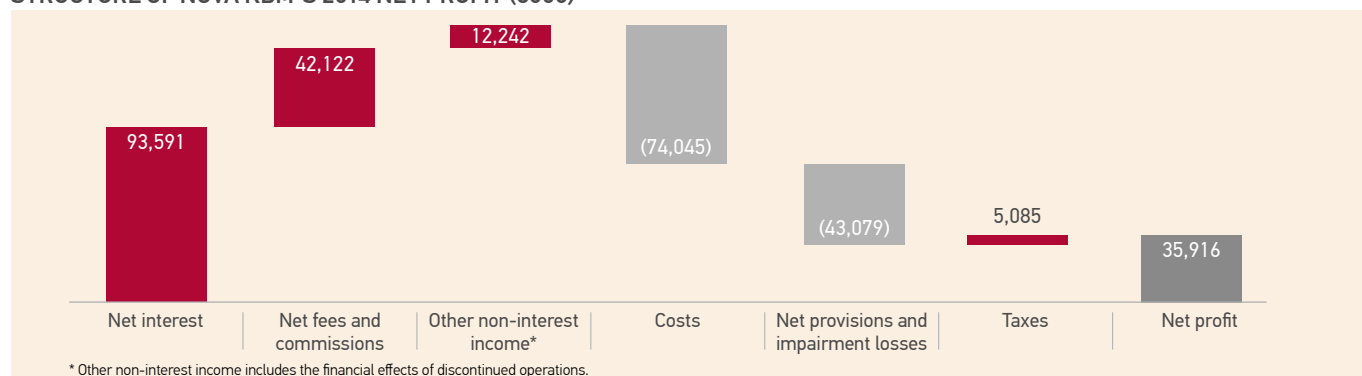
## Net interest income

The year-on-year increase of 54.4%, or €32,963,000, in net interest income was the result of a decline of 49.4%, or €42,132,000, in interest expenses, partially offset by a decrease in interest income, which registered a drop of 6.3%, or €9,169,000.

A decrease in interest income of 21.5%, or €25,630,000, relative to 2013 was attributable to a lower amount of interest earned on loans as a result of a decline in both average interest rates and the gross balance of loans outstanding to the non-banking sector. The average monthly balance of gross loans outstanding to the non-banking sector decreased year-on-year by 33.7%, or €1,110,000, mainly as a result of the Bank transferring its bad loans to the BAMC in December 2013, but also due to the repayment of loans by customers, and low lending volumes. The average monthly balance of available-for-sale and held-to-maturity financial assets increased year-on-year by 55.0%, or €498,158,000. Excluded income attributable to the impairment of interest recognised by the Bank in 2014 totalled €11,671,000, down 54.1%, or €13,764,000, on 2013. Of the total income earned by the Bank, €10,320,000 related to default interest, which was about one-third less than in 2013.

Interest expenses declined year-on-year by 49.4%, or €42,132,000, of which €40,269,000 pertained to a decline in interest paid on financial liabilities measured at amortised cost. The average monthly balance of deposits from the non-banking sector decreased year-on-year by 10.9%, or €303,542,000, chiefly on account of the 2013 conversion of state deposits into equity

### STRUCTURE OF NOVA KBM'S 2014 NET PROFIT (€000)



of the Bank. The amount of interest paid on funds borrowed from the central bank declined too, from €2,357,000 in 2013 to €498,000 in 2014, due to the Bank repaying, by the end of November 2014, all the funds totalling €420,000,000 it had borrowed through the ECB's longer-term refinancing operations at the end of November 2013.

The year-on-year decline in interest expenses was also the result of a reduction in the ECB's key interest rates, as presented in the table below.

Effective date	Interest rate applicable to the ECB's main refinancing operations (ECB's key interest rate)
13.11.2013	0.25%
11.06.2014	0.15%
10.09.2014	0.05%

Source: <https://www.bsi.si/podatki/om-ECB.asp?Mapald=1002>.

### Non-interest income

Non-interest income earned by the Bank in 2014 reached €54,364,000.

Fee and commission income totalled €46,163,000, while fee and commission expenses reached €4,041,000, providing net fee and commission income of €42,122,000.

Other non-interest income amounted to €12,242,000, of which the largest proportion derived from trading in securities.

### Operating costs

Operating costs (administration costs, including depreciation and amortisation) incurred by the Bank in 2014 totalled €74,045,000, down 10.8%, or €8,985,000, on the figure reported for 2013.

Staff costs decreased year-on-year by 11.1%, or €4,294,000, with the number of employees falling by 77. Efforts made by the Bank to improve its cost-efficiency were reflected in the cost-to-income ratio (CIR), calculated as the ratio between operating costs and net income, which fell from 61.37% in 2013 to 50.05% in 2014. Without the Bank incurring extraordinary costs (which totalled €2,723,000 in 2014, and €5,574,000 in 2013), the cost-to-income ratio would have stood at 48.21% in 2014.

### Net provisions and impairment losses

The amount of net provisioning charges set aside by the Bank in 2014 totalled €43,079,000, compared to €685,758,000 reported for 2013. In 2014, the Bank recognised provisioning charges for the following asset categories:

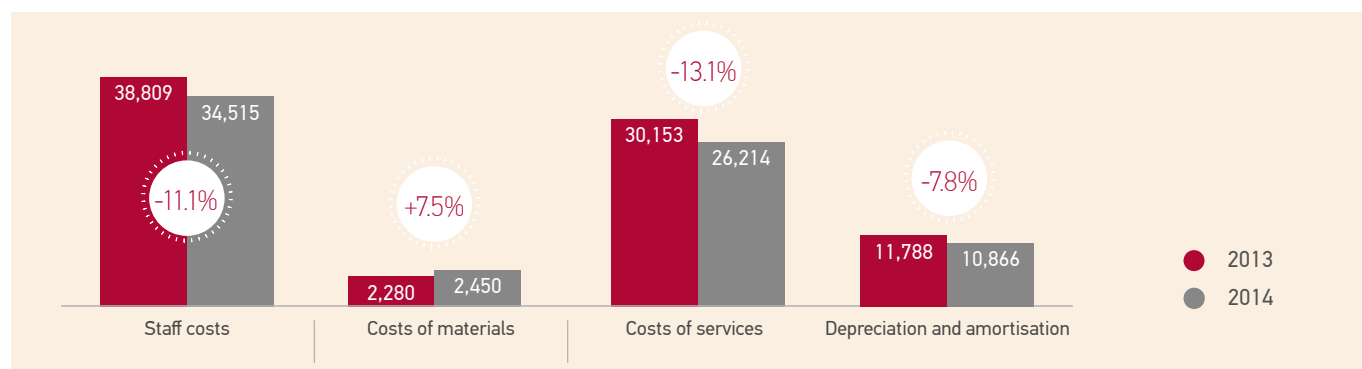
- loans measured at amortised cost, in the amount of €36,053,000
- financial assets measured at cost, in the amount of €2,035,000
- available-for-sale financial assets designated at fair value, in the amount of €1,437,000
- other assets, in the amount of €12,014,000.

During 2014, the Bank released net provisions of €8,460,000.

### Comprehensive income

The comprehensive income after tax equalled €62,635,000 (2013: a comprehensive loss of €647,268,000). The 2014 net profit was negatively affected by actuarial net losses of €725,000 incurred on defined benefit pension plans. This loss was more than offset by gains of €33,036,000 earned in respect of available-for-sale financial assets. Income tax relating

### OPERATING COSTS (€000)





to components of other comprehensive income amounted to €5,592,000.

## Statement of financial position

### Total assets

As of 31 December 2014, the Bank's total assets amounted to €3,608,215,000, down 7.7%, or €301,768,000, on the 2013 year-end figure.

### Loans and advances to customers

The balance of net loans and advances to the non-banking sector totalled €1,593,294,000 at the end of 2014; a year-on-year decrease of 12.8%, or €233,077,000. The balance of gross loans outstanding to the non-banking sector decreased year-on-year by €267,949,000, of which €122,221,000 was attributable to a decline in gross loans outstanding to non-financial companies. Value adjustments on loans were reduced by €34,872,000 in 2014.

### Available-for-sale and held-to-maturity financial assets

The balance of available-for-sale and held-to-maturity financial assets fell year-on-year by €38,073,000, of which

€22,031,000 was attributable to a decline in the balance of debt securities and €16,042,000 was attributable to a decline in the balance of equity instruments.

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

The Bank's investments in the equity of subsidiaries, associates and joint ventures saw an increase of €42,625,000 last year, mainly on account of recapitalisation of subsidiaries.

### Deposits and loans from customers

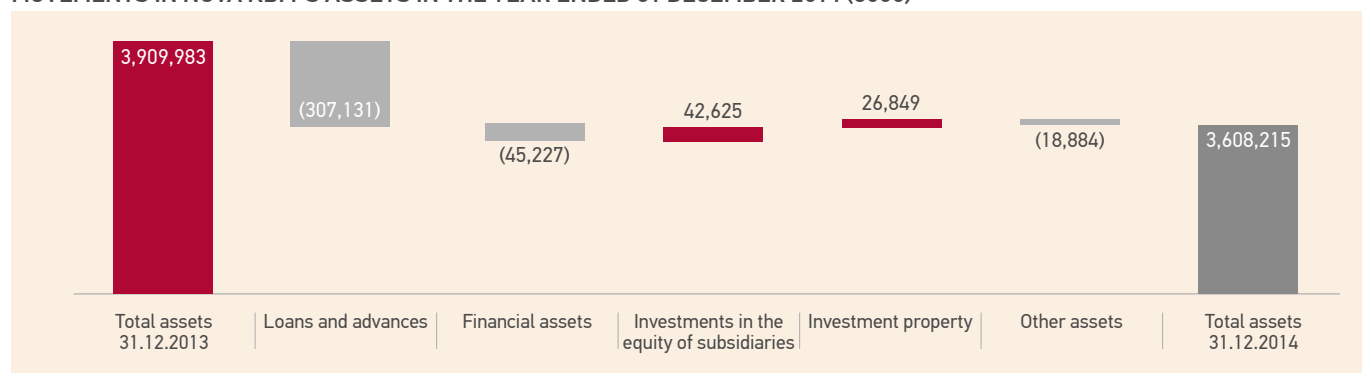
Deposits and loans from customers increased year-on-year by 4.3%, or €101,995,000, with the largest increase being registered in household deposits, which went up by €49,016,000, and deposits and loans from other financial organisations, which saw an increment of €38,023,000.

### Loans from banks and central banks

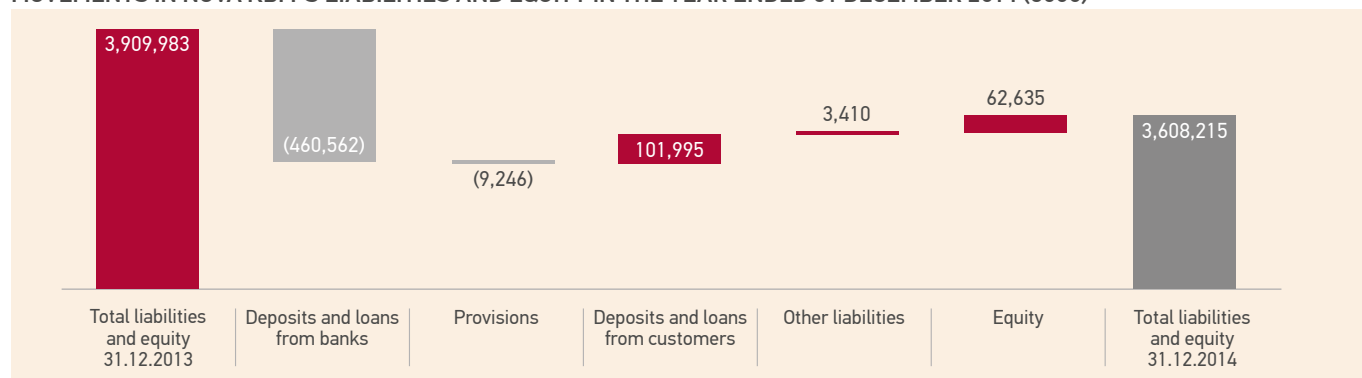
Loans from banks, including central banks, saw a decline of €420,360,000 last year.

The decline in this category resulting from the November repayment of funds totalling €420,000,000, which the Bank had borrowed in the past through the

## MOVEMENTS IN NOVA KBM'S ASSETS IN THE YEAR ENDED 31 DECEMBER 2014 (€000)



## MOVEMENTS IN NOVA KBM'S LIABILITIES AND EQUITY IN THE YEAR ENDED 31 DECEMBER 2014 (€000)



ECB's longer-term refinancing operations, was partially reversed in December 2014 when the Bank raised €88,000,000 through the ECB's targeted longer-term refinancing operations (TLTRO).

The remaining decline in the balance of this category was attributable mainly to the repayment of loans to SID Banka.

### Equity

At the end of 2014, the Bank's total equity amounted to €580,347,000, up 12.1%, or €62,635,000, on the 2013 year-end figure. The year-on-year increase in equity was partially the result of the net profit reported for 2014, totalling €35,916,000, and partially due to an increase of €26,719,000 arising from a recovery in the market price of securities which are fair valued through equity.

## 10.3 / PROFILE OF THE NOVA KBM GROUP COMPANIES<sup>16</sup>

### Poštna banka Slovenije d.d.

**Year of establishment:** 1991

**Website:** [www.pbs.si](http://www.pbs.si)

**E-mail:** [info@pbs.si](mailto:info@pbs.si)

**Nova KBM's shareholding as of 31 December 2014 (%):** 99.12

**Management Board members as of 31 December 2014:**

Danica Ozvaldič (substitute member) and Mojca Mak (substitute member)

**Supervisory Board members as of 31 December 2014:**

Aleš Hauc (Chair), Sabina Župec Kranjc (Deputy Chair), Boris Novak, Miha Šlamberger and Vinko Filipič

#### ACTIVITY

PBS provides financial services, including banking services, mutually recognised financial services, additional financial services and other ancillary financial services pursuant to the Banking Act. On 10 December 2013, PBS received a Bank of Slovenia licence allowing it to provide insurance brokerage services in accordance with the law governing the insurance business.

#### BUSINESS PERFORMANCE IN 2014

PBS's total assets decreased year-on-year by 7% to €720,102,000 at the end of 2014. Financial liabilities measured at amortised cost totalled €662,068,000, with the largest proportion of this figure, €616,398,000, relating to customer deposits, which saw a year-on-year decline of 3%. PBS's funds borrowed through longer-term refinancing operations with the central bank registered last year a decline of €35,668,000. On the assets side of the statement of financial position, we saw a decline of €58,200,000 in loans and deposits outstanding to banks, while the net loans and advances to customers fell by €47,252,000, to €304,056,000 at the end of the year. The portfolio of securities totalled €315,249,000 at the end of the year, up €32,018,000 on 2013. For 2014, PBS reported a net interest income of €20,582,000, up 22% on 2013, and a net non-interest income of €11,472,000, which was 63% more than in 2013. The year-on-year increase in non-interest income was attributable mainly to a gain of €4,467,000 earned on the sale of securities.

Net fees and commissions earned by PBS, totalling €9,570,000, were sufficient to cover 56.2% of its operating costs. Administration costs decreased year-on-year by €971,000, reflecting PBS's active approach towards cost management. In view of the ongoing weak economic climate, and considering the fact that its loan portfolio was not cleaned up completely in 2013, PBS set aside €14,810,000 in net provisioning charges last year. The net profit reported by PBS for 2014 totalled €246,000, against a net loss of €57,164,000 incurred a year ago.

#### BUSINESS STRATEGY

The priorities which PBS has set for its operations for 2015 are as follows:

- to focus on lending to small and medium-sized companies as well as households
- to increase the number of products per customer
- to favour prudent management of risk and the provision of returns in line with the commitments given to the European Commission, instead of pursuing growth
- to place an increased focus on active management of the securities portfolio in order to achieve appropriate returns
- to retain the leading position in the area of retail customer payments
- to actively manage NPLs in order to maximise the loan recovery rate and reduce any losses, as well as to cut down on operating costs.

<sup>16</sup> The financial data included in this section are taken from the stand-alone financial statements of the Group companies.

## Adria Bank AG

**Year of establishment:** 1980

**Website:** [www.adriabank.at](http://www.adriabank.at)

**E-mail:** [headoffice@adriabank.at](mailto:headoffice@adriabank.at)

**Nova KBM's shareholding as of 31 December 2014 (%):** 100.00

**Management Board members as of 31 December 2014:**

Udo Amadeus Szekulics (President)

**Supervisory Board members as of 31 December 2014:**

Peter Kupljen (Chair), Mitja Leskovic (Deputy Chair) and Lidija Perovic

### ACTIVITY

On 29 August 2014, the Adria Bank Supervisory Board reached a decision to start all the procedures to terminate the operations of Adria Bank, with the date of returning its licence for providing banking services being set for 31 March 2015.

### BUSINESS PERFORMANCE IN 2014

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

Adria Bank's total assets fell by almost 70% last year, to reach €37,359,000 as of 31 December 2014. This considerable reduction in total assets derived mainly from the shrinkage of Adria Bank's portfolio of loans and advances to customers, as a result of a large proportion of this portfolio being taken over by Nova KBM after the decision had been reached to terminate the banking operations of Adria Bank. At the end of 2014, the balance of cash and demand deposits placed with banks totalled €19,729,000, while the balance of available-for-sale

financial assets was €12,928,000. Financial liabilities measured at amortised cost amounted to €22,230,000, of which €19,175,000 was in customer deposits. Adria Bank's total equity amounted to €12,171,000 at the end of 2014.

Net interest income and net non-interest income generated by Adria Bank in 2014 totalled €1,213,000 and €337,000, respectively. Administration costs incurred by Adria Bank were €5,588,000, up 19% on 2013, mainly as a result of legal fees paid in relation to the winding up of its operations. After releasing provisioning charges of €4,615,000, Adria Bank incurred a net loss last year of €219,000.

### BUSINESS STRATEGY

By 31 March 2015, Adria Bank plans to return to the Austrian Financial Market Authority (FMA) its licence for providing banking services, after which it expects to change its legal form from a joint stock company (AG) to a limited liability company (GmbH).

## KBM Banka a.d.

**Year of establishment:** 1955

**Website:** www.kbm.rs

**E-mail:** kabinet@kbm.rs

**Nova KBM's shareholding as of 31 December 2014 (%):** 89.53

**Executive Board members as of 31 December 2014:**

Vesna Užnik Đorić (President) and Ljubinka Lovčević

**Management Board members as of 31 December 2014:**

Igor Žibrik (Chair), Aleš Hauc (Deputy Chair), Drago Bahun, Sanja Tucaković and Nedeljko Tenjević

### ACTIVITY

The principal activity of KBM Banka is the provision of corporate and retail banking services.

### BUSINESS PERFORMANCE IN 2014

As of 31 March 2014, KBM Banka did not meet the capital requirements prescribed by the local regulator. The European Commission refused to give consent to a proposal of Nova KBM, according to which a recapitalisation of €10 million and a write-off of a €5 million subordinated debt were envisaged for KBM Banka, making it impossible for KBM Banka to continue to run its operations normally and on a sound basis.

KBM Banka's total assets shrank by almost 30% last year, to reach €79,292,000 as of 31 December 2014. The largest decline was attributable to a reduction in the balance of securities, as a result of KBM Banka being forced to sell a certain proportion of its securities portfolio in order to maintain an adequate liquidity position. At the end of 2014, the total balance of financial assets (the sum of available-for-sale financial assets, financial assets held for trading and held-to-maturity financial assets) amounted to €9,979,000, while the balance of loans and advances outstanding to customers totalled €33,531,000, down 19% on 2013, reflecting a decline in KBM Banka's business volume and the poor economic situation in Serbia. The balance of cash and

demand deposits placed with banks was €22,875,000. Financial liabilities measured at amortised cost totalled €64,256,000, of which €55,649,000 was in customer deposits. KBM Banka's total equity stood at €14,246,000 at the end of 2014.

The net interest income and net non-interest income generated by KBM Banka in 2014 totalled €3,826,000 and €2,382,000, respectively. Administration costs were €5,515,000, down 23% on 2013. After setting aside provisioning charges of €2,521,000, KBM Banka incurred a net loss last year of €2,120,000.

### BUSINESS STRATEGY

The following options have been considered for KBM Banka: (i) liquidation, as part of which KBM Banka would be required to meet all regulatory requirements with respect to the level of its capital and capital adequacy. Given the negative position of the European Commission regarding the measures referred to above to strengthen KBM Banka's capital base, this option is not regarded as feasible; (ii) recapitalisation provided by another party; or (iii) the sale of KBM Banka.

All the procedures necessary to sell KBM Banka have started, with the sale expected to be completed in the first quarter of 2015.



## KBM Infond, družba za upravljanje, d.o.o.

**Year of establishment:** 1993

**Website:** [www.infond.si](http://www.infond.si)

**E-mail:** [info@infond.si](mailto:info@infond.si)

**Nova KBM's shareholding as of 31 December 2014 (%):** 72.73

**Management Board members as of 31 December 2014:**

Matjaž Lorenčič (President) and Samo Stonič

**Supervisory Board members as of 31 December 2014:**

Miha Šlamberger (Chair), Sabina Župec Kranjc (Deputy Chair), Mitja Leskovar, Vito Bobek and Borut Celcer

### ACTIVITY

At the end of 2014, the company managed the Infond PBGS Mixed Mutual Fund, and the Infond Umbrella Fund with eighteen sub-funds, of which thirteen were equity sub-funds, one was a bond sub-fund, one was a money market sub-fund, and three were mixed sub-funds.

According to the available data, the total market capitalisation of all mutual funds managed by companies headquartered in Slovenia was €2,141,231,000 at the end of 2014. Net asset value of all mutual funds managed by KBM Infond totalled €265,508,000, giving the company a market share of 12.40%.

### BUSINESS PERFORMANCE IN 2014

For 2014, the company reported a net profit of €1,309,000.

The company's total equity amounted to €12,590,000 as of 31 December 2014, a decline 0.65% from the previous year, while its total assets stood at €13,563,000, down 1.55% on 2013.

Last year, the company removed the Infond PBGS Mixed Mutual Fund from trading on the regulated market of the Ljubljana Stock Exchange, and took over from KDD the records of investors in the fund.

### BUSINESS STRATEGY

The main objectives of KBM Infond for 2015 are as follows: to promote the sale of existing products and to develop new combined products within the Nova KBM Group; to develop the Nova KBM branch office network into the main sales and advisory channel for its products; to strengthen cooperation with institutional investors, principally pension management companies; to look for acquisition targets; to optimise and efficiently manage operating costs; to pursue the policy of distributing profits to shareholders; to repay the subsequently contributed capital; to ensure an adequate capital base; to meet all regulatory requirements with respect to its operations.

## KBM Invest d.o.o.

**Year of establishment:** 1998

**Website:** [www.kbminvest.si](http://www.kbminvest.si)

**E-mail:** [kbm-invest@kbminvest.si](mailto:kbm-invest@kbminvest.si)

**Nova KBM's shareholding as of 31 December 2014 (%):** 100.00

**Management as of 31 December 2014:**

Nada Kolmanič (Manager)

**Supervisory Board members as of 31 December 2014:**

Mitja Leskovar (Chair), Anton Guzej, Peter Kupljen and Borut Radolič

### ACTIVITY

In 2014, the company carried out the following activities:

- investment engineering, and maintenance services and management of Nova KBM's large real estate investments, as set out in the adopted annual plan, focusing on investments and investment-maintenance works related to newly-constructed buildings, as well as refurbishment of the Bank's business premises
- construction and sale of real estate in the market.

### BUSINESS PERFORMANCE IN 2014

The year of 2014 saw the continuation of poor performance of the real estate market, with the prices and demand for real estate registering a further decline. For 2014, the company reported a net loss of €1,345,000. The sales income generated by the company was not sufficient to cover the costs of its inventory of real estate units built for the market. The largest proportion of the 2014 net loss was attributable to the costs of financing the real estate projects built for the market, which the company could not cover with the prices achieved in the market.

The total income earned by the company in 2014 amounted to €9,008,000, up 36% on 2013. The year-on-year increase in income was attributable mainly to the sale of four plots of land to the BAMC. Net sales income of €8,851,000 was partially derived from the sale of the inventory of completed real estate units, and partially

from investment engineering services provided to Nova KBM. Total expenses incurred by the company last year amounted to €10,353,000, of which the largest proportion related to the costs of products and services sold, costs incurred in the maintenance of real estate projects, administration costs, and financing expenses.

The company's total assets were €13,492,000 at the end of 2014, down 26.5% on 2013, mainly as a result of a 33.3% decrease in inventory due to the sale of a certain number of real estate units. The balance of inventory totalled €10,721,000 at the end of 2014, which made up 79.5% of the company's total assets.

Because it was undercapitalised, in 2014 the company requested Nova KBM to provide additional capital of €19,000,000, which Nova KBM did in December 2014, by way of a debt-to-equity conversion.

### BUSINESS STRATEGY

In 2015, the company will carry on the work arising from its changed role within the Nova KBM Group. In agreement with Nova KBM, it will take an active part in resolving problems related to real estate projects financed by loans that Nova KBM gave to construction companies or investors that later filed for compulsory composition or bankruptcy. In accordance with the Restructuring Programme, KBM Invest will file for liquidation no later than the end of 2017.

## KBM Leasing d.o.o. (in liquidation)

**Year of establishment:** 1989

**Website:** [www.kbm-leasing.si](http://www.kbm-leasing.si)

**E-mail:** [leasing@nkbm.si](mailto:leasing@nkbm.si)

**Nova KBM's shareholding as of 31 December 2014 (%):** 100.00

**Management as of 31 December 2014:**

Jure Hartman (Liquidator)

**Supervisory Board members as of 31 December 2014:**

Mitja Leskovar (Chair), Anton Guzej (Deputy Chair), Peter Kupljen and Borut Radolič

### ACTIVITY

KBM Leasing offers finance leasing and operating leasing of movable property and real estate.

### BUSINESS PERFORMANCE IN 2014

On 30 December 2014, Nova KBM passed a decision to initiate the regular liquidation of KBM Leasing, in line with the adopted Restructuring Programme.

No new lease agreements have been concluded by the company since the second half of 2012. The company used all the proceeds received, either under the outstanding lease agreements or from the sale of inventory, to pay off its financial obligations. The high level of inventory of equipment seized under lease agreements, and the negative net worth were the main burdens on the company's operations last year. In June 2014, the company drew up a proposal for its financial restructuring by way of liquidation, based on which the recapitalisation of the company, worth €56,699,000, took place at the end of the year. To release itself from the burden of inventory, the company was involved in the project of transferring bad assets to the BAMC, which was carried out in May 2014. At the end of last year, the company sold its investment property to Nova KBM, using the proceeds to repay its financial obligations to the banks in the Nova KBM Group as well as to other creditor banks.

For the year ended 31 December 2014, the company reported a net loss of €4,421,000 and a total equity of €14,654,000. The loss incurred last year was attributable to additional provisioning charges set aside by the company as a result of being exposed to some new risks and potential liabilities. Due to having negative net worth throughout most of last year, the company had to raise loans to finance its business, thereby incurring the burden of interest, which placed additional pressure on its already weak financial position. The company's total assets decreased year-on-year by €45,517,000, or 71%, to reach €18,974,000 at the end of 2014. The value of the company's inventory held for sale totalled €6,580,000 or €2,194,000 net, after absorbing the impact of impairment losses totalling €4,386,000 set aside for these assets. Inventory made up 12% of the company's total assets at the end of 2014. The balance of claims under outstanding lease agreements totalled €21,219,000, of which €3,675,000, or 17%, was in past-due and unpaid claims. Impairment losses of €9,650,000 have been recorded for these claims. The remaining assets of the company are held in cash, business premises and other claims.

### BUSINESS STRATEGY

KBM Leasing expects to complete the liquidation proceedings by 31 July 2015, after which the remaining assets of the company will be transferred to Nova KBM.

## Gorica Leasing d.o.o. (in liquidation)

**Year of establishment:** 1998

**Website:** [www.gorica-leasing.si](http://www.gorica-leasing.si)

**E-mail:** [info@gorica-leasing.si](mailto:info@gorica-leasing.si)

**Nova KBM's shareholding as of 31 December 2014 (%):** 100.00

**Management as of 31 December 2014:**

Silvan Križman (Liquidator)

**Supervisory Board members as of 31 December 2014:**

Mitja Leskovar (Chair), Peter Kupljen and Borut Radolič

### ACTIVITY

Gorica Leasing offers finance leasing of movable property and technological, gaming and office equipment, finance and operating leasing of real estate, and investment leasing in respect of efficient use of energy.

### BUSINESS PERFORMANCE IN 2014

On 30 December 2014, Nova KBM passed a decision to initiate the regular liquidation of Gorica Leasing, in line with the adopted Restructuring Programme.

No new lease agreements have been concluded by the company since the second half of 2012. The company used all the proceeds received, either under the outstanding lease agreements or from the sale of inventory, to pay off its financial obligations. The high level of inventory of equipment seized under lease agreements, and the negative net worth were the main burdens on the company's operations last year. In June 2014, the company drew up a proposal for its financial restructuring by way of liquidation, based on which the recapitalisation of the company, worth €46,894,000, took place at the end of the year. To release itself from the burden of inventory, the company was involved in the project of transferring bad assets to the BAMC, which was carried out in June 2014. By the end of last year, the company had repaid all of its financial liabilities to the creditor banks, either by using

its own funds for this purpose, or through debt-to-equity conversions.

For the year ended 31 December 2014, the company reported a net loss of €5,100,000 and a total equity of €21,672,000. The loss incurred last year was attributable to additional provisioning charges set aside by the company as a result of being exposed to some new risks and potential liabilities. The company's total assets decreased year-on-year by €13,669,000, or 38%, to reach €22,545,000 at the end of 2014. The value of the company's inventory held for sale totalled €5,895,000 or €2,731,000 net, after absorbing the impact of impairment losses totalling €3,164,000 set aside for these assets. Inventory made up 12% of the company's total assets at the end of 2014. The balance of claims under outstanding lease agreements totalled €19,819,000, of which €13,205,000, or 67%, was in past-due and unpaid claims. Impairment losses of €10,922,000 have been recorded for these claims. The remaining assets of the company are held in cash, business premises and other claims.

### BUSINESS STRATEGY

Gorica Leasing expects to complete the liquidation proceedings by 31 July 2015, after which the remaining assets of the company will be transferred to Nova KBM.

## KBM Leasing Hrvatska d.o.o.

**Year of establishment:** 2006

**Website:** [www.kbm-leasing.hr](http://www.kbm-leasing.hr)

**E-mail:** [info@kbm-leasing.hr](mailto:info@kbm-leasing.hr)

**Nova KBM's shareholding as of 31 December 2014 (%):** 98.54

**Management Board members as of 31 December 2014:**

Jure Hartman (President) and Koraljka Kociančić

**Supervisory Board members as of 31 December 2014:**

Mitja Leskovar (Chair), Peter Kupljen and Borut Radolič

### ACTIVITY

KBM Leasing Hrvatska offers finance and operating leasing in the territory of the Republic of Croatia. The operations of the company are constantly monitored by the Croatian Financial Services Supervisory Agency (HANFA). The company is expected to be put into liquidation, as a result of which it has ceased its principal activity and has not concluded any new lease transactions since August 2014.

### BUSINESS PERFORMANCE IN 2014

In line with the Nova KBM Group's Restructuring Programme, the company committed itself to comply with the following requests of Nova KBM: to reduce its total assets by 10% annually; to repay loans of at least €1.5 million; to focus on the sale of inventory; to limit the term of any new transactions as long as these are still being concluded (any new agreements must expire no later than 31 December 2018); to ensure cash-flow needed for positive results; and to reduce operating costs.

The company had reduced its total assets to €22,493,000 by the end of last year, which was a decline of €5,247,000, or 19%, relative to 2013. Taking into consideration the

recapitalisation worth €7.5 million in the form of a debt-to-equity conversion, the company last year reduced its liabilities to banks arising from loans by €10,395,000. The terms of new transactions, until these were suspended, had been within the defined time limits. Despite a considerable level of provisioning expenses set aside last year, totalling €1,658,000, the company managed throughout the year to maintain an adequate liquidity position and to generate positive cash flow.

### BUSINESS STRATEGY

The main objectives of KBM Leasing Hrvatska for 2015 are as follows:

- to reduce its exposure to Nova KBM (up to the level allowed by its positive cash flow)
- to focus on the sale of inventory and on the recovery of bad assets
- to not engage in any new transactions
- to generate positive cash flow (Nova KBM will not provide any additional liquidity)
- to reduce operating costs
- to file for liquidation in the first quarter of 2015
- to reduce its total assets by 10%
- to consider options to sell itself or at least its portfolio.



## M-PAY d.o.o.

**Year of establishment:** 2004

**Nova KBM's shareholding as of 31 December 2014 (%):** 50.00

**Management as of 31 December 2014:**

Janez Stajnko (Manager)

**Supervisory Board members as of 31 December 2014:**

Vlasta Brečko (Chair), Marko Jagodič (Deputy Chair), Miha Šlamberger, Aleksander Batič and Marko Boštjančič

### ACTIVITY

M-Pay was set up as a joint venture between Nova KBM and Mobitel (now Telekom) with the aim of processing payments sent through the mobile payment system which the partners have been developing since the start of their cooperation. Based upon an agreement between its owners, and in accordance with their strategies, M-Pay has not yet taken over the processing of mobile payments, which is why it has no permanent employees and is operating on a small scale.

### BUSINESS PERFORMANCE IN 2014

M-Pay acts as a coordinator of the development of the Moneta system. It provides advisory services to both strategic partners pursuant to the agreement entered into, from which all its income is derived.

In 2014, the total income of the company equalled €23,000, while its total expenses reached €4,000. The net profit reported by the company for last year was €15,000. At the end of 2014, the company's total assets stood at €225,000.

The main activity of the company is content-related and technical coordination of the Moneta system, and the provision of advice on the inclusion of new members into the system and on further development of mobile payment services. The mission of the company is to further develop the Moneta system and, by so doing, to provide its institutional participants in Slovenia with an open business and technical platform that allows payments for contemporary and widely spread financial services to be made using mobile phones.

### BUSINESS STRATEGY

With a vision of becoming the leading Slovene organisation in the area of mobile payment services, systems and processing, the company aims to support all key elements of the Moneta system in order to be able to fully cover with its services the market of mobile operators, banks and payment service providers.

## Moja naložba, pokojninska družba, d.d.

**Year of establishment:** 2000

**Website:** [www.moja-nalozba.si](http://www.moja-nalozba.si)

**E-mail:** [info@moja-nalozba.si](mailto:info@moja-nalozba.si)

**Nova KBM's shareholding as of 31 December 2014 (%):** 45.00

**Management Board members as of 31 December 2014:**

Lojze Grobelnik (President) and Igor Pšunder

**Supervisory Board members as of 31 December 2014:**

Aleš Hauc (Chair), Katrca Rangus (Deputy Chair), Jure Korent, Irena Šela, Irena Žnidaršič, Igor Marinič, Rok Moljk, Robert Senica and Denis Stroligo

### ACTIVITY

Moja naložba is a joint-stock company incorporated under the Pension and Disability Insurance Act and the Insurance Act. It is a specialised insurance company which may provide only voluntary supplementary pension insurance. The principal activities of the company are as follows: collection of voluntary supplementary pension insurance premiums and administration of personal accounts; management of assets of the pension company; payment of annuities; and management of closed and open mutual pension funds.

### BUSINESS PERFORMANCE IN 2014

As of 31 December 2014, the company's total assets were €115,242,000, up 5% on the 2013 year-end figure, as a result of a year-on-year increase in the value of the long-term business fund for pension savings from €101 million to €104.8 million. Despite the company registering a decline (although only a marginal one of 3.7%) in the number of its policyholders, the total volume of extraordinary withdrawals made by policyholders last year as a result of terminating their insurance policies with the company was considerably lower than in previous years. The total amount of funds paid out to policyholders, either as result of regular or extraordinary termination of insurance policies, reached €13.1 million last year. It is expected that the declining trend of extraordinary withdrawals of funds will continue this year. On the back of a 9% increase in collected premium, a lower level of fund pay-outs, and an above-guaranteed return provided by the company, the value of its long-term fund for pension savings increased year-on-year by 3.8%, to reach €104.8 million at the end of 2014. For 2014, the company reported a net profit of €343,000, against a net loss of €387,000 incurred a year ago. The company's continuing operations, which include the performance of the annuity fund, delivered a positive result of €74,000 (2013: €57,000), while the financing result amounted to €258,000 (2013: a loss of €187,000). Other income totalled €14,000 (2013: other expenses of €257,000) and derived mainly from

other income generated by the long-term business funds for annuity insurance, partially offset by expenses related to the permanent transfer payment to the long-term business fund for pension insurance.

### BUSINESS STRATEGY

The key competitive advantage of Moja naložba is providing an efficient balance between safety (sound shareholding structure, above-average guaranteed return) and the return of assets managed (active asset management, above-average return under any market conditions). The company will build the efficiency of its business and commercial activities on its long-term ranking among the most successful comparable providers of voluntary supplementary pension insurance in terms of return. The accomplishment of this objective will improve the reputation of the company and the confidence of customers in its operations, which will ensure the company attains a more favourable position in the area of selling voluntary supplementary pension insurance. In 2015, the company will continue carrying out activities to acquire new policy holders, targeting both employers that are not yet included in the system of voluntary pension insurance and those that already pay premiums for their employees. As regards the latter, the company will make an effort to become the second-choice voluntary pension insurance provider, given that the insurance conditions provided by the company and the to-date results suggest that several additional agreements on voluntary pension insurance could be signed with employers. Following the receipt of necessary approvals and permits, the company will enable policy holders to be included in the life-cycle funds. In this way, it will offer policyholders the chance to join two additional funds without a guaranteed return. The company anticipates that the difficult situation faced by the economic sector will ease somewhat in 2015, raising hopes that the total insurance premium collected by the company during the year will be at least at the 2014 level. For 2015, the company expects to report positive results across all segments of its operations.

## 10.4 / NOVA KBM'S MARKETING STRATEGY AND MARKETING ACTIVITIES

Marketing strategy and marketing activities were formulated on the basis of the business strategy and objectives of the Bank and the Nova KBM Group. In carrying out its market activities, the Bank devoted a great deal of attention to the changed market conditions. Among the most important objectives pursued in the execution of the strategy were concern for strengthening the reputation of the Bank, preserving the satisfaction of customers and of the trust they have placed in the Bank, efficient accomplishment of commercial and other business objectives, and focus on cost optimisation.

In the challenging market conditions that prevailed throughout last year, the Bank endeavoured to upgrade the existing financial services and develop new ones, primarily such that bring additional value to customers, in order to retain the existing customers, build their confidence in Bank operations, and sustain their level of satisfaction.

To promote its services and those offered by other Nova KBM Group companies, during 2014 the Bank conducted a number of marketing campaigns, including sales promotion, advertising, cross-selling, and internal marketing, among others. Special attention was devoted to activities aimed at encouraging customers to continue using or even to take additional loan, deposit and insurance products, many of which were adapted to suit the contemporary needs of customers. The Visa prepaid card was successfully promoted as being part of the overall identity of the NK Maribor Football Club.

Utilising its trademark 'Sveta vladar' (Ruler of the world) aimed at appealing to young people, the Bank communicated in an innovative fashion, created new trends, and tried to bring its services closer to the target group through providing them with positive experiences.

The cooperation with corporate customers and sole proprietors was strengthened at numerous business events, through the activities conducted within the Entrepreneur Centre, and by creating special product packages for this segment.

The Bank tried to build up its reputational capital through effective internal and external communication. For its communication efforts, the Bank used a variety of tools and channels, including websites, social networks and others, in addition to several new communication channels that were introduced in 2014.

Several marketing campaigns were also carried out in cooperation between the Bank and other Nova KBM Group companies, as were some cross-selling and internal marketing initiatives aimed at promoting the services provided by the Bank.

The Bank devoted a great deal of attention to internal communication. For that purpose, it prepared several communication guidelines and the annual internal communication plan, along with a schedule of initiatives aimed at enhancing the internal flow of information. In addition, it conducted a survey on communication efficiency to identify the main obstacles to achieving the highest level of internal communication.

Further information about internal communication is given in the section headed 'Sustainable development'.

## 10.5 / NEW AND UPGRADED SERVICES AND DISTRIBUTION CHANNELS OF NOVA KBM

In 2014, the Bank pursued the strategic direction of developing new services and upgrading the existing ones, thereby providing customers with additional value and enabling them to access the banking services through contemporary distribution channels. New and upgraded products and services provided by the Bank are presented in the table below.

Business segment	New products and services, and upgrades of existing ones
Website	<ul style="list-style-type: none"> <li>Upgrade of the Bank website.</li> <li>New website for the youngest (Dindin).</li> </ul>
Savings products	<ul style="list-style-type: none"> <li>At-call deposit account aimed at customers that prefer to have the option of withdrawing their savings at any time.</li> <li>Launch of a contemporary savings application called 'Varčevalnik' (Saver) that helps customers achieve their savings objectives.</li> </ul>
Moneta	<ul style="list-style-type: none"> <li>Simplified activation of the Moneta service enabled for Nova KBM customers.</li> </ul>
Loan products	<ul style="list-style-type: none"> <li>Extension of the maturity of housing loans from 25 to 31 years; reduction of the minimum monthly instalment.</li> <li>Extension of the maturity of consumer loans from eight to 12 years; reduction of the minimum monthly instalment from €42 to €35.</li> </ul>
Distance personal account	<ul style="list-style-type: none"> <li>Option to open a personal account at a distance, without visiting a branch office.</li> </ul>
ATMs	<ul style="list-style-type: none"> <li>Extension of ATM services to include the option of receiving a transaction confirmation via SMS.</li> <li>Extension of ATM services to include the option of transferring funds between accounts held at any Slovene bank.</li> </ul>
Services for sole proprietors and private undertakings	<ul style="list-style-type: none"> <li>Overhaul and upgrade of existing product packages and introduction of new ones for sole proprietors and private undertakings (packages for merchants, caterers, accountants and carriers).</li> </ul>
Personal banking	<ul style="list-style-type: none"> <li>Introduction of personal banking services to enable individual treatment of customers by qualified banking advisers.</li> </ul>
Online banking service for retail customers	<ul style="list-style-type: none"> <li>Upgrade of the online banking facility to include new functionalities for personal banking services.</li> </ul>
Online banking service for corporate customers	<ul style="list-style-type: none"> <li>Replacement of EPP applications as well as of mounted and online web banking facilities with the Bank's own web application Poslovni Bank@Net.</li> </ul>
Payment cards	<ul style="list-style-type: none"> <li>Start of a complete overhaul of payment cards to enable payments in instalments and contactless payments.</li> <li>Start of work to migrate payment card transactions to a new process centre.</li> </ul>
E-invoices	<ul style="list-style-type: none"> <li>Inclusion in the e-invoice exchange system as an issuer and a recipient of e-invoices on behalf of both corporate and retail customers.</li> </ul>

## 10.6 / MODERN DISTRIBUTION CHANNELS OF NOVA KBM

The distribution network of Nova KBM makes it possible for customers to carry out their operations in different ways:

- in person, at counters of Nova KBM, Pošta Slovenije and PBS
- by using payment cards at the Bank's own ATMs
- by using payment cards at the Bank's own POS terminals
- by using payment cards at ATMs and POS terminals of other banks
- by using mobile phones with Moneta eTerminals, Moneta Terminals, Moneta vending machines, over the internet or by telephone
- via internet: at distance current account opening
- by using the online banking service: Bank@Net (for households) and Poslovni Bank@Net (for corporate customers)
- by using the mobile banking service: mBank@Net (for households) for smartphones with the Android OS or iOS
- by using telephone banking
- by using day-night safes or by collecting money at agreed upon places.

The use of modern distribution channels is indirectly linked to the functioning of payment systems. As in previous years, in 2014 several changes were implemented in the area of payment systems, such as the following:

- In the central payment system application (CAPS), the following changes were implemented:
  - changes due to amendments to the legal framework governing payment systems
  - changes due to amendments of rules governing the functioning of systems used for the processing of SEPA credit transfers and direct debits, and due to the introduction of a common uniform technical platform of the TARGET2 payment system
  - changes due to amendments of the Bank's cost centres
  - changes aimed at improving the efficiency of payment processing in the Bank.
- A comprehensive overhaul of the SPI reports to comply with the applicable legislation.
- Migration of the payment cards processing to Bankart.

### Branch offices

At the end of 2014, Nova KBM had three branches, under which a total of 64 branch offices were operating. Certain banking services for households may also be provided at more than 500 locations of Pošta Slovenije and branch offices of PBS.

### ATMs

The total number of Nova KBM's ATMs at the end of 2014 was 258, which gives a market share of 14.6%. All of the ATMs have been upgraded to comply with the EMV standard required by MasterCard™ and Visa™.

### POS terminals

A POS terminal is a computer substitute for a cash register. As of 31 December 2014, Nova KBM had 3,067 static and mobile POS terminals in operation, down 4.51% on 2013. The Bank registered an 11.6% increase in the number of transactions at POS terminals, from 6.39 million in 2013 to 7.1 million in 2014. At the end of 2014, Nova KBM had 19,083 POS contracts (Activa, Maestro™, MasterCard™, Visa™ and Karanta™) in place.

### Payment cards

As of 31 December 2014, the Bank had 407,999 active payment cards outstanding to retail and corporate customers, up 1.6% on 2013. The total number of transactions with payment cards increased year-on-year by 6.86% and reached 15,593,171 in 2014.

### Moneta

In 2014, the volume of payments made through Moneta once again saw an increase. The total payments were worth €31.47 million, up 4.3% on 2013, with the number of Nova KBM customers using the Moneta service increasing year-on-year by 27.5%.

### Online and mobile banking service: Bank@Net, mBank@Net and Poslovni Bank@Net

Nova KBM offers online banking services to households via Bank@Net, while corporate customers (including sole proprietors) are offered Poslovni Bank@Net for their online banking transactions.

### Bank@Net and mBank@Net

The number of retail customers using Bank@Net has been steadily increasing. At the end of 2014, there were 80,423 Bank@Net users, up 19.75% on 2013. The total

number of transactions made through Bank@Net in 2014 was 4,695,018, a decline of just over 65,000, or 2%, on 2013.

The Bank's mobile banking service, mBank@Net, was last year used by 56% more customers than a year previously.

### Poslovni Bank@Net

The number of Poslovni Bank@Net users at the end of 2014 was 8,663, down 0.6% on 2013. Compared to 2013, the number of domestic and international payment transactions sent over Poslovni Bank@Net decreased by 2.7% and 5.3%, respectively.

### Telephone banking and Western Union

The number of transactions executed through the telephone banking service of Nova KBM, TeleBanka, increased year-on-year by 4.2%, with the total value of these transactions rising by 18.8% relative to 2013. The number of Western Union Money Transfer transactions saw an increase of 5.45%, while the total value of these transactions went up by 1.05% relative to 2013.

### Day-night safes and collection of money at agreed upon places

As of 31 December 2014, Nova KBM had in place 1,807 contracts with corporate customers and sole proprietors for the use of a total of 2,550 cash collection points (day-night safes and agreed-upon sales points). While the number of such contracts increased year-on-year by 18.88%, the total volume of daily proceeds accepted through these two channels in 2014 exceeded €1,000 million.

## 10.7 / NOVA KBM'S CORPORATE BANKING OPERATIONS

### Lending operations

Following the recapitalisation and the related improvement in the Bank's liquidity position in 2013, the Corporate Banking Division entered 2014 with increased optimism, especially with regard to the ability of the Bank to significantly grow its lending business and pursue its main mission of monitoring its valuable customers.

The reinforced capital base made it possible for the Bank to again provide its customers with a full range



of short- and long-term loans. Moreover, interest rates slowly declined, particularly in the second half of the year, which helped to make these loans more attractive.

As regards its credit activity, the Bank complied with the restrictions arising from the Restructuring Programme that affects its lending policy through the established mechanisms.

In the process of economic recovery, the Bank adapted its operations to the prevailing market conditions and sought business opportunities with existing customers as well as through the acquisition of new ones.

Companies were mainly demanding working capital financing, while the demand for investment loans, which could have created conditions for a more conspicuous growth of the loan portfolio, continued to be weak.

Last year, the Bank devoted a great deal of attention to the restructuring of companies and rescheduling of their loans, but also to other initiatives that could help over-indebted corporate customers continue their operations to run normally. In total, the Bank participated in 40 corporate restructurings, in addition to acting as a lead arranger in the restructuring of a debt of one of the largest Slovene companies.

The Bank strengthened further its corporate advisory role. In partnership with some other institutions (the Slovene Enterprise Fund, the Venture Factory and the Institute for Entrepreneurship Research), it helped existing and new customers get access to information relevant to their operations, and offered them support in obtaining EU grants or other types of funding to finance their projects.

An increase was seen in the volume of business done with companies that were more competitive and oriented towards foreign markets, and whose operations were not hampered by the burden of debt.

To improve the quality of its loan portfolio under the current market conditions, the Bank undertook a number of measures, such as requiring additional collateral and reducing exposure to companies that were considered to be at great risk.

The Bank continued its cooperation with SID Banka, from which it obtained long-term funds for the financing

of corporate customers. Most of these funds were used to finance projects aimed at developing an eco-friendly society and encouraging competitiveness of companies. Funds were also given to provide fixed and working capital. Most funds were granted to SMEs.

### Deposit operations

During the year, the Bank regulated the level of deposits with regard to liquidity requirements. The main instrument for adjusting the volume of deposits was the interest rate, which depends on the maturity of deposits. In addition to customer deposits, the Bank occasionally borrowed special-purpose funding to support individual projects.

It is the policy of the Bank to attract deposits with longer maturities in order to be able to match the demand for long-term loans.

### Other banking products

In the factoring segment, in 2014 the Bank purchased receivables worth €43.7 million and generated an income of €392,000 on these transactions. Year-on-year, the volume of the Bank's factoring business went up by 45%, with income rising by 20%. The Bank continued purchasing receivables only of A- and B-rated customers, and with a right of recourse.

Notwithstanding the fact that the financial crisis, which started in 2008 and deepened further during 2014, had a significant impact on its operations, the Bank continued to provide a comprehensive range of products and services to its corporate customers, thus having a direct or indirect impact on solving problems that occur in day-to-day operations of the economy.

In addition, the Bank provided the service of local and cross-border payments and improved the quality of overall service, in particular in documentary operations. Also, it developed and offered to its customers several new payment services that facilitate the execution of SEPA transfers.

The volume of payments processed by the Bank in foreign currencies totalled €249 million in 2014, down 19% on 2013 when this figure was €307 million. At the end of 2014, there were 11,108 corporate current accounts maintained by the Bank, compared to 11,590 at the end of 2013, which constitutes a decrease of 4.15%.

The aggregate credit balance in all corporate current accounts held by the Bank was €207 million at the end of 2014, up 23% on 2013 when this figure was €167 million. Total debit and credit items across all corporate customer accounts amounted to €26,866 million and €26,849 million, respectively, providing a total turnover of €53,715 million, which was 0.05% more than in 2013 when this figure reached €53,688 million.

Last year, the Bank carried out a considerable overhaul of its product offerings for corporate customers, with the focus being placed on basic products that the companies need to ensure the financing of their day-to-day operations. As part of this overhaul, several product packages were created to meet the requirements of target customer groups, such as accountants, farmers and carriers, as was a so-called welcome product package, which is aimed at attracting new customers. A total of 589 product package agreements were signed with customers last year.

## 10.8 / NOVA KBM 'S RETAIL BANKING OPERATIONS

Retail banking is at the centre of the Bank's business strategy. Through its extensive branch office network, the Bank provides its customers with comprehensive, well thought-out, and competitive financial services. The Bank is focused on tailor-made solutions for customers. Its prime concern is customer satisfaction, and this is being accomplished through its personal approach and the wide range of Bank and Group products and services, as well as insurance products, that are provided at one location.

In 2014, the Bank downsized its branch office network by closing some less profitable units. At the same time, it relocated several of its branch offices, thereby getting even closer to its customers. The Bank wants to be perceived as a partner by its customers throughout their lives. This is why it devoted special attention in 2014 to more demanding customers as well as young and retired people. For more demanding customers, the Bank launched the personal banking service, giving customers the advantage of having their requirements attended to by only one banking adviser. Another target group of the Bank are young people, to whom it continued providing services specifically adapted to their needs and wishes through modern and contemporary distribution

channels. By selectively adapting its pricing policy for payment services, the Bank also successfully reached retired customers.

At the end of 2014, there were 298,362 retail customers who maintained a current account with Nova KBM. The Bank is present in all Slovene regions through its extensive branch network. The Bank provides the following banking products to its customers also at all post offices: cash deposit and withdrawal; checking of current account balance; opening of personal accounts; and requesting Visa prepayment cards. By being able to use post offices for its retail banking services, it has enhanced its presence in locations where there are no Bank branch offices and has approached new customers, thus ensuring a range of banking services can be provided anywhere in Slovenia.

Taking into account its own retail branch office network in addition to the PBS's network of over 500 post office outlets where the customers of Nova KBM may use certain banking services, the Bank has the widest branch office network in Slovenia.

### Lending operations

In 2014, weak demand for loans as result of adverse economic conditions and a relatively high number of unemployed was registered not only by the Bank, but by the entire Slovene banking system. Housing loans, in particular, were in low demand. Despite a well-diversified offering of real estate and its relatively favourable prices, consumers were reluctant to take out real estate loans. On the other hand, the Bank saw a year-on-year increase in the demand for consumer loans, including eco-loans that are used for the financing or co-financing of environmentally-friendly projects, such as, among other things, the purchase of energy-saving appliances and devices, construction of energy saving and environmentally-friendly houses, and wind and solar power plants.

The total amount of consumer loans outstanding at the end of 2014 was €157 million, with the majority of these loans having the maturity of five years. The loan product called 'Kredit takoj' (Instant loan) accounted for the largest proportion among consumer loans. The total number of housing loans was 21,934 totalling €557 million, with a maximum maturity of up to 31 years.

At the end of 2014, the Bank's market share in loans to households accounted for 9.8%, a marginal decrease on 2013.

### Deposit operations

In 2014, the Bank devoted a great deal of effort to attracting customer deposits. Throughout the year, it managed to maintain a stable level of funding, suggesting that it has regained customer confidence.

At the end of 2014, the Bank's market share in household deposits stood at 12.8%. Most of deposits placed with the Bank by households exceed €10,000 in value.

The Bank offers different types of savings products: different current deposits; non-current deposits with maturities of one, two, three or more years; savings books with different notice periods; annuity savings; savings for young people of all age ranges; ZA-TO! gradual savings plan; housing savings accounts; and a combined deposit and investment account called 'Naložbeni duet' (Investment duo) which is a combination of a deposit and an investment into KBM Infond mutual funds. In addition to standard deposit products, the Bank also offers alternative types of savings, such as investment in securities and mutual funds, and investment life insurance products. These accounts may be opened at any branch office.

### Marketing of other Group products and services and of insurance products

The selling of Nova KBM Group products and services, and of Zavarovalnica Maribor insurance products, forms part of the permanent offering at all branch offices of the Bank. The Bank seeks to provide all products at one location, thus facilitating the access of customers to the offerings provided by the Group companies, and, with the support of sales promotion activities, achieving high levels of customer satisfaction and loyalty.

During 2014, the Bank intensively promoted the sale of products and services offered by other Nova KBM Group companies, thereby further utilising the synergy of the Group. It also made every effort to increase the sale of existing and new insurance products of Zavarovalnica Maribor, and was successful in the sale of KBM Infond mutual funds, collecting for them €8,996,124.23, almost six-times the figure of 2013. Declining interest rates on deposits, and customers' willingness to accept a higher

level of risk to potentially earn better returns contributed, apart from active selling, the most to this good result.

The Bank was also successful in selling the insurance products of Zavarovalnica Maribor. At branch offices of the Bank, customers may take out life insurance policies upon taking a loan, arrange travel insurance for themselves and their family, take out different types of accident insurance, payment card loss insurance, attractive health insurance, and similar.

Through intensive cross-selling of different products, in 2014 the Bank managed to increase the average number of products used by its customers by 3.25%.

## 10.9 / NOVA KBM'S INTERNATIONAL OPERATIONS

In December 2014, the Bank signed a tripartite 12-year, €25,000,000 long-term loan agreement with the European Investment Bank and SID Banka. In connection with this agreement, the Bank also signed a bilateral loan agreement with SID Banka.

Earlier in 2014, in March, the Bank confirmed its participation in the financing programme undertaken by SID Banka to support the recovery of facilities hit by glaze ice in February, and, to that effect, signed the Agreement on Amending the Terms Applicable to the Financing of the Recovery from a Natural Disaster.

Later in the year, in June, two long-term loan agreements were signed by the Bank, again with SID Banka. While one loan, amounting to €20,405,000, was provided to finance the development of competitive economic activities, the other, totalling €24,405,000, was intended for the financing of projects supporting regional and social development. Another long-term loan agreement was signed with SID Banka in November, this time of €8,570,000 and with the purpose of acquiring funding to finance projects that contribute to the development of environmentally-friendly industries and society.

In July 2014, Adria Bank repaid the long-term loan of €20,000,000 which it took from Nova KBM in November 2010.

## Ratings assigned to Nova KBM by international rating agencies

On 30 January 2014, 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'. In March and July, Fitch Ratings affirmed the ratings of Nova KBM.

As of 31 December 2014, the ratings of Nova KBM were as follows:

Fitch Ratings: BB-/B (negative outlook)

Moody's Investors Service: Caa1/Non-Prime/E (stable outlook)

## 10.10 / NOVA KBM'S TREASURY OPERATIONS

The Bank managed its liquidity in 2014 in such a way as to ensure the settlement of all obligations that became due. By applying a conservative approach, the Bank created an adequate secondary liquidity reserve, consisting of ECB-eligible securities and interbank loans that the Bank may use for securing claims in borrowings through the instruments of the ECB, while the ECB-eligible securities may also be used for entering into repos in the interbank market.

During the year ended 31 December 2014, the Bank fully complied with the regulations on minimum liquidity which require the banks to maintain the Category One Liquidity Ratio (up to 30 days). The prescribed liquidity ratio is 1.0. The Bank also complied with the Bank of Slovenia regulations on obligatory deposits.

The Bank manages its liquidity at both the operational and structural level. At the operational level, the Bank participated in the first half of the year in the ECB's fine-tuning operations, the aim of which was to withdraw the surplus of liquidity from the market. These operations were suspended in June. In November 2014, the Bank used excess liquidity to repay the funds it had received through the ECB's three-year longer-term refinancing operations, the original maturity dates of which were in January and February 2015.

As a result of the adverse economic conditions in the Eurozone, which was reflected in subdued economic

growth, and in view of the low inflation rate, in June 2014 the Governing Council of the ECB adopted further monetary measures, primarily with the aim of boosting the economy. Apart from cutting the key interest rate to 0.15% (in September, this rate was further reduced to 0.05%), the ECB introduced targeted longer-term refinancing operations. The first two of these operations were conducted in September and December 2014. Banks were allowed to borrow funds through these operations up to a certain amount of their loans outstanding to the non-financial private sector in the Eurozone, excluding housing loans. The remaining six of these operations will be conducted between March 2015 and June 2016, with the amount the banks will be allowed to borrow through them depending on the growth in their portfolios of loans outstanding to the segment specified above. The Bank participated in the targeted longer-term refinancing operations conducted in December 2014.

Apart from introducing targeted longer-term refinancing operations, the ECB prolonged, at least until December 2016, the implementation of the fixed-rate full-allotment main and longer-term refinancing operations.

The currently applicable interest rates for the ECB operations are as follows: for the main refinancing operations 0.05%, for the marginal lending facility 0.30%, while the interest rate for the marginal deposit facility is negative at 0.20%. Since June 2014, the interest rate for the marginal deposit facility has also been applied to banks' average reserve holdings in excess of their minimum reserve requirements.

## Portfolio of debt securities held in the banking book

The securities held in the banking book are mainly used for the provision of an adequate liquidity reserve and for managing interest rate risk. The Bank created the portfolio of debt securities in accordance with the Nova KBM Policy of Managing the Banking Book Debt Securities Portfolio. As of 31 December 2014, the total value of debt securities held in the banking book was €1,351,385,000, up 1.6% on 2013. Government securities and securities with state guarantee accounted for 96.0% of the total banking book portfolio, followed by securities issued by other issuers, which had a 3.0% share of the portfolio, and securities issued by prime banks, which accounted for 1.0% of the portfolio.

The composition of the portfolio of debt securities held in the banking book is presented in the table below.

Asset item (€000)	31.12.2014	31.12.2013
Available-for-sale financial assets	1,261,435	1,180,979
Held-to-maturity financial assets	89,950	192,437
<b>TOTAL</b>	<b>1,351,385</b>	<b>1,373,416</b>

### Certificates of deposit

In line with its financial plan, in 2014 the Bank also issued certificates of deposit, in addition to redeeming early its own-issued certificates of deposit worth €229,000. The total amount of certificates of deposit issued by the Bank and outstanding at the end of 2014 was €21,429,000.

### Interest rate policy

The interest rate policy of the Bank was carried out in accordance with the adopted guidelines and on the basis of its business policy and financial plan for 2014. The policy was adjusted by the Bank to reflect current conditions in the local and international financial markets, and developments in the economic environment.

### Trading

A total of 466 currency trading transactions were concluded by the Bank in 2014. The bulk of trading in foreign exchange markets was in the most important currencies such as the euro, US dollar and Swiss franc. The number of foreign currency cash transactions reached 3,622 last year.

In 2014, the Bank entered into a total of 58 derivative transactions, while the repo and reverse repo transactions were not concluded by the Bank last year.

The Bank continued to act as a primary dealer for the treasury bills issued by the Ministry of Finance. Last year, at auctions carried out by the Ministry of Finance, it purchased, both on behalf of customer accounts and for its own account, treasury bills of various maturities worth about €305,227,000 in total, which made up 19.5% of the total value of treasury bills issued by the Ministry of Finance last year.

## 10.11 / NOVA KBM'S BROKERAGE SERVICES

Last year, a total of 8,612 transactions were concluded by the Bank in domestic and foreign markets, with the value of these transactions being 23.57% higher than in 2013. On the Ljubljana Stock Exchange, Nova KBM concluded transactions worth €102,400,000 in total, while the total amount of transactions concluded in 2014 in the international capital markets was €166,074,000. The value of transactions carried out through unregulated capital markets reached €59,000.

At the end of 2013, Nova KBM introduced a new product enabling customers to have their funds managed within the KBM Infond Cover Fund. A total of €2,286,000 was collected last year through this product.

In 2014, Nova KBM took over the investment banking business of Probanka. This, and the introduction of several new investment banking products, helped Nova KBM strengthen its market position in this segment.

The average daily value of trading portfolios of equity instruments was €129,000 in 2014. The return generated by the Bank in 2014 on the average value of trading portfolios of equity instruments reached 52.20%, compared to a return of 1.20% reported for the EUROSTOXX 50 index.

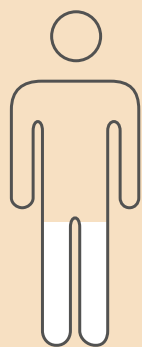
## 10.12 / HUMAN RESOURCE MANAGEMENT AT NOVA KBM

### Employees

In its attitude towards its employees, the Bank fosters the culture of mutual respect, and encourages employees to foster reciprocal trust, and engage in constant learning, professional development as well as responsible and efficient work. In addition, it supports teamwork and responsibility towards colleagues, while at the same time ensuring employees receive all their social security entitlements and have a safe working environment.

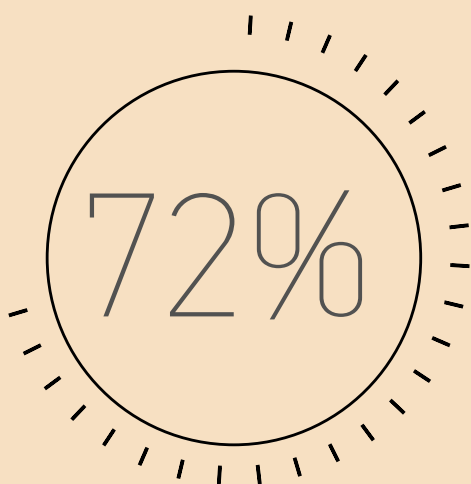
In 2014, activities related to human resource management were carried out in line with the adopted staff policy based on the strategic and business objectives of the Bank, with emphasis on the professional development





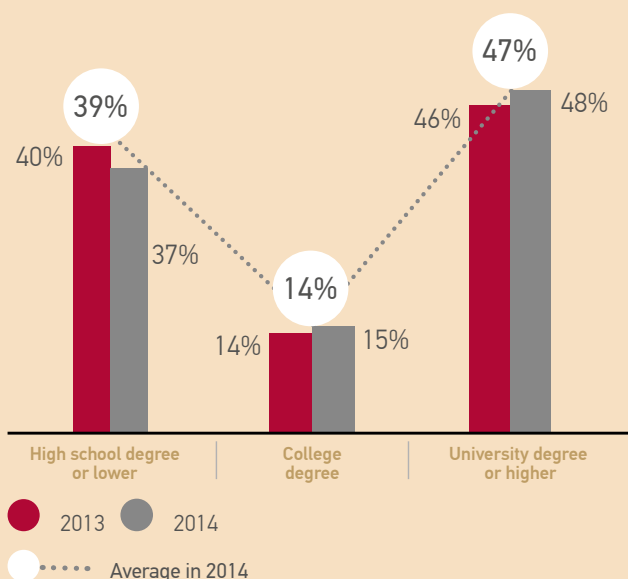
# 48%

**THE EDUCATIONAL LEVEL**  
of Nova KBM employees  
**IMPROVED** in 2014, with 48%  
of the total staff having at least  
a university degree.



The number of Nova KBM's **INTERNAL TRAINING PROGRAMMES INCREASED** year-on-year by 72%.

## EDUCATIONAL LEVEL AND THE AVERAGE EDUCATIONAL LEVEL OF EMPLOYEES



of employees, but with due consideration for cost optimisation that will result from the Restructuring Programme. All the activities were implemented in accordance with the applicable legislation, taking into consideration the principles of ethical conduct and non-discrimination.

At the end of 2014, the Bank had 1,124 employees, down 77 on 2013. A total of 94 employees ended their employment, while the number of new employees reached 17. There were 1,119 permanent and five fixed-term employees working at the Bank at the end of last year.

Terminations of employment were mainly the result of the Bank encouraging the retirement of older workers, and of natural fluctuations, but also due to changes in business processes (i.e. their automation and centralisation). In taking staff reduction measures, due regard was given to the integrity of employees, always taking into account their contribution to the success of the Bank. New staff were hired in a prudent manner, and only in cases where the need for staff could not have been covered by internal transfers, and the failure to fill the vacancy would result in a breach of the requirements imposed by the regulator, or in a disruption of the work process. Staff were hired also through student work agencies if less qualified positions had to be filled.

The number of Nova KBM employees in 2014 and 2013 is presented in the table below.

	2014	2013
Total number of employees on the last day of the year	1,124	1,201
Average number of employees*	1,175	1,267
Number of new employees	17	14
Number of employees who left	94	93
Number of permanent employees	1,119	1,189
Number of fixed-term employees	5	12
Number of disabled employees	32	39

\* Arithmetic mean; as of the last day of the year.

## Employee demographics

The average age of employees working at the Bank in 2014 was 46.5 years. On average, the proportion of women was 79% and the proportion of men was 21%.

Year-on-year, the educational level of employees changed in favour of those having at least a college degree. This was also a consequence of both the Bank's staff policy over the last few years and the requirements dictated by the regulator, market and business environment.

### **Remuneration of employees**

Most of the employees working at the Bank are in close contact with the customers, who require them to be highly trained and to possess appropriate skills and know-how. Only exceptionally motivated employees are capable of making customers satisfied and contributing to good business results. As in previous years, in 2014 the Bank continued its practice of evaluating the motivation of employees through annual interviews, in addition to measuring their motivation through quarterly assessments of their work performance. The motivation of employees, which is demonstrated by their commitment to work, was rewarded by the Bank in financial and non-financial ways, taking into consideration the applicable remuneration rules.

In view of the requirement to reduce costs, horizontal promotions were rare in 2014, while vertical promotions were made in cases where this was necessary to satisfy the needs of work processes.

### **Competency model as a tool for staffing and the professional development of employees**

In 2014, the Bank started taking steps to improve the competencies of employees. This was necessary in order to comply with the commitment regarding the reduction in the number of staff, as set out in the Restructuring Programme, and to align the remuneration of individual employees with their performance in an even more unbiased fashion. The setting up of a competency model to serve as the basis for the utilisation of the capabilities of each employee constitutes one of the challenges to be dealt with in 2015.

### **Quality of work and life**

The Bank strives to create in the long run a work environment in which employees, despite their family obligations, will be productive and satisfied with their work. In order to find an efficient combination of professional life and family obligations, it is necessary to develop mutual trust and cooperation, which the Bank, as a holder of the basic 'Family-Friendly Company

Certificate', has been building year after year. Last year, the Bank took a significant step forward in this area by adopting the Policy on Balancing Professional and Private Lives of Employees.

For 2015, the Bank has set itself a goal of upgrading its role in helping employees balance their working and private lives by obtaining the full 'Family-Friendly Company Certificate'.

Apart from offering certain benefits, the Bank helps its employees who find themselves in straitened circumstances by means of providing financial aid. In so doing, it takes into consideration the provisions of relevant collective employment agreements.

Further details in this regard are given in the section headed 'Sustainable development'.

### **Health as a primary value**

The Bank continued to pay attention to the health of employees. The Bank's health policy is based on preventive measures. In 2014, the Bank organised preventive health check-ups for a total of 320 employees. Preventive health measures were further upgraded through an intensive campaign aimed at developing among employees a more responsible concern for a healthy lifestyle, and by organising education programmes on health care. The Bank offered its employees the opportunity to get vaccinated against seasonal flu, and organised for them a smoking cessation course, workshops on managing stress at work, and workshops on the importance of interpersonal relations. Also, throughout the year employees could take advantage of anonymous psychological help.

Activities undertaken by the Bank to promote a healthy lifestyle will be further widened in 2015 by organising workshops on managing stress and on healthy nutrition. Moreover, the Bank will continue to enable its employees to participate in the recreational programmes organised by the internal sports club.

### **Safety at work**

The Bank provides its employees with healthy work environment and safe work conditions, as well as with training on safety and health at work. All new employees were in 2014 trained in safety and health at work. In addition, periodical training on safety and health at work

was organised for employees working in places that, according to the Risk Assessment Analysis, were regarded as posing increased risk. Training on safety and health at work was also given to students hired by the Bank.

Two work accidents were recorded by the Bank last year.

### **Insurance as an investment in the future and health**

The Bank gives its employees the option to join a voluntary supplementary pension insurance scheme. A total of 56% of all the employees were included in this insurance scheme at the end of last year.

Through the Bank, the employees, as well as their family members, may also join the collective accident insurance scheme. The employees working in places of increased risk, as determined by the Risk Assessment Analysis, are covered for the risk of accident.

### **Provision of a smooth work process**

Last year, the Bank drew up the Succeeding Programme and the Replacement Policy. Succession is based on appropriate training and development of selected individuals with the aim of ensuring that vacant positions are taken over by competent staff who are capable of assuming management tasks. The purpose of the replacement scheme is to ensure a smooth work process during the periods of unforeseen or foreseen absence from work of an employee.

### **Communication**

The Bank strives to maintain an open dialogue with its employees and trade union. Face-to-face communication is corroborated by communication through the staff portal, the Bank's intranet site, relevant publications in the internal newspaper, etc.

### **Training of employees**

The training and professional development of employees are systematically planned through annual staff plans, which are an integral part of the Bank's Staff Policy and of the business and financial plans. In 2014, the internal staff development practices were upgraded by adopting the Nova KBM Regulations on Education, Training and Career Building. These substantively regulate the education of employees, planning and implementation of training programmes, apprenticeships, induction, probationary period, and practical training of students and pupils.

Special attention is devoted to the needs, wishes and proposal of employees with respect to training. Proposals of employees regarding the training were, to the maximum extent practicable, taken into consideration in the preparation of the 2014 Training Catalogue.

As in previous years, in addition to the regulatory required and regular ones, the Bank carried out several new training programmes adapted to the needs of the work and Bank operations, thereby enriching the work of employees in practice.

Besides planned training programmes included in the Training Catalogue, in 2014 the Bank organised other training sessions in response to needs arising during the year.

The Bank recognises that constant training and thereby investment in the knowledge of its employees contributes to their professional and personal development, while for the Bank this means the advantage of having an adequately skilled workforce.

### **Internal and external training programmes**

In 2014, the Bank continued to organise internal training programmes, the majority of which were given by internal experts. A total of 50 different training programmes were carried out last year, with a total of 849 employees, or 72% of all employees, taking part in them (318 repetitions, 3,950 participants). Compared to 2013, the number of internal training programmes increased by 72%.

Internal training programmes are flexible in terms of content and time. The additional value of internal training programmes is also reflected in positive reception of such training by employees, which is due to the fact that lecturers come from their own ranks and are therefore easier for employees to identify with. The Bank constantly encourages its employees to internally transfer their knowledge and information to interested colleagues.

In 2014, the Bank registered almost 5,300 participations in training programmes. A total of 76% of all employees took part in internal or external training programmes, with each employee spending on average 16 hours in training. In the cases where the Bank was not able to find

equivalent training programmes in Slovenia, employees were allowed to take part in training programmes abroad.

A great deal of focus and energy was directed last year towards upgrading the sales skills of employees working in the commercial segment, and setting up an efficient system for the management of staff with the aim of enhancing communication between employees, transferring good practices, and strengthening collaboration between employees.

### **Development of mobile trainers**

Significant efforts were made last year to train and develop mobile or internal coaches in the commercial segment. The purpose of providing training to mobile coaches was to ensure they were qualified to transfer know-how and skills within the Bank.

### **Practical training of pupils and students**

The Bank enables pupils and students to engage in practical training and thus to become acquainted with the Bank and its work processes, while at the same allowing them to develop and demonstrate their knowledge and capabilities.

## **10.13 / INTERNAL DEVELOPMENT OF NOVA KBM**

In line with its strategic directions, in 2014 the Bank concentrated on the overhaul of its business processes. To that effect, it defined the desired state of most of its business processes with the aim of complying with the following strategic objectives:

1. Focus on customers.
2. Continuous development and implementation of new and upgraded banking and other services.
3. Process organisation.
4. Provision of contemporary information technology.
5. Efficient and profitable operations.
6. Development of the Nova KBM Group.

### **Focus on customers**

The Bank maintained professional relationships with its customers, taking into consideration their needs identified through the newly defined process of selling products and services to corporate and retail customers. Further details in this regard are given in the section headed 'Sustainable development'.

### **Continuous development and implementation of new and upgraded banking and other services**

With the aim of providing ongoing development of new services and revamping its existing offerings, the Bank set up the Development Department. As part of the overhaul of its business processes, the Bank defined the product development process, which encompasses all stages of a product launch, from the identification of needs/ideas for new products, through the transfer of product concepts into production, to the delivery of new products. In addition, the Bank has conferred appropriate responsibilities on various departments that are to work together in the product implementation process.

### **Process organisation**

In order to introduce process organisation, the Bank has, as part of the overhaul of its business processes, determined the methodology for managing business processes. This methodology includes details with regard to ensuring the alignment of business processes with the strategy of the Bank, as well as details regarding the definition of roles and responsibilities, the management of process architecture, the management of business process changes, and the creation of a comprehensive framework for setting up a system for efficiency management.

### **Provision of contemporary information technology**

To cut down on its costs, the Bank has decided to pursue the goal of having its own, self-developed and centralised IT system.

### **Efficient and profitable operations**

Within the overhaul of its business processes, the Bank has set up a framework for the allocation of staff costs to individual activities and products, which will facilitate decision-making regarding the development or discontinuation of products.

### **Development of the Nova KBM Group**

The goal of Nova KBM is the development and successful performance of the entire Nova KBM Group. As part of the project of overhauling its business processes, the Bank has made an inventory of, and has partially redefined, the process of corporate governance and cooperation between Nova KBM and its subsidiaries for the purpose of achieving synergies across the entire Group.

## DEVELOPMENT OF NOVA KBM'S INFORMATION TECHNOLOGY SUPPORT

Nova KBM itself develops technological support for its business processes. In accordance with its information technology policy, the Bank uses its own staff for the development of its key information technology solutions. In-house development of the key components of its information system, and architectural and systematic management of outsourcers, enables the Bank to take a focused approach to the design of the entire infrastructure at different levels: from processes and business software to system infrastructure.

In 2014, the Bank entered the final stage of its in-house development and pilot use of consolidated e-banking services (Bank@Net and Poslovni Bank@Net) through uniform information support for the corporate and retail customers.

The data warehouse, which is being developed by the Bank's own staff to provide strategic information support, was functionally upgraded in 2014 for the needs of application solutions that support decision-making and reporting processes.

As part of the overhaul of its business processes and organisational structure, the Bank adapted and optimised the key process used to support the management of changes in the information technology support system.

The overhaul of business processes also served as a basis to continue work on the upgrade of the Bank's information system. As part of the planned upgrade and consolidation of its central transaction system, and with the aim of establishing the basis for future architecture programme optimization, in 2014 the Bank continued efforts to integrate the kernel of the transaction system and its key sub-components into its own-developed environment. The replenishment and consolidation of data on corporate deposits in the central transaction system was successfully completed, while the design for a complete consolidation of all key technological and information sub-components into a uniform transaction system was drawn up and approved.

Moreover, information solutions were being successfully developed to support the accomplishment of business objectives, and the work continued on the consolidation

and optimization of information support within the Nova KBM Group.

In the area of computer infrastructure, the focus remained on cost optimization and efforts aimed at enhancing the efficiency of IT equipment.

In accordance with the adopted information technology support strategy, the installation of new tape libraries, a key element in the provision of backup and archive copies of data, was completed by way of a successful migration intervention, affirming the Bank's commitment to having its hardware upgraded on a regular basis.

Furthermore, preparation work for internal consolidation of the IT infrastructure in the area of server environment virtualization and databases was concluded using in-house know-how, as was a significant part of the project aimed at consolidating the server environment.

Workstations and other information equipment used in branch offices and other organisational units of the Bank were continuously upgraded to meet the requirements of the work process.

## INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

### Investments in information technology support

Investments were made in computer hardware equipment used to provide backup and archive copies of data. Last year, particular attention was devoted to ensuring high operating efficiency and availability of equipment at workstations. To that effect, the Bank made regular upgrades to computer software and hardware, including personal and portable computers as well as periphery units, and encouraged shared use of multifunctional devices to achieve a significant optimization in document processing.

As regards the server equipment of branch offices, work was carried out to optimize and upgrade computer hardware and system software. Unification and virtualisation of branch office servers and the database environment were carried out.

Much emphasis was placed on the reduction of costs related to IT equipment. In this context, the Bank made an investment in the architectural consolidation of



computer equipment, including used at the Nova KBM Group level.

The Bank also invested in business software in order to facilitate the accomplishment of its business objectives. Of the amount spent on business software, the largest proportion was used for the optimization and consolidation of the Bank's central information system for the purpose of its architectural uniformity and efficient support to business processes. In addition, funds were earmarked for the consolidation of software used to support e-banking services provided to customers, and for the functional upgrade of these services.

### **Investments in buildings**

Due to the adverse economic conditions, the investments in buildings were undertaken in a most rational manner. In 2014, the Bank continued to refurbish its branch offices and other facilities with the aim of arranging them in such a way as to create an optimum working environment and a place where customers can be served effectively.

During 2014, the Bank arranged new premises adjacent to its Celje branch office, moving its corporate banking services there, and refurbished the Europark branch office and the Ljubljanska branch office. Apart from that, it carried out some smaller works, either to reduce operating costs or to provide more efficient customer services.

### **Investments in the mechanographic and other equipment**

Purchases of mechanographic equipment were being made in line with the plan, taking into account the actual need or the wear and tear of equipment. The amount of funds spent in 2014 on this equipment was slightly lower than projected, in part reflecting overall reductions in investment spending.



GREY DAYS ARE ILLUMINATED  
BY THOSE MOMENTS OF DECISION,  
WHEN WE TAKE THE GERM OF A VISION  
AND BEGIN CREATING OUR FUTURE.

**OUR PLANS FOR 2015**

# 11 / PLANS FOR 2015

The Nova KBM Supervisory Board consented to the 2015 financial plan of the Bank and the Group in mid-December 2014. Set out below is a summary of the 2015 financial plan of Nova KBM and the Nova KBM Group, which has been prepared by taking into consideration the commitments given to the European Commission.

The Nova KBM Group plans to accomplish most of the work related to its consolidation by the end of 2015. In this regard, Adria Bank is expected to cease its operations and to return its licence for providing banking services, while the liquidation proceedings against KBM Leasing and Gorica Leasing, and the transfer of assets of these two companies to Nova KBM, are planned to be completed during the year.

The total assets of the Nova KBM Group are expected to be €4,308 million at the end of 2015. The reduction in the business volume relative to last year will derive mainly from the repayment of funds to the creditor banks. The net profit delivered by the Nova KBM Group is expected to amount to €28 million. The largest proportion of income earned by the Nova KBM Group in 2015 will come from the net interest income and the net fee and commission income, which are estimated to be €118 million and €59 million, respectively. The interest margin, expressed as a ratio between net interest income and the average total assets, is projected to be 2.72%. The Nova KBM Group will further reduce its operating costs, and plans to bring them down to approximately €103 million in 2015. Net provisioning charges are planned to be €45 million in 2015.

A reduction in total assets is also planned by the parent company of the Nova KBM Group, Nova KBM. While it is estimated that its balance sheet total will

be €3,536 million at the end of 2015, the year-on-year reduction in this category will derive mainly from the repayment of funds to the creditor banks, the maturing of certificates of deposits issued by the Bank, and a decline in investments in the equity of subsidiaries and associates.

The net interest income earned by Nova KBM in 2015 is expected to be €93 million. Due to lower average interest rates, the Bank expects to see a decline in both interest income and interest expenses. The interest margin of the Bank is projected to be 2.62% in 2015. According to the financial plan, net fees and commissions earned by the Bank in 2015 will amount to €43 million, approximately the same as in 2014.

Nova KBM will continue taking measures to reduce its operating costs. These costs are expected to be approximately €72 million in 2015, providing a cost-to-income ratio (CIR) of 51.56%. Net provisioning charges incurred by the Bank in 2015 will be about €30 million.

Nova KBM expects to end the financial year of 2015 with a net profit of €35 million.

28mIn 

For 2015, the Nova KBM Group and Nova KBM expect to report a net profit of €28 million and €35 million, respectively.





WE DO NOT EXIST WITHOUT OTHERS AND OTHERS  
DO NOT EXIST WITHOUT US. ONLY TOGETHER  
CAN WE BE READY FOR TOMORROW.

**SUSTAINABLE  
DEVELOPMENT**

# 12 / SUSTAINABLE DEVELOPMENT

## Main guidelines and achievements in the area of social responsibility and concern for sustainable development in 2014

By having the Social Responsibility and Sustainable Development Programme as an integral part of their strategy, both the Bank and the Group demonstrate their awareness of the important role of the banking industry in the business world. During 2014, the Bank further broadened its social responsibility agenda and concern for sustainable development, while at the same time making efforts to include employees in the projects undertaken in this area.

Nova KBM sees its responsibility towards society as a combination of the provision of efficient and responsible corporate governance, the commitment of dedicated staff, concern for the financial literacy of customers, accountable use of financial services that bring added value to customers, and its active integration into society.

Priority objectives which the Bank pursues in the area of social responsibility and sustainable development are as follows:

- to enhance the reputation of the Bank and the trust placed in it by the public
- to improve the financial literacy of various target groups of customers
- to improve its competitive position
- to increase the loyalty and commitment of employees.

The Bank demonstrates its social responsibility in several ways, and by developing proper attitudes towards its business and social environment, the details of which are set out below:

- Attitude towards the owner and investors.
- Concern for the natural environment.
- Attitude towards customers, clients and suppliers.
- Building the loyalty of employees.
- Attitude towards the media.
- Integration into the local environment and broader community.

Areas of social responsibility and sustainable development	MAJOR ACHIEVEMENTS IN 2014
<b>ATTITUDE TOWARDS THE OWNER AND INVESTORS</b>	Provision of support necessary to conduct financial and legal due diligence of the Bank, and the supply of relevant information to potential investors.
<b>CONCERN FOR THE NATURAL ENVIRONMENT</b>	<p>Dedication of funds received from the sale of waste toner cartridges for charitable purposes to the Cerebral Palsy Association of Slovenia (Sonček).</p> <p>Gradual switch to paperless operations and increased use of electronic channels to communicate with contemporary customers.</p>
<b>ATTITUDE TOWARDS CUSTOMERS, CLIENTS AND SUPPLIERS</b>	<p>Development of several banking services with added value for customers and clients (at-call deposit account, the application 'Varčevalnik' (Saver), and provision of new ATM services).</p> <p>Implementation of several initiatives aimed at improving financial literacy of the youngest savers as well as young and retired customers.</p> <p>Upgrade of the website to provide an enhanced user experience, sales-focus and presentation of the use of banking services through various life situations.</p> <p>Inclusion of local suppliers in areas where the procurement has not been centralised.</p>
<b>BUILDING THE LOYALTY OF EMPLOYEES</b>	On average, 117 employees took part in each internal initiative aimed at building up loyalty between the Bank and its employees.
<b>ATTITUDE TOWARDS THE MEDIA</b>	Proactive communication of the topics most relevant to the Bank's operations.
<b>INTEGRATION INTO THE LOCAL ENVIRONMENT AND BROADER COMMUNITY</b>	A well-received charity campaign called 'Donate a Book, Donate a Future' was carried out in cooperation with the Friends of Youth Association of Slovenia, through which the Bank collected children's and adolescents' books from its employees and customers for the purpose of arranging children's libraries at holiday houses of the Friends of Youth Association of Slovenia. In addition, the Bank gave a grant for the charity project called 'Godparenthood'.



## Attitude towards the owner and investors

Based on a decision of the Bank of Slovenia to impose extraordinary measures on Nova KBM, the Republic of Slovenia recapitalised Nova KBM, thereby helping it to strengthen its financial position and improve the quality of its assets. Through the state-sponsored recapitalisation, carried out on 18 December 2013, the Republic of Slovenia became a 100% owner of the Bank. Upon the recapitalisation, the Republic of Slovenia announced that it intends to sell its entire shareholding in the Bank, presumably in 2016. To that effect, the procedure to sell the Bank started in 2014. The sale of the Bank is being implemented, on behalf of the Republic of Slovenia, by the SSH, which has commissioned Lazard Frères to carry out a two-level selling process.

Further details in this regard are given in the section headed 'Programmes and projects aimed at restoring the profitability of the Nova KBM Group'.

In 2014, the Bank maintained and even strengthened its relationships with several international institutions which monitor the implementation of its Restructuring Programme, as well as other analytical and rating companies. Being the second largest bank in Slovenia, Nova KBM is among the systemically important banks, with the result that it became subject to the single supervisory mechanism (SSM), starting from 4 November 2014. The SSM has put in place a new bank supervision system that involves the ECB and competent national supervisors of the Eurozone countries. The senior management and managers of key departments of the Bank were introduced to an ECB supervisory team at the kick-off meeting at the beginning of last December.

During 2014, the Bank informed the owner, potential investors and the public in general of all topics relevant to its operations, always in accordance with the applicable legislation and in a transparent manner. It made 61 public announcements (in English and Slovene) through the SEOnet system, and promptly responded to enquiries from potential investors during the privatisation process, while to other interested members of the public it responded at any time.

## Concern for the natural environment

To demonstrate its responsible conduct, and with the aim of reducing its negative environmental impacts, in 2014 the Bank undertook several projects, all of which

had a double effect: they contributed to a reduction of negative effects on the environment, at the same time helping the Bank to cut down on operating costs. In this regard, the Bank pursued the following two objectives:

- to reduce consumption of materials and costs
- to search for renewable supply sources.

The best results were achieved in the use of office materials, confirming once again the effectiveness of pre-determining cost limits for each organisational unit and of using a centralised service for the procurement of office materials. In this segment, the Bank saw a year-on-year reduction in costs of 12.6%. Apart from cutting costs, the Bank also managed to reduce the use of printed materials by making efforts for several years to actively raise the employees' awareness of the importance of migrating to e-operations.

With a year-on-year reduction of 20.6% in costs related to toner cartridges, the decision to start using renewable ones proved to be correct. Funds received from the sale of waste toner cartridges were dedicated for charity purposes to the Cerebral Palsy Association of Slovenia (Sonček).

Costs related to the purchase of restroom supplies went down by 16.8% compared to 2013.

Paperless operations were further widened, particularly in the area of communication with customers that use modern distribution channels provided by the Bank. The amount of paper used by the Bank declines as the number of customers using modern distribution channels increases.

Cost item	Period	Cost reduction (%)
Office materials	Δ(2014/2013)	(12.6)
Toner cartridges	Δ(2014/2013)	(20.6)
Restroom supplies	Δ(2014/2013)	(16.8)

By separating waste, the Bank directly contributes to the reduction of negative effects on the environment. Separate collection of waste, introduced by the Bank in 2013, continued throughout last year. The amount of waste produced by the Bank was further reduced as a result of the consolidation and reduction of business premises and the reduction in the number of staff.

Refurbishment of business premises is only carried out after taking ecological aspects into consideration. In 2014, the Bank refurbished its Ljubljanska branch office, using for this purpose the remade existing furniture, instead of purchasing new furniture.

The Bank is aware of the importance of energy efficiency. The centrally installed energy monitoring systems in its three largest buildings in Maribor make it possible for the Bank to monitor the use of energy products and the functioning of machines on a daily basis.

In 2014, the Bank requested an energy check of its main office buildings to be carried out. Based on the results, a proposal has been drafted for organisational and investment measures to be implemented in 2015. For example, all larger office buildings of the Bank will be equipped with central energy monitoring systems. A reduction in the consumption of energy products is a concern of all the Bank employees.

Nova KBM joined the project called 'A Day Without a Car', carried out as part of the European Mobility Week. With the aim of encouraging its employees and customers to use more environmentally-friendly means of transportation in city centres, the Bank allowed several bicycle stands to be placed in the courtyards of its central buildings in Maribor and Nova Gorica. A total of 123 Bank employees took part in the project, choosing to come to work on that day by bicycle, bus or train, or on foot.

The Bank continued to purchase equipment that is the most energy-efficient and the operation of which has minimum negative effects on the environment.

## **Attitude towards customers, clients and suppliers**

### **Customers and clients**

In planning its marketing activities for 2014, the Bank devoted a great deal of attention to the needs and wishes of its customers and extended its offerings by introducing several new products. One of these is the 'at-call deposit account', developed by the Bank to respond to conditions in the market and to allow its customers to save money over a long period of time, while having the opportunity to withdraw the funds held in the account in case of need.

The Bank upgraded its application called 'Varčevalnik' (Saver), which is a type of virtual savings book available

to customers using on-line or mobile banking facilities. This application helps customers attain their savings objectives, also by providing friendly advice and reminders. Moreover, the Bank introduced the option to use ATMs to request transfers of funds between accounts, and the option to request an SMS receipt for this service. In addition, it enabled its customers to carry out simpler activation of the Moneta service.

Towards the end of 2014, the Bank started a complete overhaul of its payment card offering, which it will continue in 2015. This overhaul introduces several technological changes, such as contactless payments, payments in instalments, and the option to use ATMs to create or change a card PIN, all of which is being done by the Bank to follow the recent trends and to adjust the offering to the contemporary needs of its customers.

Further details about new services and distributions channels are given in the section headed 'New and upgraded services and distribution channels of Nova KBM'.

Based on the results of user experience analyses, in 2014 the Bank made several upgrades to its website, including the addition of new functionalities. The website now welcomes users by showing various life situations, provides simple links to its product offerings as well as an enhanced user experience, and is more sales-focused. By being set up on a contemporary platform, it may also be browsed on mobile devices – tablet computers and smartphones.

In April 2014, the Bank adjusted its offering of housing and consumer loans to the needs and wishes of the market. The maximum maturity of housing loans was extended from 25 to 31 years, with the minimum monthly instalment being reduced. The maturity of consumer loans was extended from eight to 12 years, while the minimum monthly instalment was reduced from €42 to €35.

An internal marketing model has been set up by the Bank, the purpose of which is to identify employees as customers of the Bank, to help them gain better knowledge and understanding of the products and services provided by the Bank, as well as to convince them to become exclusive users of newly-launched products. By implementing this model, the employees have started to take a role as ambassadors of the Bank's brand name and promoters of its services.

The Bank devotes particular attention to the satisfaction of customers, which it regularly monitors. According to a customer satisfaction survey of December 2014, the Bank managed to retain the customer satisfaction at the 2013 level, meaning that 95% of its customers were satisfied with the service provided, of which 64% claimed to be very satisfied.

In 2014, the Bank focused even more on customer relationships and further enhanced communication with them, also by participating in various events, taking into account the results of various customer satisfaction surveys it had conducted. At ten professional and eight social gatherings the Bank strengthened relations with customers and business partners of the entire Group.

Through various channels, the Bank monitors customer complaints, aiming to solve them in the most efficient manner. During 2014, a total of 14 practical workshops were held to instruct the employees in how to respond to customer complaints in an effective fashion.

#### **Providing advice to corporate customers – Entrepreneur Centre**

In line with its strategic policies, the Bank devotes a great deal of attention to small and medium-sized companies, and encourages entrepreneurship and innovative thinking. The advisory role of the Bank is strengthened through the work of its Entrepreneur Centre (in partnership with the Institute for Entrepreneurship Research).

Several free workshops and consultations were carried out by this centre at which advice was given to businesses on how to apply for EU funds and prepare project documentation. The Bank participated actively in the PODIM international conference, and presented its current offerings at several fairs.

#### **Raising financial awareness among young people**

The Bank devotes a great deal of energy to teaching children and young people about the proper and prudent handling of money. In the middle of last year, it presented to the youngest children a new mascot called Dindin, in order to help children acquire, through play and in a funny and simple manner, the basics of savings and learn how to prudently handle their money. Children may meet Dindin in person at presentations and workshops. In addition, the Dindin website is available, where entertaining games and advice on savings are provided,



In 2014, as many as **95% OF NOVA KBM CUSTOMERS CLAIMED TO BE SATISFIED** with the service provided – the same proportion as in 2013.

As well as **REDUCING THE MONEY** spent on toner cartridges by **20.6%** last year, Nova KBM dedicated the funds received from the sale of waste toner cartridges for **CHARITY PURPOSES** to the Cerebral Palsy Association of Slovenia (Sonček).

Nova KBM joined the project 'A Day Without a Car', **WITH 128 OF ITS EMPLOYEES TAKING PART IN THIS INITIATIVE.**

**A TOTAL OF 2,200 BOOKS WERE COLLECTED** by Nova KBM last year for the purpose of establishing libraries at the children's holiday houses of the Friends of Youth Association of Slovenia.

as is content for parents. Through the 'Sveta vladar' (Ruler of the world) website, the Bank provided young people with useful advice related to their schooling, work and leisure activities, and taught them about how to use modern payment products (payment cards and Moneta) and services (mobile banking).

Last year, the Bank took part in the Demola project, the purpose of which was to encourage the cooperation between the University of Maribor and companies engaged in economic activities. The Bank launched a challenge on how to raise money using innovative technology, thereby getting an insight into how the banking services are understood by students.

### **Environmentally-friendly products**

In 2014, the Bank remained focused on introducing products and customer relations procedures that are environmentally-friendly.

In the area of customer notification, the number of electronic notices increasingly replaced the number of standard, printed-form notices.

Among the products it offers, the Bank includes special purpose eco-loans, which are granted at more favourable interest rates compared to standard commercial loans, thereby supporting its customers in their environmental protection efforts.

### **Suppliers**

The Bank and the Group continued pursuing the procurement policy guidelines, which were adopted in 2013.

Procurement is carried out in accordance with the prescribed procedure and in a transparent manner. Various criteria are used in the selection of suppliers, always taking into consideration the price and references of suppliers. While the Bank aims to build long-term partner relationships with suppliers that guarantee the stability of supply, it regularly verifies the current supply conditions in the market. All potential suppliers are informed of the selection criteria and are treated equally. Partner relationships with suppliers are strengthened through dialogue and mutual trust.

Employees involved in the selection of suppliers were subject to appropriate training. A system of custody by type of costs has been introduced, and this will be

expanded to include the system of custody by suppliers. All suppliers are subject to a check at the time of the selection process and during the Bank's contractual relationship with them, at least once a year. To facilitate the procurement function, the Bank is in the process of introducing standard procurement agreements, along with pre-defined and obligatory appendices.

The operations of the Bank are diversified throughout the territory of Slovenia. Therefore, in cases where the procurement is not centralised or involves more than one supplier, the Bank tries to contract as many local suppliers as possible, with branch offices in the Nova Gorica region being particularly successful in this regard.

The control of procurement has been centralised. By setting up the Cost Committee, which verifies all procurement agreements worth over €15,000 and monitors the movements in costs and investments on a monthly basis, the Bank managed to further enhance the control of procurement.

### **Building the loyalty of employees**

2014 was the third year since the Bank was awarded the basic 'Family-Friendly Company Certificate' and bound itself to implement 13 measures to promote its family-friendly status. This certificate serves as a platform for the Bank to set up an organisational environment that will respect the private lives of employees and where employees with family obligations will feel accepted.

In 2014, the Bank adopted a policy of helping employees balance their professional and personal lives, thereby making a significant step towards pursuing the objectives it has set itself in this regard. The policy sets out principles and basic guidelines that must be followed in the implementation of measures arising from the 'Family-Friendly Company Certificate' and that serve as the basis for any decision made or conduct undertaken with respect to supporting employees in their efforts to reconcile their work and private lives. A workshop was given by the Bank last year to make its employees aware of the measures that a family-friendly company must implement.

In accordance with the policy referred to above, parents of children enrolling in kindergarten or primary school were entitled to paid work absence and, in exceptional circumstances, could have even bring their children with them to the office. In collaboration with the trade union,

the Bank gave Christmas gifts to children, and enabled employees working in branch offices to negotiate more flexible working time.

Information about the needs and opinions of employees is received through continuous dialogue and open communication with them, and also through annual interviews, which have been going on for a number of years. These interviews are not meant only to monitor the satisfaction of employees and to determine realistic and measurable goals, but also to provide information about the career wishes and plans of employees and about their desire to acquire additional skills. Last but not least, possibilities and proposals are discussed at interviews regarding how to properly balance professional and family lives.

The Bank continued to pay attention to the health of employees and to safety in the workplace. Further details in this regard are provided in the section headed 'Human resource management at Nova KBM'.

Being aware that the health of employees in their workplace depends on numerous factors related to their professional and private lives, the Bank provided its employees and their family members for the second consecutive year with the option to take advantage of free anonymous external psychological help, either via phone or in person.

Good relations between employees can be a strong motivational factor for work and can help employees develop an affiliation to a company. To learn about the importance of interpersonal relationships and the options for their improvement, the Bank, in cooperation with a psychologist, organised a workshop for its employees on this topic and on efficient communication.

During 2014, five regular meetings were held between the managers of main branch offices, the Management Board, and senior managers of the Retail Banking Division. The purpose of these meetings, which were well accepted by the managers, was to improve the flow of information, present relevant facts, and exchange good practices and useful innovations to be used by employees in branch offices.

### **Internal communication and internal programmes for employees**

In the area of internal communication, in 2014 the Bank continued implementing measures necessary to ensure the employees were better informed about

issues relevant to the operations of the Bank, with an improved hierarchical flow of information being one of the most important innovations. Several steps were taken aimed at nurturing a pleasant and productive working atmosphere, resulting in the employees being more committed to work. As part of an internal programme for employees operated under the umbrella name 'Pripravljeni na...' (Ready for...), four different initiatives were carried out in the areas of charity, health, responsibility towards the environment, good relations in the workplace, and internal promotion of the use of modern services provided by the Bank. These initiatives were supported by a large proportion of staff, with 117 employees per initiative on average taking part. At the end of the year, the Bank decided to earmark funds, which would otherwise have been spent on business gifts, for the charity project called 'Godparenthood', and organised a charity campaign called 'Donate a Book, Donate a Future', through which it collected books to be used for arranging and filling children's libraries at holiday houses of the Friends of Youth Association of Slovenia.

The Bank pursued its policy of distributing all information relevant to the operations of the Bank via e-circulars, while at the same time introducing new communication channels and improving the flow of information through face-to-face communication. A total of 154 circulars were received by the Bank employees last year, with an additional ten circulars being distributed to all the employees of the Group. In addition, four issues of the internal newspaper Med Nami were released last year in electronic form. On average, a total of 25 employees participated in the creation of each issue of the internal newspaper by contributing articles. Distributing the internal newspaper in electronic form makes it possible for the Bank to connect better with employees and establish a dialogue with them, thereby giving them an opportunity to participate actively in the creation of content for the newspaper. To achieve synergy effects, the Bank worked actively with other Group companies throughout 2014 to develop common marketing activities across a variety of communication channels. The Bank continued implementing communication guidelines in order to keep its employees better informed about the most relevant topics, and to help them provide adequate information to customers and business partners. A total of six communication guidelines were provided to employees last year. In addition, several recommendations were given to managers on how to effectively pass on relevant information to their subordinates.



## Survey on communication efficiency

For the purpose of improving the efficiency of communication and facilitating the hierarchical flow of information, in September 2014 the Bank conducted a survey on the internal communication efficiency, with as many as one-third of the total employees taking part in it. The average satisfaction of employees with information was rated at 3.43 (out of the 5 available points). While the satisfaction was the highest among the employees working in the eastern part of Slovenia, it decreased with distance from the head office. The most used sources of information were circulars, the internet and superiors. The source of information and the method of its provision were regarded as the most important factors contributing to the satisfaction with information, with 75.9% of the employees expressing a desire to receive information directly from their superiors. Given that the longest communication path from the source to the recipient was identified in areas with more than one level of management, increased attention will be given in the future to employees in this situation.

## Attitude towards the media

The Bank devotes a great deal of attention to its relationship with the media, as part of both corporate and marketing communication. The specialised departments of the Bank furnished the media with all relevant information in order to support it in its role as a provider of objective information and to respect the public's right to information. In 2014, the Bank upgraded its well-maintained relationship with the media by holding an increased number of personal meetings with journalists, by responding quickly to journalists' enquiries, and through proactive communication of the topics most relevant to its operations, all of which helped it create positive publicity about itself. In addition, two press conferences were held and 15 extensive interviews were given for the most relevant media by the President and members of the Management Board. Personal meetings of key Bank speakers with journalists were also a regular practice last year. The Bank issued 27 press releases, responded to about 2,300 requests from journalists, and was mentioned more than 8,600 times in the media. The efficiency of the Bank's media relations was assessed on the basis of its press coverage, and by conducting daily analyses and regular in-depth analyses of news published about the Bank. The year of 2014 was marked by ongoing difficult economic conditions, the start of the Bank's privatisation, and the publication of the results of stress tests. The latter, in particular, had

a negative impact on public opinion about banks in Slovenia. Despite this, the Bank recorded last year an average positive press publicity of 47.6%, an increase of just over four percentage points on 2013.

## Integration into the local environment and broader community

### Sponsorships and grants

As a socially responsible institution, the Bank is aware of the importance of being integrated into the broader social and local environment. Despite adverse economic conditions, it continued to take an active role in supporting higher quality of life of citizens and the development of the environment, both at the local and national levels.

The Bank is also aware of its responsibility towards society. It acts as a supporter and promoter of various non-profit organisations, associations, institutions, clubs, and individuals, building with them partner relationships that contribute to the development and progress of the environment in which they operate. In 2014, the Bank continued to actively support a number of projects in the areas of culture, sports and education, in addition to supporting numerous humanitarian and other socially responsible initiatives.

It provided funds to the Friends of Youth Association of Slovenia for the purpose of financially supporting a Slovenia-wide charity project called 'Godparenthood', instead of spending these funds on business gifts.

### Sports

For a number of years, the Bank has been a proud sponsor of a large number of sports events, competitions, associations, clubs and individuals, such as the freestyle skier Filip Flisar, the Golden Fox Women's Ski Competition in Giant Slalom, the Nova KBM Branik Volleyball Club, the NK Maribor Football Club, the Tolmin Football Club, the Ajdovščina Basketball Club, the Branik Handball Club, the Volleyball Federation of Slovenia, the National Street Basketball Championship, and of some smaller sports events and collectives. In its concern for the health of its employees, the Bank supports the activities of the Nova KBM Sports Club, thereby also strengthening the affiliation of employees to the organisation.

### Culture

Also last year, the Bank supported the Lent Festival as the main sponsor, and continued its long lasting partnership

with the Slovene National Theatre in Maribor. In addition, it provided support to the Ljubljana Festival, the Nova Gorica Cultural Association, the Nova Gorica Institute for Tourism, Culture, Youth and Sports, and to some other institutions concerned with art and culture. Sponsorship was also given to the Nova KBM choir which the Bank has been supporting since its formation.

### Education

Each year, the Bank supports several top technical conferences and training programmes. In 2014, it provided support to a conference on the challenges of the recycling industry in Slovenia, the InfraKon conference on the building of future infrastructure projects in Slovenia, the PODIM conference, and the 39th panel discussion of the Maribor Association of Economists. The employees of the Bank, too, are aware of their responsibility to participate as experts in the exchange of know-how, experience and good practices and thus contribute to the development of an efficient educational environment and well-skilled personnel. Many of Nova KBM's employees act as lecturers at different educational institutions, and are mentors to students working on their seminar papers as well as diplomas and master's theses. They also participate in committees and the management of various professional organisations and are actively engaged in technical projects.

### Encouragement of economic development

In line with its strategic directions, the Bank constantly encourages the development of entrepreneurship and innovative thinking. For the sixth year running, the Bank actively collaborated with the Institute for Entrepreneurship Research with which it set up the

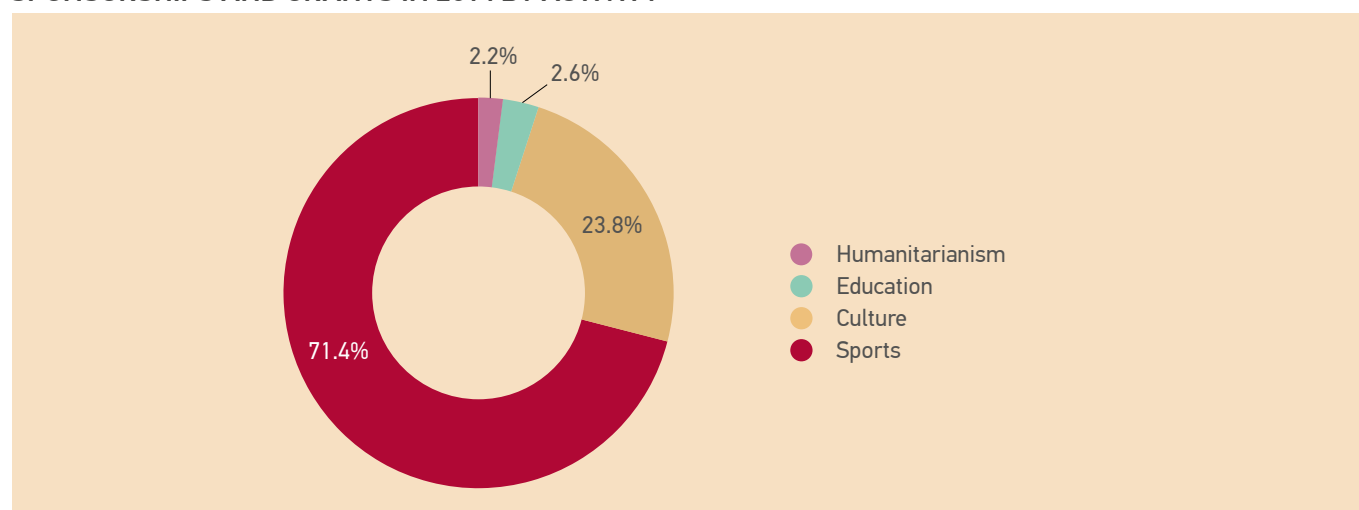
Entrepreneur Centre, the aim of which is to provide financial and technical advice to the interested entrepreneurs. Workshops on various topics are organised by the Bank each year, at which advice is given to entrepreneurs on how to attract funding and accelerate innovations. Another event organised by the Bank each year is a workshop called Business Days where entrepreneurs are informed about up-to-date business and financial topics that are useful for their operations.

The Bank also actively participates in other expert organisations and specialised events where business people and entrepreneurs can obtain information and advice about financing possibilities.

### Humanitarianism

The Bank participates frequently in humanitarian actions and charity projects, and also initiates the latter itself. Last December, the Bank conducted a charity campaign called 'Donate a Book, Donate a Future' through which it collected used and new books to be used for arranging and filling children's libraries at holiday houses of the Friends of Youth Association of Slovenia where children from socially vulnerable families spend holidays. In addition to that, it financially supported a Slovenia-wide project called 'Godparenthood' to help socially disadvantaged families. To sustain its socially responsible role, the Bank backed the activities of the Society for Helping Children with Autistic Disorder (Školjke), the Hospice Society, the charitable association Koraki za Korakce, the Mirno Morje Institute, the Vrabček Foundation, the Slovene Society for Cardiovascular Health, and various other organisations.

### SPONSORSHIPS AND GRANTS IN 2014 BY ACTIVITY





WE CAN ALWAYS TAKE A NEW PATH  
THAT WILL TAKE US TOWARDS  
NEW OPPORTUNITIES.

**REGULATORY SECTION**



# 13 / CORPORATE GOVERNANCE STATEMENT OF NOVA KBM

## 1. CORPORATE GOVERNANCE CODE

The Corporate Governance Code comprises:

- **Corporate Governance Code for Public Limited Companies (application and deviation)**
- **Corporate Governance Code for Companies with State Capital Investments (application and deviation), including recommendations given by the manager of direct and indirect capital investments of the Republic of Slovenia**
- **Corporate Governance Code for Companies with Capital Assets of the State**
- **Recommendations and Expectations of the Slovene Sovereign Holding.**

As of 31 December 2014, Nova KBM shares (KBMR) were no longer quoted on the Ljubljana Stock Exchange and the Warsaw Stock Exchange due to being cancelled as a result of extraordinary measures imposed by the Bank of Slovenia. Based on the state-sponsored recapitalisation, on 18 December 2013 the Republic of Slovenia became a 100% owner of all the newly issued shares of Nova KBM (KBMS). These shares, however, are not quoted on a stock market.

In view of the fact that its bonds (KBM 10) are quoted on the Vienna Stock Exchange, Nova KBM is still regarded as a public limited company under the provisions of the Financial Instruments Market Act (ZTFI). Article 99 of the ZTFI stipulates that any issuer whose securities have been accepted for trading on the regulated market in the Republic of Slovenia or another Member State falls within the definition of a public company.

Considering the situation referred to in the previous paragraph, Nova KBM, as a public limited company, fully complies in its governance system with the principles laid down in the Corporate Governance Code for Public Limited Companies, which, in addition to accomplishing the main objectives of shareholders according to internal and external global orientations, has a significant impact on the Bank's business performance and development.

The currently applicable Corporate Governance Code for Public Limited Companies, which was adopted on 8 December 2009 and came into being as of 1 January 2010, contains, among other things, a recommendation on formulating the Corporate Governance Policy.

Nova KBM and its bodies endeavour to fully observe the provisions of corporate governance codes as well as the recommendations and expectations of the Slovene Sovereign Holding.

In setting up and developing a transparent, clear and successful governance and management system, during 2014 the Bank endeavoured, as far as practicable, to comply with regulatory provisions and the highest standards of responsible and well thought-out governance of the Bank, as laid down in the Corporate Governance Code (hereafter referred to as the 'Code'), thus further increasing the confidence of domestic and foreign investors, employees, and the wider public in the governance of the Bank.

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

The Bank and its bodies endeavoured to fully observe the provisions of the Code that was in effect and used in 2014. However, in certain instances the Bank's operations deviated from individual provisions of the Code. In compliance with the Preamble of the Code, the Bank sets out below the reasons for such deviations. The reasons were mainly related to the specific circumstances under which the Bank operated due to

changed conditions in the Bank and in its environment (market); to payment characteristics of the banking sector; to the specific ownership structure of the Bank; and to other circumstances which had an impact on the governance and management of the Bank.

As a company in which the Republic of Slovenia holds an equity investment, in 2014 Nova KBM also complied with the Corporate Governance Code for Companies with State Capital Investments, adopted by the Management and Supervisory Boards of Slovenska odškodninska družba (SOD) on 15 May 2013 on the basis of the provisions of the Slovene Sovereign Holding Act (ZSDH). Until it was transformed into the Slovene Sovereign Holding (SSH), the SOD had managed the assets of the Republic of Slovenia in accordance with the ZSDH.

On the day it was entered into the court register, i.e. 11 June 2014, the SSH assumed all powers, competences, rights and obligations held by the SOD prior to the transformation, which enabled it to continue managing the capital investments owned by either the Republic of Slovenia directly or itself. The SSH has continued to pursue the principles and recommendations of good practice for the corporate governance of state assets, as set out in the Corporate Governance Code for Companies with State Capital Investments, adopted by the SOD on 15 May 2013. This code had been in effect and used until it was replaced by the Corporate Governance Code for Companies with Capital Assets of the State, adopted by the SSH on 19 December 2014 and published on its website on 22 December 2014.

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

The Bank has set out the reasons for deviations from the provisions of the Corporate Governance Code for Companies with State Capital Investments, which was in use in 2014, in the section headed 'Corporate governance statement of Nova KBM', which is an integral part of the Bank's 2014 Annual Report.

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

For the purpose of concretising the principles of corporate governance, and in view of the need to regulate separately certain narrow and specific issues related to corporate governance that are not covered by the legal framework applicable to the management of state assets, the SSH took on the Recommendations of the Manager of Direct and Indirect Capital Investments of the Republic of Slovenia, which had been adopted by the SOD in April 2013. These recommendations had been in effect and used until 8 December 2014, when the SSH issued its own recommendations and expectations with regard to the management of investments owned by the state. The number of recommendations and expectations included in the document drawn up by the SSH is lower than the number in the document drawn up by the SOD, since some more general recommendations and expectations were incorporated into the Corporate Governance Code for Companies with Capital Assets of the State, issued by the SSH in December 2014.

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

Given that the Corporate Governance Code for Companies with Capital Assets of the State, and the Recommendations and Expectations of the SSH were adopted only in December 2014, the Bank – within its Corporate Governance Statement for 2014, which forms an integral part of its Annual Report – has not expressed its position regarding the documents referred to above by stating the extent to which it complied with the rules and standards of good practice of corporate governance, or by stating the extent to which it deviated from these rules and standards.

In its next published Corporate Governance Statement, which will be included in its Annual Report for 2015, the Bank will provide details regarding its compliance



with, or deviations from, the provisions of the Corporate Governance Code for Companies with Capital Assets of the State as well as the Recommendations and Expectations of the SSH.

## Corporate Governance Code for Public Limited Companies

### Point 5.7

#### CODE PROVISION

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

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

#### REASON FOR DEVIATION

In 2014, the remuneration Management Board members complied with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors.

### Point 22.7

#### CODE PROVISION

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

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

#### REASON FOR DEVIATION

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

In 2013, the Nova KBM Supervisory Board adopted the currently applicable remuneration policy. The disclosure of remuneration provided to Management Board members in 2014 is compliant with the remuneration policy and follows the recommendations of the Code.

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

### Point 75

#### CODE PROVISION

The SOD (the SSH) will strive for companies with equity investments of the state to establish nomination committees as a special commission of the supervisory board. These will ensure adequate mechanisms regarding the selection of candidates for members of the supervisory

board and overcome conflicts of interests which the supervisory board is faced with in the preparation of the proposal for the composition of the supervisory board. The nomination committee performs selection procedures of candidates and proposes to the supervisory board a list of candidates for appointment at the shareholders' meeting. The nomination committee may support the supervisory board in all other matters which directly relate to the interests of the members of the supervisory board and require consent of the shareholders' meeting (for example, the proposals concerning the remuneration of the members of the supervisory board).

#### REASON FOR DEVIATION

The Nova KBM Supervisory Board appointed the Remuneration and Nomination Committee in 2011. Its competences comply with the Banking Act and implementing regulations of the Bank of Slovenia. In 2014, the appropriate procedures for the assessment and selection of candidates for members of the Supervisory Board were entirely carried out by the Remuneration and Nomination Committee.

Apart from the committee referred to in the previous paragraph, in 2014 the Bank set up the Fit and Proper Committee, whose task is to assess the suitability of officers holding key positions, including members of the management and supervisory bodies. This committee carries out its work in accordance with the Banking Act, the Companies Act and the Bank of Slovenia regulations.

#### Point 87

#### CODE PROVISION

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

#### REASON FOR DEVIATION

With respect to the disclosure of remuneration of Management Board members, the Bank fully complies

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

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

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

### Individual recommendations of the SSH (SOD)

#### Recommendation No. 2 – Remuneration of external members of supervisory board committees and other external experts with whom the supervisory board cooperates in its work

#### REASON FOR DEVIATION

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

The remuneration provided in 2014 to external members of the Supervisory Board committees and other external experts with whom the Supervisory Board cooperates in its work was adjusted in accordance with the Corporate Governance Code for State Capital Investments, and the Recommendations of the Manager of Direct and Indirect

Capital Investments of the Republic of Slovenia regarding the remuneration provided to external members of supervisory board committees and other external experts with whom the supervisory board cooperates in its work. These documents were issued by the SOD in April 2013.

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

Since 22 December 2014, a recommendation identical in substance to the one referred to above has been included in the Corporate Governance Code for Companies with Capital Assets of the State, issued by the SSH.

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

##### REASON FOR DEVIATION

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

Since 22 December 2014, a recommendation identical in substance to the one referred to above has been included in the Corporate Governance Code for Companies with Capital Assets of the State, issued by the SSH, with reference also being made to the Recommendations for Audit Committees, issued by the Slovene Directors' Association in 2009.

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

##### REASON FOR DEVIATION

The explanation of deviation given under the recommendation No. 6 (Quarterly reporting of the performance of a company/group) can be, mutatis mutandis, applied also to this recommendation. The

Bank does not prepare three-year business plans, but prepares a standard document for each year – a Business Policy and Financial Plan of the Bank and the Group. This document is formulated by the Management Board and agreed by the Supervisory Board. The summary of this document is published on the Bank website. The planning is based on the adopted strategy.

Since 8 December 2014, a recommendation identical in substance to the one referred to above has been included in the Recommendations and Expectations of the SSH.

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

##### REASON FOR DEVIATION

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

Since 8 December 2014, a recommendation identical in substance to the one referred to above has been included in the Recommendations and Expectations of the SSH.

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

##### REASON FOR DEVIATION

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

standards, objectives, strategies and policies of the Bank, all in the best interests of the Bank.

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

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

Since 8 December 2014, a recommendation identical in substance to the one referred to above has been included in the Recommendations and Expectations of the SSH.

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

#### **REASON FOR DEVIATION**

In 2012 and 2013, the Bank Management Board adopted certain cost-cutting measures and adjusted the remuneration policy to the current economic conditions. These measures have been set out by the Management Board in the Strategy of the Bank and the Group for the period from 2010 to 2013, and in the Business Policy and Financial Plan of the Bank and the Group for 2013 and 2014. Following the initiative of the Remuneration and Nomination Committee, the Bank Supervisory Board requested the Management Board to reduce the operating costs across the entire Group and to start negotiations with the aim of adjusting the collective agreement to weak performance of the Bank. Information about pay-outs relating to other types of remuneration provided under individual contracts (severance benefit paid to employees who are made redundant for business reasons, retirement benefits, compensation for a non-competition clause, and some

other remuneration under employment contracts) is disclosed in the financial part of Nova KBM's annual reports and is publicly available.

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

Since 8 December 2014, a recommendation identical in substance to the one referred to above has been included in the Recommendations and Expectations of the SSH.

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

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

##### **REASON FOR DEVIATION**

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

#### **Internal auditing**

##### **REASON FOR DEVIATION**

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

Since 22 December 2014, a recommendation identical in substance to the one referred to above has been included in the Corporate Governance Code for Companies with Capital Assets of the State, issued by the SSH.

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

The fundamental principles of excellence are, in part, incorporated into the Bank's organisational culture. Numerous external and internal analyses, carried out by the Bank on a regular basis, are to some extent consistent with the assessment principles of the EFQM model (e.g. internal quality assessment, benchmark analysis,

analysis of individual processes, process maturity analysis, internal communication analysis, customer satisfaction analysis, and annual interviews where employees are asked to evaluate their job satisfaction, etc). Based on the results of these analyses, the Bank has identified and implemented several measures to improve its performance across all segments.

Following the implementation of necessary changes, and with the aim of achieving continuous improvements towards more efficient, effective and competitive operations, as well as sustainable development, the Bank will examine options to upgrade its existing principles of quality and to extend its system of quality and excellence to its entire business as well as that of the Group as a whole, thereby making progress in attaining high standards of excellence and quality.

Since 8 December 2014, a recommendation identical in substance to the one referred to above has been included in new Recommendations and Expectations of the SSH.

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

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

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

Since 8 December 2014, a recommendation identical in substance to the one referred to above has been included in new Recommendations and Expectations of the SSH.

## **2. DESCRIPTION OF MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT IN RELATION TO FINANCIAL REPORTING PROCEDURES**

The aim of internal controls is to ensure that the risks to which the Bank is exposed are properly managed,

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

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

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

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

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

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



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

### **3. INFORMATION AND EXPLANATIONS PROVIDED BY COMPANIES THAT ARE SUBJECT TO THE APPLICATION OF THE ACT REGULATING ACQUISITIONS (INFORMATION FROM POINT 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 AND 11 OF THE SIXTH PARAGRAPH OF ARTICLE 70 OF THE COMPANIES ACT)**

#### **Explanation regarding the structure of the company's share capital, including all securities, as stipulated by the act regulating acquisitions (Points 1 and 2 of the sixth paragraph of Article 70 of the Companies Act)**

As of 31 December 2014, the share capital of the Bank totalled €150,000,000 and was split into 10,000,000 ordinary, registered no-par-value shares, all of which were held by the Republic of Slovenia. 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.

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

As of 31 December 2014, the Republic of Slovenia was a 100% shareholder of Nova KBM.

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

No special controlling rights are attached to Nova KBM shares.

#### **Explanation regarding the employee share scheme, if existing, of shares to which it relates, and an explanation about the method of exercising control over such scheme, if control is not exercised directly by the employees (Point 5 of the sixth paragraph of Article 70 of the Companies Act)**

Nova KBM has not set up a share scheme within the meaning of Article 14 of the Financial Participation Act (ZUDDob).

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

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

#### **Explanation regarding any agreements among shareholders that could result in the restriction of the transfer of securities or voting rights (Point 7 of the sixth paragraph of Article 70 of the Companies Act)**

No agreements exist among shareholders that could result in the restriction of the transfer of securities or voting rights.

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

#### **Management Board**

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

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

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

of Article 268 of the Companies Act, and in cases provided for by the applicable banking regulations.

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

### Supervisory Board

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

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

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

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

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

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

### Explanation regarding any important agreements to which the company is a party, and which take effect, change or are cancelled on the basis of the change in the control of the company as a result of a takeover bid, as stipulated by the act regulating acquisitions, and the effects of such agreements (Point 10 of the sixth paragraph of Article 70 of the Companies Act)

No agreements exist to which Point 10 of the sixth paragraph of Article 70 of the Companies Act applies.

### Explanation regarding any agreements between the company and the members of its management or supervisory bodies or the employees which foresee compensation should such persons, due to a takeover bid as stipulated by the act regulating acquisitions: (i) resign; (ii) be dismissed without reasonable cause; or (iii) be subject to the termination of their employment relationship (Point 11 of the sixth paragraph of Article 70 of the Companies Act)

No agreements exist to which Point 11 of the sixth paragraph of Article 70 of the Companies Act applies.

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

### Competences of the Shareholders' Meeting

The Shareholders' Meeting shall decide about:

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

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

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

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

The Shareholders' Meeting is called by the Management Board.

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

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

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

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

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

#### **PARTICIPATION IN THE SHAREHOLDERS' MEETING**

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

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

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

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

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

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

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

### **Adoption of resolutions**

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

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

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

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

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

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

Shareholders may appoint a proxy through electronic means. The form for exercising voting rights through

a proxy is available on the Bank website. The power of attorney may be sent to the Bank, also by e-mail, to the address specified by the Bank in each notice of the Shareholders' Meeting, in scanned format as an attachment, or by fax.

The power of attorney remains deposited with the Bank.

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

Further information regarding the functioning of the Shareholders' Meeting is set out in Nova KBM's Annual Report for 2014, in the section headed 'Governing bodies of Nova KBM'.

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

### Management Board

As of 31 December 2014, the Nova KBM Management Board had the following three members: Aleš Hauc (President), Robert Senica (Member) and Sabina Župec Kranjc (Member).

On 5 September 2014, Igor Žibrik, the then member of the Management Board, served notice of his resignation from his position. The Supervisory Board was informed of Žibrik's decision on 15 September 2014, and his term of office ended on 31 October 2014.

On 3 April 2014, the Supervisory Board appointed Robert Senica as a new member of the Management Board for

The composition of the Nova KBM Management Board saw some changes in 2014.

a period of five years. After he had been granted a Bank of Slovenia licence to hold the office of member of the Management Board on 8 July 2014, Senica took up his position on 1 August 2014.

On 1 October 2014, the Supervisory Board appointed Sabina Župec Kranjc as the third member of the Management Board. Her five-year term of office started

on 17 November 2014, after she had been granted a Bank of Slovenia licence to hold the office of member of the Management Board on 11 November 2014.

Pursuant to the applicable legislation and the Bank's Articles of Association, the Management Board runs the Bank autonomously and on its own responsibility. The Management Board administers the day-to-day operations of the Bank independently of instructions of other stakeholders, and exclusively to the benefit of the Bank.

At least two members of the Management Board jointly present and represent the Bank in accordance with provisions of the Banking Act. All Management Board members comply with legal requirements for performing their duties on the Management Board.

### Duties of the Management Board

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

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

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

### Decision-making by the Management Board

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

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

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

### Representation of the Bank

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

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

Further details with respect to the composition and competences of the Management Board are set out in Nova KBM's Annual Report for 2014, in the section headed 'Governing bodies of Nova KBM'.

### Supervisory Board

The managing of operations of Nova KBM is overseen by the Supervisory Board that, in accordance with the Bank's Articles of Association, consists of six members. Two-thirds of the Supervisory Board members must be independent experts. Persons are considered independent if they are not or were not employed by the Government of the Republic of Slovenia in the last 24 months since their appointment to the Bank Supervisory Board, or have not held a leading or other high-level position in any political party in the Republic of Slovenia in the last 24 months.

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

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

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

From 1 January to 5 February 2014, when Karmen Dvorjak resigned from her position as a Supervisory Board member, the composition of the Nova KBM Supervisory Board was as follows: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Andrej Fatur, Miha

Glavič, Peter Kavčič, Karmen Dvorjak, Egon Žižmond and Keith Charles Miles.

Egon Žižmond and Keith Charles Miles resigned as members of the Supervisory Board on 19 March 2014 and 23 September 2014, respectively.

As of 31 December 2014, the Nova KBM Supervisory Board comprised the following members: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Andrej Fatur, Miha Glavič and Peter Kavčič.

### Conditions for the Supervisory Board membership

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

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

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

### Competences and duties of the Supervisory Board

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

- Bank's business policy
- Bank's financial plan
- organisation of the system of internal controls
- draft annual plan of work of the Internal Audit Centre
- new issues of own securities exceeding €30 million
- all transactions regarding the acquisition and disposal of equity holdings in companies and other legal entities whose book value exceeds €550,000
- acquisition and disposal of investments in equity instruments with the purpose of portfolio investments, if such investment in any one issuer exceeds 5% of the Bank's equity
- any decisions in respect of actions resulting in status changes in companies and other legal entities in which the Bank holds a controlling stake
- formation of a banking and/or financial group or groups
- writing off claims over €1 million



- raising funds and contracting other liabilities for the Bank which in one financial year, individually or in total, exceed 25% of the Bank's equity
- concluding legal deals which, considering the Bank's total exposure, would result in the Bank's large exposure to a customer or a group of related persons, and concluding legal deals as a result of which the Bank's large exposure to a customer or a group of related persons would be increased by so much as to reach or exceed 15% of the Bank's equity, and each subsequent 5% of its equity
- concluding a transaction that results in the Bank becoming exposed to a person having a special relationship with the Bank within the meaning of provisions of Article 167 of the Banking Act
- other matters in accordance with the regulations.

Members of the Supervisory Board are required to:

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

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

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

The Supervisory Board is required to:

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

The Supervisory Board adopts the annual report.

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

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

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

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

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

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

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

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

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

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

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

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

Further information about the activities of the Bank Supervisory Board is set out in Nova KBM's Annual Report for 2014, in the section headed 'Report of the Supervisory Board'.

### **Supervisory Board committees**

The following committees carried out their work during 2014 in accordance with the Companies Act and the Banking Act: the Audit Committee, and the Remuneration and Nomination Committee.

#### **Audit Committee**

The composition of the Audit Committee at the beginning of 2014 was as follows: Keith Charles Miles (Chair), Andrej Fatur (Deputy Chair), Peter Kavčič (member) and Aleksander Igličar (external member). This composition changed on 14 February 2014, when the Supervisory Board appointed Gojko Koprivec as a new external member of the Audit Committee.

On 23 September 2014, Keith Charles Miles stepped down as a member of the Supervisory Board, with the result that his position on the Audit Committee also ended.

On 27 August 2014, the Supervisory Board appointed Jernej Pirc as a new external member of the Audit Committee.

On 1 October 2014, the Supervisory Board dismissed Aleksander Igličar and Gojko Koprivec as external members of the Audit Committee, and appointed Keith Charles Miles as a new external member. Peter Kavčič became the Chair of the Audit Committee, while Andrej Fatur was appointed his deputy.

As of 31 December 2014, the Audit Committee consisted of the following four members: Peter Kavčič (Chair), Andrej Fatur (Deputy Chair), Keith Charles Miles (external member) and Jernej Pirc (external member).

The Audit Committee supports the Supervisory Board in overseeing the management of the Bank

and the Group companies, in particular with regard to legitimacy of operations, compliance with ethical standards, the risk management system, financial reporting procedures, internal audit and the internal control system, and undertakes duties laid down in the Bank's Articles of Association, documents of the Audit Committee and Supervisory Board resolutions. In addition, the Audit Committee provides technical assistance to the Supervisory Board in collaborating with, and monitoring the work of, external auditors, chiefly with the aim of ensuring that the principles of independence and impartiality are adhered to and that the audit is carried out in the most efficient and effective manner.

The Audit Committee carries out its activities in accordance with the law, the Bank's Articles of Association, and the Charter which regulates the purpose and the composition of the Audit Committee, methods and conditions of its work as well as competences and responsibilities of its members. The area and the method of work of the Audit Committee, its decision-making process and all other issues deemed important for its work are regulated by the Rules of Procedure of the Audit Committee.

As a rule, the Audit Committee members adopt decisions at meetings. A quorum is constituted if at least one half of the Audit Committee members are present at the meeting, one of whom must be the Chair or Deputy Chair of the Audit Committee and at the same time a member of the Supervisory Board.

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

In accordance with the decisions adopted by the Bank Shareholders' Meeting on 22 July 2011 and 27 June 2014, in 2014 members of the Supervisory Board were, apart from an attendance fee for their attendance and time spent at the meeting, entitled to receive basic remuneration for holding their office. External members of the Audit Committee were entitled to an attendance fee, the amount of which was determined by the Shareholders' Meeting. They were also entitled to the reimbursement of costs for holding the office, the

amount of which was determined by the Shareholders' Meeting as well. External members were entitled to the reimbursement of costs in the same amount as Supervisory Board members.

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

Further information about the activities of the Audit Committee is set out in Nova KBM's Annual Report for 2014, in the section headed 'Report of the Supervisory Board'.

### Remuneration and Nomination Committee

From 1 January to 1 October 2014, when the Supervisory Board dismissed Adriana Rejc Buhovac from her position, the composition of the Remuneration and Nomination Committee was as follows: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Peter Kavčič (member), Adriana Rejc Buhovac (external member) and Romana Košorok (external member).

As of the 31 December 2014, the Remuneration and Nomination Committee consisted of the following four members: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Peter Kavčič (member) and Romana Košorok (external member).

The Remuneration and Nomination Committee is primarily responsible for providing support to the Supervisory Board in selecting candidates for the

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

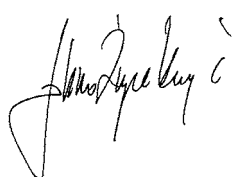
The area and the method of work of the Remuneration and Nomination Committee, its decision-making process and all other issues important for its work are regulated by the Rules of Procedure of the Supervisory Board Remuneration and Nomination Committee.

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

This Corporate Governance Statement is an integral part of Nova KBM's 2014 Annual Report and will be available in the Ljubljana Stock Exchange electronic information dissemination system, SEOnet, and published on the Bank website.

Maribor, 28 January 2015

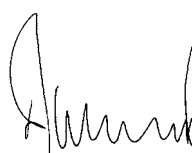
Management Board of Nova KBM d.d.



Sabina Župec Kranjc  
Member



Robert Senica  
Member



Aleš Hauc  
President

Supervisory Board of Nova KBM d.d.



Peter Kukovica  
Chair

# 14 / STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

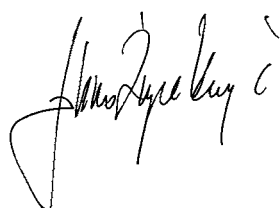
(pursuant to Article 110 of the Financial Instruments Market Act)

By signing this statement, the members of the Nova KBM Management Board, i.e. Robert Senica, President, and Sabina Župec Kranjc, Member, confirm to the best of their knowledge that:

- the financial statements have been drawn up in accordance with the appropriate accounting framework of reporting and that they provide a true and fair view of the assets, liabilities, the financial position and the profit and loss of the Bank and other companies included in the consolidation as a whole, and
- the business report gives a fair view of the development and results of the Bank's operations and its financial position, including the description of principal risks the Bank and other companies included in the consolidation are exposed to.

Maribor, 2 March 2015

Management Board of Nova KBM d.d.



Sabina Župec Kranjc  
Member



Robert Senica  
President

# 15 / TYPE OF SERVICES FOR WHICH NOVA KBM HAS THE AUTHORISATION OF THE BANK OF SLOVENIA

Nova KBM has the authorisation to perform banking services pursuant to Article 7 of the Banking Act (Official Gazette of the Republic of Slovenia, No. 99/10 – official consolidated text (No. 52/11 – amendment), No. 9/11 – Act Amending Payment Services and Systems Act, Nos. 35/11, 59/11, 85/11, 48/12, 105/12, 56/13, 63/13 (ZS-K) and 96/13); hereafter: the ZBan-1.

Banking services are the acceptance of deposits from the public and the granting of loans for its own account.

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

Pursuant to Article 10 of the ZBan-1, the Bank may perform the following mutually recognised financial services:

1. Acceptance of deposits.
2. Granting of loans, including:
  - consumer loans
  - mortgage loans
  - factoring (with or without recourse)
  - financing of commercial transactions, including forfeiting.
3. Financial leasing: financial leasing of assets of which the duration approximately equals the expected useful life of the asset which is the object of the lease and for which the lessee acquires most of the benefit from the use of the asset and accepts the full risk of the transaction.
4. Payment services.
5. Issuance and management of other payment instruments (i.e. travellers' cheques and bankers' drafts) in the part in which this service is not included in service of Point 4 above.

6. Issuance of guarantees and other commitments.
7. Trading for its own account and for account of customers in:
  - money market instruments
  - foreign exchange, including currency exchange transactions
  - financial futures and options
  - foreign exchange and interest-rate instruments
  - transferable securities.
8. Participation in the issuance of securities and services related to such issues.
9. Advice and services related to mergers and the purchase of undertakings.
10. Portfolio management and advice.
11. Safekeeping of securities and other services related to safekeeping of securities.
12. Renting of safe deposit boxes.
13. Investment services and operations and ancillary investment services from the first paragraph of Article 10 of the ZTFI.

The Bank may perform the following additional financial services in accordance with Article 11 of the ZBan-1:

- insurance brokerage in accordance with the law governing the insurance business
- administration of payment systems
- marketing of investment funds and the sale of investment coupons or shares in investment funds.

Furthermore, within additional financial services provided in accordance with Point 6 of the first paragraph of Article 11 of the ZBan-1, the Bank may be engaged in the brokerage of voluntary supplementary pension insurance.



# 16 / NOVA KBM BRANCH OFFICE NETWORK

## Branch Office Network Department

Razlagova ulica 4  
2505 Maribor  
Telephone: +386 2 229 28 39

Koroška vrata Branch Office  
Turnerjeva ulica 17a  
2505 Maribor  
Telephone: +386 2 229 16 60

Novi trg Branch Office  
Novi trg 1  
2250 Ptuj  
Telephone: +386 2 229 19 24

## Slovenia-East Branch

Razlagova ulica 4  
2505 Maribor  
Telephone: +386 2 229 28 39

Pobrežje Branch Office  
Cesta XIV. divizije 34  
2505 Maribor  
Telephone: +386 2 229 15 30

Breg Branch Office  
Zagrebska cesta 4a  
2250 Ptuj  
Telephone: +386 2 229 18 90

Centrala Branch Office  
Ulica Vita Kraigherja 4  
2505 Maribor  
Telephone: +386 2 229 20 60

Tezno Branch Office  
Ptujška cesta 105  
2505 Maribor  
Telephone: +386 2 229 16 90

Kidričevo Branch Office  
Mladinska ulica 10  
2325 Kidričevo  
Telephone: +386 2 229 18 65

Tyrševa Branch Office  
Tyrševa ulica 2  
2505 Maribor  
Telephone: +386 2 229 20 73

Šentilj Branch Office  
Maistrova ulica 2  
2212 Šentilj v Slovenskih goricah  
Telephone: +386 2 229 15 50

Videm Branch Office  
Videm pri Ptuj 43  
2284 Videm pri Ptuj  
Telephone: +386 2 229 19 75

Melje Branch Office  
Partizanska cesta 42  
2505 Maribor  
Telephone: +386 2 229 15 70

Ruše Branch Office  
Jamnikova ulica 2  
2342 Ruše  
Telephone: +386 2 229 17 50

Gorišnica Branch Office  
Gorišnica 61  
2272 Gorišnica  
Telephone: +386 2 229 17 85

Ljubljanska Branch Office  
Ljubljanska ulica 1–3  
2505 Maribor  
Telephone: +386 2 229 15 20

Hoče Branch Office  
Miklavška cesta 63  
2311 Hoče  
Telephone: +386 2 229 17 40

Rogoznica Branch Office  
Špindlerjeva ulica 3  
2250 Ptuj  
Telephone: +386 2 229 17 35

Europark Branch Office  
Pobreška cesta 18  
2505 Maribor  
Telephone: +386 2 229 15 10

Lovrenc na Pohorju Branch Office  
Gornji trg 20  
2344 Lovrenc na Pohorju  
Telephone: +386 2 229 18 40

Rabelčja vas Branch Office  
Ulica 25. maja 13  
2250 Ptuj  
Telephone: +386 2 229 17 10

Cesta zmage Branch Office  
Cesta zmage 98  
2505 Maribor  
Telephone: +386 2 229 17 20

Lenart Branch Office  
Partizanska cesta 1  
2230 Lenart v Slovenskih goricah  
Telephone: +386 2 229 15 80

Ormož Branch Office  
Ptujška cesta 2  
2270 Ormož  
Telephone: +386 2 229 18 70



Titova Branch Office  
Ljubljanska cesta 11  
2310 Slovenska Bistrica  
Telephone: +386 2 229 18 15

Zgornja Bistrica Branch Office  
Partizanska ulica 61  
2310 Slovenska Bistrica  
Telephone: +386 2 229 17 90

Poljčane Branch Office  
Bistriška cesta 60  
2319 Poljčane  
Telephone: +386 2 229 18 30

Pragersko Branch Office  
Kolodvorska ulica 7  
2331 Pragersko  
Telephone: +386 2 229 18 50

Oplotnica Branch Office  
Ulica Pohorskega bataljona 7  
2317 Oplotnica  
Telephone: +386 2 229 18 60

Dravograd Branch Office  
Meža 10  
2370 Dravograd  
Telephone: +386 2 229 17 65

Ravne Branch Office  
Prežihova ulica 5  
2390 Ravne na Koroškem  
Telephone: +386 2 229 16 40

Murska Sobota Branch Office  
Kocljeva ulica 11  
9000 Murska Sobota  
Telephone: +386 2 229 17 78

Ljutomer Branch Office  
Glavni trg 4  
9240 Ljutomer  
Telephone: +386 2 229 15 60

Gornja Radgona Branch Office  
Partizanska cesta 26  
9250 Gornja Radgona  
Telephone: +386 2 229 19 70

Lendava Branch Office  
Trg ljudske pravice 11  
9220 Lendava  
Telephone: +386 2 229 16 30

Celje Branch Office  
Cankarjeva ulica 1  
3000 Celje  
Telephone: +386 3 620 30 75

**Slovenia-Centre Branch**  
Tivolska cesta 48  
1000 Ljubljana  
Telephone: +386 1 620 30 00

Ljubljana Branch Office  
Tivolska cesta 48  
1000 Ljubljana  
Telephone: +386 1 620 30 09

Ljubljana Center Branch Office  
Stritarjeva ulica 2  
1000 Ljubljana  
Telephone: +386 1 620 30 30

Kranj Branch Office  
Koroška cesta 2  
4000 Kranj  
Telephone: +386 4 620 31 04

Žiri Branch Office  
Loška cesta 15  
4226 Žiri  
Telephone: +386 4 620 31 30

Novo mesto Branch Office  
Rozmanova ulica 24  
8000 Novo mesto  
Telephone: +386 7 620 31 60

Brežice Branch Office  
Cesta prvih borcev 6  
8250 Brežice  
Telephone: +386 7 620 31 47

Krško Branch Office  
Cesta krških žrtev 137  
8270 Krško  
Telephone: +386 7 620 31 70

## **Slovenia-West Branch**

Kidričeva ulica 11  
5000 Nova Gorica  
Telephone: +386 5 331 70 00

Centrala Branch Office  
Kidričeva ulica 11  
5000 Nova Gorica  
Telephone: +386 5 331 70 00

Mestna hranilnica Branch Office  
Tumova ulica 1  
5000 Nova Gorica  
Telephone: +386 5 331 74 60

Šempeter Branch Office  
Cesta Prekomorskih brigad 9  
5290 Šempeter pri Gorici  
Telephone: +386 5 331 70 60

Solkan Branch Office  
Trg J. Srebrniča 2  
5250 Solkan  
Telephone: +386 5 331 74 80

Rožna Dolina Branch Office  
Vipavska cesta 2  
5000 Nova Gorica  
Telephone: +386 5 331 70 75

Brda Branch Office  
Trg 25. maja 5  
5212 Dobrovo v Brdih  
Telephone: +386 5 331 74 85

Kanal Branch Office  
Trg svobode 23  
5213 Kanal  
Telephone: +386 5 331 74 70

Branik Branch Office  
Branik 75  
5295 Branik  
Telephone: +386 5 331 70 86

Miren Branch Office  
Miren 125a  
5291 Miren  
Telephone: +386 5 331 70 80



Deskle Branch Office  
Srebrničeva ulica 20  
5210 Deskle  
Telephone: +386 5 331 74 75

Idrija Branch Office  
Lapajnetova ulica 41  
5280 Idrija  
Telephone: +386 5 331 70 91

Most na Soči Branch Office  
Most na Soči 60a  
5216 Most na Soči  
Telephone: +386 5 331 71 75

Dornberk Branch Office  
Gregorčičeva ulica 11  
5294 Dornberk  
Telephone: +386 5 331 70 85

Cerkno Branch Office  
Glavni trg 5  
5282 Cerkno  
Telephone: +386 5 331 71 30

Podbrdo Branch Office  
Podbrdo 33d  
5243 Podbrdo  
Telephone: +386 5 331 71 80

Renče Branch Office  
Trg 40  
5292 Renče  
Telephone: +386 5 331 70 56

Tolmin Branch Office  
Trg maršala Tita 14  
5220 Tolmin  
Telephone: +386 5 331 71 47

Koper Branch Office  
Ferrarska ulica 12  
6000 Koper  
Telephone: +386 5 331 71 96

Ajdovščina Branch Office  
Goriška cesta 25  
5270 Ajdovščina  
Telephone: +386 5 331 70 14

Bovec Branch Office  
Trg golobarskih žrtev 47  
5230 Bovec  
Telephone: +386 5 331 71 65

Lucija Branch Office  
Obala 114b  
6320 Lucija  
Telephone: +386 5 331 74 20

Vipava Branch Office  
Cesta 18. aprila 4  
5271 Vipava  
Telephone: +386 5 331 70 50

Kobarid Branch Office  
Trg svobode 2  
5222 Kobarid  
Telephone: +386 5 331 71 70



**FINANCIAL REPORT**

# 1 / AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP AND NOVA KBM D.D.



Deloitte Revizija d.o.o.,  
Dunajska cesta 165  
1000 Ljubljana  
Slovenija

Tel: + 386 (0)1 3072 800  
Fax: + 386 (0)1 3072 900  
www.deloitte.si

## INDEPENDENT AUDITOR'S REPORT to the owners of Nova KBM d.d.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the bank Nova KBM d.d. and its subsidiaries (hereinafter: "the Group"), which comprise the statement of financial position as at 31 December 2014, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Member of Deloitte Touche Tohmatsu Limited



*Opinion*

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

**Report on Other Legal and Regulatory Requirements**

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc  
Certified Auditor

Yuri Sidorovich  
President of the Board

**Deloitte.**

For signature please refer to  
original Slovenian version.

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

Ljubljana, 2 March 2015

**TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS**



Deloitte Revizija d.o.o.  
Dunajska cesta 165  
1000 Ljubljana  
Slovenija

Tel: + 386 (0)1 3072 800  
Fax: + 386 (0)1 3072 900  
www.deloitte.si

## INDEPENDENT AUDITOR'S REPORT to the owners of Nova KBM d.d.

### Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of the bank Nova KBM d.d. (hereinafter: the "bank"), which comprise the statement of financial position as at 31 December 2014, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Member of Deloitte touche Tohmatsu Limited

*Opinion*

In our opinion the unconsolidated financial statements give a true and fair view of the financial position of the bank as at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

**Report on Other Legal and Regulatory Requirements**

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc  
Certified Auditor

Yuri Sidorovich  
President of the Board

For signature please refer to the  
original Slovenian version.

**Deloitte.**

DELOITTE REVIZIJA D.O.O.  
Ljubljana, Slovenija

Ljubljana, 2 March 2015

**TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS**

# 2 / FINANCIAL STATEMENTS OF THE NOVA KBM GROUP AND NOVA KBM D.D.

## 1 / INCOME STATEMENT

€000

ITEM DESCRIPTION	Notes	Nova KBM Group		Nova KBM d.d.	
		Year ended 31.12.2014	Year ended 31.12.2013	Year ended 31.12.2014	Year ended 31.12.2013
Interest income	8	161,255	172,641	136,738	145,907
Interest expenses	8	(50,529)	(98,038)	(43,147)	(85,279)
<b>Net interest income</b>	<b>8</b>	<b>110,726</b>	<b>74,603</b>	<b>93,591</b>	<b>60,628</b>
<b>Dividend income</b>	<b>9</b>	<b>1,046</b>	<b>1,387</b>	<b>1,415</b>	<b>1,811</b>
Fee and commission income	10	85,443	89,104	46,163	46,179
Fee and commission expenses	10	(29,484)	(32,551)	(4,041)	(4,424)
<b>Net fee and commission income</b>	<b>10</b>	<b>55,959</b>	<b>56,553</b>	<b>42,122</b>	<b>41,755</b>
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	11	15,100	63,457	10,203	64,033
Net gains/(losses) on financial assets and liabilities held for trading	12	(896)	2,163	(1,618)	1,062
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	13	5,718	(1,229)	5,718	(1,229)
Net exchange rate differences	14	1,212	(1,668)	1,238	(1,343)
Net gains on derecognition of assets other than non-current assets held for sale	15	161	537	3,697	85
Other net operating (loss)	16	(3,009)	(13,397)	(5,083)	(14,676)
Administration costs	17	(89,146)	(97,883)	(63,179)	(71,242)
Depreciation and amortisation	18	(14,462)	(15,628)	(10,866)	(11,788)
Provisions	19	15,497	(54,687)	8,460	(43,298)
Impairment losses	20	(60,011)	(666,048)	(51,539)	(642,460)
Share of profits/(losses) of associates and joint ventures accounted for using the equity method	21	154	(174)	0	0
Total profit/(loss) from non-current assets and disposal groups classified as held for sale	-	(85)	(902)	23	367
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>	<b>-</b>	<b>37,964</b>	<b>(652,916)</b>	<b>34,182</b>	<b>(616,295)</b>
Tax expense/(income) related to profit or loss from continuing operations	22	4,424	(26,911)	5,085	(23,006)
<b>NET PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>-</b>	<b>42,388</b>	<b>(679,827)</b>	<b>39,267</b>	<b>(639,301)</b>
Total (loss) after tax from discontinued operations	55	(19,107)	(5,081)	(3,351)	(17,199)
<b>NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>	<b>-</b>	<b>23,281</b>	<b>(684,908)</b>	<b>35,916</b>	<b>(656,500)</b>
a) Attributable to owners of the parent	-	21,898	(630,456)	35,916	(656,500)
– continuing operations	-	39,458	(625,935)	39,267	(639,301)
– discontinued operations	-	(17,560)	(4,521)	(3,351)	(17,199)
b) Attributable to non-controlling interests	-	1,383	(54,452)	0	0
– continuing operations	-	2,930	(53,892)	0	0
– discontinued operations	-	(1,547)	(560)	0	0
Basic earnings/(loss) per share (€)	23	2.19	(63.05)	3.59	(65.65)
Diluted earnings/(loss) per share (€)	23	2.19	(63.05)	3.59	(65.65)

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

## 2 / STATEMENT OF OTHER COMPREHENSIVE INCOME

€000

ITEM DESCRIPTION	Nova KBM Group		Nova KBM d.d.	
	Year ended 31.12.2014	Year ended 31.12.2013	Year ended 31.12.2014	Year ended 31.12.2013
<b>NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX</b>	<b>23,281</b>	<b>(684,908)</b>	<b>35,916</b>	<b>(656,500)</b>
<b>OTHER COMPREHENSIVE INCOME AFTER TAX</b>	<b>33,208</b>	<b>10,885</b>	<b>26,719</b>	<b>9,232</b>
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>	<b>(819)</b>	<b>274</b>	<b>(700)</b>	<b>268</b>
Actuarial gains/(losses) on defined benefit pension plans	(858)	300	(725)	293
(Loss) related to non-current assets and disposal groups classified as held for sale	(6)	0	0	0
Income tax relating to items that will not be reclassified to profit or loss	45	(26)	25	(25)
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>	<b>34,027</b>	<b>10,611</b>	<b>27,419</b>	<b>8,964</b>
<b>Foreign currency translation</b>	<b>(48)</b>	<b>52</b>	<b>0</b>	<b>0</b>
– translation gains/(losses) taken to equity	(48)	52	0	0
<b>Available-for-sale financial assets</b>	<b>41,812</b>	<b>12,844</b>	<b>33,036</b>	<b>10,740</b>
– valuation gains taken to equity	41,807	6,994	33,036	4,895
– losses transferred to profit or loss	5	5,850	0	5,845
<b>Share of other recognised comprehensive income of associates and joint ventures accounted for using the equity method</b>	<b>52</b>	<b>41</b>	<b>0</b>	<b>0</b>
<b>Net (losses) related to discontinued operations</b>	<b>(697)</b>	<b>(146)</b>	<b>0</b>	<b>0</b>
<b>Income tax relating to items that may be reclassified to profit or loss</b>	<b>(7,092)</b>	<b>(2,180)</b>	<b>(5,617)</b>	<b>(1,776)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX</b>	<b>56,489</b>	<b>(674,023)</b>	<b>62,635</b>	<b>(647,268)</b>
a) Attributable to owners of the parent	55,036	(620,447)	62,635	(647,268)
– continuing operations	73,225	(615,792)	65,986	(630,069)
– discontinued operations (Note 55)	(18,189)	(4,655)	(3,351)	(17,199)
b) Attributable to non-controlling interests	1,453	(53,576)	0	0
– continuing operations	3,074	(53,004)	0	0
– discontinued operations (Note 55)	(1,621)	(572)	0	0

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



## 3 / STATEMENT OF FINANCIAL POSITION

€000

ITEM DESCRIPTION	Notes	Nova KBM Group		Nova KBM d.d.	
		31.12.2014	31.12.2013	31.12.2014	31.12.2013
Cash, cash balances at central banks and other demand deposits at banks	24	422,264	460,924	335,417	352,176
Financial assets held for trading	25	1,841	1,786	187	612
Financial assets designated at fair value through profit or loss	26	17,857	24,586	17,857	24,586
Available-for-sale financial assets	27	1,482,120	1,466,864	1,275,213	1,210,799
Loans and advances	-	1,991,342	2,353,876	1,664,347	1,971,478
– loans and advances to banks	28	50,124	104,228	59,299	133,948
– loans and advances to customers	29	1,920,875	2,231,765	1,593,294	1,826,371
– other financial assets	30	20,343	17,883	11,754	11,159
Held-to-maturity financial assets	31	206,540	280,153	89,950	192,437
Non-current assets held for sale and discontinued operations	38	61,273	7,868	865	780
Property, plant and equipment	32	61,431	73,677	52,570	58,010
Investment property	33	36,759	38,426	29,188	2,339
Intangible assets	34	25,483	32,863	14,335	18,329
Investments in the equity of subsidiaries, associates and joint ventures accounted for using the equity method	35	3,164	2,957	96,764	54,139
Tax assets	36	12,984	11,699	12,291	10,290
– current tax assets	36	258	960	2	2
– deferred tax assets	36	12,726	10,739	12,289	10,288
Other assets	37	45,952	55,114	19,231	14,008
<b>TOTAL ASSETS</b>	<b>-</b>	<b>4,369,010</b>	<b>4,810,793</b>	<b>3,608,215</b>	<b>3,909,983</b>
Financial liabilities held for trading	39	1,229	1,422	1,170	976
Financial liabilities measured at amortised cost	40	3,585,893	4,133,833	2,935,277	3,295,465
– deposits from banks and central banks	40	20,875	60,271	11,780	51,982
– deposits from customers	40	3,074,146	3,074,748	2,463,368	2,359,553
– loans from banks and central banks	40	394,213	897,774	363,552	783,912
– loans from customers	40	2,729	4,551	2,729	4,549
– debt securities issued	40	59,129	60,973	67,452	69,284
– subordinated liabilities	40	1,250	1,250	0	0
– other financial liabilities	40	33,551	34,266	26,396	26,185
Liabilities included in disposal groups classified as held for sale and discontinued operations	55	59,823	0	0	0
Provisions	41	83,011	100,163	74,605	83,851
Tax liabilities	-	4,557	96	2,494	0
– current tax liabilities	-	3,021	88	2,494	0
– deferred tax liabilities	-	1,536	8	0	0
Other liabilities	42	18,140	15,251	14,322	11,979
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>3,752,653</b>	<b>4,250,765</b>	<b>3,027,868</b>	<b>3,392,271</b>
Share capital	43	150,000	150,000	150,000	150,000
Share premium	44	360,572	360,572	360,572	360,572
Accumulated other comprehensive income	45	42,841	8,981	33,859	7,140
Translation reserves	-	(3,208)	(2,486)	0	0
Reserves from profit	46	27,895	663	27,389	0
Retained earnings (including net profit for the financial year)	47	35,338	48,937	8,527	0
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>-</b>	<b>613,438</b>	<b>566,667</b>	<b>580,347</b>	<b>517,712</b>
Equity attributable to non-controlling interests	-	2,919	(6,639)	0	0
<b>TOTAL EQUITY</b>	<b>-</b>	<b>616,357</b>	<b>560,028</b>	<b>580,347</b>	<b>517,712</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>-</b>	<b>4,369,010</b>	<b>4,810,793</b>	<b>3,608,215</b>	<b>3,909,983</b>

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

## 4 / STATEMENT OF CASH FLOWS

€000

Designation	ITEM DESCRIPTION	Nova KBM Group		Nova KBM d.d.	
		Year ended 31.12.2014	Year ended 31.12.2013	Year ended 31.12.2014	Year ended 31.12.2013
<b>A.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>a)</b>	<b>Total profit/(loss) before tax from continuing operations</b>	<b>18,599</b>	<b>(658,580)</b>	<b>34,182</b>	<b>(616,295)</b>
	Depreciation and amortisation	15,253	16,454	10,866	11,788
	Impairment of available-for-sale financial assets	3,500	41,152	3,472	41,158
	Impairment of loans and advances	55,083	561,987	36,053	478,718
	Impairment of held-to-maturity financial assets	171	708	0	1,657
	Impairment of tangible assets, investment property, intangible assets and other assets	4,603	66,785	974	18,643
	Impairment of investments in the equity of subsidiaries, associates and joint ventures	0	0	11,040	102,284
	Share of (profits)/losses of associates and joint ventures accounting for using the equity method	(154)	174	0	0
	Net (gains)/losses from exchange rate differences	(1,256)	1,674	(1,238)	1,343
	Net losses from held-to-maturity financial assets	0	3,392	0	3,392
	Net (gains) from the sale of tangible assets and investment properties	(217)	(367)	(415)	(85)
	Net losses from the sale of tangible assets	22	0	0	0
	Other (gains) from investing activities	(6,843)	(14,005)	(7,326)	(10,381)
	Other (gains) from financing activities	0	(89,209)	0	(89,540)
	Net unrealised (gains)/losses from non-current assets held for sale and discontinued operations and liabilities associated therewith	16,520	902	(23)	(367)
	Other adjustments to total profit or loss before tax	(19,050)	54,652	(11,742)	43,298
	<b>Cash flow from operating activities before changes in operating assets and liabilities</b>	<b>86,231</b>	<b>(14,281)</b>	<b>75,843</b>	<b>(14,387)</b>
<b>b)</b>	<b>(Increase)/decrease in operating assets (excluding cash equivalents)</b>	<b>235,275</b>	<b>16,249</b>	<b>123,894</b>	<b>(2,636)</b>
	Net (increase)/decrease in financial assets held for trading	(1,234)	(216)	435	566
	Net decrease in financial assets designated at fair value through profit or loss	6,729	9,795	6,729	9,275
	Net (increase)/decrease in available-for-sale financial assets	13,686	(285,056)	(34,850)	(225,827)
	Net decrease in loans and advances	206,857	281,546	157,563	213,024
	Net (increase)/decrease in non-current assets held for sale	(477)	(436)	(85)	169
	Net (increase)/decrease in other assets	9,714	10,616	(5,898)	157
<b>c)</b>	<b>(Decrease) in operating liabilities</b>	<b>(484,902)</b>	<b>(762,207)</b>	<b>(358,339)</b>	<b>(699,272)</b>
	Net increase/(decrease) in financial liabilities held for trading	(193)	194	194	515
	Net (decrease) in deposits, loans and advances measured at amortised cost	(484,379)	(742,354)	(357,534)	(688,431)
	Net (decrease) in debt securities in issue measured at amortised cost	(1,844)	(27,619)	(1,832)	(19,307)
	Net increase in other liabilities	1,514	7,572	833	7,951
<b>d)</b>	<b>Cash flow from operating activities (a + b + c)</b>	<b>(163,396)</b>	<b>(760,239)</b>	<b>(158,602)</b>	<b>(716,295)</b>
<b>e)</b>	<b>Income taxes refunded</b>	<b>417</b>	<b>1,558</b>	<b>0</b>	<b>0</b>
<b>f)</b>	<b>Net cash flow from operating activities (d + e)</b>	<b>(162,979)</b>	<b>(758,681)</b>	<b>(158,602)</b>	<b>(716,295)</b>

€000

Designation	ITEM DESCRIPTION	Nova KBM Group		Nova KBM d.d.	
		Year ended 31.12.2014	Year ended 31.12.2013	Year ended 31.12.2014	Year ended 31.12.2013
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>a)</b>	<b>Receipts from investing activities</b>	<b>170,645</b>	<b>324,451</b>	<b>109,746</b>	<b>292,638</b>
	Receipts from the sale of tangible assets and investment properties	5,908	2,888	2,218	312
	Receipts from the sale of intangible assets	24	0	0	0
	Receipts from the disposal of associates – discontinued operations	0	50,034	0	50,034
	Receipts from non-current assets or liabilities held for sale	0	639	0	639
	Receipts from the sale of held-to-maturity financial assets	164,713	270,890	106,040	239,127
	Other receipts from investing activities	0	0	1,488	2,526
<b>b)</b>	<b>Cash payments on investing activities</b>	<b>(89,620)</b>	<b>(57,642)</b>	<b>(42,223)</b>	<b>(61,437)</b>
	(Cash payments to acquire tangible assets and investment properties)	(2,012)	(6,817)	(20,224)	(3,395)
	(Cash payments to acquire intangible assets)	(3,081)	(3,699)	(2,314)	(1,417)
	(Cash payments for the investments in the equity of subsidiaries)	0	(5,641)	(19,685)	(26,997)
	(Cash payments to acquire held-to-maturity financial assets)	(84,527)	(41,485)	0	(29,628)
<b>c)</b>	<b>Net cash flow from investing activities (a + b)</b>	<b>81,025</b>	<b>266,809</b>	<b>67,523</b>	<b>231,201</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>720,001</b>	<b>0</b>	<b>720,001</b>
	Cash proceeds from the issuance of subordinated liabilities	0	100,000	0	100,000
	Cash proceeds from the issuance of shares and other equity instruments	0	620,001	0	620,001
<b>b)</b>	<b>Cash payments on financing activities</b>	<b>(96)</b>	<b>(509)</b>	<b>(1)</b>	<b>0</b>
	(Dividends and shares in profits paid)	(96)	(95)	(1)	0
	(Repayment of subordinated liabilities)	0	(414)	0	0
<b>c)</b>	<b>Net cash flow from financing activities (a + b)</b>	<b>(96)</b>	<b>719,492</b>	<b>(1)</b>	<b>720,001</b>
<b>D.</b>	<b>Effects of change in exchange rates on cash and cash equivalents</b>	<b>2,635</b>	<b>(2,896)</b>	<b>3,555</b>	<b>(2,313)</b>
<b>E.</b>	<b>Net increase/(decrease) in cash and cash equivalents (Af + Bc + Cc)</b>	<b>(82,050)</b>	<b>227,620</b>	<b>(91,080)</b>	<b>234,907</b>
<b>F.</b>	<b>Opening balance of cash and cash equivalents</b>	<b>557,246</b>	<b>332,522</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>477,831</b>	<b>557,246</b>	<b>365,599</b>	<b>453,124</b>

The statement of cash flows for the years ended 31 December 2014 and 2013 includes cash flows, cash and cash equivalents in respect of discontinued operations, the details of which are presented in Note 55. Reconciliation of cash and cash equivalents with the statement of financial position items is presented in Note 24.1.

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

€000

	Nova KBM Group		Nova KBM d.d.	
	Year ended 31.12.2014	Year ended 31.12.2013	Year ended 31.12.2014	Year ended 31.12.2013
Interest paid	(67,499)	(121,349)	(57,465)	(101,424)
Interest received	163,782	240,882	131,792	203,107
Dividends and participation in profits paid	(96)	(95)	(1)	0
Dividends and participation in profits received	944	1,312	1,415	1,812

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

## 5 / STATEMENT OF CHANGES IN EQUITY

### Statement of changes in equity of the Nova KBM Group for the year ended 31 December 2014

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Translation reserves	Reserves from profit	Retained earnings (including net profit for the financial year)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
<b>OPENING BALANCE FOR THE FINANCIAL YEAR</b>	<b>150,000</b>	<b>360,572</b>	<b>8,981</b>	<b>(2,486)</b>	<b>663</b>	<b>48,937</b>	<b>566,667</b>	<b>(6,639)</b>	<b>560,028</b>
Total comprehensive income for the financial year after tax	0	0	33,860	(722)	0	21,898	55,036	1,453	56,489
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	27,232	(27,232)	0	0	0
Other	0	0	0	0	0	(1)	(1)	(64)	(65)
<b>CLOSING BALANCE FOR THE FINANCIAL YEAR</b>	<b>150,000</b>	<b>360,572</b>	<b>42,841</b>	<b>(3,208)</b>	<b>27,895</b>	<b>35,338</b>	<b>613,438</b>	<b>2,919</b>	<b>616,357</b>

### Statement of changes in equity of the Nova KBM Group for the year ended 31 December 2013

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Translation reserves	Reserves from profit	Accumulated loss (including net loss for the financial year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
<b>OPENING BALANCE FOR THE FINANCIAL YEAR</b>	<b>40,814</b>	<b>165,775</b>	<b>(1,149)</b>	<b>(2,365)</b>	<b>289,741</b>	<b>(281,237)</b>	<b>(1,412)</b>	<b>210,167</b>	<b>43,037</b>	<b>253,204</b>
Total comprehensive (loss) for the financial year after tax	0	0	10,130	(121)	0	(630,456)	0	(620,447)	(53,576)	(674,023)
New share capital subscribed (paid)	252,411	720,000	0	0	0	0	0	972,411	0	972,411
Recapitalisation of subsidiaries	0	0	0	0	0	4,538	0	4,538	4,070	8,608
Derecognition of treasury shares	0	0	0	0	0	(1,412)	1,412	0	0	0
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
Covering of the loss brought forward	0	(668,428)	0	0	(289,169)	957,598	0	1	0	1
Other	(143,225)	143,225	0	0	0	(3)	0	(3)	(75)	(78)
<b>CLOSING BALANCE FOR THE FINANCIAL YEAR</b>	<b>150,000</b>	<b>360,572</b>	<b>8,981</b>	<b>(2,486)</b>	<b>663</b>	<b>48,937</b>	<b>0</b>	<b>566,667</b>	<b>(6,639)</b>	<b>560,028</b>

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

**Statement of changes in equity of Nova KBM for the year ended 31 December 2014**

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including net profit for the financial year)	Total equity
<b>OPENING BALANCE FOR THE FINANCIAL YEAR</b>	<b>150,000</b>	<b>360,572</b>	<b>7,140</b>	<b>0</b>	<b>0</b>	<b>517,712</b>
Total comprehensive income for the financial year after tax	0	0	26,719	0	35,916	62,635
Transfer of net profit to reserves from profit	0	0	0	27,389	(27,389)	0
<b>CLOSING BALANCE FOR THE FINANCIAL YEAR</b>	<b>150,000</b>	<b>360,572</b>	<b>33,859</b>	<b>27,389</b>	<b>8,527</b>	<b>580,347</b>

**Statement of changes in equity of Nova KBM for the year ended 31 December 2013**

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Accumulated loss (including net loss for the financial year)	Total equity
<b>OPENING BALANCE FOR THE FINANCIAL YEAR</b>	<b>40,814</b>	<b>165,775</b>	<b>(2,092)</b>	<b>275,044</b>	<b>(286,972)</b>	<b>192,569</b>
Total comprehensive (loss) for the financial year after tax	0	0	9,232	0	(656,500)	(647,268)
New share capital subscribed (paid)	252,411	720,000	0	0	0	972,411
Covering of the loss brought forward	0	(668,428)	0	(275,044)	943,472	0
Other	(143,225)	143,225	0	0	0	0
<b>CLOSING BALANCE FOR THE FINANCIAL YEAR</b>	<b>150,000</b>	<b>360,572</b>	<b>7,140</b>	<b>0</b>	<b>0</b>	<b>517,712</b>

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



# 3 / NOTES TO THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP AND NOVA KBM D.D.

## 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 31 December 2014, comprised the parent company and 10 subsidiary companies.

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

As of 31 December 2014, the share capital of Nova KBM 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 is obliged to prepare consolidated financial statements.

### 1.1 DEFINITION OF THE GROUP

The Group comprises the parent bank and its subsidiary companies.

Company	Position in the Group	Group's voting rights in the company (%)	Registered office (country of incorporation)
Nova Kreditna banka Maribor d.d.	parent bank		Maribor, Slovenia
Poštna banka Slovenije d.d.	subsidiary bank	99.12	Maribor, Slovenia
Adria Bank AG	subsidiary bank	100.00	Vienna, Austria
KBM Banka a.d.	subsidiary bank	89.53	Kragujevac, Serbia
KBM Infond d.o.o.	subsidiary company	72.73 <sup>1</sup>	Maribor, Slovenia
KBM Leasing d.o.o. (in liquidation)	subsidiary company	100.00	Maribor, Slovenia
KBM Invest d.o.o.	subsidiary company	100.00	Maribor, Slovenia
Gorica Leasing d.o.o. (in liquidation)	subsidiary company	100.00	Maribor, Slovenia
M-PAY d.o.o.	subsidiary company	50.00	Maribor, Slovenia
KBM Leasing Hrvatska d.o.o.	subsidiary company	100.00	Zagreb, Croatia
MB Finance B.V.	subsidiary company	00.00 <sup>2</sup>	The Netherlands

<sup>1</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>2</sup> In accordance with IFRS 10, MB Finance is regarded as a special purpose vehicle controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Group.

Nova KBM holds a 45% equity stake in the associated company Moja naložba.

In May 2014, Nova KBM recapitalised Adria Bank with €12,200,000, thereby increasing its shareholding to 100%. On 29 August 2014, the Adria Bank Supervisory Board reached a decision to start the procedures to terminate the operations of Adria Bank. By 31 March 2015, Adria Bank plans to return to the Austrian Financial Market Authority (FMA) its licence for providing banking services, after which it expects to change its legal form from a joint stock

company to a limited liability company. The financial statements of Adria Bank have been prepared on a non-going concern basis. A non-going concern assumption has been taken into consideration in the valuation of the investment in the equity of a subsidiary bank and the credit exposure to Adria Bank.

Nova KBM recapitalised KBM Leasing Hrvatska in both 2014 and 2013. The 2014 recapitalisation, which took place in July, was worth €7,485,000, while the recapitalisation in 2013 totalled €5,477,000, with the proceeds of this recapitalisation being used by KBM Leasing Hrvatska to repay a loan to Nova KBM.

Liquidation proceedings against KBM Fineko were completed on 30 September 2014. Being the single shareholder of KBM Fineko (in liquidation), on 1 October 2014 Nova KBM took over its assets worth €4,139,000, at which time it recognised a gain of €3,285,000 resulting from the difference between the assets received and the value of the equity investment. KBM Fineko (in liquidation) was deleted from the court register in December.

In accordance with the Restructuring Programme and commitments given to the European Commission by the Republic of Slovenia and Nova KBM regarding the restructuring of the Nova KBM Group, the controlled liquidation of KBM Leasing and Gorica Leasing started on 31 December 2014, based on a ruling made by the relevant court. The Restructuring Programme envisaged that both of these companies would be recapitalised by Nova KBM through debt-to-equity conversions. The companies were recapitalised as follows:

- KBM Leasing (in liquidation), in the amount of €56,699,000 (2013: €25,000,000)
- Gorica Leasing (in liquidation), in the amount of €46,894,000 (2013: €22,000,000).

These two companies are still controlled by Nova KBM and are therefore fully consolidated in the Group's accounts. However, based on the management's assumption, the companies are regarded as non-going concerns, given that their liquidation is under way and is expected to be completed by 31 July 2015. Following the completion of liquidation proceedings, the remaining assets of the two companies will be transferred to Nova KBM.

In addition to the two leasing companies referred to above, in December 2014 Nova KBM recapitalised KBM Invest with €19,000,000 (2013: €21,000,000) through debt-to-equity conversion.

As of 31 March 2014, KBM Banka did not meet the capital requirements prescribed by the local regulator. The European Commission took a negative position on the proposal of Nova KBM to recapitalise KBM Banka with €10 million and to write off its subordinated debt worth €5 million. Therefore, as a result of unsuccessful attempts to ensure the capital adequacy of KBM Banka, in December 2014 Nova KBM initiated the process of directly selling its equity investment in KBM Banka. Based on a valuation of KBM Banka's assets, in the separate financial statements of Nova KBM, the investment in the equity of KBM Banka was impaired to zero (€0) and reclassified into 'Non-current assets held for sale and discontinued operations'. In accordance with the International Financial Reporting Standards, KBM Banka is still fully consolidated in the Group's accounts. In the Group's consolidated statement of financial position, the assets and liabilities of KBM Banka are presented separately in the items 'Non-current assets held for sale and discontinued operations' and 'Liabilities included in disposal groups classified as held for sale and discontinued operations', respectively, while in the consolidated income statement the effects of this transaction are included in the item 'Total loss after tax from discontinued operations' (Note 55). The sale of KBM Banka is expected to be completed in the first quarter of 2015.

Information about the operations of subsidiary companies is provided in the business part of the Annual Report (Section 10.3).

Istra Plan, a company 100% owned by KBM Fineko (in liquidation), is not regarded as a business entity, as a result of which only assets of this company, totalling €711,000, have been included in the consolidated financial statements.

## 2 / BASIS FOR THE PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Nova KBM Group and Nova KBM and for the year ended 31 December 2014 were authorised for issue on 18 February 2015 by the Nova KBM Management Board.

The financial statements have been prepared assuming that both Nova KBM and the Nova KBM Group will continue as going concerns in the foreseeable future and that they will be able to meet their liabilities when due.

### 2.1 STATEMENT OF COMPLIANCE AND PURPOSE OF FINANCIAL STATEMENTS

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

These statutory financial statements are prepared for the purpose of compliance with legal requirements. The Group is legally required to obtain an independent audit of these financial statements. The scope of that audit is limited to an audit of general purpose statutory financial statements to fulfil the legal requirement for audit of statutory financial statements. The audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction. The audited financial statements are not intended for use by any party for purposes of decision making concerning any ownership, financing or any other specific transactions relating to the Group. Accordingly, users of the audited statutory financial statements should not rely exclusively on the financial statements and should undertake other procedures before making decisions.

### 2.2 BASIS OF VALUATION

The financial statements have been prepared under the historical cost convention, except for the following items for which the fair value has been elected:

- financial assets designated at fair value through profit or loss
- available-for-sale financial assets
- derivatives
- investment property.

The fair value assessment methods are set out below.

### 2.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with the IFRSs requires the use of certain accounting estimates and judgements, which may affect the value of reported assets and liabilities and of potential assets and liabilities as of the reporting date, and income and expenses for the period then ended.

The most important judgements relate to the classification of financial instruments, in particular to the distribution between the held-to-maturity portfolio and the portfolio held for trading. The classification of financial instruments is carried out in line with the Group's policy prior to the initial recognition of a financial instrument.

Estimates are used for: impairment of loans to customers; impairment of available-for-sale financial assets; fair value of financial assets and liabilities; provisions for off-balance sheet items; depreciation of property, plant and equipment and amortisation of intangible assets; potential tax items; provisions for liabilities to employees; and provisions for pending legal issues.

Changes in estimates for impairment losses have an especially important impact on the financial position and results of operations. These estimates are subject to adjustment in the future as a result of changes in economic conditions, customers' repayment capabilities, and realisation of collateral values for defaulted loans.

## 2.4 PRESENTATION AND FUNCTIONAL CURRENCY

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

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros, except where stated otherwise. Slight discrepancies in totals may occur due to rounding adjustments.

## 2.5 CHANGES IN FINANCIAL STATEMENTS

The Regulation (EU) No. 575/2013 of the European Parliament and the European Council on prudential requirements for credit institutions and investment firms, and amending Regulation (EU) No. 648/2012 (hereafter: the CRR), adopted on 26 June 2013, became effective from 1 January 2014.

Apart from requirements with respect to capital, large exposure, securitisation, liquidity and leverage, the CRR has introduced several requirements regarding disclosures (FINREP-ITS).

As a result of the introduction of the implementing technical standard on supervisory reporting – FINREP (ITS), it was necessary to adjust the financial statement layouts for the purpose of their publication and inclusion in the annual report, with both separate and consolidated financial statements being affected by this standard.

The Group used these amended financial statement layouts for the first time for the purpose of publishing its financial statements as of 31 December 2014. The comparability of data for 31 December 2014 with those for 31 December 2013 has been ensured.

Changes in the statement of financial position are set out below:

- The item 'Cash and balances with the central bank' was changed to 'Cash, cash balances at central banks and other demand deposits at banks'. According to the new layout, this item includes demand deposits placed with banks.
- The items 'Financial liabilities to the central bank' and 'Financial liabilities associated with transferred assets' were cancelled, with all of the financial instruments measured at amortised cost that had been previously included in these items now being included in the item 'Financial liabilities measured at amortised cost'. The names of the sub-items of this item, 'Deposits from banks' and 'Loans from banks', were appropriately amended to include the words 'and central banks' in order to reflect the changes made to this item.
- The item 'Revaluation reserves' was changed to 'Accumulated other comprehensive income'.

The effects of changes referred to above on the statement of financial position as of 31 December 2013 are presented in the following table:

	Nova KBM Group	Nova KBM d.d.
Cash, cash balances at central banks and other demand deposits at banks	25,446	17,346
Loans and advances	(25,446)	(17,346)
– loans and advances to banks	(25,446)	(17,346)
Financial liabilities to the central bank	(482,891)	(426,002)
Financial liabilities measured at amortised cost	482,891	426,002
– loans from banks and central banks	482,891	426,002

The income statement, the statement of comprehensive income and the statement of changes in equity were not affected by the changes in the layouts of financial statements, while the changes to the statement of cash flows were made in order to ensure consistency with the amended layout of the statement of financial position.

The assets and liabilities of KBM Banka were reclassified into discontinued operations in the Group's financial statements for the year ended 31 December 2014, while in the financial statements of the Bank for the year ended 31 December 2014, the investment in the equity of KBM Banka was reclassified as discontinued operations. The financial statements of the Group and the Bank for the year ended 31 December 2013 (with the exception of the statement of financial position) and the related notes were restated accordingly, in accordance with IFRS 5. Further details regarding the discontinued operations are presented in Note 55.

### 3 / SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 CONSOLIDATION

##### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of Nova KBM and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to non-controlling interests even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the book value of any non-controlling interest
- derecognises the cumulative translation differences, recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

##### **Business combinations and goodwill/negative goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate



classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss (negative goodwill).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the book value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## **Subsidiaries**

Subsidiary entities are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity.

Financial statements of subsidiary entities are included in the consolidated financial statements from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. Business combinations achieved in stages are accounted for as separate steps. Any additional acquired share of interest does not affect previously recognised goodwill.

When necessary, accounting policies for subsidiary entities have been changed to ensure consistency with the policies adopted by the Group. The reporting dates are unified across the whole Group. All subsidiary entities are fully consolidated.

In the statement of financial position, non-controlling interests are reported as a separate item within equity. Shares of non-controlling interests are eliminated from all equity items in proportion to the share of non-controlling interests in the share capital.

## **Associated entities**

Associated entities are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence exists when the Group has the power to participate in, but not control or jointly control, the financial and operating decisions of the investee.

Associated entities are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date the significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the book value of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

### **Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses and dividends arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from intra-group transactions and recognised in assets are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### **Investments in the equity of subsidiaries and associated entities presented in the separate financial statements of Nova KBM**

In making decisions on whether it has control over, or significant influence in, an entity, the Management Board takes into consideration the pre-determined criteria regarding the definition of subsidiary and associated entities.

In the separate financial statements of Nova KBM, the investments in the equity of subsidiaries and associated entities are presented at cost less any impairment losses.

## **3.2 FOREIGN CURRENCY TRANSLATION**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Exchange rate differences are recognised in profit or loss.

Assets and liabilities items denominated in foreign currency are translated and disclosed in the consolidated financial statements by applying the European Central Bank's reference exchange rates in effect on the reporting date. The effects of translating foreign currency into the euro are recognised in profit or loss as net translation gains or losses.

Translation differences on non-monetary items, such as equity instruments designated at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equity instruments designated as available for sale are included in other comprehensive income, together with the fair value measurement effect.

Financial statements of the Group companies that have functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the rate of exchange prevailing at the reporting date
- profit or loss is translated at the average exchange rate for the period.

While translation differences are presented as a separate equity category, they are recognised in profit or loss in the period in which the asset is disposed of.

## **3.3 CASH EQUIVALENTS**

Cash equivalents are current, highly liquid investments that can be quickly converted into a known amount of cash and for which the risk of changes in value is negligible.

The Group regards the following items as cash equivalents:

- cash and balances in settlement and current accounts
- loans to banks with an original maturity of up to three months
- investments in available-for-sale debt securities with an original maturity of up to three months.

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

## 3.4 FINANCIAL ASSETS

### 3.4.1 CLASSIFICATION OF FINANCIAL ASSETS

Upon initial recognition, the Group classifies financial assets with regard to the purpose of the acquisition, the period held, and the type of the financial asset into one of the following categories:

- Financial assets designated at fair value through profit or loss are classified into financial instruments held for trading and other financial instruments designated at fair value through profit or loss. Financial assets held for trading are those instruments in which the Group intends to actively trade and earn profit from short-term price differences. Equity instruments, debt securities and derivatives, except those held for hedging purposes, are classified into this category. Financial assets are upon initial recognition designated at fair value through profit or loss when doing so provides more relevant information of measurement or recognition.
- Held-to-maturity financial assets are assets with fixed or determinable payments and a fixed maturity, for which the Group attests the purpose and capacity to hold them until maturity.
- Available-for-sale financial assets are assets which the Group did not acquire for the purpose of trading but intends to hold them for an undetermined period of time, and which can be sold for the reason of liquidity requirements, changes in interest rates, exchange rates or the prices of financial instruments.
- Loans and advances are financial assets with fixed or determinable payments which are not traded on an active market.

The Group uses financial instruments to economically hedge against risks arising from other financial instruments. In its accounting, the Group does not apply the rules of hedge accounting because gains and losses resulting from the hedged item and the hedging instrument are recognised simultaneously in profit or loss.

The Group does not hold instruments for which hedge accounting would be required.

### 3.4.2 RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS

Purchases and sales of financial assets other than loans and advances are recognised on the trading date (the day when the contract is made). Loans and advances are recognised when funds are advanced to borrowers.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition (the Group transferred all rights and risks under the financial asset). Should the Group transfer the financial asset, but retain practically all risks and rights, derecognition of the asset is not carried out.

If a financial asset is derecognised in full, the difference between the book value of the asset and the sum of any consideration received (including any new assets obtained less any new liabilities assumed), together with any cumulative gain or loss that had been recognised directly in other comprehensive income, is recognised in profit or loss.

### 3.4.3 MEASUREMENT OF FINANCIAL ASSETS

Financial assets, other than those carried at fair value through profit or loss, are initially measured at fair value plus any transaction costs.

Financial assets carried at fair value through profit or loss are initially measured at fair value, and the transaction costs are expensed in profit or loss on the purchase date.

After they are initially recognised, financial assets held for trading and available-for-sale financial assets are measured at fair value. Fair value of financial assets is based on current bid prices as valid on the reporting date or, if such are not available, closing prices. If a quoted market price is not available, the fair value of the financial instrument is estimated using comparative pricing models or discounted cash flow techniques.

Derivatives, including foreign currency forward transactions, interest rate swaps, currency options and forward transactions in securities, are used by the Group for trading and hedging purposes, and are measured at their fair value. The fair value of derivatives equals unrealised gains or losses on the valuation of derivatives at market prices or at contractual forward prices.

Available-for-sale equity instruments for which the fair value cannot be reliably estimated are measured at cost (acquisition cost plus transaction costs and reduced by appropriate impairment losses).

Loans and advances are measured at amortised cost using the effective interest rate method.

Loans and advances are reported at their outstanding principal balances plus any accrued interest and fees and reduced by appropriate impairment losses.

Held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated as the amount at which the financial asset is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount.

### 3.4.4 GAINS AND LOSSES

Gains and losses arising from the change in fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss in the period in which they are incurred.

Gains and losses arising from the change in fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for losses due to impairment and foreign exchange gains and losses, until the financial asset is derecognised at which time the effect previously included in other comprehensive income is recognised in profit or loss. Interest on available-for-sale debt securities, calculated by applying the effective interest rate method, is recognised directly in profit or loss.

#### 'Day one profit'

Where the transaction price of an instrument in a non-active market is different to the fair value from other observable market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value in profit or loss as the 'day one profit or loss'. In cases where the data used for valuations are not 'fully marketable', the difference between the transaction price and the price based on the valuation technique is recognised in profit or loss only after the market becomes relevant, or if the instrument is disposed of.



### 3.4.5 RECLASSIFICATION OF FINANCIAL ASSETS

During the years ended 31 December 2014 and 2013, the Group did not reclassify any of its financial assets into another category.

### 3.4.6 IMPAIRMENT OF FINANCIAL ASSETS

#### **Available-for-sale financial assets**

At each reporting period the Group assesses whether there is objective evidence that available-for-sale financial assets are impaired. A significant or prolonged decline in the fair value of a financial asset below its acquisition cost is taken into consideration when determining whether the asset is impaired. The decision regarding what is to be considered as a significant or prolonged decline in the fair value is based on estimates. In making such estimates, the Group, in addition to other variables, takes into account the price volatility of securities.

If an available-for-sale debt instrument is impaired, the cumulative loss recognised within other comprehensive income is transferred to profit or loss. The loss so recognised may be reversed.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurred after the impairment loss had been recognised, the impairment loss is reversed through profit or loss.

In case of impairment of available-for-sale equity instruments, the loss due to impairment is recognised in profit or loss. Reversal of impairment of equity instruments is not made through profit or loss, and any subsequent increase in fair value is directly recognised in other comprehensive income.

#### **Held-to-maturity financial assets**

At each reporting period the Group assesses whether there is objective evidence that held-to-maturity financial assets are impaired.

The amount of impairment loss is measured as the difference between the instrument's book value and the present value of future cash flows discounted by the original effective interest rate. The amount of loss is recognised in profit or loss.

#### **Loans and receivables**

The Group classifies each customer into the adequate credit rating category using an internal methodology. The classification of customers depends on their financial standing and performance, their ability to provide cash flow needed for the repayment of debts, the regularity of their debt service payments, the industry sector risk, and on subjective criteria.

The Group continuously, or at least quarterly, assesses whether impartial evidence exists, or events have occurred since recognition of an asset, and whether these events have an impact on the future cash flows of a financial asset or a group of financial assets which can be reliably assessed.

Taking into consideration the risks associated with a customer and the transaction entered into, an appropriate impairment of a financial asset is made in accordance with the IFRSs and an internal methodology. Significant financial assets are assessed individually for impairment. If impairment is established in an individual assessment of an asset, such asset shall be impaired individually, otherwise it shall be classified into the appropriate customer or financial asset risk category and impaired collectively. Individually insignificant financial assets are also assessed collectively for impairment.





For individually assessed financial assets, the amount of loss due to impairment is calculated as the difference between the asset's book value and the present value of future cash flows discounted at the contractual interest rate. If the Group possesses prime or adequate collateral, it also takes into account the expected cash flows generated from the realisation of any such collateral.

For collective assessment of financial assets, the Group uses a model that is based on the probability of a customer becoming a defaulting customer, taking into account the amount of loss incurred by each category of defaulting customers. The probability of default and the amount of loss are calculated for each individual category of loans on the basis of information about previous defaults and losses.

The adequacy of collective impairment rates is verified on an annual basis. Collective impairment rates are calculated separately for the portfolio of loans given to retail customers and the portfolio of loans given to corporate customers.

The book value of an impaired asset is reduced directly, or through the allowance account. Impairment loss is recognised in profit or loss.

If the level of impairment decreases in a subsequent period, the previously recognised impairment loss shall be reversed. The amount of reversed loss is recognised in profit or loss.

If a customer is located in a higher-risk country, the sovereign risk also has to be taken into consideration when assessing losses due to impairment.

Whenever possible, the Group strives to restructure loans rather than liquidate collateral. The restructuring of a loan can be made by extending the term of the loan or negotiating new terms and conditions for the loan. Once new terms and conditions are agreed, the loan is no longer classified as being due; however, a customer's credit rating cannot be upgraded only on the basis of a loan being restructured. If a loan is restructured, the Group constantly checks the customer's compliance with the terms of the restructured loan and monitors the probability of future repayments. Such loans remain subject to collective or individual impairment calculated using the original effective interest rate of the loan.

As an alternative to loan restructuring, the Group may also consider converting into equity the loans outstanding to corporate customers. In such a case, the book value of the loan before its conversion (which has already been appropriately impaired, in accordance with valuation provided for in IAS 39) becomes the acquisition (fair) value of the long-term investment in equity, unless a lower value is determined by an appraisal. However, upon the initial recognition of investments acquired through the conversion of loans, the Group does not recognise any gain resulting from the reversal of impairment of converted loans.

### 3.5 OFFSETTING

Financial assets and liabilities are offset in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 3.6 SALE AND REPURCHASE AGREEMENTS

Securities purchased under agreements to resell (repurchase agreements – repos) are recognised as loans to customers. Under such agreements, the Group does not assume risks and benefits arising from security ownership. The contractual relationship has the characteristics of loans collateralised with securities that are subject of the reverse repo agreements. The difference between the purchase and selling price is recognised as interest income and is accrued over the contract period using the effective interest method.

### 3.7 LEASES

Assets leased to customers under lease agreements, which transfer substantially all the risks and rewards of ownership of an item of property, plant and equipment, with or without ultimate legal title, are classified as finance leases. Depending on the lease agreement, the asset leased may be bought or returned to the lessor. As a rule, such a lease agreement cannot be unilaterally terminated. For depreciating leased assets, the same accounting policy is applied as for the Group's own assets.

A lease which is not a finance lease is an operating lease.

#### The Group as a lessee

Payments made under operating leases are included in profit or loss on a straight-line basis over the period of the lease.

An asset obtained on the basis of a finance lease is included within property, plant and equipment. Its acquisition cost equals the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. Lease payments are recognised as interest expense. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

#### The Group as a lessor

Assets leased under operating lease agreements are included within investment property or property, plant and equipment. Lease income is recognised in profit or loss on a straight-line basis over the period of the lease.

When assets are held subject to a finance lease, the present value of future lease payments is recognised as a receivable under the finance lease. Income from the finance lease, which is disclosed as interest income, is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor.

### 3.8 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are assets which the Group uses for conducting its business. They are recorded at historical cost less accumulated depreciation and any impairment loss. Transaction costs directly attributable to the acquisition of an asset are included in the initial cost recognition.

Subsequent costs are included in the asset's book value only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss in the financial period in which they are incurred.

The Group starts to depreciate items of property, plant and equipment when these assets are available for use. Depreciation of assets is provided individually on a straight-line basis over their estimated useful lives.

The following depreciation rates were applied by the Group in both 2014 and 2013:

	Nova KBM Group
– buildings	1.1% to 5%
– computer equipment	20% to 50%
– motor vehicles	12.5% to 20%
– other equipment	5% to 33.33%

Land is recognised separately from buildings and, as it generally has an unlimited beneficial life, is not depreciated.

For co-divided ownership of commercial space, the value of the associated land is included in the Group's acquisition cost of the respective part of the building.

Items of property, plant and equipment are assessed due to possible impairment each time when there are indicators that, due to events or changes in the circumstances, the book value of an asset may not be recovered. If the estimated recoverable value of an asset is lower than its book value, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in profit or loss. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

An asset is derecognised upon disposal or if the future economic benefits are no longer expected from its use.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the book value of an item of property, plant and equipment, and are recognised net in profit or loss.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

## **3.9 INVESTMENT PROPERTY**

Items of investment property are tangible assets that the Group does not use directly in its operations; they are held with the intention of renting them out commercially.

Upon recognition, they are measured at acquisition cost, and later the Group measures items of investment property using the fair value model.

A licensed real estate appraiser verifies the fair value of items of investment property at the end of each financial year.

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

## **3.10 INTANGIBLE ASSETS**

The Group possesses only intangible assets with a determinable period of useful life.

Initial recognition of an acquisition cost includes costs which are directly linked to the acquisition of an asset and are necessary for the asset to be put into use. The Group depreciates intangible assets on a straight-line basis over their estimated useful lives.

The following amortisation rates were applied by the Group in both 2014 and 2013:

	Nova KBM Group
– licences	10% to 33.33%
– other investments	5% to 33.33%

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



Intangible assets are tested for impairment when there are indicators that the book value may not be recovered. If the assessed recoverable amount of an asset is lower than its book value, the book value should be reduced to the recoverable amount and the reduction recognised as an impairment loss in profit or loss. The recoverable amount is the higher of the fair value less costs of sale and the value in use.

### 3.11 INVENTORY

Items of inventory are measured at the lower of cost and net realisable value. Net realisable value is the estimated sales price achieved in the ordinary course of business net of estimated costs of completion and costs of sale. Inventories are not revalued as a result of the increase in value.

Finished goods and work-in-progress (real estate for sale) are initially measured at direct production costs plus indirect production costs.

Upon initial recognition, the Group measures items of real estate received in settlement of receivables on the basis of an appraiser's report. The Group holds the items of real estate so acquired with the intention of selling them.

The acquisition cost of inventory items seized under lease agreements consists of the debt of the lessee (overdue and unpaid as well as outstanding principal, overdue and unpaid interest and other costs attributable to the lessee).

### 3.12 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their book value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of book and fair value, reduced by the costs of sale. These assets are not depreciated.

### 3.13 FINANCIAL LIABILITIES

Financial liabilities include liabilities to the central bank, financial liabilities held for trading and financial liabilities measured at amortised cost.

Financial liabilities held for trading include liabilities arising from the valuation of forward sale of securities, and are measured at fair value.

Financial liabilities measured at amortised cost are deposits and loans from banks and customers, debt instruments issued, and other financial liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After they are initially recognised, the liabilities are measured at amortised cost, and any difference between net proceeds and the redemption value is recognised in profit or loss using the effective interest rate method.

A financial liability is derecognised only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the book value of a financial liability that is cancelled, or transferred to another party, and the compensation paid is recognised in profit or loss.

### 3.14 PROVISIONS

The Group recognises non-current provisions for liabilities and expenses due to present obligations (legal or constructive) arising from past events for which it is possible that an outflow of resources embodying economic benefits will be required to settle the obligations and a reasonable estimate of the obligation can be made. The Group creates provisions for pensions and similar liabilities, for off-balance sheet liabilities, for pending legal issues, for the restructuring, and other provisions.

The Group recognises provisions for pensions and similar liabilities that reflect the present value of liabilities for severance benefits and loyalty bonuses. When calculating the present value, a discount interest rate is used that is equal to the market rate of return on 10-year Eurozone corporate bonds with a high credit rating; the discount rate used for 2014 was 1.9% (2013: 4.1%). The Group recognises provisions for each employee by taking into account severance benefits at retirement provided for by the employment contract, as well as the costs of expected loyalty bonuses for the total years of service at the company until retirement. In making the calculation, the Group takes into consideration, among other factors, the employee turnover in the range of 0.0% to 6.0% (2013: 0.4% to 1.7%) and the projected increase in salaries in the range of 0.6% to 1.2% (2013: 1.4% to 1.9%). The calculation of these liabilities is carried out by a certified actuary.

Recognition and derecognition of provisions for employee benefits are recognised in profit or loss, except for actuarial gains or losses related to severance benefits that have been recognised in comprehensive income since 2013.

The Group recognises provisions for off-balance sheet liabilities on the basis of risk classification of the customer and transaction concerned, taking into consideration similar criteria as for the impairment of loans.

The level of provisions for pending legal issues has been determined on the basis of a reliable assessment of liabilities arising from these issues at the reporting date. These provisions are estimated based on known facts of the legal proceeding, previous experience with similar proceedings, and opinions provided by legal experts.

Provisions for the restructuring of the Group have been recognised based on the adopted Restructuring Programme. These provisions cover only expenses that are directly attributable to the restructuring of the Group.

### 3.15 EQUITY

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

Treasury shares are deducted from equity.

The shares of the Bank are freely transferrable and have been issued in book-entry form. All shares issued by the Bank are of the same class. Holders of Bank shares have the following rights: participation in the voting at the Bank Shareholders' Meetings in proportion to their share of the capital of the Bank; participation in profits of the Bank appropriated for dividends; and pro-rata distribution of residual assets in case of bankruptcy or liquidation of the Bank, as stipulated by the applicable legislation. All shares have been fully paid for.

In accordance with Nova KBM's Articles of Association, regulatory reserves are established until the aggregate amount of regulatory reserves and share premium equals four times the amount of the Bank's share capital.

Share premium cannot be paid out to shareholders, but can only be used for the purposes and under the conditions as laid down in the Companies Act.



Reserves set aside under Nova KBM's Articles of Association (statutory reserves) are established up to the amount which equals eight times the amount of the Bank's share capital.

Dividends on shares are recognised as a financial liability in the period in which the Shareholders' Meeting approves the dividend payment.

### 3.16 COMMITMENTS AND CONTINGENCIES

The Group undertakes transactions in financial instruments that carry off-balance sheet risk, such as financial and service guarantees, letters of credit and credit lines.

#### Financial guarantees

Off-balance sheet commitments under guarantees represent irrevocable obligations that the Group will make payments in the event a customer cannot fulfil its obligations vis-à-vis third parties.

Fees received are amortised to profit or loss using the straight-line method.

Risks associated with off-balance sheet financial commitments and contingent liabilities are assessed similarly as for loans. Any increase in liability as a result of estimated expenses required for the settlement of contractual obligations is included in provisions.

### 3.17 INTEREST INCOME AND INTEREST EXPENSES

Income is recognised when a probability of future economic benefits exists, and such benefits can be reliably measured.

Interest income and interest expenses are recognised in accrued amounts at a level, with maturities, and in the manner set out in the Group's decision on interest rates, or as stipulated in the agreement between the Group and the customer.

All interest income and expenses from operations in financial assets are recognised in profit or loss using the effective interest rate method.

The following items are included in interest income: regular, default and accrued interest, as well as prepaid fees for costs of repaying non-current loans given to households. These fees are transferred to income in line with the loan repayment period.

Income from finance lease is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor; it is disclosed as interest income.

All interest on deposits, securities issued, loans received and other expenses on financial liabilities are included in interest expenses.

### 3.18 DIVIDEND INCOME

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



### **3.19 FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSES**

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

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

### **3.20 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS**

Realised gains and losses on available-for-sale financial assets, loans measured at amortised cost and held-to-maturity financial assets are recognised in profit or loss upon selling the asset, at maturity, or upon other derecognition of the financial asset.

### **3.21 NET GAINS AND LOSSES ON FINANCIAL ASSETS HELD FOR TRADING**

Net gains and losses from trading include realised and unrealised gains and losses on financial assets held for trading, including derivatives, and net gains from buying and selling foreign currency.

### **3.22 OTHER NET OPERATING INCOME OR LOSS**

Other net operating income or loss includes realised gains and losses from non-banking activities (income from leases and from selling inventory, expenses for memberships and contributions, and other expenses).

### **3.23 IMPAIRMENTS**

Impairments comprise impairments of financial assets not measured at fair value through profit or loss; impairments of property, plant and equipment; impairments of intangible assets; and impairments of investment property.

### **3.24 TAXES**

Income tax is recognised at the amount as reported by the Group companies on the basis of the applicable local legislation. Deferred taxes are calculated for all temporary differences between the value of assets and liabilities for tax purposes and their book value. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

The most significant temporary differences arise from the valuation of financial instruments and provisions.

Deferred taxes are recognised for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which temporary differences can be utilised.

Deferred taxes associated with measurement of available-for-sale financial assets at fair value are recognised directly in comprehensive income.



### 3.25 SEGMENT REPORTING

A segment is recognisable as an integral part of the Group engaged in marketing of products or services (operating segment) and is subject to risks and returns different from those in other segments. Reporting by segments for management purposes is the same as presented in the financial statements.

With the aim of effectively managing its operations, the Group has divided its business into five operating segments based on products and services provided. These segments are presented in the table below.

Banking	Banking and financial services provided in accordance with the Banking Act: Acceptance of deposits, granting of loans, factoring and financing commercial transactions, payment transaction services, issuance and management of payment instruments, issuance of guarantees and other commitments.
Fund management	Management of financial funds.
Leasing	Finance and operating leasing of movable property, equipment and real estate.
Real estate activity	Real estate operations, investment engineering and project financing.
Other services	Coordination of the Moneta system development.

The management monitors the results of operating segments to make proper investment decisions and to assess the performance of segments. Segment performance is assessed based on operating profit or loss which, in certain respects, is different to operating results disclosed in the consolidated financial statements.

For the purpose of reporting, the operations of the Nova KBM Group are divided into the following three geographical segments: Slovenia, Western Europe and Eastern Europe.

## 3.26 STANDARDS AND INTERPRETATIONS

The accounting policies used to prepare the financial statements are consistent with those of the previous financial year, except for new and amended standards and interpretations effective as of 1 January 2014, as presented below:

- **Disclosures required by IAS 8.28** – information regarding initial application of particular new regulations.

In the current period, the following amendments to existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- **IFRS 10 – Consolidated Financial Statements**; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IFRS 11 – Joint Arrangements**; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IFRS 12 – Disclosure of Interests in Other Entities**; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IAS 27 (revised in 2011) – Separate Financial Statements**; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IAS 28 (revised in 2011) – Investments in Associates and Joint Ventures**; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **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 (effective for annual periods beginning on or after 1 January 2014).
- **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 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IAS 32 – Financial Instruments: Presentation** – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IAS 36 – Impairment of Assets** – Recoverable Amount Disclosures for Non-Financial Assets; adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).
- **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 (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 IASB and adopted by the EU but not yet effective

At the date of authorisation of the financial statements included in this report the following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU were in issue but not yet effective:

- **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; adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).
- **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; adopted by the EU on 18 December 2014 (effective for annual periods beginning on or after 1 January 2015).
- **Amendments to IAS 19 – Employee Benefits – Defined Benefit Plans: Employee Contributions**; adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).
- **IFRIC 21 – Levies**; adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

## Standards and interpretations issued by the IASB but not yet adopted by the EU

At present, IFRSs as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 18 February 2015:

- **IFRS 9 – Financial Instruments** (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 14 – Regulatory Deferral Accounts** (effective for annual periods beginning on or after 1 January 2016).
- **IFRS 15 – Revenue from Contracts with Customers** (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IFRS 10 – Consolidated Financial Statements, and IAS 28 – Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Disclosure of Interests in Other Entities, and IAS 28 – Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception** (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IFRS 11 – Joint Arrangements – Accounting for Acquisition of Interests in Joint Operations** (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 1 – Presentation of Financial Statements – Disclosure Initiative** (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 16 – Property, Plant and Equipment, and IAS 38 – Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation** (effective for annual periods beginning on or after 1 January 2016).



- **Amendments to IAS 16 – Property, Plant and Equipment, and IAS 41 – Agriculture** – Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 27 – Separate Financial Statements** – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to various standards – Improvements to IFRSs (cycle 2012 – 2014)** resulting from the annual improvement project of IFRSs (IFRS 5, IFRS 7, IFRS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2016).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39** – Financial Instruments: Recognition and Measurement, would not significantly impact the financial statements, if applied as at the balance sheet date.

The Group has not early adopted any standard or interpretation issued but not yet effective.

The Group 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 Group revises the document Strategy of the Nova KBM Group on an annual basis. The Strategy is the key document in the preparation of annual business plans.

The Bank 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 responsible officers are specialised in defining, measuring and controlling 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 rules of procedure, each risk management policy has to be approved by the Policy Approval Committee and, in addition, agreed by the President of the Management Board or his deputy. The Group companies may use their own approach in managing individual risks, taking into consideration the importance of risk and the regulatory framework.

### 4.1 CREDIT RISK

Credit risk is the risk of loss resulting from the failure of a Group's debtor to discharge its liabilities. The Group is exposed to credit risk through its loan portfolio.

The management of credit risk is carried out at the customer level, by individual Group companies, as well as at the Group level. The Bank controls credit risk to which the Group companies are exposed through its representatives on supervisory boards and credit committees of subsidiary companies.

The Group manages credit risk in several ways, such as by:

- identifying the risk related to customers and recognising impairment of financial assets and provisions for off-balance sheet liabilities in accordance with the IFRSs
- providing capital to ensure sufficient capital coverage of credit risks
- setting exposure limits for customers, groups of related customers, industry sectors and market segments
- properly securing financial assets.

The Group's exposure to credit risk arising from loans and advances given to banks and customers is described below.

#### **4.1.1 NON-PERFORMING EXPOSURES**

The Group defines as non-performing exposures (NPEs) such exposures for which it reasonably believes that the debtor will not discharge all of its liabilities within the contractual period. Non-performing exposures are classified into the credit rating category D or E.

In accordance with the Nova KBM Group Methodology for Classifying Legal Entities into Credit Rating Categories, and the Nova KBM Methodology and Procedures for Classifying Retail Customers, the following customers are classified into the D or E credit rating category:

- customers that have been over 90 days late in paying their liabilities
- customers that have filed for compulsory composition or bankruptcy
- customers whose debts have been written off in full or in part
- customers whose current accounts have been blocked for more than 60 days
- customers whose debts have been restructured by the Bank, but which are still very unlikely to repay their debts
- customers for whom the Bank has reliable information which indicates that they will not be able to repay their debts, or customers that have been classified into the category of defaulting customers.

The portfolio of customers classified into the credit rating categories D and E is managed by the Loan Workout Department, the Legal Office, and the Corporate Customer Monitoring Department.

#### **4.1.2 INTEREST RATES AND LOAN APPROVAL FEES**

Interest rates are determined in accordance with the adopted credit policies of Group companies. Interest rates depend on the basic interest rate, the purpose of a loan, the customer's track record of cooperation with the Group companies, the customer's credit rating, the maturity of a loan, and the type of collateral provided for a loan.

Loan approval fees are determined in accordance with the applicable decisions adopted by the management board of individual Group companies, and in accordance with their respective lending policies.

#### **4.1.3 EXPOSURE LIMITS**

With respect to limiting its exposure, the Group takes into account all applicable regulatory limitations. In compliance with Slovene banking laws and other regulations governing the banking business, exposure to a single customer or to a group of related customers shall not exceed 25% of the Group's equity.

For the purpose of mitigating credit risk, the Group has adopted rules that apply to the setting of maximum allowable exposures to customers and groups of related customers. These rules are set out in detail in the Nova KBM Group Methodology for Determining Upper Lending Limits for Customers.

#### 4.1.4 LOAN COLLATERAL POLICY

As a rule, loans are not granted without the customer providing at least one type of collateral.

Unsecured loans are exception and are approved only to risk-free customers. Loans granted to all other customers are secured by at least one type of collateral. The type of collateral required depends on:

- type of a customer (including its legal status)
- customer's credit rating
- type and maturity of a loan
- customer's repayment capabilities
- customer's relationship with the Group and with other customers
- customer's track record of cooperation with the Group.

Banks in the Group determine eligibility criteria for collateral to be provided in their loan collateral policies. With respect to the adequacy of collateral provided to mitigate credit risk, the following classification has been adopted:

- prime collateral
- adequate collateral
- pledge of movable or immovable property
- other types of collateral.

Leasing companies in the Group are legal owners of assets leased under lease agreements.

Non-banking Group companies define the type of collateral to be provided in their risk management policies.

#### 4.1.5 ANALYSIS OF EXPOSURE TO CREDIT RISK BY TAKING ACCOUNT OF COLLATERAL

As of 31 December 2014, the proportion of A- and B-rated loans accounted for 52.65% of the total loan portfolio, compared to 56.12% at the end of 2013.

The following table sets forth, for the periods indicated, the structure of the loan portfolio by credit rating categories:

Loans by credit rating categories as a % of the total loan portfolio	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
A	42.42	42.47	46.15	42.91
B	10.23	13.65	9.51	11.44
C	7.07	13.29	7.47	14.60
D	16.23	16.40	19.12	22.11
E	24.05	14.19	17.75	8.94

## Analysis of exposure to credit risk

Nova KBM Group	Loans to customers		Loans to banks	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Net outstanding loans</b>	<b>1,920,875</b>	<b>2,231,765</b>	<b>50,124</b>	<b>104,228</b>
<b>Individual impairment</b>				
Gross amount	966,592	1,057,140	730	6,031
Impairment	(531,869)	(509,385)	(3)	(2,546)
Net amount	434,723	547,755	727	3,485
<b>Collective impairment</b>				
Credit rating A	941,848	1,026,876	0	0
Credit rating B	298,683	409,305	0	0
Credit rating C	174,665	207,286	0	0
Credit rating D	29,477	16,146	0	0
Credit rating E	71,194	59,831	0	0
<b>Gross amount</b>	<b>1,515,867</b>	<b>1,719,444</b>	<b>0</b>	<b>0</b>
<b>Impairment</b>	<b>(86,958)</b>	<b>(80,572)</b>	<b>0</b>	<b>0</b>
<b>Net amount</b>	<b>1,428,909</b>	<b>1,638,872</b>	<b>0</b>	<b>0</b>
<b>Net non-impaired loans</b>	<b>57,243</b>	<b>45,138</b>	<b>49,397</b>	<b>100,743</b>
<b>Total net loans</b>	<b>1,920,875</b>	<b>2,231,765</b>	<b>50,124</b>	<b>104,228</b>

Nova KBM d.d.	Loans to customers		Loans to banks	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Net outstanding loans</b>	<b>1,593,294</b>	<b>1,826,371</b>	<b>59,299</b>	<b>133,948</b>
<b>Individual impairment</b>				
Gross amount	672,926	788,637	5,015	56,694
Impairment	(344,441)	(389,705)	(5,013)	(20,396)
Net amount	328,485	398,932	2	36,298
<b>Collective impairment</b>				
Credit rating A	804,293	859,638	0	0
Credit rating B	232,345	312,845	0	0
Credit rating C	154,612	202,157	0	0
Credit rating D	26,815	26,140	0	0
Credit rating E	58,294	40,603	0	0
<b>Gross amount</b>	<b>1,276,359</b>	<b>1,441,383</b>	<b>0</b>	<b>0</b>
<b>Impairment</b>	<b>(67,558)</b>	<b>(57,166)</b>	<b>0</b>	<b>0</b>
<b>Net amount</b>	<b>1,208,801</b>	<b>1,384,217</b>	<b>0</b>	<b>0</b>
<b>Net non-impaired loans</b>	<b>56,008</b>	<b>43,222</b>	<b>59,297</b>	<b>97,650</b>
<b>Total net loans</b>	<b>1,593,294</b>	<b>1,826,371</b>	<b>59,299</b>	<b>133,948</b>

The Group's total net loans outstanding at the end of 2014 amounted to €1,970,999,000, down 15.62% on the 2013 year-end figure.

Loans of €967,322,000 were individually impaired, with loan impairment losses of €531,872,000 being set aside for these loans. Loans totalling €1,515,867,000 were collectively impaired, and the loan impairment losses of €86,958,000 were recognised by the Group for these loans.

The following table shows net loans by credit rating category and impairment method, without taking account of the value of collateral provided:

## Analysis of net loans without taking account of collateral

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Individual impairment</b>	<b>484,847</b>	<b>651,983</b>	<b>387,784</b>	<b>532,880</b>
<b>Collective impairment</b>	<b>1,486,152</b>	<b>1,684,010</b>	<b>1,264,809</b>	<b>1,427,439</b>
Credit rating A	993,487	1,062,317	856,161	895,814
Credit rating B	293,628	401,659	228,654	308,896
Credit rating C	156,799	194,787	138,610	190,016
Credit rating D	19,503	9,659	18,166	16,852
Credit rating E	22,735	15,588	23,218	15,861
<b>Total net loans</b>	<b>1,970,999</b>	<b>2,335,993</b>	<b>1,652,593</b>	<b>1,960,319</b>

## Analysis of exposure to credit risk by market segments

The following tables set forth, for the periods indicated, the volume of loans and loan impairment losses by market segments:

### Analysis of gross loans and loan impairment losses by market segments

Nova KBM Group	Gross loans	Loan impairment losses	Gross loans	Loan impairment losses
	31.12.2014		31.12.2013	
State	38,218	1,050	20,839	495
Credit institutions (banks)	50,127	3	106,774	2,546
Other financial intermediaries	56,067	19,945	55,656	16,399
Large non-financial companies	1,183,472	451,690	1,345,652	425,163
Non-financial SMEs	272,722	85,653	320,380	88,563
SMEs (sole proprietors and non-profit societies)	92,725	21,674	112,124	22,209
Individuals	896,498	38,815	967,071	37,128
<b>Total</b>	<b>2,589,829</b>	<b>618,830</b>	<b>2,928,496</b>	<b>592,503</b>

Nova KBM d.d.	Gross loans	Loan impairment losses	Gross loans	Loan impairment losses
	31.12.2014		31.12.2013	
State	28,271	138	15,330	446
Credit institutions (banks)	64,312	5,013	154,344	20,396
Other financial intermediaries	71,601	24,109	161,513	76,036
Large non-financial companies	891,142	306,272	1,005,116	293,613
Non-financial SMEs	155,682	38,599	164,519	37,155
SMEs (sole proprietors and non-profit societies)	65,326	12,299	77,244	12,933
Individuals	793,271	30,582	849,520	26,688
<b>Total</b>	<b>2,069,605</b>	<b>417,012</b>	<b>2,427,586</b>	<b>467,267</b>



## Past-due and unpaid claims

31.12.2014					
Nova KBM Group	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	13	0	0	2	15
State	112	5	5	3	125
Legal entities	44,698	34,190	24,941	486,058	589,887
Households	1,985	525	3,044	60,256	65,810
<b>Total</b>	<b>46,808</b>	<b>34,720</b>	<b>27,990</b>	<b>546,319</b>	<b>655,837</b>

31.12.2013					
Nova KBM Group	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>

31.12.2014					
Nova KBM d.d.	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	14	0	0	2	16
State	107	0	1	0	108
Legal entities	28,321	32,892	19,981	271,318	352,512
Households	1,465	339	2,930	38,068	42,802
<b>Total</b>	<b>29,907</b>	<b>33,231</b>	<b>22,912</b>	<b>309,388</b>	<b>395,438</b>

31.12.2013					
Nova KBM d.d.	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>

## Past-due but not impaired claims

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Up to 30 days	211	79	211	79
31 to 90 days	1	495	1	495
Over 90 days	0	3	0	3
<b>Total</b>	<b>212</b>	<b>577</b>	<b>212</b>	<b>577</b>

## Outstanding loan recovery

Banks in the Group have special departments in charge of bad and doubtful loan recovery. These departments are responsible for monitoring and resolving outstanding and bad loans in accordance with regulatory requirements as well as internal instructions and documents.

The Loan Workout Department is responsible for monitoring and resolving outstanding and bad loans in accordance with regulatory requirements and internal documents. The latter determine the method of transferring bad loans to the Loan Workout Department for recovery. If a debtor is in default on a materially significant amount for more than 90 days, the Bank declares such customer as a defaulting customer and undertakes all the necessary steps to collect the debt, or restructures the debt if this might mitigate the loss incurred by the Bank.

Where an obligation is past-due for more than 90 days, or if the debtor declares the implementation of an insolvency procedure, the collection of the debt is transferred to the Loan Workout Department or Legal Office. As long as the overdue period does not exceed 90 days, the collection of debts is managed within the commercial departments, with the professional support provided by the Corporate Customer Monitoring Department. In cooperation with other specialised departments, the Loan Workout Department prepares internal regulations (policy, rules of procedure and instructions) that govern the recovery of loans by the Loan Workout Department.

When outstanding loans are transferred to the Loan Workout Department, the department evaluates all available information, particularly collateral coverage of outstanding loans, on the basis of which it assesses the expected loss. The Loan Workout Department also evaluates the underlying reasons for default to prevent other loans from becoming bad loans.

Together with the debtor, the Loan Workout Department tries to find out the options for restructuring the loan in order to restore the debtor's ability to resume repayments of liabilities to the Bank (extension of maturity date, possible grace period on the principal, change of interest rate). In such cases, the Loan Workout Department also tries to obtain additional collateral. If the loan is restructured, the Loan Workout Department monitors the debtor's compliance with the terms of the restructured loan.

Internal regulations governing the management of bad loans include provisions regarding the preventive restructuring proceedings and other novelties related to the debt collection, as stipulated in the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP – F). If a loan cannot be restructured, or if another solution acceptable to the Bank cannot be agreed upon, the Loan Workout Department lodges a request for carrying out appropriate court procedures under which the Bank and the debtor try to reach an in-court or out-of-court settlement (e.g. through mediation). The Loan Workout Department might try to reach an agreement with a debtor together with other companies in the Nova KBM Group, or through bank syndicates. Sometimes additional measures can be taken to recover some or all of the given funds, such as selling the Bank's claims to third parties.

In carrying out its work, the Loan Workout Department complies with internal rules and applicable legislation and, as needed, collaborates with legal and other experts, both in-house and outside the Bank. Bad loans are written off after the Loan Workout Department has taken all the necessary and sufficient measures provided by law and internal regulations to recover the loan.

### NPLs in the total loan portfolio

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Total gross loan portfolio	2,589,829	2,928,496	2,069,605	2,427,586
Total net loan portfolio	1,970,999	2,335,993	1,652,593	1,960,319
Net NPLs (past-due over 90 days; ratings D and E)	462,519	424,407	370,457	379,405
Net NPLs/total net loan portfolio (%)	23.47	18.17	22.42	19.35

The increase in the proportion of NPLs in the total loan portfolio was partially the result of the introduction of more stringent criteria applicable to the classification of exposures into defaulting credit rating categories, as introduced by the implementing technical standard of the European Banking Authority, and partially due to a reduction in lending volumes of both the Bank and the Group.

In 2014, the Group continued to collect the unpaid obligations of customers by liquidating instruments of collateral through regular court proceedings and in out-of-court settlements.

The Group has set aside adequate impairment losses for NPLs on the basis of anticipated cash flows generated from the liquidation of collateral. The parameters used to calculate individual impairments are verified at least once a year.

If the out-of-court settlement is not successful, the Loan Workout Department assesses the expected cash flow generated from the liquidation of pledged property by generally taking into account 50% of the appraised value of pledged property and the liquidation period of five years.

In cases where the property cannot be sold at auctions, it is purchased by KBM Invest, a subsidiary company engaged in the sale and brokerage of real estate.

Other types of collateral can be taken into account in the calculation of individual impairments only if the expected cash flow generated from the liquidation of collateral and the repayment period can be realistically assessed.

### Analysis of restructured loans

Gross restructured loans	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Restructured loans with uncertain repayment prospects	23,142	100,225	17,837	78,959
Loans restructured at a material economic loss and with a low probability of being repaid	373,360	310,740	321,430	306,771
<b>Total</b>	<b>396,502</b>	<b>410,965</b>	<b>339,267</b>	<b>385,730</b>

As of 31 December 2014, the volume of restructured loans in the portfolio of the Nova KBM Group totalled €396,502,000, of which €34,470,000 was in retail loans and €362,032,000 was in corporate loans (loans outstanding to companies and sole proprietors).

### Analysis of performing loans and NPLs by industry sectors

The following tables set forth, for the periods indicated, the total net loans and net NPLs outstanding to individual industry sectors, and the proportion of net NPLs in net loans:

Nova KBM Group	Total net loans	Net NPLs	Share of NPLs (%)	Total net loans	Net NPLs	Share of NPLs (%)
	31.12.2014			31.12.2013		
Households	857,683	33,849	3.95	929,943	26,030	2.80
Agriculture and hunting, forestry, fishing	23,240	8,532	36.71	31,667	5,602	17.69
Mining	2,786	676	24.26	1,307	252	19.28
Manufacturing industry	342,155	142,670	41.70	436,937	121,969	27.91
Electricity, gas and steam supply	46,771	3,946	8.44	64,646	10,808	16.72
Water supply, waste and sewage management, rehabilitation of the environment	24,052	979	4.07	16,701	808	4.84
Construction	71,471	31,088	43.50	87,809	31,042	35.35
Trade, maintenance and repair of motor vehicles	188,896	76,590	40.55	236,731	78,014	32.95
Transportation and storage	52,511	6,025	11.47	58,917	1,266	2.15
Accommodation and food service activities	39,621	19,292	48.69	45,143	17,447	38.65
Information and communication activities	22,526	13,507	59.96	30,520	7,946	26.04
Financial intermediation	92,590	20,442	22.08	178,205	23,296	13.07
Real estate activities	39,025	29,712	76.14	48,323	32,454	67.16
Professional, scientific and technical activities	47,680	25,601	53.69	69,533	22,427	32.25
Other various business activities	15,764	2,758	17.50	10,818	2,768	25.59
Public administration and defence services, compulsory social security activities	32,415	185	0.57	14,643	189	1.29
Education	3,181	392	12.32	3,628	329	9.07
Health and welfare security	23,128	8,704	37.63	24,423	9,150	37.46
Arts, entertainment and recreation	38,824	35,957	92.62	35,802	31,064	86.77
Other activities	6,680	1,614	24.16	10,297	1,546	15.01
<b>Total net loans</b>	<b>1,970,999</b>	<b>462,519</b>	<b>23.47</b>	<b>2,335,993</b>	<b>424,407</b>	<b>18.17</b>

Nova KBM d.d.	Total net loans	Net NPLs	Share of NPLs (%)	Total net loans	Net NPLs	Share of NPLs (%)
	31.12.2014			31.12.2013		
Households	762,689	31,509	4.13	822,832	21,415	2.60
Agriculture and hunting, forestry, fishing	17,216	4,626	26.87	20,210	2,199	10.88
Mining	1,989	229	11.51	394	215	54.57
Manufacturing industry	272,295	111,133	40.81	332,199	87,478	26.33
Electricity, gas and steam supply	43,954	3,838	8.73	56,701	9,779	17.25
Water supply, waste and sewage management, rehabilitation of the environment	14,602	241	1.65	4,185	458	10.94
Construction	42,208	14,273	33.82	45,730	10,339	22.61
Trade, maintenance and repair of motor vehicles	130,157	57,208	43.95	147,284	52,595	35.71
Transportation and storage	48,826	5,151	10.55	53,520	500	0.93
Accommodation and food service activities	29,728	13,940	46.89	32,233	11,024	34.20
Information and communication activities	14,362	8,022	55.86	13,783	7,680	55.72
Financial intermediation	111,939	32,035	28.62	248,730	71,979	28.94
Real estate activities	32,292	23,907	74.03	44,847	34,592	77.13
Professional, scientific and technical activities	31,597	18,478	58.48	64,035	31,530	49.24
Other various business activities	8,021	1,196	14.91	6,854	1,036	15.12
Public administration and defence services, compulsory social security activities	26,229	0	0.00	8,479	0	0.00
Education	3,020	369	12.22	3,391	297	8.76
Health and welfare security	20,497	8,673	42.31	21,030	9,150	43.51
Arts, entertainment and recreation	37,555	35,184	93.69	30,157	26,643	88.35
Other activities	3,417	445	13.02	3,725	496	13.32
<b>Total net loans</b>	<b>1,652,593</b>	<b>370,457</b>	<b>22.42</b>	<b>1,960,319</b>	<b>379,405</b>	<b>19.35</b>

## Valuation of real estate

For the purpose of secured lending, financial reporting, purchase or sale of real estate, and renting out of real estate, valuation of real estate is regulated by the Nova KBM Group Methodology for Real Estate Valuation. The Group must obtain the value and assess the quality of real estate collateral to be provided prior to reaching any decision regarding the acceptance of the respective real estate as security for its exposure to credit risk, and must monitor the movements in the value and quality of real estate collateral during the entire period of its exposure to credit risk.

The assessment of the value of real estate that must comply with the International Valuation Standards (IVSs) must be conducted by an independent real estate appraiser appointed by the Slovene Auditing Institute or the Ministry of Justice of the Republic of Slovenia.

For the valuation of residential real estate with a value of up to €500,000, the Group may use the generalised market value as determined in the process of the mass real estate valuation, and published by the Surveying and Mapping Authority of the Republic of Slovenia. The market value of real estate as set out in the applicable sales agreement may also be used for the needs of establishing collateral.

Because of the complexity of real estate valuations, the following two valuation methods are used:

- Simple valuation method: this method is used for the valuation of real estate whose value does not exceed €1,000,000, in particular for family houses, apartments, building plots, individual agricultural land parcels, individual business premises, and smaller industrial buildings.
- Complex valuation method: this method is used for the valuation of real estate of high value, specialised real estate, investment property under construction, and trade-related property as defined under IVS 310. This method is also used for the valuation of real estate for the purpose of financial reporting.

In the case of complex valuations, the Group selects appraisers to carry out the value assessment. Selection is through a tender process.

Valuation reports requested by the Group are checked by the Credit Analysis Department, which confirms whether the valuation carried out is appropriate for the Group's needs. Statistical revaluation is used by the Group as the method to assess changes in the value of real estate over time.

### Analysis of collateral – value of collateral for given loans

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>1. Collateral for individually impaired loans</b>	<b>677,162</b>	<b>1,225,731</b>	<b>336,255</b>	<b>772,825</b>
– movable and immovable property	536,445	856,213	294,621	549,708
– debt securities	1,940	1,935	1,912	1,935
– equity instruments	18,923	82,336	17,831	59,551
– other	119,854	285,247	21,891	161,631
<b>2. Collateral for collectively impaired loans</b>	<b>2,072,967</b>	<b>2,712,587</b>	<b>1,815,446</b>	<b>2,371,299</b>
– movable and immovable property	1,839,763	2,273,070	1,645,377	2,044,114
– debt securities	0	157	0	129
– equity instruments	6,406	43,073	5,254	35,493
– other	226,798	396,287	164,815	291,563
<b>3. Collateral for non-impaired loans</b>	<b>76,143</b>	<b>53,315</b>	<b>71,349</b>	<b>49,019</b>
– movable and immovable property	3,800	2,923	349	596
– other	72,343	50,392	71,000	48,423
<b>4. Total</b>	<b>2,826,272</b>	<b>3,991,633</b>	<b>2,223,050</b>	<b>3,193,143</b>

As of 31 December 2014, the total value of collateral provided for loans in the form of movable and immovable property was €2,380,008,000, of which 77.30% related to collectively impaired loans, 22.54% related to individually impaired loans, and 0.16% related to non-impaired loans.

Collateral of €1,940,000 was in the form of debt securities, all of which related to individually impaired loans.

Collateral of €25,329,000 was in the form of equity instruments, of which 25.29% related to collectively impaired loans, and 74.71% related to individually impaired loans.

A significant proportion of the Group's loan portfolio is secured by real estate. The estimated value of this collateral, which may have a material effect on the financial statements owing to inactivity of the Slovene real estate market, is based on market data. In addition, a number of equity instruments pledged as security for loans are not quoted on a stock exchange and are not traded in markets. There is uncertainty as to the future economic situation, which may have an impact on the value of collateral and the time needed for its realisation.



## Analysis of net loans by market segments and regions

Nova KBM Group	Loans to customers		Loans to banks	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>NET BOOK VALUE</b>	<b>1,920,875</b>	<b>2,231,765</b>	<b>50,124</b>	<b>104,228</b>
<b>By market segment</b>	<b>1,920,875</b>	<b>2,231,765</b>	<b>50,124</b>	<b>104,228</b>
– non-financial companies	860,765	1,032,247	0	0
– deposit-taking companies, except the central bank	0	0	19,222	27,008
– other financial intermediaries, except insurance companies and pension funds	13,086	23,885	0	0
– auxiliary financial service providers	483	3,912	0	0
– captive financial institutions and money lenders	12,572	588	0	0
– insurance companies	13	6	0	0
– pension funds	2	1	0	0
– central government	26,921	8,824	0	0
– local government	7,882	6,874	0	0
– social security funds	0	1	0	0
– households	925,491	1,014,535	0	0
– non-profit institutions serving households	2,460	3,015	0	0
– rest of the world	71,200	137,877	30,902	77,220
<b>By region</b>	<b>1,920,875</b>	<b>2,231,765</b>	<b>50,124</b>	<b>104,228</b>
– Slovenia	1,849,675	2,093,888	19,222	27,008
– European Monetary Union (EMU)	1,311	4,989	28,384	73,890
– non-EMU EU countries	54,041	71,971	2,506	1,590
– republics of the former Yugoslavia	12,802	55,948	12	24
– other	3,046	4,969	0	1,716

Nova KBM d.d.	Loans to customers		Loans to banks	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>NET BOOK VALUE</b>	<b>1,593,294</b>	<b>1,826,371</b>	<b>59,299</b>	<b>133,948</b>
<b>By market segment</b>	<b>1,593,294</b>	<b>1,826,371</b>	<b>59,299</b>	<b>133,948</b>
– non-financial companies	664,305	795,363	0	0
– deposit-taking companies, except the central bank	0	0	29,123	24,029
– investment funds, except money market funds	0	522	0	0
– other financial intermediaries, except insurance companies and pension funds	11,846	52,237	0	0
– auxiliary financial service providers	333	3,573	0	0
– captive financial institutions and money lenders	12,572	588	0	0
– insurance companies	13	6	0	0
– pension funds	2	1	0	0
– central government	22,924	6,657	0	0
– local government	2,844	3,587	0	0
– households	813,586	884,629	0	0
– non-profit institutions serving households	2,131	2,516	0	0
– rest of the world	62,738	76,692	30,176	109,919
<b>By region</b>	<b>1,593,294</b>	<b>1,826,371</b>	<b>59,299</b>	<b>133,948</b>
– Slovenia	1,530,556	1,749,679	29,123	24,029
– European Monetary Union (EMU)	1,311	1,260	28,384	104,988
– non-EMU EU countries	45,579	51,050	1,792	30
– republics of the former Yugoslavia	12,802	23,904	0	4,901
– other	3,046	478	0	0

As of 31 December 2014, net loans given to banks and to customers totalled €50,124,000 and €1,920,875,000, respectively. Of the latter figure, the largest proportion related to households (48.18%), followed by non-financial companies (44.82%).

Loans given to customers headquartered in the Republic of Slovenia accounted for 96.29% of the total loans to customers. Of the loans given to foreign non-bank customers, the largest proportion, i.e. 2.81% of the total loans to customers, related to customers residing in the EU countries.

Loans given to local banks accounted for 38.35% of the total loans to banks. At 56.63%, loans given to banks residing in the EMU accounted for the largest proportion of the total loans to foreign banks.

## 4.2 LIQUIDITY RISK

Liquidity risk is the risk of loss resulting from a Group company's inability to meet all of its payment obligations, or the risk that it has to provide necessary funding at significantly higher than usual costs. It arises from maturity mismatches between assets and liabilities. The Group companies monitor daily liquidity in accordance with regulatory requirements and methodologies, taking into account their activities and the volume of operations. In its liquidity projections, the Bank takes into account liquidity needs of the Group companies. The Group uses a harmonised method for monitoring structural liquidity.

During the year ended 31 December 2014, the Group managed liquidity risk in accordance with the Nova KBM Group Policy of Managing Liquidity Risk which sets out the methods and responsibilities for managing assets and liabilities to provide for sufficient cash inflows within a certain period of time. The Policy sets out the measures for assessing, measuring, managing and monitoring liquidity risk. The Policy includes liquidity planning for the timely repayment of obligations, measures to be adopted under adverse liquidity conditions, and procedures for checking variables on the basis of which the policy for managing liquidity risk has been formulated.

The Group companies have prepared business continuity plans for managing liquidity risk that set out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position. The Group carries out, on a monthly basis, liquidity stress tests in compliance with the Nova KBM Group Methodology for Implementing Stress Scenarios of Liquidity Risk. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on the Group's liquidity position, and for preparing measures for dealing with any liquidity crisis.

The document Business Continuity Plan for Managing Liquidity Risk in Nova KBM sets out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position of the Bank. The Bank carries out, on a monthly basis, liquidity stress tests in compliance with the Nova KBM Group Methodology for Implementing Stress Scenarios of Liquidity Risk. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on the Bank's liquidity position, and for preparing measures for dealing with any liquidity crisis.

### Net liquid assets

The Group uses an internal methodology for determining net liquid assets, which represent the difference between the portion of assets that can be converted into liquid funds within a short period of time, and the unstable portion of liabilities. The unstable portion of liabilities is the portion of the Group's liabilities that may become due in the same short period of time. According to an internal regulation, the level of net liquid assets must be at least positive to ensure the Group's operational and regulatory liquidity.

## Liquidity gap

The liquidity gap, which is regularly monitored and thoroughly analysed by individual time buckets, is a measure of the level of maturity matching of assets and liabilities. The Group cannot avoid the liquidity gap, but can manage it effectively. A positive gap represents a surplus of funds that can be invested profitably. On the other hand, a negative gap is a sign of a shortage of funds that needs to be provided for.

## Liquidity ratios and obligatory deposits

During the year ended 31 December 2014, the Bank complied with the Bank of Slovenia regulations on minimum liquidity. As of 31 December 2014, the Bank's Category One Liquidity Ratio was 1.980, compared to 1.872 a year earlier. The prescribed liquidity ratio is set at 1.0. The Bank also complied with the Bank of Slovenia regulations on obligatory deposits.

## Stability of deposits

The Bank uses its own econometric model for calculating the proportion of stable demand deposits. This model is based on regression analysis which is used to examine the movements in demand deposits over time. For using the model, the dependent variable and independent variables must be determined. The results derived from the model provide a basis for analysing the predictive power, and for carrying out retroactive testing. For the period from 1 January to 31 December 2014, the results of this model gave a higher level of stable demand deposits than the one that was taken into account in the calculation of liquidity ratios according to the regulations. For the year ended 31 December 2014, the average stability of demand deposits was 83.79%, compared to 83.85% for the year ended 31 December 2013. The average stability of household deposits was as high as 93.03% in 2014, against 93.84% reported for 2013.

The following tables set forth, for the periods indicated, the distribution of significant statement of financial position items with maturity of up to and over five years.

## Analysis of exposure to liquidity risk as of 31 December 2014

Nova KBM Group	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, cash balances at central banks and other demand deposits at banks	422,264	422,264	0	0	0	0
Financial assets held for trading	1,841	1,841	0	0	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0
Available-for-sale financial assets	1,482,120	33,017	44,670	327,017	890,448	186,968
Loans and advances	1,933,959	301,119	114,409	334,177	709,655	474,599
Held-to-maturity financial assets	206,540	607	37,319	75,662	65,543	27,409
Other assets	247,046	32,920	1,158	74,044	28,358	110,566
<b>Total assets</b>	<b>4,311,627</b>	<b>809,625</b>	<b>197,556</b>	<b>810,900</b>	<b>1,694,004</b>	<b>799,542</b>
<b>Liabilities</b>						
Financial liabilities held for trading	1,229	1,229	0	0	0	0
Financial liabilities measured at amortised cost	3,548,874	420,718	349,149	651,385	1,427,941	699,681
Other liabilities	781,888	31,679	64,149	65,379	39,316	581,365
<b>Total liabilities and equity</b>	<b>4,331,991</b>	<b>453,626</b>	<b>413,298</b>	<b>716,764</b>	<b>1,467,257</b>	<b>1,281,046</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>(20,364)</b>	<b>355,999</b>	<b>(215,742)</b>	<b>94,136</b>	<b>226,747</b>	<b>(481,504)</b>
<b>Guarantees</b>	<b>44,935</b>	<b>4,707</b>	<b>4,736</b>	<b>20,007</b>	<b>10,827</b>	<b>4,658</b>

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

Nova KBM Group	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, cash balances at central banks and other demand deposits at banks	460,924	460,924	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	2,353,876	585,481	122,391	365,563	768,224	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>2,615,733</b>	<b>141,076</b>	<b>505,574</b>	<b>889,068</b>	<b>659,342</b>
<b>Liabilities</b>						
Financial liabilities held for trading	1,422	1,422	0	0	0	0
Financial liabilities measured at amortised cost	4,133,833	1,742,045	483,014	949,547	849,120	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>853,988</b>	<b>(347,860)</b>	<b>(484,509)</b>	<b>(7,073)</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>

## Analysis of exposure to liquidity risk as of 31 December 2014

Nova KBM d.d.	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, cash balances at central banks and other demand deposits at banks	335,417	335,417	0	0	0	0
Financial assets held for trading	187	187	0	0	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0
Available-for-sale financial assets	1,275,213	22,932	42,347	326,334	738,723	144,877
Loans and advances	1,522,471	158,190	101,132	270,266	596,659	396,224
Held-to-maturity financial assets	89,950	608	24,665	36,930	4,997	22,750
Other assets	225,244	7,429	6	0	22,701	195,108
<b>Total assets</b>	<b>3,466,339</b>	<b>542,620</b>	<b>168,150</b>	<b>633,530</b>	<b>1,363,080</b>	<b>758,959</b>
<b>Liabilities</b>						
Financial liabilities held for trading	1,170	1,170	0	0	0	0
Financial liabilities measured at amortised cost	2,898,016	308,491	269,182	525,571	1,253,721	541,051
Other liabilities	671,768	22,972	2,771	64,369	38,345	543,311
<b>Total liabilities and equity</b>	<b>3,570,954</b>	<b>332,633</b>	<b>271,953</b>	<b>589,940</b>	<b>1,292,066</b>	<b>1,084,362</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>(104,615)</b>	<b>209,987</b>	<b>(103,803)</b>	<b>43,590</b>	<b>71,014</b>	<b>(325,403)</b>
<b>Guarantees</b>	<b>5,489</b>	<b>794</b>	<b>238</b>	<b>2,187</b>	<b>1,827</b>	<b>443</b>

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

Nova KBM d.d.	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, cash balances at central banks and other demand deposits at banks	352,176	352,176	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	1,971,478	480,284	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 held for trading	976	976	0	0	0	0
Financial liabilities measured at amortised cost	3,295,465	1,275,456	367,547	756,963	789,505	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>

The following tables set forth, for the periods indicated non-discounted contractual balance sheet liabilities. A significant proportion of the Group's liabilities falls due within a one-month period, referring to demand deposits. The Group monitors the stability of demand deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in these deposits.

## Non-derivative balance sheet liabilities as of 31 December 2014

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Liabilities</b>						
Financial liabilities measured at amortised cost	3,679,445	1,817,157	439,221	844,681	478,443	99,943
Other liabilities	781,888	31,923	64,149	65,379	39,316	581,121
<b>Total liabilities</b>	<b>4,461,333</b>	<b>1,849,080</b>	<b>503,370</b>	<b>910,060</b>	<b>517,759</b>	<b>681,064</b>
<b>Guarantees</b>	<b>260,135</b>	<b>36,033</b>	<b>13,842</b>	<b>106,074</b>	<b>82,892</b>	<b>21,294</b>

## Non-derivative balance sheet liabilities as of 31 December 2013

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Liabilities</b>						
Financial liabilities measured at amortised cost	4,288,542	1,751,840	490,366	984,361	936,879	125,096
Other liabilities	675,538	18,278	5,922	40,536	47,021	563,781
<b>Total liabilities</b>	<b>4,964,080</b>	<b>1,770,118</b>	<b>496,288</b>	<b>1,024,897</b>	<b>983,900</b>	<b>688,877</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>



**Non-derivative balance sheet liabilities as of 31 December 2014**

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Liabilities</b>						
Financial liabilities measured at amortised cost	2,977,808	1,390,521	369,472	722,065	396,578	99,172
Other liabilities	671,768	22,972	2,771	64,369	38,345	543,311
<b>Total liabilities</b>	<b>3,649,576</b>	<b>1,413,493</b>	<b>372,243</b>	<b>786,434</b>	<b>434,923</b>	<b>642,483</b>
<b>Guarantees</b>	<b>222,438</b>	<b>32,179</b>	<b>9,632</b>	<b>88,633</b>	<b>74,038</b>	<b>17,956</b>

**Non-derivative balance sheet liabilities as of 31 December 2013**

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>Liabilities</b>						
Financial liabilities measured at amortised cost	3,397,180	1,279,056	372,480	783,306	840,375	121,963
Other liabilities	613,542	12,242	3,976	34,304	41,308	521,712
<b>Total liabilities</b>	<b>4,010,722</b>	<b>1,291,298</b>	<b>376,456</b>	<b>817,610</b>	<b>881,683</b>	<b>643,675</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>

**Derivatives held as of 31 December 2014**

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>CURRENCY DERIVATIVES</b>						
Forwards						
outflow	64,350	34,515	29,835	0	0	0
inflow	64,296	34,439	29,857	0	0	0
<b>INTEREST RATE DERIVATIVES</b>						
Interest rate and currency swaps						
outflow	244	59	105	80	0	0
inflow	193	0	107	86	0	0
<b>TOTAL OUTFLOW</b>	<b>64,594</b>	<b>34,574</b>	<b>29,940</b>	<b>80</b>	<b>0</b>	<b>0</b>
<b>TOTAL INFLOW</b>	<b>64,489</b>	<b>34,439</b>	<b>29,964</b>	<b>86</b>	<b>0</b>	<b>0</b>

The table above presents non-discounted cash flows on derivatives. Foreign currency amounts were translated into the euro using the ECB exchange rate effective on 31 December 2014. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis..

**Derivatives held as of 31 December 2013**

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>CURRENCY DERIVATIVES</b>						
Forwards						
outflow	85,242	36,802	48,440	0	0	0
inflow	84,933	36,681	48,252	0	0	0
<b>INTEREST RATE DERIVATIVES</b>						
Interest rate and currency swaps						
outflow	998	446	399	153	0	0
inflow	566	0	405	161	0	0
<b>TOTAL OUTFLOW</b>	<b>86,240</b>	<b>37,248</b>	<b>48,839</b>	<b>153</b>	<b>0</b>	<b>0</b>
<b>TOTAL INFLOW</b>	<b>85,499</b>	<b>36,681</b>	<b>48,657</b>	<b>161</b>	<b>0</b>	<b>0</b>

The table above presents non-discounted cash flows on derivatives. Foreign currency amounts were translated into

the euro using the ECB exchange rate effective on 31 December 2013. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

### Derivatives held as of 31 December 2014

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>CURRENCY DERIVATIVES</b>						
Forwards						
outflow	64,350	34,515	29,835	0	0	0
inflow	64,296	34,439	29,857	0	0	0
<b>INTEREST RATE DERIVATIVES</b>						
Interest rate and currency swaps						
outflow	185	0	105	80	0	0
inflow	193	0	107	86	0	0
<b>TOTAL OUTFLOW</b>	<b>64,535</b>	<b>34,515</b>	<b>29,940</b>	<b>80</b>	<b>0</b>	<b>0</b>
<b>TOTAL INFLOW</b>	<b>64,489</b>	<b>34,439</b>	<b>29,964</b>	<b>86</b>	<b>0</b>	<b>0</b>

The table above presents non-discounted cash flows on derivatives. Foreign currency amounts were translated into the euro using the ECB exchange rate effective on 31 December 2014. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

### Derivatives held as of 31 December 2013

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
<b>CURRENCY DERIVATIVES</b>						
Forwards						
outflow	85,242	36,802	48,440	0	0	0
inflow	84,933	36,681	48,252	0	0	0
<b>INTEREST RATE DERIVATIVES</b>						
Interest rate and currency swaps						
outflow	552	0	399	153	0	0
inflow	566	0	405	161	0	0
<b>TOTAL OUTFLOW</b>	<b>85,794</b>	<b>36,802</b>	<b>48,839</b>	<b>153</b>	<b>0</b>	<b>0</b>
<b>TOTAL INFLOW</b>	<b>85,499</b>	<b>36,681</b>	<b>48,657</b>	<b>161</b>	<b>0</b>	<b>0</b>

The table above presents non-discounted cash flows on derivatives. Foreign currency amounts were translated into the euro using the ECB exchange rate effective on 31 December 2013. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

## 4.3 MARKET RISKS

The Group monitors market risks of trading book and markets risks of banking book separately. The method of monitoring and reporting as well as of limiting exposure to market risks is set out in the respective risk management policies. The Group companies monitor market risks in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

### 4.3.1 POSITION RISK

Position risk is a risk of loss arising due to a change in the price of financial instrument that the Group holds in its portfolio for the purpose of trading on its proprietary account.

The trading limit methodology is based on the value-at-risk (VaR) measure and is compliant with the Basel capital requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The basis for determining trading limits is the capital requirement set out in the financial plan. The Group measures the market value of all trading items on a daily basis. The volume of transactions in each type of financial instruments is defined in detail by the methodology for setting limits.

Nova KBM's portfolio of equity instruments is limited by the highest market value, stop-loss limit, and the VaR measure. The portfolio of debt securities is limited by the highest market value and stop-loss limit. The limits determined for specific types of transactions may be changed by a decision of the ALCO. Changes to the structure of limits shall not affect the annual plan of capital adequacy.

The Group monitors VaR of trading portfolios on a daily basis. The aggregate value-at-risk of the Group's and the Bank's trading portfolios in 2014 suggests with a 99% probability that, by holding an unchanged position in securities, the portfolio loss over the 10 consecutive working days would not exceed €95,000 and €63,000, respectively.

#### 10-day VaR of the trading portfolios in 2014

Nova KBM Group			Nova KBM d.d.		
Maximum	Minimum	Average	Maximum	Minimum	Average
95	46	57	63	0	14

#### 10-day VaR of the trading portfolios in 2013

Nova KBM Group			Nova KBM d.d.		
Maximum	Minimum	Average	Maximum	Minimum	Average
112	49	84	56	0	13

A more detailed breakdown of financial assets held for trading and their movements is presented in the table 'Financial assets held for trading' in the notes to the financial statements.

Position risk in foreign exchange trading is controlled by the Bank by trading limits. Limits for foreign currency trading for the account of the Bank are defined as the maximum allowable open position for the Trading Department. The Trading Support Department monitors trading results on a daily basis and reports findings to the responsible authorities.

The Bank offers its customers the service of buying and selling derivatives as a broker only and does not take its own positions.

### 4.3.2 INTEREST RATE RISK

Interest rate risk is the risk of loss arising due to changes in interest rates or the structure of interest rates for maturity mismatches of interest-bearing assets and liabilities with regard to interest rate repricing and the remuneration method.

Rules applicable to the management of interest rate risk pertaining to the trading book items are included in the methodology for monitoring trading limits. Interest rate risk management of non-trading book items is carried out using an interest rate matching methodology.

The Group monitors interest-bearing statement of financial position items and off-balance sheet items with regard to maturity of variable interest rate items, separated by the key currencies and reference interest rates in which it operates. The Bank monitors separately interest rate risk for EUR, USD and CHF, and the interest rate TOM (basic interest rate), which, as of 31 December 2014, together made up 99.37% of its entire exposure to interest rate changes.

The results of the standardised stress test for interest rate risk as the impact of a parallel shift in the yield curve on equity and net interest income in a period of one year are calculated monthly for the Bank, and quarterly for the Group.

#### The impact of the results of the standardised stress test on the Nova KBM Group's equity, as of 31 December 2014

Nova KBM Group	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(7)	(257)	(4,962)	(44,137)	(25,995)	(75,358)
<b>Total</b>	<b>(7)</b>	<b>(257)</b>	<b>(4,962)</b>	<b>(44,137)</b>	<b>(25,995)</b>	<b>(75,358)</b>

#### The impact of the results of the standardised stress test on the Nova KBM Group's equity, as of 31 December 2013

Nova KBM Group	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(23)	(319)	(5,083)	(40,596)	(25,783)	(71,804)
RSD	(15)	0	0	0	0	(15)
<b>Total</b>	<b>(38)</b>	<b>(319)</b>	<b>(5,083)</b>	<b>(40,596)</b>	<b>(25,783)</b>	<b>(71,819)</b>

#### The impact of the results of the standardised stress test on Nova KBM's equity, as of 31 December 2014

Nova KBM d.d.	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(5)	(192)	(4,559)	(32,094)	(20,344)	(57,194)
<b>Total</b>	<b>(5)</b>	<b>(192)</b>	<b>(4,559)</b>	<b>(32,094)</b>	<b>(20,344)</b>	<b>(57,194)</b>

#### The impact of the results of the standardised stress test on Nova KBM's equity, as of 31 December 2013

Nova KBM d.d.	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(10)	(217)	(4,083)	(33,512)	(19,940)	(57,762)
<b>Total</b>	<b>(10)</b>	<b>(217)</b>	<b>(4,083)</b>	<b>(33,512)</b>	<b>(19,940)</b>	<b>(57,762)</b>

The tables above show the decline in the fair value of the debt securities portfolio in the case of a parallel rise in the yield curve by 200 basis points. A change in fair value is reflected in equity.

## The impact of the results of the standardised stress test on the Nova KBM Group's net interest income

Nova KBM Group	31.12.2014		31.12.2013	
	+ 200 basis points	- 200 basis points	+ 200 basis points	- 200 basis points
EUR	3,508	(56)	(457)	(62)
CHF	558	17	715	(6)
USD	281	(16)	238	(13)
HRK	11	(4)	21	(4)
RSD	0	0	402	(403)
Other currencies	41	0	61	(36)
<b>Total</b>	<b>4,399</b>	<b>(59)</b>	<b>980</b>	<b>(524)</b>

## The impact of the results of the standardised stress test on Nova KBM's net interest income

Nova KBM d.d.	31.12.2014		31.12.2013	
	+ 200 basis points	- 200 basis points	+ 200 basis points	- 200 basis points
EUR	8,635	(154)	5,064	(877)
CHF	1,131	21	736	(6)
USD	309	(19)	242	(15)
Other currencies	42	0	63	(63)
<b>Total</b>	<b>10,117</b>	<b>(152)</b>	<b>6,105</b>	<b>(961)</b>

The tables above show the impact of a shift in the yield curve on the net interest income in a period of one year.

In addition to the standardised stress test analysis, the Group calculates its exposure to interest rate changes as the change of the net current value of the difference between assets and liabilities subject to variable interest rate in a given period and the expected interest rate changes in the next three months. The expected interest rate changes are calculated as the difference between current and term interest rates, separated for each currency and maturity handled. An analysis of interest rate risk for the Bank is included in a monthly risk management report and is subject to a monthly review by the ALCO. An analysis of interest rate risk at the Group level is made on a quarterly basis. The Group companies monitor interest rate risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The interest rate risk analysis treats net positions in individual interest rate repricing periods as fixed-coupon debt securities. A longer interest rate repricing period has a larger impact on net present value of assets and liabilities. The results of the interest rate risk analysis made for the Group for the 2014 and 2013 year-end suggested that the aggregate net present value of all interest-sensitive items would most likely decline by €1,160,000 and 2,981,000, respectively. As for the Bank, the results suggested that the aggregate net present value of all of its interest-sensitive items would most likely decline by €856,000 and €2,311,000, respectively. The main advantage of this analysis when compared to the standardised interest rate stress test lies in anticipation of probable interest rate changes in the observed period. The Group is exposed mainly to interest rates for EUR, USD, CHF and HRK.

The impact of interest rate changes on profit or loss is measured for a one-year period. To calculate the change in interest income, the current interest rate is used for the period until the change of interest rate, after which date and until the end of a one-year period the changed interest rate is taken into consideration. The average interest rate repricing period by individual time buckets is used to calculate interest. Taking into consideration the financial data for the 2014 year-end, the anticipated interest rate change in a three-month period would result in an annual decline of €287,000 in the net interest income earned by the Group, while the annual net interest income earned by the Bank would increase by €517,000. According to the financial data for the end of 2013, the anticipated interest rate change in a three-month period would cause the annual net interest income of the Group and the Bank to fall by €136,000 and 118,000, respectively.

According to the financial data as of 31 December 2014, the results of a stress test of a parallel shift of the yield curve by 200 basis points suggested that such a shift would cause the aggregate net present value of all interest-sensitive items of the Bank to decline by an amount equal to 9.6% of the Bank's regulatory capital. As for the Group, the decline in the aggregate net present value of all of its interest-sensitive items would equal 6.2% of the Bank's regulatory capital. The stable portion of demand deposits was taken into consideration in the stress test. In compliance with the applicable legislation, the regulator may impose certain measures for reducing the risk if the result of the standardised stress test exceeds 20% of the Bank's equity.

A more detailed breakdown of the Group's statement of financial position by maturity of items as of 31 December 2014 and 2013 is presented in the table Analysis of Exposure to Interest Rate Risk, which shows the distribution of items with regard to the interest rate repricing periods. Exposure to changes in interest rates is managed using an interest rate matching methodology, taking into account the characteristics of individual items.

### Analysis of exposure to interest rate risk as of 31 December 2014

Nova KBM Group	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, cash balances at central banks and other demand deposits at banks	422,264	77,106	345,158	345,158	0	0	0	0
Financial assets held for trading	1,841	1,841	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0	0	0
Available-for-sale financial assets	1,482,120	19,013	1,463,107	7,005	49,876	326,138	888,013	192,075
Loans and advances	1,991,342	131,384	1,859,958	961,333	435,935	349,945	91,213	21,532
Held-to-maturity financial assets	206,540	0	206,540	0	35,755	75,329	62,150	33,306
Other assets	45,952	45,952	0	0	0	0	0	0
<b>Total assets</b>	<b>4,167,916</b>	<b>293,153</b>	<b>3,874,763</b>	<b>1,313,496</b>	<b>521,566</b>	<b>751,412</b>	<b>1,041,376</b>	<b>246,913</b>
<b>Liabilities</b>								
Financial liabilities held for trading	1,229	1,170	59	59	0	0	0	0
Financial liabilities measured at amortised cost	3,585,893	7,064	3,578,829	1,864,215	442,476	988,942	281,274	1,922
Other liabilities	18,140	18,075	65	65	0	0	0	0
<b>Total liabilities</b>	<b>3,605,262</b>	<b>26,309</b>	<b>3,578,953</b>	<b>1,864,339</b>	<b>442,476</b>	<b>988,942</b>	<b>281,274</b>	<b>1,922</b>
<b>Assets-liabilities mismatch</b>	<b>562,654</b>	<b>266,844</b>	<b>295,810</b>	<b>(550,843)</b>	<b>79,090</b>	<b>(237,530)</b>	<b>760,102</b>	<b>244,991</b>



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

Nova KBM Group	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, cash balances at central banks and other demand deposits at banks	460,924	80,880	380,044	380,044	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	2,353,876	127,765	2,226,111	1,092,306	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 held for trading	1,422	976	446	446	0	0	0	0
Financial liabilities measured at amortised cost	4,133,833	13,334	4,120,499	1,809,071	569,899	1,130,347	608,872	2,310
Other liabilities	15,251	15,251	0	0	0	0	0	0
<b>Total liabilities</b>	<b>4,150,506</b>	<b>29,561</b>	<b>4,120,945</b>	<b>1,809,517</b>	<b>569,899</b>	<b>1,130,347</b>	<b>608,872</b>	<b>2,310</b>
<b>Assets-liabilities mismatch</b>	<b>492,797</b>	<b>302,367</b>	<b>190,430</b>	<b>(299,523)</b>	<b>69,587</b>	<b>(221,966)</b>	<b>399,747</b>	<b>242,585</b>

## Analysis of exposure to interest rate risk as of 31 December 2014

Nova KBM d.d.	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, cash balances at central banks and other demand deposits at banks	335,417	40,847	294,570	294,570	0	0	0	0
Financial assets held for trading	187	187	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0	0	0
Available-for-sale financial assets	1,275,213	13,779	1,261,434	5,000	41,039	324,051	742,256	149,088
Loans and advances	1,664,347	62,488	1,601,859	812,894	379,461	328,322	59,115	22,067
Held-to-maturity financial assets	89,950	0	89,950	0	24,665	36,721	0	28,564
Other assets	19,231	19,231	0	0	0	0	0	0
<b>Total assets</b>	<b>3,402,202</b>	<b>154,389</b>	<b>3,247,813</b>	<b>1,112,464</b>	<b>445,165</b>	<b>689,094</b>	<b>801,371</b>	<b>199,719</b>
<b>Liabilities</b>								
Financial liabilities held for trading	1,170	1,170	0	0	0	0	0	0
Financial liabilities measured at amortised cost	2,935,277	78	2,935,199	1,444,492	361,978	872,805	255,008	916
Other liabilities	14,322	14,322	0	0	0	0	0	0
<b>Total liabilities</b>	<b>2,950,769</b>	<b>15,570</b>	<b>2,935,199</b>	<b>1,444,492</b>	<b>361,978</b>	<b>872,805</b>	<b>255,008</b>	<b>916</b>
<b>Assets-liabilities mismatch</b>	<b>451,433</b>	<b>138,819</b>	<b>312,614</b>	<b>(332,028)</b>	<b>83,187</b>	<b>(183,711)</b>	<b>546,363</b>	<b>198,803</b>

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

Nova KBM d.d.	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, cash balances at central banks and other demand deposits at banks	352,176	41,113	311,063	311,063	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	1,971,478	39,351	1,932,127	885,080	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 held for trading	976	976	0	0	0	0	0	0
Financial liabilities measured at amortised cost	3,295,465	297	3,295,168	1,322,221	449,454	931,384	591,127	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 tables above show the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

### Average interest rates (%)

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Average interest rate on assets	3.56	4.04	3.44	3.84
Average interest rate on liabilities	0.96	1.50	1.08	1.68

### 4.3.3 FOREIGN EXCHANGE RISK

Foreign exchange risk represents a potential loss arising from an open foreign exchange position and the volatility of foreign exchange rates. The Bank controls exposure to foreign exchange risk by maintaining neutral position in individual foreign currencies.

In accordance with the resolution adopted by the ALCO, the Bank maintains a daily aggregate closed foreign exchange position. The aggregate open position for all currencies is limited by its impact on the Bank's capital adequacy. The methodology for monitoring and maintaining a balanced foreign exchange position is based on the VaR method in compliance with the Basel capital requirements. The maximum allowable VaR is established at the individual currency level just as for the entire foreign exchange portfolio. VaR depends on the exposure amount and the volatility of individual pair of currencies.

The open position for each foreign currency is monitored daily, and the Bank calculates the daily result due to discrepancies in the foreign exchange position. In case of an increase in volatility, the Bank reduces the allowable open position in individual currencies, in accordance with the adopted methodology. Any changes in volatility are reviewed on a monthly basis.

The Group controls its exposure to foreign exchange risk by maintaining target positions in individual currencies. The Group companies monitor currency risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The Group regularly monitors the exposure of the statement of financial position and off-balance sheet items to foreign exchange risk. The Group is exposed to foreign exchange risk against USD, CHF and HRK.

A more detailed breakdown of the open foreign exchange position as of 31 December 2014 and 2013 is presented in the tables Analysis of Exposure to Foreign Exchange Risk.

A 10-day value-at-risk of the open foreign exchange position is calculated by the Bank on the basis of one-year data and a 99% confidence interval. The results of the calculation made for the Bank suggest with a 99% probability that, by holding an unchanged currency positions, the loss over the 10 consecutive working days would not exceed €56,000, taking into account the highest level of exposure to foreign exchange risk during 2014. The VaR of the Bank's foreign exchange position is presented in the tables below.

#### 10-day VaR of Nova KBM's foreign exchange position in 2014

Nova KBM d.d.	Maximum	Minimum	Average
	56	8	20

#### 10-day VaR of Nova KBM's foreign exchange position in 2013

Nova KBM d.d.	Maximum	Minimum	Average
	97	11	25

## Analysis of exposure to foreign exchange risk as of 31 December 2014

Nova KBM Group	EUR	USD	CHF	HRK	Other currencies	Total
<b>Assets</b>						
Cash, cash balances at central banks and other demand deposits at banks	408,799	3,372	6,026	1,096	2,971	422,264
Financial assets held for trading	1,841	0	0	0	0	1,841
Financial assets designated at fair value through profit or loss	17,857	0	0	0	0	17,857
Available-for-sale financial assets	1,482,120	0	0	0	0	1,482,120
Loans and advances	1,898,339	24,839	67,197	539	428	1,991,342
Held-to-maturity financial assets	206,540	0	0	0	0	206,540
Other assets	184,267	0	0	2,955	59,824	247,046
<b>Total assets</b>	<b>4,199,763</b>	<b>28,211</b>	<b>73,223</b>	<b>4,590</b>	<b>63,223</b>	<b>4,369,010</b>
<b>Liabilities</b>						
Financial liabilities held for trading	1,229	0	0	0	0	1,229
Financial liabilities measured at amortised cost	3,533,917	28,234	16,173	296	7,273	3,585,893
Other liabilities	753,573	7	0	(16,838)	45,146	781,888
<b>Total liabilities and equity</b>	<b>4,288,719</b>	<b>28,241</b>	<b>16,173</b>	<b>(16,542)</b>	<b>52,419</b>	<b>4,369,010</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>(88,956)</b>	<b>(30)</b>	<b>57,050</b>	<b>21,132</b>	<b>10,804</b>	<b>0</b>
Derivatives	54,544	0	(54,456)	0	(141)	(53)
<b>Assets-liabilities (including equity and derivatives) mismatch</b>	<b>(34,412)</b>	<b>(30)</b>	<b>2,594</b>	<b>21,132</b>	<b>10,663</b>	<b>(53)</b>

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

Nova KBM Group	EUR	USD	CHF	HRK	Other currencies	Total
<b>Assets</b>						
Cash, cash balances at central banks and other demand deposits at banks	427,925	8,536	7,932	1,016	15,515	460,924
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	2,200,668	19,969	83,697	24,894	24,648	2,353,876
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 held for trading	1,422	0	0	0	0	1,422
Financial liabilities measured at amortised cost	4,034,953	28,379	19,578	192	50,731	4,133,833
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>

## Analysis of exposure to foreign exchange risk as of 31 December 2014

Nova KBM d.d.	EUR	USD	CHF	HRK	Other currencies	Total
<b>Assets</b>						
Cash, cash balances at central banks and other demand deposits at banks	323,440	3,228	5,407	747	2,595	335,417
Financial assets held for trading	187	0	0	0	0	187
Financial assets designated at fair value through profit or loss	17,857	0	0	0	0	17,857
Available-for-sale financial assets	1,275,213	0	0	0	0	1,275,213
Loans and advances	1,566,903	24,819	67,197	0	5,428	1,664,347
Held-to-maturity financial assets	89,950	0	0	0	0	89,950
Other assets	225,244	0	0	0	0	225,244
<b>Total assets</b>	<b>3,498,794</b>	<b>28,047</b>	<b>72,604</b>	<b>747</b>	<b>8,023</b>	<b>3,608,215</b>
<b>Liabilities</b>						
Financial liabilities held for trading	1,170	0	0	0	0	1,170
Financial liabilities measured at amortised cost	2,883,581	27,978	15,790	272	7,656	2,935,277
Other liabilities	671,768	0	0	0	0	671,768
<b>Total liabilities and equity</b>	<b>3,556,519</b>	<b>27,978</b>	<b>15,790</b>	<b>272</b>	<b>7,656</b>	<b>3,608,215</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>(57,725)</b>	<b>69</b>	<b>56,814</b>	<b>475</b>	<b>367</b>	<b>0</b>
Derivatives	54,544	0	(54,456)	0	(141)	(53)
<b>Assets-liabilities (including equity and derivatives) mismatch</b>	<b>(3,181)</b>	<b>69</b>	<b>2,358</b>	<b>475</b>	<b>226</b>	<b>(53)</b>

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

Nova KBM d.d.	EUR	USD	CHF	HRK	Other currencies	Total
<b>Assets</b>						
Cash, cash balances at central banks and other demand deposits at banks	336,355	7,901	5,105	834	1,981	352,176
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	1,864,793	18,299	82,887	0	5,499	1,971,478
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 held for trading	976	0	0	0	0	976
Financial liabilities measured at amortised cost	3,246,217	26,221	15,853	159	7,015	3,295,465
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>

The tables above present the distribution of the statement of financial position items by currency. The tables only include items in which the Group has significant positions in currencies other than the euro.

## Foreign exchange sensitivity analysis

	Nova KBM Group				Nova KBM d.d.			
	Exchange rate change against EUR (%)	Impact on profit or loss	Exchange rate change against EUR (%)	Impact on profit or loss	Exchange rate change against EUR (%)	Impact on profit or loss	Exchange rate change against EUR (%)	Impact on profit or loss
	31.12.2014		31.12.2013		31.12.2014		31.12.2013	
USD	+7	(2)	+9	11	+7	5	+9	(2)
CHF	+16	415	+11	(195)	+16	377	+11	(185)
HRK	+2	423	+2	839	+2	10	+2	14
Other currencies	+9	960	+9	2,791	+9	20	+9	42

The impact of exchange rate changes on equity is negligible and is therefore not presented in the table.

## 4.4 GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES

### Geographical analysis of assets and liabilities as of 31 December 2014

Nova KBM Group	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
<b>Assets</b>						
Cash, cash balances at central banks and other demand deposits at banks	422,264	409,513	12,751	12,751	0	0
Financial assets held for trading	1,841	1,799	42	42	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0
Available-for-sale financial assets	1,482,120	1,180,148	301,972	301,972	0	0
Loans and advances	1,991,342	1,899,676	91,666	80,611	7,803	3,252
Held-to-maturity financial assets	206,540	143,095	63,445	63,445	0	0
Other assets	247,046	202,732	44,314	(15,509)	59,823	0
<b>Total assets</b>	<b>4,369,010</b>	<b>3,854,820</b>	<b>514,190</b>	<b>443,312</b>	<b>67,626</b>	<b>3,252</b>
<b>Liabilities</b>						
Financial liabilities held for trading	1,229	951	278	278	0	0
Financial liabilities measured at amortised cost	3,585,893	3,478,352	107,541	79,499	23,350	4,692
Other liabilities	781,888	766,608	15,280	(29,892)	45,146	26
<b>Total liabilities and equity</b>	<b>4,369,010</b>	<b>4,245,911</b>	<b>123,099</b>	<b>49,885</b>	<b>68,496</b>	<b>4,718</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>0</b>	<b>(391,091)</b>	<b>391,091</b>	<b>393,427</b>	<b>(870)</b>	<b>(1,466)</b>



## Geographical analysis of assets and liabilities as of 31 December 2013

Nova KBM Group	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
<b>Assets</b>						
Cash, cash balances at central banks and other demand deposits at banks	460,924	387,160	73,764	25,108	24,276	24,380
Financial assets held for trading	1,786	1,643	143	21	122	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	1,286,824	180,040	157,638	22,402	0
Loans and advances	2,353,876	2,149,860	204,016	131,295	64,895	7,826
Held-to-maturity financial assets	280,153	212,480	67,673	67,426	247	0
Other assets	222,604	204,167	18,437	3,666	14,771	0
<b>Total assets</b>	<b>4,810,793</b>	<b>4,266,720</b>	<b>544,073</b>	<b>385,154</b>	<b>126,713</b>	<b>32,206</b>
<b>Liabilities</b>						
Financial liabilities held for trading	1,422	428	994	994	0	0
Financial liabilities measured at amortised cost	4,133,833	3,913,444	220,389	97,999	118,040	4,350
Other liabilities	675,538	714,575	(39,037)	(28,689)	(10,461)	113
<b>Total liabilities and equity</b>	<b>4,810,793</b>	<b>4,628,447</b>	<b>182,346</b>	<b>70,304</b>	<b>107,579</b>	<b>4,463</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>0</b>	<b>(361,727)</b>	<b>361,727</b>	<b>314,850</b>	<b>19,134</b>	<b>27,743</b>

## Geographical analysis of assets and liabilities as of 31 December 2014

Nova KBM d.d.	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
<b>Assets</b>						
Cash, cash balances at central banks and other demand deposits at banks	335,417	335,417	0	0	0	0
Financial assets held for trading	187	145	42	42	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0
Available-for-sale financial assets	1,275,213	1,039,500	235,713	235,713	0	0
Loans and advances	1,664,347	1,569,849	94,498	78,452	12,804	3,242
Held-to-maturity financial assets	89,950	43,895	46,055	46,055	0	0
Other assets	225,244	216,536	8,708	8,708	0	0
<b>Total assets</b>	<b>3,608,215</b>	<b>3,223,199</b>	<b>385,016</b>	<b>368,970</b>	<b>12,804</b>	<b>3,242</b>
<b>Liabilities</b>						
Financial liabilities held for trading	1,170	951	219	219	0	0
Financial liabilities measured at amortised cost	2,935,277	2,841,616	93,661	85,848	3,187	4,626
Other liabilities	671,768	671,537	231	222	0	9
<b>Total liabilities and equity</b>	<b>3,608,215</b>	<b>3,514,104</b>	<b>94,111</b>	<b>86,289</b>	<b>3,187</b>	<b>4,635</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>0</b>	<b>(290,905)</b>	<b>290,905</b>	<b>282,681</b>	<b>9,617</b>	<b>(1,393)</b>

## Geographical analysis of assets and liabilities as of 31 December 2013

Nova KBM d.d.	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
<b>Assets</b>						
Cash, cash balances at central banks and other demand deposits at banks	352,176	335,484	16,692	5,253	8	11,431
Financial assets held for trading	612	591	21	21	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	1,109,572	101,227	101,227	0	0
Loans and advances	1,971,478	1,782,889	188,589	159,061	28,817	711
Held-to-maturity financial assets	192,437	125,011	67,426	67,426	0	0
Other assets	157,895	154,474	3,421	2	3,419	0
<b>Total assets</b>	<b>3,909,983</b>	<b>3,532,607</b>	<b>377,376</b>	<b>332,990</b>	<b>32,244</b>	<b>12,142</b>
<b>Liabilities</b>						
Financial liabilities held for trading	976	428	548	548	0	0
Financial liabilities measured at amortised cost	3,295,465	3,208,197	87,268	79,610	3,328	4,330
Other liabilities	613,542	613,085	457	308	55	94
<b>Total liabilities and equity</b>	<b>3,909,983</b>	<b>3,821,710</b>	<b>88,273</b>	<b>80,466</b>	<b>3,383</b>	<b>4,424</b>
<b>Assets-liabilities (including equity) mismatch</b>	<b>0</b>	<b>(289,103)</b>	<b>289,103</b>	<b>252,524</b>	<b>28,861</b>	<b>7,718</b>

## Available-for-sale financial assets of foreign issuers

Country of issuer	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Austria	49,817	28,325	20,221	0
Belgium	44,633	14,568	29,187	5,339
France	75,114	32,001	63,288	24,796
Italy	0	7,990	0	7,990
Luxembourg	21,455	5,377	19,454	873
Germany	51,178	31,118	51,178	31,118
The Netherlands	48,171	18,781	42,868	15,777
Portugal	0	9,897	0	9,897
Slovakia	11,604	9,581	9,517	5,437
Serbia	0	22,402	0	0
<b>Total</b>	<b>301,972</b>	<b>180,040</b>	<b>235,713</b>	<b>101,227</b>

## 4.5 OPERATIONAL RISK

During the year ended 31 December 2014, the Group monitored operational risk and calculated capital requirements for operational risk in accordance with the Basic Indicator Approach.

The Group has adopted the Operational Risk Management Policy based on recommendations of the Basel capital standards and the local regulator. The Group companies report on the operational risk loss events on a monthly basis (through the APIS application).

All organisational units of the Bank and all Group companies are responsible for identifying, assessing and managing operational risk – each unit for the cost centres that are headed by the manager of the respective unit. The main aim of this is to ensure the functioning of the system of internal controls. In assessing the risk profile of the Group as a whole, each Group company has to give its subjective assessment of operational risk on an annual basis.

Operational risk is managed on a decentralised basis by each organisational unit of the Bank and each Group company, with the following Bank officers being responsible for all the procedures in this regard:

- The operational risk analyst working in the Risk Management Department (i) is the administrator of the operational risk loss events data base; (ii) prepares monthly, quarterly, half-yearly and annual reports for the Bank Management Board; (iii) guides the self-assessment of operational risk by individual organisational units, products and business processes; (iv) calculates the capital requirement for operational risk on an annual basis; and (v) conducts interim assessments of operational risk (simulations). In addition, the analyst must once a year produce the document Risk Profile of Nova KBM, taking account of all twelve types of risk according to the regulation of the Bank of Slovenia, including operational risk.
- The head of the Bank's information system security, whose position falls under the Corporate Security, Compliance and Control Department, is responsible for all the activities set out in the Information Protection Policy of Nova KBM (e.g. prevention of information security-related incidents and attacks, prevention of data misuse and viruses, etc).
- The business continuity administrator, whose position falls under the Corporate Security, Compliance and Control Department, is responsible for coordinating activities related to business continuity, as well as for analysing reasons for operational disruptions and drawing up contingency and/or recovery plans.
- The adviser on the prevention of money laundering and terrorism financing, whose position falls under the Corporate Security, Compliance and Control Department, is responsible for assuring operational compliance with regulations governing this issue and for reporting to the Office for Money Laundering Prevention and the Bank Management Board on any suspicious transactions.
- The compliance officer, whose position falls under the Corporate Security, Compliance and Control Department, is responsible for ensuring the Bank adheres to applicable regulations, for conducting investigations of reports regarding suspicion of prohibited practices taking place in the Bank, and for reporting to the Bank Management and Supervisory Boards on compliance activities.
- The adviser on security, whose position falls under the Corporate Security, Compliance and Control Department, is responsible for physical and technical protection of the Bank's facilities, for filing damage claims with insurance companies, and for reporting to the relevant authorities.
- The officer authorised for the implementation of the FATCA, whose position falls under the Corporate Security, Compliance and Control Department, is responsible for the maintenance and administration of the FATCA system, which includes the preparation of guidelines, methodologies and regulations with respect to the implementation of the FATCA, as well as control of risks and the implementation of the internal system of controls.
- The adviser on internal controls, whose position falls under the Corporate Security, Compliance and Control Department, is responsible for assessing the performance of the system of internal controls at the governance and management level, and for monitoring the efficiency of the established internal controls.

In terms of type, the majority of loss events recorded in 2014 related to (according to the Basel capital standards) 'Execution, Delivery and Process Management' (53%), followed by 'Damages to Physical Assets' (19%) and 'External Fraud' (13%). In 2013, the majority of loss events related to 'Execution, Delivery and Process Management' (48%), followed by 'External Fraud' (29%) and 'Damages to Physical Assets' (10%).



Most loss events recorded in 2014 by the Group were attributable to PBS (65%), followed by Nova KBM (15%) and KBM Banka (12%). In 2013, the majority of loss events occurred in PBS (46%), followed by Nova KBM (34%) and KBM Banka (15%).

By ensuring systematic reporting on operational risk loss events through the APIS application, the Group successfully accomplished its short-term objective in respect of operational risk management. The mid-term objective remains the development of software to produce all the data needed to assess operational risk and prepare the document Risk Profile of the Group.

The Group's long-term objective in respect of operational risk remains unchanged: to build up a risk management culture and to limit the scope and the amount of losses to an acceptable level.

## 4.6 CAPITAL RISK

Capital risk arises from inadequate size of capital, inadequate structure of capital with regard to the volume and diversity of business conducted by the Group, or from difficulties in acquiring new capital. The Group has set up appropriate procedures and mechanisms to ensure adequate structure and size of its capital.

The Group manages its capital by:

- monitoring current and anticipated capital requirements for credit, market and operational risks
- monitoring available capital and examining options to increase its additional capital by raising subordinated debt, taking into account regulatory restrictions
- monitoring movements in its capital adequacy.

For the purpose of capital risk management, the Group monitors current and anticipated capital needs and capital requirements, as well as the movements in the capital adequacy ratios, in accordance with the applicable legislation and internal methodology.

The Group calculates capital requirements for credit risk using the standardised approach. As a reference Export Credit Agency (ECA) for the category 'Exposure to Central Governments or Central Banks', the Group nominated SID Banka. As a reference External Credit Assessment Institution (ECAI) for the classification of assets into the category 'Exposure to Institutions', the Group nominated the rating agency Moody's.

The Group calculates capital requirements for market risks in accordance with the applicable regulations and does not use internal models for the time being. The capital requirement for operational risk is calculated according to the basic indicator approach.

To determine the level of adequate internal capital of the Group in accordance with the Internal Capital Adequacy Assessment Process (ICAAP), the same methodology is used as for the Bank.

The Regulation (EU) No. 575/2013 (CRR) of the European Parliament and the European Council on prudential requirements for credit institutions and investment firms, adopted on 26 June 2013, became effective from 1 January 2014. Among other changes, the CRR introduced several alterations to the calculation of capital and capital requirements, all of which have been successfully implemented by the Bank. The implementation of these changes resulted in an elevation of the capital adequacy ratios calculated by the Bank and the Group.

## Composition of regulatory capital and capital requirements

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Tier 1 capital</b>	<b>549,824</b>	<b>519,631</b>	<b>521,962</b>	<b>491,103</b>
Paid-in capital instruments	150,000	150,000	150,000	150,000
Share premium	360,572	360,572	360,572	360,572
Retained earnings and value adjustments of investment property from previous years	50,122	68,381	1,030	702
(-) Loss for the current financial year	(5,743)	0	0	0
Accumulated other comprehensive income	(5,187)	(18,319)	(343)	(702)
Other reserves	27,895	(8,140)	27,389	(1,140)
(-) Intangible assets	(25,483)	(32,863)	(14,335)	(18,329)
(-) Deferred tax assets	(2,352)	0	(2,351)	0
<b>Additional Tier 1 capital</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Tier 2 capital</b>	<b>0</b>	<b>2,086</b>	<b>0</b>	<b>998</b>
<b>Total capital</b>	<b>549,824</b>	<b>521,717</b>	<b>521,962</b>	<b>492,101</b>
<b>Risk weighted exposure amounts for credit risk</b>	<b>2,029,975</b>	<b>2,456,378</b>	<b>1,773,173</b>	<b>2,088,715</b>
Central governments or central banks	11,822	0	10,736	0
Regional governments or local authorities	1,497	3,138	561	1,775
Public sector entities	1,305	5,563	147	575
Multilateral development banks	0	0	0	0
International organisations	0	0	0	0
Institutions	101,892	134,100	82,173	119,313
Corporates	424,425	695,088	336,354	481,588
Retail	676,203	848,950	559,299	704,513
Exposures secured by mortgages on immovable property	54,636	39,000	54,636	39,000
Exposures in default	532,059	91,750	397,374	30,813
Items associated with particular high risk	59,067	411,763	207,044	433,600
Collective investment undertakings	6,155	10,288	2,814	6,550
Equity	16,854	0	14,538	0
Other items	144,060	216,738	107,497	270,988
<b>Risk weighted exposure amounts for market risks</b>	<b>40,719</b>	<b>73,176</b>	<b>37,332</b>	<b>51,488</b>
Traded debt instruments	1,542	2,413	1,476	2,413
Equity instruments	39,034	51,413	35,713	49,075
Foreign exchange	0	19,350	0	0
Credit value adjustment risk	143	0	143	0
<b>Risk weighted exposure amounts for operational risk</b>	<b>289,222</b>	<b>347,388</b>	<b>216,403</b>	<b>261,213</b>
<b>Total risk weighted exposure amount</b>	<b>2,359,916</b>	<b>2,876,942</b>	<b>2,026,908</b>	<b>2,401,416</b>
Total capital adequacy ratio	23.30%	18.13%	25.75%	20.49%
Tier 1 capital ratio	23.30%	18.06%	25.75%	20.45%
Common Equity Tier 1 capital ratio	23.30%	18.06%	25.75%	20.45%

## 5 / FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Where possible, the Group determines the fair value of financial instruments on the basis of their market prices. The Group starts to measure the value of financial assets according to the valuation model once it establishes that the market is not active. In accordance with the IFRSs, the Group divides fair values of financial instruments into three levels.

Classified into Level 1 are financial assets whose fair value is determined entirely on the basis of prices quoted on active markets. Included in Level 1 are also investments in bonds that are valued based on the Bloomberg Generic Price (BGN), given that this price is regarded as a market-consensus price by the interbank market and the OTC market. The BGN price is not a price at which the Group can actually sell securities. However, its use ensures impartiality in the valuation of bonds, and the BGN price is the reflection of prices of actual transactions in the market, as well as a reliable indicator of the price that the Group would achieve upon the sale of a bond in the market. The prices quoted by bidders do not deviate significantly from the BGN price used for valuation purposes, and Nova KBM undertakes regular market analysis to ensure that the BGN price used for valuation reflects the market price.

Classified into Level 2 are 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 yield curves, market interest rates, and the volatility of currency exchange rates and interest rates. In most cases, the Group uses the Bloomberg information system as its source of information about market parameters.

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

### Analysis of fair value hierarchy

Nova KBM Group	31.12.2014				31.12.2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Derivatives	187	0	187	0	612	0	612	0
Financial assets held for trading	1,654	1,654	0	0	1,174	1,174	0	0
– debt securities	0	0	0	0	7	7	0	0
– equity instruments	1,654	1,654	0	0	1,167	1,167	0	0
Available-for-sale financial assets	1,482,120	1,038,084	440,932	3,104	1,466,864	1,434,154	29,543	3,167
– debt securities	1,463,106	1,022,174	440,932	0	1,432,102	1,402,559	29,543	0
– equity instruments	19,014	15,910	0	3,104	34,762	31,595	0	3,167
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	24,586	24,586	0	0
– equity instruments	17,857	17,857	0	0	24,586	24,586	0	0
<b>Financial liabilities</b>								
Derivatives	1,229	0	1,229	0	1,422	0	1,422	0

Nova KBM d.d.	31.12.2014				31.12.2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Derivatives	187	0	187	0	612	0	612	0
Available-for-sale financial assets	1,275,213	844,020	428,304	2,889	1,210,799	1,178,297	29,475	3,027
– debt securities	1,261,435	833,131	428,304	0	1,180,979	1,151,504	29,475	0
– equity instruments	13,778	10,889	0	2,889	29,820	26,793	0	3,027
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	24,586	24,586	0	0
– equity instruments	17,857	17,857	0	0	24,586	24,586	0	0
<b>Financial liabilities</b>								
Derivatives	1,170	0	1,170	0	976	0	976	0



The following table presents for each type of financial instrument the triggers that lead to the transfer of a financial instrument between the fair value hierarchy levels:

Transfer	Financial instruments	Reason for transfer between levels
From Level 2 to Level 1	bonds	Re-availability of the market price of the financial instrument. The price of a bond is considered to be available if the published market price is the result of the actual turnover in the period of less than one month.
From Level 3 to Level 1	shares and funds	Re-availability of the market price of the financial instrument. The price of a share or an investment fund is considered to be available if the published market price is the result of the actual turnover in the period of less than one month.
From Level 1 to Level 2	bonds	Valuation of bonds that have been previously valued according to the market price. The reason for the valuation of a bond and for changing its level is either the withdrawal of a bond from the regulated market or its illiquidity (no transaction has been concluded in a one-month period).
From Level 1 to Level 3	shares and funds	Valuation of shares and investment funds that have been previously valued according to the market price. The reason for the valuation of a share or an investment fund and for changing its level is the withdrawal of a share or an investment fund from the regulated market.
From Level 2 to Level 3	derivatives	The underlying instrument to which the derivative refers has been reclassified from Level 1 to either Level 2 or Level 3. The market price of the underlying instrument is no longer available.
From Level 3 to Level 2	derivatives	The underlying instrument to which the derivative refers has been reclassified to Level 1. The market price of the underlying instrument is no longer available.

### Analysis of transfers between fair value hierarchy levels

Nova KBM Group	31.12.2014			31.12.2013		
	Transfer from Level 1 to Level 2	Transfer from Level 2 to Level 1	Transfer from Level 1 to Level 3	Transfer from Level 1 to Level 2	Transfer from Level 2 to Level 1	Transfer from Level 1 to Level 3
Available-for-sale financial assets	404,152	0	0	2,000	28,757	1,527
– debt securities	404,152	0	0	2,000	25,209	0
– equity instruments	0	0	0	0	3,548	1,527

Nova KBM d.d.	31.12.2014			31.12.2013		
	Transfer from Level 1 to Level 2	Transfer from Level 2 to Level 1	Transfer from Level 1 to Level 3	Transfer from Level 1 to Level 2	Transfer from Level 2 to Level 1	Transfer from Level 1 to Level 3
Available-for-sale financial assets	391,927	0	0	2,000	27,807	1,527
– debt securities	391,927	0	0	2,000	24,259	0
– equity instruments	0	0	0	0	3,548	1,527

### Determining the fair value of financial assets classified into Level 2

The Group classifies into Level 2 of the fair value hierarchy those debt financial instruments and derivatives that are valued on the basis of models that use data derived from the market.

The Group starts to measure the value of debt financial instruments according to the valuation model once it establishes that the market is not active. Debt securities with determinable cash flows and without an available market price are valued at the end of each month using the discounted cash flow method. The interest rate applicable to the discounting is the sum of the interest rate on a risk-free instrument of comparable maturity, plus a margin for credit risk.

For valuing interest rate derivatives, the Group uses models that take into consideration the market interest rate curve and the forward interest rate curve. The models used to value currency derivatives are based on market exchange rates for individual pairs of currencies. Derivatives on securities are valued using models that take into account market prices of underlying securities. If the market price is not available, the valuation of a derivative is based on the price of the underlying security determined using a fair value model. Whichever model is used to determine the value of derivatives, the future cash flows are discounted to the present value on the basis of risk-free yield curves.



If the fair value of stocks and shares of companies cannot be determined on the basis of current prices on an active market, the Group recognises and discloses the fair value of an asset within Level 2 – fair value determined on the basis of valuation models that take into consideration variables derived from publicly available market data (e.g. market or quoted prices of comparable companies).

Stocks and shares of such companies are valued by the Group using a value assessment methodology that is based on three hierarchical levels – approaches, methods and procedures used for value assessment. For the purpose of assessing values, the Group uses the market comparison approach, and within this approach it uses the comparable listed companies method.

The comparable listed companies method is the most appropriate method used to assess the value of assets classified into Level 2 of the fair value hierarchy. The market comparison approach is designed on the assumption that the quoted (market) prices of assets similar to those being valued provide satisfactory information and empirical proof regarding the value of the asset that is subject to the value assessment. This concept is based on the use of market value, meaning that a market category (quoted or market price) is used as the numerator, while as the denominator, various categories from financial statements are used. When using the comparable listed companies method, the basic financial categories of the assessed company are multiplied by market multiples derived from listed comparable companies.

### **Determining the fair value of financial assets classified into Level 3**

If the fair value of stocks and shares of companies cannot be determined either on the basis of current prices on an active market, or on the basis of valuation models that take into consideration variables derived from publicly available market data, the Group recognises and discloses the fair value of an asset within Level 3 – fair value determined on the basis of valuation models that take into consideration subjective variables that are not publicly available on markets.

Stocks and shares of such companies are valued by the Group using a value assessment methodology that is based on three hierarchical levels – approaches, methods and procedures used for value assessment. For the purpose of assessing values, the Group uses the following three value assessment approaches: the return-based valuation approach, and within this approach the discounted cash flow model; the market comparison approach, and within this approach the comparable transactions method; and the asset-based valuation approach.

The return-based valuation approach is the most commonly used approach to value assessment, and within this the discounted cash flow model is used. According to definition, the value of an asset is the sum of all future returns to the owner of that asset, whereby each return is discounted to the present value using the discount rate that reflects the time value of money and the level of risk associated with the realisation of return. Thus, it takes into consideration the inflow of expected future returns, the distribution of these returns over time, and the risks borne by the asset owner. The bases for the prediction of expected future returns are performance projections (income statement and statement of financial position) for at least the next five years. Using these projections, the net cash flows are calculated for the discrete projection period. The net cash flows for the discrete projection period are then discounted at a discount rate to arrive at the present value of net cash flows generated in the discrete projection period. The weighted average cost of capital (WACC) is taken as the discount rate. The present value of expected cash flows generated after the discrete projection period (i.e. when the company enters the mature stage of operations) is determined by calculating the remaining value, usually by applying the Gordon growth model. When calculating the remaining value, the normalised net cash flow is taken into consideration (calculated on the basis of individual assumptions – profitability of operations, depreciation and amortisation, gross investments, tax rate, and changes in the operating working capital), as is the expected constant long-term rate of growth of net cash flows (between 2% and 2.5%).

## Use of unobservable inputs

The assessment of the fair value of stocks and shares classified into Level 3 is made on the basis of inputs for which market information and data are not available and which are developed using the best available information and assumptions that the market participants would use in determining the price of an asset. When assessing the fair value of stocks and shares classified into Level 3, the Group uses, as the values of unobservable inputs, the projections of performance (income statement, net cash flows) made on the basis of a reasonable and potential volume of operations, but selects those inputs that are in line with the expectations of other market participants.

## Sensitivity analysis

Using a sensitivity analysis, a simulation is made of the impact of changes in key parameters (market input data), such as a change in the discount rate (WACC) and a change in the expected constant long-term rate of growth of normalised net cash flows (g), on the estimated value or fair value. The sensitivity analysis aims to present changes in fair values of stocks and shares (classified into Level 3) deriving from the range increase or decrease in the value of key parameters.

## Movements in financial assets classified into Level 3

Available-for-sale financial assets	Nova KBM Group			Nova KBM d.d.		
	Total	Shares	Stocks	Total	Shares	Stocks
<b>1 January 2014</b>	<b>3,167</b>	<b>2,553</b>	<b>614</b>	<b>3,026</b>	<b>2,540</b>	<b>486</b>
Change due to sale	(972)	(972)	0	(972)	(972)	0
Change due to debt-to-equity conversions	2,036	2,036	0	2,036	2,036	0
Shares returned from BAMC	834	834	0	834	834	0
Change due to revaluation	(1,961)	(1,961)	0	(2,035)	(2,036)	1
<b>31 December 2014</b>	<b>3,104</b>	<b>2,490</b>	<b>614</b>	<b>2,889</b>	<b>2,402</b>	<b>487</b>
<b>1 January 2013</b>	<b>11,608</b>	<b>11,002</b>	<b>606</b>	<b>11,460</b>	<b>10,987</b>	<b>473</b>
Acquisition	13	0	13	13	0	13
Transfer of shares to BAMC	(9,238)	(9,238)	0	(9,238)	(9,238)	0
Revaluation of shares	(743)	(738)	(5)	(736)	(736)	0
Transfer to Level 3 due to valuation of shares	1,527	1,527	0	1,527	1,527	0
<b>31 December 2013</b>	<b>3,167</b>	<b>2,553</b>	<b>614</b>	<b>3,026</b>	<b>2,540</b>	<b>486</b>

The increase in the balance of available-for-sale financial assets deriving from debt-to-equity conversions and from the BAMC returning some shares to Nova KBM was more than offset by the sale and revaluation of shares, causing the balance of financial assets included in Level 3 of the fair value hierarchy to see a marginal decline in 2014.

## Fair value of financial instruments measured at amortised cost

Nova KBM Group	31.12.2014				
	Book value	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash, cash balances at central banks and other demand deposits at banks	422,264	422,264	422,264	0	0
Loans and advances to banks	50,124	56,173	0	56,173	0
Loans and advances to customers	1,920,875	1,928,869	0	0	1,928,869
Other financial assets	20,343	20,343	0	0	20,343
Held-to-maturity financial assets	206,540	213,247	208,635	4,612	0
<b>Financial liabilities</b>					
Deposits from banks and central banks	20,875	20,768	0	20,768	0
Deposits from customers	3,074,146	3,080,697	0	3,080,697	0
Loans from banks and central banks	394,213	395,259	0	395,259	0
Loans from customers	2,729	2,732	0	2,732	0
Debt securities	59,129	63,012	0	63,012	0
Subordinated liabilities	1,250	1,250	0	1,250	0
Other financial liabilities	33,551	33,551	0	0	33,551

Nova KBM Group	31.12.2013				
	Book value	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash, cash balances at central banks and other demand deposits at banks	460,924	460,924	460,924	0	0
Loans and advances to banks	104,228	109,219	0	109,219	0
Loans and advances to customers	2,231,765	2,239,964	0	0	2,239,964
Other financial assets	17,883	17,883	0	0	17,883
Held-to-maturity financial assets	280,153	280,605	280,605	0	0
<b>Financial liabilities</b>					
Deposits from banks and central banks	60,271	60,354	0	60,354	0
Deposits from customers	3,074,748	3,084,106	0	3,084,106	0
Loans from banks and central banks	897,774	898,312	0	898,312	0
Loans from customers	4,551	4,555	0	4,555	0
Debt securities	60,973	66,132	0	66,132	0
Subordinated liabilities	1,250	1,250	0	1,250	0
Other financial liabilities	34,266	34,266	0	0	34,266

Nova KBM d.d.	31.12.2014				
	Book value	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash, cash balances at central banks and other demand deposits at banks	335,417	335,417	335,417	0	0
Loans and advances to banks	59,299	65,348	0	65,348	0
Loans and advances to customers	1,593,294	1,601,398	0	0	1,601,398
Other financial assets	11,754	11,754	0	0	11,754
Held-to-maturity financial assets	89,950	95,101	90,489	4,612	0
<b>Financial liabilities</b>					
Deposits from banks and central banks	11,780	11,673	0	11,673	0
Deposits from customers	2,463,368	2,469,612	0	2,469,612	0
Loans from banks and central banks	363,552	364,598	0	364,598	0
Loans from customers	2,729	2,732	0	2,732	0
Debt securities	67,452	71,335	0	71,335	0
Other financial liabilities	26,396	26,396	0	0	26,396

Nova KBM d.d.	31.12.2013				
	Book value	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash, cash balances at central banks and other demand deposits at banks	352,176	352,176	352,176	0	0
Loans and advances to banks	133,948	138,939	0	138,939	0
Loans and advances to customers	1,826,371	1,835,125	0	0	1,835,125
Other financial assets	11,159	11,159	0	0	11,159
Held-to-maturity financial assets	192,437	193,305	193,305	0	0
<b>Financial liabilities</b>					
Deposits from banks and central banks	51,982	52,065	0	52,065	0
Deposits from customers	2,359,553	2,368,603	0	2,368,603	0
Loans from banks and central banks	783,912	784,450	0	784,450	0
Loans from customers	4,549	4,553	0	4,553	0
Debt securities	69,284	74,443	0	74,443	0
Other financial liabilities	26,185	26,185	0	0	26,185

The Group determines fair values according to the following hierarchy: market value; valuation made using a market interest rate model; acquisition cost. The table above presents fair values of individual balance sheet items. The fair value of held-to-maturity financial assets has been, where possible, determined on the basis of market prices of financial instruments. The fair value of items measured at amortised or acquisition cost is determined on the basis of a model that takes into account market interest rates. The fair value is calculated for items with a fixed interest rate and residual maturity of over one year. The fair value of each item is established on the basis of discounted cash flows, taking into consideration the market interest rates prevailing at the reporting date. As for other items, the Bank considers there is no material difference between the book and fair values.

## 6 / REPORTING BY OPERATING SEGMENTS

### 6.1 ANALYSIS BY OPERATING SEGMENTS AS OF 31 DECEMBER 2014

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationships	Relationships with third parties
<b>A. Net income/expense</b>	<b>184,886</b>	<b>(55)</b>	<b>4,751</b>	<b>317</b>	<b>23</b>	<b>189,922</b>	<b>3,905</b>	<b>186,017</b>
Interest income	167,531	4,180	3	406	3	172,123	10,868	161,255
Interest expenses	(52,146)	(7,225)	(5)	(1,281)	0	(60,657)	(10,128)	(50,529)
<b>Net interest income</b>	<b>115,385</b>	<b>(3,045)</b>	<b>(2)</b>	<b>(875)</b>	<b>3</b>	<b>111,466</b>	<b>740</b>	<b>110,726</b>
Dividend income	1,470	0	0	0	0	1,470	424	1,046
Fee and commission income	80,583	68	5,622	0	0	86,273	830	85,443
Fee and commission expenses	(28,724)	(268)	(1,087)	(24)	0	(30,103)	(619)	(29,484)
<b>Net fee and commission income</b>	<b>51,859</b>	<b>(200)</b>	<b>4,535</b>	<b>(24)</b>	<b>0</b>	<b>56,170</b>	<b>211</b>	<b>55,959</b>
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	14,163	0	110	873	0	15,146	46	15,100
Net gains/(losses) on financial assets and liabilities held for trading	(1,013)	2	114	0	0	(897)	(1)	(896)
Net gains on financial assets and liabilities designated at fair value through profit or loss	5,718	0	0	0	0	5,718	0	5,718
Net exchange rate differences	1,279	(66)	(1)	0	0	1,212	0	1,212
Net gains/(losses) on derecognition of assets other than non-current assets held for sale	3,660	(227)	0	14	0	3,447	3,286	161
Other net operating income/(loss)	(7,635)	3,481	(5)	329	20	(3,810)	(801)	(3,009)
<b>B. Other items by segments</b>	<b>(154,000)</b>	<b>(11,262)</b>	<b>(3,185)</b>	<b>(903)</b>	<b>(4)</b>	<b>(169,354)</b>	<b>(21,301)</b>	<b>(148,053)</b>
Administration costs	(83,907)	(2,613)	(2,132)	(893)	(4)	(89,549)	(403)	(89,146)
Depreciation and amortisation	(13,029)	(397)	(1,040)	(7)	0	(14,473)	(11)	(14,462)
Provisions	8,838	(1,526)	(13)	(4)	0	7,295	(8,202)	15,497
Impairment losses	(65,925)	(6,618)	0	1	0	(72,542)	(12,531)	(60,011)
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	(154)	154
Total profit/(loss) from non-current assets and disposal groups classified as held for sale	23	(108)	0	0	0	(85)	0	(85)
<b>C. Profit or loss</b>								
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	30,886	(11,317)	1,566	(586)	19	20,568	(17,396)	37,964
Tax expense/(income) related to profit or loss from continuing operations	5,057	(275)	(257)	(98)	(4)	4,423	(1)	4,424
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	35,943	(11,592)	1,309	(684)	15	24,991	(17,397)	42,388
Total (loss) after tax from discontinued operations	(19,107)	0	0	0	0	(19,107)	0	(19,107)
NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR	16,836	(11,592)	1,309	(684)	15	5,884	(17,397)	23,281
<b>D. Segment assets and liabilities</b>								
Total assets	4,428,561	64,012	13,563	13,492	225	4,519,853	150,843	4,369,010
– non-current assets held for sale and discontinued operations	60,687	586	0	0	0	61,273	0	61,273
– investments in the equity of associates and joint ventures accounted for using the equity method	96,764	0	0	0	0	96,764	93,600	3,164
Liabilities (excluding equity) by segments	3,787,901	27,134	973	9,160	1	3,825,169	72,516	3,752,653
Total equity	640,660	36,878	12,590	4,332	224	694,684	78,327	616,357
Increase in property, plant and equipment and intangible assets	4,646	16	237	(37)	0	4,862	0	4,862

The column 'Inter-segment relationships' includes the following items: intra-Group income and expenses; income from dividends from subsidiaries; additional impairments/reversal of impairments as a result of changing over to a harmonised customer classification methodology across the Group; impairment of investments in the equity of subsidiaries and of loans given to subsidiaries; the effects of valuation of the associated company using the equity method; claims and liabilities between Group companies; investments in subsidiaries and the proportional share of equity of subsidiaries; and other consolidation entries.



## Analysis by operating segments as of 31 December 2013

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationships	Relationships with third parties
<b>A. Net income/expense</b>	<b>180,946</b>	<b>(1,653)</b>	<b>4,865</b>	<b>(707)</b>	<b>18</b>	<b>183,469</b>	<b>1,063</b>	<b>182,406</b>
Interest income	181,450	5,882	3	547	6	187,888	15,247	172,641
Interest expenses	(100,268)	(9,753)	(55)	(2,236)	0	(112,312)	(14,274)	(98,038)
<b>Net interest income</b>	<b>81,182</b>	<b>(3,871)</b>	<b>(52)</b>	<b>(1,689)</b>	<b>6</b>	<b>75,576</b>	<b>973</b>	<b>74,603</b>
Dividend income	1,835	0	1	2	0	1,838	451	1,387
Fee and commission income	84,457	91	5,760	6	0	90,314	1,210	89,104
Fee and commission expenses	(32,509)	(212)	(796)	(50)	0	(33,567)	(1,016)	(32,551)
<b>Net fee and commission income</b>	<b>51,948</b>	<b>(121)</b>	<b>4,964</b>	<b>(44)</b>	<b>0</b>	<b>56,747</b>	<b>194</b>	<b>56,553</b>
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	62,903	(444)	42	1,055	0	63,556	99	63,457
Net gains/(losses) on financial assets and liabilities held for trading	1,565	0	(109)	0	0	1,456	(707)	2,163
Net (losses) on financial assets and liabilities designated at fair value through profit or loss	(1,229)	0	0	0	0	(1,229)	0	(1,229)
Net exchange rate differences	(1,432)	(235)	(1)	0	0	(1,668)	0	(1,668)
Net gains/(losses) on derecognition of assets other than non-current assets held for sale	322	220	0	(4)	0	538	1	537
Other net operating income/(loss)	(16,148)	2,798	20	(27)	12	(13,345)	52	(13,397)
<b>B. Other items by segments</b>	<b>(906,975)</b>	<b>(65,962)</b>	<b>(3,401)</b>	<b>(14,190)</b>	<b>(4)</b>	<b>(990,532)</b>	<b>(155,210)</b>	<b>(835,322)</b>
Administration costs	(92,043)	(2,783)	(2,159)	(1,242)	(4)	(98,231)	(348)	(97,883)
Depreciation and amortisation	(13,724)	(827)	(1,050)	(38)	0	(15,639)	(11)	(15,628)
Provisions	(44,929)	(1,323)	(16)	58	0	(46,210)	8,477	(54,687)
Impairment losses	(756,646)	(59,760)	(176)	(12,968)	0	(829,550)	(163,502)	(666,048)
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	174	(174)
Total profit/(loss) from non-current assets and disposal groups classified as held for sale	367	(1,269)	0	0	0	(902)	0	(902)
<b>C. Profit or loss</b>								
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(726,029)	(67,615)	1,464	(14,897)	14	(807,063)	(154,147)	(652,916)
Tax expense/(income) related to profit or loss from continuing operations	(22,002)	(3,819)	(6)	(1,056)	(2)	(26,885)	26	(26,911)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(748,031)	(71,434)	1,458	(15,953)	12	(833,948)	(154,121)	(679,827)
Total (loss) after tax from discontinued operations	(5,081)	0	0	0	0	(5,081)	0	(5,081)
NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR	(753,112)	(71,434)	1,458	(15,953)	12	(839,029)	(154,121)	(684,908)
<b>D. Segment assets and liabilities</b>								
Total assets	4,918,528	128,445	13,776	48,653	209	5,109,611	298,818	4,810,793
– non-current assets held for sale and discontinued operations	6,560	1,309	0	0	0	7,869	1	7,868
– investments in the equity of associates and joint ventures accounted for using the equity method	54,139	0	0	0	0	54,139	51,182	2,957
Liabilities (excluding equity) by segments	4,340,311	191,005	1,105	58,213	0	4,590,634	339,869	4,250,765
Total equity	578,217	(62,560)	12,671	(9,560)	209	518,977	(41,051)	560,028
Increase in property, plant and equipment and intangible assets	8,047	116	32	20	0	8,215	0	8,215

The column 'Inter-segment relationships' includes the following items: intra-Group income and expenses; income from dividends from subsidiaries; additional impairments/reversal of impairments as a result of changing over to a harmonised customer classification methodology across the Group; impairment of investments in the equity of subsidiaries and of loans given to subsidiaries; the effects of valuation of the associated company using the equity method; claims and liabilities between Group companies; investments in subsidiaries and the proportional share of equity of subsidiaries; and other consolidation entries.

## 6.2 ANALYSIS BY GEOGRAPHICAL SEGMENTS

Activity/Name of the company	2014			2013		
	Net income	Non-current assets	Number of employees (full-time equivalent)	Net income	Non-current assets	Number of employees (full-time equivalent)
<b>Slovenia – total</b>	<b>181,916</b>	<b>126,434</b>	<b>1,427</b>	<b>174,045</b>	<b>140,757</b>	<b>1,518</b>
Banking activity – total	170,734	110,142	1,364	161,516	93,651	1,446
– Nova Kreditna banka Maribor d.d.	137,676	98,822	1,133	138,640	81,187	1,211
– Poštna banka Slovenije d.d.	33,058	11,320	231	22,876	12,464	235
Leasing activity – total	4,681	7,327	20	5,913	37,064	20
– KBM Leasing d.o.o. (in liquidation)	3,904	138	9	3,895	27,492	8
– Gorica Leasing d.o.o. (in liquidation)	777	7,189	11	2,018	9,572	12
Fund management activity	4,890	7,725	33	5,030	8,528	34
– KBM Infond d.o.o.	4,890	7,725	33	5,030	8,528	34
Real estate activity – total	1,601	1,240	10	1,580	1,514	18
– KBM Invest d.o.o.	426	1,240	7	88	1,205	9
– KBM Fineko d.o.o. (in liquidation)	1,175	0	3	1,492	309	9
Other activities	10	0	0	6	0	0
– M-PAY d.o.o.	10	0	0	6	0	0
<b>Western Europe – total</b>	<b>2,383</b>	<b>108</b>	<b>30</b>	<b>6,512</b>	<b>310</b>	<b>34</b>
Banking activity – total	2,383	108	30	6,512	310	34
– Adria Bank AG	2,383	108	30	6,512	310	34
<b>Eastern Europe – total</b>	<b>1,718</b>	<b>297</b>	<b>267</b>	<b>1,850</b>	<b>6,856</b>	<b>348</b>
Banking activity – total	0	0	259	0	6,030	340
– KBM Banka a.d.	0	0	259	0	6,030	340
Leasing activity – total	1,718	297	8	1,850	826	8
– KBM Leasing Hrvatska d.o.o.	1,718	297	8	1,850	826	8
<b>Total</b>	<b>186,017</b>	<b>126,839</b>	<b>1,724</b>	<b>182,406</b>	<b>147,923</b>	<b>1,900</b>

## 6.3 RECONCILIATION OF OPERATING SEGMENT RESULTS, ASSETS AND LIABILITIES

Income	2014	2013
Segment income	189,922	183,469
Elimination of intra-segment items	(401)	(349)
Consolidation adjustments	(3,504)	(714)
Consolidated segment income	186,017	182,406

Profit from continuing operations	2014	2013
Profit from continuing operations	20,568	(807,063)
Consolidation adjustments	17,396	154,147
Consolidated profit from continuing operations	37,964	(652,916)

Assets	2014	2013
Segment assets	4,519,853	5,109,611
Consolidation adjustments	(81,078)	46,765
Elimination of intra-segment items	(69,765)	(345,583)
Consolidated segment assets	4,369,010	4,810,793

Liabilities	2014	2013
Segment liabilities	3,825,169	4,590,634
Consolidation adjustments	(2,751)	5,714
Elimination of intra-segment items	(69,765)	(345,583)
Consolidated segment liabilities	3,752,653	4,250,765

## 7 / TRANSFER OF ASSETS TO THE 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 (hereafter: the 'Decree').

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 the BAMC. On 18 December 2013, the European Commission consented to this transfer of assets.

For the purpose of transferring assets to the 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.

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

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

From the day of transferring the assets until the end of 2013, the outstanding amounts under some claims were subject to changes. Taking into consideration these changes, the Group sets out below the effect of transferring the assets to the BAMC on the statement of financial position items as of 31 December 2013.

Item	Nova KBM Group	Nova KBM d.d.
Financial assets designated at fair value through profit or loss	182	182
Available-for-sale financial assets	13,305	13,305
Loans and advances to customers and other financial assets	374,849	362,542
– gross value	1,015,556	971,809
– impairment	640,707	609,267
<b>Total net transfer value of assets</b>	<b>388,336</b>	<b>376,029</b>

## NOTES TO THE INCOME STATEMENT ITEMS

### 8 / INTEREST INCOME AND INTEREST EXPENSES

#### 8.1 ANALYSIS OF INTEREST BY TYPE

	Nova KBM Group				Nova KBM d.d.			
	2014		2013		2014		2013	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Regular interest	147,576	50,529	153,911	98,038	126,418	43,147	131,271	85,279
Default interest	13,679	0	18,730	0	10,320	0	14,636	0
<b>Total</b>	<b>161,255</b>	<b>50,529</b>	<b>172,641</b>	<b>98,038</b>	<b>136,738</b>	<b>43,147</b>	<b>145,907</b>	<b>85,279</b>
<b>Net interest income</b>	<b>110,726</b>		<b>74,603</b>		<b>93,591</b>		<b>60,628</b>	

## 8.2 ANALYSIS OF INTEREST BY MARKET SEGMENTS

	Nova KBM Group				Nova KBM d.d.			
	2014		2013		2014		2013	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Non-financial companies	55,035	3,618	81,625	5,723	40,762	3,182	65,605	4,620
State	49,893	1,559	32,290	18,642	41,150	965	23,350	17,650
Banks	2,849	10,807	4,273	18,769	4,719	9,500	5,281	16,473
Other financial organisations	2,094	3,814	2,970	6,834	6,213	3,579	8,507	6,048
Households	45,139	29,932	49,393	46,732	38,364	25,173	41,985	39,240
Foreign persons	6,112	618	1,886	986	5,422	618	1,019	985
Non-profit institutions serving households	133	181	204	352	108	130	160	263
<b>Total</b>	<b>161,255</b>	<b>50,529</b>	<b>172,641</b>	<b>98,038</b>	<b>136,738</b>	<b>43,147</b>	<b>145,907</b>	<b>85,279</b>
<b>Net interest income</b>	<b>110,726</b>		<b>74,603</b>		<b>93,591</b>		<b>60,628</b>	

## 8.3 ANALYSIS OF INTEREST BY TYPE OF ASSETS AND LIABILITIES

	Nova KBM Group				Nova KBM d.d.			
	2014		2013		2014		2013	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
<b>Interest income</b>								
Balances with the central bank (measured at amortised cost)	31	0	184	0	3	0	146	0
Financial assets held for trading	173	0	175	0	173	0	175	0
Available-for-sale financial assets	33,514	12,378	12,035	11,649	33,246	6,007	11,020	5,506
Loans and deposits (including finance leases)	31,333	76,926	35,339	99,478	25,313	68,418	24,230	94,940
Held-to-maturity financial assets	412	6,367	450	13,138	264	3,289	254	9,601
Other financial assets	121	0	193	0	25	0	35	0
<b>Total by maturity</b>	<b>65,584</b>	<b>95,671</b>	<b>48,376</b>	<b>124,265</b>	<b>59,024</b>	<b>77,714</b>	<b>35,860</b>	<b>110,047</b>
<b>Total</b>	<b>161,255</b>		<b>172,641</b>		<b>136,738</b>		<b>145,907</b>	
<b>Interest expenses</b>								
Financial liabilities to the central bank (measured at amortised cost)	0	525	0	2,610	0	498	0	2,357
Financial liabilities held for trading	0	165	0	169	0	165	0	169
Financial liabilities measured at amortised cost	10,163	39,676	19,553	75,351	7,667	34,817	14,644	68,109
Other financial liabilities (including finance leases)	0	0	355	0	0	0	0	0
<b>Total by maturity</b>	<b>10,163</b>	<b>40,366</b>	<b>19,908</b>	<b>78,130</b>	<b>7,667</b>	<b>35,480</b>	<b>14,644</b>	<b>70,635</b>
<b>Total</b>	<b>50,529</b>		<b>98,038</b>		<b>43,147</b>		<b>85,279</b>	
<b>Net interest income</b>	<b>110,726</b>		<b>74,603</b>		<b>93,591</b>		<b>60,628</b>	

## 8.4 AVERAGE INTEREST RATES

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Average interest rate on assets (%)	3.56	4.04	3.44	3.84
Average interest rate on liabilities (%)	0.96	1.50	1.08	1.68

## 9 / DIVIDEND INCOME

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>Financial assets held for trading</b>	<b>21</b>	<b>23</b>	<b>1</b>	<b>0</b>
– stocks and shares of other issuers	21	23	1	0
<b>Financial assets designated at fair value through profit or loss</b>	<b>785</b>	<b>1,077</b>	<b>785</b>	<b>1,077</b>
– stocks and shares of other issuers	785	1,077	785	1,077
<b>Available-for-sale financial assets</b>	<b>240</b>	<b>287</b>	<b>141</b>	<b>208</b>
– stocks and shares of other issuers	240	287	141	208
<b>Investments in the equity of Group companies accounted for using the cost method</b>	<b>0</b>	<b>0</b>	<b>488</b>	<b>526</b>
– investments in the equity of subsidiaries	0	0	488	526
<b>Total</b>	<b>1,046</b>	<b>1,387</b>	<b>1,415</b>	<b>1,811</b>

## 10 / FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSES

### 10.1 ANALYSIS OF FEES AND COMMISSIONS BY TYPE

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>Fee and commission income</b>	<b>85,443</b>	<b>89,104</b>	<b>46,163</b>	<b>46,179</b>
Guarantees	3,676	3,581	3,133	3,071
Services provided to banks in the Group	0	0	483	905
Services provided to other Group companies	0	0	371	243
Domestic payment transactions	45,034	48,661	18,520	18,848
Transactions under current accounts	13,556	12,893	9,960	9,359
Payment card operations	8,170	8,256	6,433	6,500
International payment transactions	1,476	1,704	1,354	1,521
Brokerage and agency services	1,378	575	1,338	528
Currency exchange transactions	0	0	0	0
Transactions in securities for customers	559	323	559	323
Lending operations	5,649	7,059	3,826	4,728
Safekeeping of objects and valuables	92	66	92	66
Other services	5,853	5,986	94	87
<b>Fee and commission expenses</b>	<b>29,484</b>	<b>32,551</b>	<b>4,041</b>	<b>4,424</b>
Domestic banking services	6,758	6,668	2,849	2,709
Banking services abroad	451	859	432	833
Brokerage and agency services	807	616	46	51
Stock exchange transactions and other transactions in securities	407	642	385	442
Payment transactions	19,534	22,771	300	356
Services provided by banks in the Group	0	0	25	29
Other services	1,527	995	4	4
<b>Net fee and commission income</b>	<b>55,959</b>	<b>56,553</b>	<b>42,122</b>	<b>41,755</b>

## 10.2 ANALYSIS OF FEES AND COMMISSIONS BY MARKET SEGMENTS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>Fee and commission income</b>	<b>85,443</b>	<b>89,104</b>	<b>46,163</b>	<b>46,179</b>
Non-financial companies	41,473	42,083	15,564	15,611
State	1,827	1,222	1,225	566
Banks	5,772	5,458	5,490	5,659
Other financial organisations	6,707	7,266	1,058	1,298
Households	28,346	29,856	21,757	21,847
Foreign persons	1,139	3,047	1,055	1,180
Non-profit institutions serving households	179	172	14	18
<b>Fee and commission expenses</b>	<b>29,484</b>	<b>32,551</b>	<b>4,041</b>	<b>4,424</b>
<b>Net fee and commission income</b>	<b>55,959</b>	<b>56,553</b>	<b>42,122</b>	<b>41,755</b>

## 10.3 FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSES RELATING TO FIDUCIARY ACTIVITIES

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>Income from fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers</b>	<b>6,321</b>	<b>6,125</b>	<b>740</b>	<b>411</b>
Receipt, transmission and execution of orders	859	731	667	369
Management of financial instruments	5,427	5,356	38	4
Administration of book-entry securities accounts of customers	35	38	35	38
<b>Expenses for fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers</b>	<b>325</b>	<b>375</b>	<b>314</b>	<b>343</b>
Fees and commissions in connection with the Central Securities Clearing Corporation and similar organisations	276	313	265	283
Fees and commissions in connection with the stock exchange and similar organisations	49	62	49	60

## 11 / REALISED GAINS ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Nova KBM Group	2014			2013		
	Realised gains	Realised losses	Net realised gains	Realised gains	Realised losses	Net realised gains/(losses)
Available-for-sale financial assets	13,260	4	13,256	1,473	25,703	(24,230)
Loans and advances (including finance leases and other financial assets)	2,606	764	1,842	2,349	713	1,636
Held-to-maturity financial assets (Note 31.1)	0	0	0	903	4,295	(3,392)
Financial liabilities measured at amortised cost	2	0	2	89,443	0	89,443
<b>Total</b>	<b>15,868</b>	<b>768</b>	<b>15,100</b>	<b>94,168</b>	<b>30,711</b>	<b>63,457</b>

Nova KBM d.d.	2014			2013		
	Realised gains	Realised losses	Net realised gains	Realised gains	Realised losses	Net realised gains/(losses)
Available-for-sale financial assets (Note 27.3)	8,668	4	8,664	1,429	24,702	(23,273)
Loans and advances (including finance leases and other financial assets)	1,668	129	1,539	1,290	132	1,158
Held-to-maturity financial assets (Note 31.1)	0	0	0	903	4,295	(3,392)
Financial liabilities measured at amortised cost	0	0	0	89,540	0	89,540
<b>Total</b>	<b>10,336</b>	<b>133</b>	<b>10,203</b>	<b>93,162</b>	<b>29,129</b>	<b>64,033</b>

In accordance with a decision of the Bank of Slovenia, liabilities arising from subordinated notes issued by Nova KBM, including accrued interest, were written off, as a result of which Nova KBM recognised gains of €89,540,000.



## 12 / NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

Nova KBM Group	2014			2013		
	Gains	Losses	Net gains/(losses)	Gains	Losses	Net gains/(losses)
Trading in equity instruments	675	460	215	418	411	7
Trading in debt securities	1	0	1	0	0	0
Trading in foreign exchange (purchase/sale)	1,289	541	748	1,251	534	717
Trading in derivatives	1,303	3,141	(1,838)	3,806	2,409	1,397
– futures/forwards	625	1,846	(1,221)	2,843	1,518	1,325
– swaps	406	145	261	528	212	316
– other derivatives	272	1,150	(878)	435	679	(244)
Trading in financial liabilities	0	22	(22)	47	5	42
<b>Total</b>	<b>3,268</b>	<b>4,164</b>	<b>(896)</b>	<b>5,522</b>	<b>3,359</b>	<b>2,163</b>

Nova KBM d.d.	2014			2013		
	Gains	Losses	Net gains/(losses)	Gains	Losses	Net gains/(losses)
Trading in equity instruments	133	78	55	36	70	(34)
Trading in debt securities	1	0	1	0	0	0
Trading in foreign exchange (purchase/sale)	955	499	456	901	492	409
Trading in derivatives	1,033	3,141	(2,108)	3,484	2,839	645
– futures/forwards	625	1,846	(1,221)	2,843	1,518	1,325
– options	0	0	0	0	430	(430)
– swaps	136	145	(9)	206	212	(6)
– other derivatives	272	1,150	(878)	435	679	(244)
Trading in financial liabilities	0	22	(22)	47	5	42
<b>Total</b>	<b>2,122</b>	<b>3,740</b>	<b>(1,618)</b>	<b>4,468</b>	<b>3,406</b>	<b>1,062</b>

The Group uses derivatives (futures/forwards) to economically hedge 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 AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Nova KBM Group and Nova KBM d.d.	2014			2013		
	Gains	Losses	Net gains	Gains	Losses	Net (losses)
Financial assets designated at fair value through profit or loss	7,277	1,559	5,718	9,134	10,363	(1,229)
<b>Total</b>	<b>7,277</b>	<b>1,559</b>	<b>5,718</b>	<b>9,134</b>	<b>10,363</b>	<b>(1,229)</b>

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

## 14 / NET EXCHANGE RATE DIFFERENCES

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Foreign exchange gains	8,242	15,264	8,105	14,865
Foreign exchange losses	7,030	16,932	6,867	16,208
<b>Net foreign exchange gains/(losses)</b>	<b>1,212</b>	<b>(1,668)</b>	<b>1,238</b>	<b>(1,343)</b>

## 15 / NET GAINS ON DERECOGNITION OF ASSETS OTHER THAN NON-CURRENT ASSETS HELD FOR SALE

Nova KBM Group	2014			2013		
	Gains	Losses	Net gains/(losses)	Gains	Losses	Net gains
Derecognition of items of property, plant and equipment	457	266	191	205	137	68
Derecognition of intangible assets	0	22	(22)	0	0	0
Derecognition of investment property	90	115	(25)	361	69	292
Derecognition of other assets other than those held for sale	1,075	1,058	17	179	2	177
<b>Total</b>	<b>1,622</b>	<b>1,461</b>	<b>161</b>	<b>745</b>	<b>208</b>	<b>537</b>

Nova KBM d.d.	2014			2013		
	Gains	Losses	Net gains/(losses)	Gains	Losses	Net gains
Derecognition of items of property, plant and equipment	426	11	415	171	86	85
Derecognition of investments in subsidiaries	3,285	0	3,285	0	0	0
Derecognition of other assets other than those held for sale	0	3	(3)	0	0	0
<b>Total</b>	<b>3,711</b>	<b>14</b>	<b>3,697</b>	<b>171</b>	<b>86</b>	<b>85</b>

The liquidation proceedings against KBM Fineko were completed on 30 September 2014. The remaining assets of the company were transferred to Nova KBM, at which time Nova KBM, as the only shareholder of the company, recognised gains of €3,285,000 arising from the difference between the value of the assets received (€4,139,000), and the value of the equity investment (€854,000). The liquidation of KBM Fineko had no impact on the profit or loss of the Group.

## 16 / OTHER NET OPERATING LOSS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>Income</b>	<b>15,433</b>	<b>14,133</b>	<b>1,866</b>	<b>1,060</b>
Income from non-banking services	233	511	0	0
Income from investment property given under operating lease	3,755	3,953	91	134
Other operating income	11,445	9,669	1,775	926
<b>Expenses</b>	<b>18,442</b>	<b>27,530</b>	<b>6,949</b>	<b>15,736</b>
Taxes	7,222	6,351	5,637	4,808
Contributions	537	602	474	494
Other charges	3	16	0	0
Membership fees and similar fees	232	260	134	154
Expenses for investment property given under operating lease	102	52	21	0
Other operating expenses	10,346	20,249	683	10,280
<b>Other net operating (loss)</b>	<b>(3,009)</b>	<b>(13,397)</b>	<b>(5,083)</b>	<b>(14,676)</b>

The largest proportion of other operating income and loss generated by the Group in 2014 related to the income from the sale of real estate, totalling €8,697,000, and the associated expenses of €8,942,000.

Other operating expenses incurred by the Group in 2013 include €10,061,000 of deferred loan origination costs relating to loans approved in previous years. In 2014, these costs were deferred as part of interest income.

## 17 / ADMINISTRATION COSTS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>Staff costs</b>	<b>49,779</b>	<b>55,156</b>	<b>34,515</b>	<b>38,809</b>
Gross salaries	38,203	41,473	26,710	28,950
Social security contribution	3,209	3,533	1,948	2,130
Pension insurance contribution	3,104	3,431	2,342	2,584
Other contributions from gross salaries	45	48	0	0
Transportation allowance	1,086	1,125	716	749
Meal allowance	1,383	1,469	1,002	1,073
Employee bonuses	10	11	0	0
Severance benefits and early retirement payments	439	1,152	156	1,137
Supplementary pension insurance premiums	501	680	400	450
Pay for annual leave	1,184	1,312	939	1,005
Solidarity aid and jubilee benefits	24	26	21	23
Other staff costs under employment contracts	591	896	281	708
<b>General and administrative costs</b>	<b>39,367</b>	<b>42,727</b>	<b>28,664</b>	<b>32,433</b>
Costs of materials	1,843	1,449	1,328	791
Costs of energy	1,127	1,504	961	1,287
Costs of specialised text books	92	106	12	15
Other costs of materials	219	329	149	187
Costs of renting business premises	3,190	2,674	2,047	1,613
Postal costs	2,269	2,302	1,627	1,617
Transport costs	1,730	1,897	1,729	1,895
Information system costs	5,691	5,482	5,161	4,958
Costs of other services	5,082	5,373	2,740	3,257
Business travel expenses	240	345	101	133
Maintenance costs of fixed assets	6,077	6,342	3,872	4,373
Advertising costs	3,177	3,291	2,691	2,618
Entertainment costs	129	171	88	92
Consulting, auditing, accounting and other services	6,091	9,223	5,078	8,162
School fees, scholarships and other training costs	299	308	227	199
Cost of insurance	870	980	699	779
Other administrative costs	1,241	951	154	457
<b>Total administration costs</b>	<b>89,146</b>	<b>97,883</b>	<b>63,179</b>	<b>71,242</b>

### Remuneration of auditors

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Audit of the annual report	381	357	198	163
Other audit services	30	23	29	23
<b>Total</b>	<b>411</b>	<b>380</b>	<b>227</b>	<b>186</b>

## 18 / DEPRECIATION AND AMORTISATION

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Depreciation of items of property, plant and equipment	6,389	7,597	4,620	5,323
Amortisation of intangible assets	8,073	8,031	6,246	6,465
<b>Total</b>	<b>14,462</b>	<b>15,628</b>	<b>10,866</b>	<b>11,788</b>

## 19 / PROVISIONS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Provisions for pensions and similar benefits	648	(108)	91	87
Provisions for restructuring costs (Note 41)	(8,151)	11,280	1,449	1,680
Provisions for off-balance sheet liabilities	(11,511)	30,021	(11,718)	28,945
Provisions for tax claims and other pending legal issues	1,140	13,512	1,721	12,593
Other provisions	2,377	(18)	(3)	(7)
<b>Total</b>	<b>(15,497)</b>	<b>54,687</b>	<b>(8,460)</b>	<b>43,298</b>

In 2014, the Group set aside provisions of €2,394,000 for potential claims for interest on lease transactions. These provisions are included in the item 'Other provisions'.

## 20 / IMPAIRMENT LOSSES

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Financial assets not measured at fair value through profit or loss	55,493	599,278	39,525	521,533
Other assets	4,518	66,770	12,014	120,927
<b>Total impairment losses</b>	<b>60,011</b>	<b>666,048</b>	<b>51,539</b>	<b>642,460</b>

### 20.1 IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Available-for-sale financial assets	3,486	41,170	3,472	41,158
Financial assets measured at amortised cost	52,007	558,108	36,053	478,718
– demand deposits at banks	0	0	42	0
– loans and advances to banks	(34)	(871)	(14,741)	19,454
– loans and advances to customers	51,823	563,680	50,530	464,800
– other financial assets (Note 30.1)	218	(4,701)	222	(5,536)
Held-to-maturity financial assets measured at amortised cost	0	0	0	1,657
<b>Total impairment of financial assets not measured at fair value through profit or loss</b>	<b>55,493</b>	<b>599,278</b>	<b>39,525</b>	<b>521,533</b>

## 20.2 IMPAIRMENT OF OTHER ASSETS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Property, plant and equipment	135	873	0	0
Investment property (Note 33)	1,161	17,071	299	702
Intangible assets	0	31	0	0
– other intangible assets	0	31	0	0
Investments in the equity of subsidiaries, associates and joint ventures	0	0	11,040	102,284
Other assets	3,222	48,795	675	17,941
<b>Total impairment of other assets</b>	<b>4,518</b>	<b>66,770</b>	<b>12,014</b>	<b>120,927</b>

## 21 / SHARE OF PROFITS OR LOSSES OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Nova KBM Group	2014	2013
Moja naložba d.d.	154	(174)
<b>Total</b>	<b>154</b>	<b>(174)</b>

## 22 / TAX EXPENSE OR INCOME RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Income tax expense related to profit or loss from continuing operations	(3,146)	(374)	(2,508)	0
Deferred tax from continuing operations (Note 36.3)	7,570	(26,537)	7,593	(23,006)
<b>Total</b>	<b>4,424</b>	<b>(26,911)</b>	<b>5,085</b>	<b>(23,006)</b>

### 22.1 RECONCILIATION OF EFFECTIVE TAX RATE

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Profit/(loss) before tax according to IFRSs	37,964	(658,580)	30,835	(633,494)
Income tax calculated using the official tax rate (17% in both 2014 and 2013)	6,454	(111,959)	5,242	(107,694)
Increased tax base: 5% of the dividend income, income similar to dividends and gains made on disposal of equity holdings	125	56	125	55
Tax relief in the current year	(4,049)	(260)	(3,637)	0
Non-allowable tax expenses	8,168	27,023	5,844	22,025
Income that reduces the tax base	(1,917)	(1,246)	(1,427)	(1,109)
Adjustment of expenses to the level of allowable tax expenses (increase)	(136)	(3,558)	(94)	(3,431)
Adjustment of income to the level of taxable income (increase)	54	0	54	0
Adjustments due to changes in the tax legislation (increase/decrease of tax rate)	0	(1,376)	0	(1,376)
Unrecognised tax losses and other adjustments	(12,908)	120,660	(11,192)	114,536
Effect of reduced tax rate	(215)	(3,012)	0	0
<b>Total income tax</b>	<b>(4,424)</b>	<b>26,328</b>	<b>(5,085)</b>	<b>23,006</b>
Effective tax rate (%)	/	/	/	/

The Group and the Bank did not calculate the effective tax rate for 2014 because their income in respect of deferred taxes exceeded their income tax expenses relating to continuing operations.

The figure under the item 'Tax relief in the current year' refers to an investment tax relief from previous years, which some of the Group companies took into consideration in the accounting for the income tax.

The figure under the item 'Unrecognised tax losses and other adjustments' is attributable mainly to the recognition of deferred tax assets and income of €11,757,000 in respect of the uncovered tax loss of the Bank (Note 36.3).

## 23 / BASIC EARNINGS OR LOSS PER SHARE

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
Net profit/(loss) for the financial year (€000)	21,898	(630,456)	35,916	(656,500)
Weighted average number of ordinary no-par-value shares	10,000,000	10,000,000	10,000,000	10,000,000
<b>Basic earnings/(loss) per share (€)</b>	<b>2.19</b>	<b>(63.05)</b>	<b>3.59</b>	<b>(65.65)</b>

Following the December 2013 state-sponsored recapitalisation of Nova KBM, the Republic of Slovenia became the sole owner of all of Nova KBM's 10,000,000 ordinary no-par-value shares with the ticker symbol KBMS.

Basic earnings or loss per share is calculated as the ratio between the net profit or loss reported for the year and the weighted average number of ordinary no-par-value shares outstanding in the year.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION ITEMS

### 24 / CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS AT BANKS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Cash in hand	64,359	68,994	40,847	41,113
Obligatory deposits at central banks	269,221	357,130	221,167	289,938
Other deposits at central banks	14,771	9,354	11,177	3,779
Demand deposits at banks	73,913	25,446	62,226	17,346
<b>Total</b>	<b>422,264</b>	<b>460,924</b>	<b>335,417</b>	<b>352,176</b>

#### 24.1 CASH AND CASH EQUIVALENTS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Cash, cash balances at central banks and other demand deposits at banks	422,264	460,924	335,417	352,176
Loans and advances to banks	32,923	96,322	30,182	100,948
Cash and cash equivalents of discontinued operations (Note 55)	22,644	0	0	0
<b>Total</b>	<b>477,831</b>	<b>557,246</b>	<b>365,599</b>	<b>453,124</b>



## 25 / FINANCIAL ASSETS HELD FOR TRADING

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Derivatives</b>	<b>187</b>	<b>612</b>	<b>187</b>	<b>612</b>
<b>Equity instruments</b>	<b>1,654</b>	<b>1,167</b>	<b>0</b>	<b>0</b>
– issued by banks	0	51	0	0
– issued by other issuers	1,654	1,116	0	0
<b>Debt securities</b>	<b>0</b>	<b>7</b>	<b>0</b>	<b>0</b>
– bonds issued by other issuers	0	7	0	0
<b>Total</b>	<b>1,841</b>	<b>1,786</b>	<b>187</b>	<b>612</b>
Quoted	281	364	0	0
Unquoted	1,560	1,422	187	612
<b>Total</b>	<b>1,841</b>	<b>1,786</b>	<b>187</b>	<b>612</b>

No assets held in the Group's portfolio of financial assets held for trading have been pledged as collateral.

None of the instruments included in the portfolio of financial assets held for trading have the characteristics to qualify as subordinated debt.

### 25.1 MOVEMENTS IN FINANCIAL ASSETS HELD FOR TRADING

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>1 January</b>	<b>1,786</b>	<b>1,572</b>	<b>612</b>	<b>1,178</b>
<b>Increase during the year</b>	<b>6,385</b>	<b>4,828</b>	<b>4,670</b>	<b>3,867</b>
– acquisition	6,031	4,136	4,526	3,831
– exchange rate differences	11	0	11	0
– change in fair value (recovery and reversal of impairment)	210	136	0	0
– other (deferred interest, realised gains)	133	556	133	36
<b>Decrease during the year</b>	<b>6,330</b>	<b>4,614</b>	<b>5,095</b>	<b>4,433</b>
– disposal (sale and redemption)	4,600	3,879	4,591	3,797
– change in fair value (impairment and reversal of recovery)	463	663	426	566
– exchange rate differences	6	2	0	0
– other (deferred interest, realised losses)	1,261	70	78	70
<b>31 December</b>	<b>1,841</b>	<b>1,786</b>	<b>187</b>	<b>612</b>

## 26 / FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Nova KBM Group and Nova KBM d.d.	31.12.2014	31.12.2013
Equity instruments	17,857	24,586
<b>Total</b>	<b>17,857</b>	<b>24,586</b>
Quoted	17,857	24,586
<b>Total</b>	<b>17,857</b>	<b>24,586</b>

As of 31 December 2014, the Group had no assets of this portfolio pledged as collateral, and during the year ended 31 December 2014, it did not receive any financial assets of this portfolio from the realisation of collateral provided as security for loans.

Included in the portfolio of financial assets designated at fair value through profit or loss are equity instruments for which a joint-selling agreement has been entered into by the Group.

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.

## 26.1 MOVEMENTS IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>1 January</b>	<b>24,586</b>	<b>34,563</b>	<b>24,586</b>	<b>34,043</b>
<b>Increase during the year</b>	<b>7,277</b>	<b>9,134</b>	<b>7,277</b>	<b>9,134</b>
– change in fair value (recovery and reversal of impairment)	5,614	9,134	5,614	9,134
– other	1,663	0	1,663	0
<b>Decrease during the year</b>	<b>14,006</b>	<b>19,111</b>	<b>14,006</b>	<b>18,591</b>
– disposal (sale and redemption)	12,447	8,046	12,447	8,046
– change in fair value (impairment and reversal of recovery)	1,552	2,252	1,552	2,252
– transfer to BAMC	0	182	0	182
– other	7	8,631	7	8,111
<b>31 December</b>	<b>17,857</b>	<b>24,586</b>	<b>17,857</b>	<b>24,586</b>

## 27 / AVAILABLE-FOR-SALE FINANCIAL ASSETS

### 27.1 ANALYSIS BY TYPE AND QUOTATION

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Equity instruments</b>	<b>19,014</b>	<b>34,761</b>	<b>13,778</b>	<b>29,820</b>
<b>Debt securities</b>	<b>1,463,106</b>	<b>1,432,103</b>	<b>1,261,435</b>	<b>1,180,979</b>
– issued by the state and the central bank	1,377,062	1,294,634	1,185,493	1,099,301
– issued by banks	47,692	105,402	44,598	60,962
– issued by other issuers	38,352	32,067	31,344	20,716
<b>Total</b>	<b>1,482,120</b>	<b>1,466,864</b>	<b>1,275,213</b>	<b>1,210,799</b>
Quoted	1,472,541	1,451,551	1,269,513	1,199,406
Unquoted	9,579	15,313	5,700	11,393
<b>Total</b>	<b>1,482,120</b>	<b>1,466,864</b>	<b>1,275,213</b>	<b>1,210,799</b>

As of 31 December 2014, the Group had assets of this portfolio worth €612,060,000 pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors. During the year ended 31 December 2014, the Group did not receive any financial assets of this portfolio from the realisation of collateral provided as security for loans.

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

## 27.2 ANALYSIS BY TYPE AND MARKET SEGMENTS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Equity instruments</b>	<b>19,014</b>	<b>34,761</b>	<b>13,778</b>	<b>29,820</b>
– equity investments in banks	0	20	0	0
– equity investments in other financial organisations	14,202	14,810	9,177	10,102
– equity investments in non-financial organisations	4,804	19,918	4,593	19,170
– equity investments in other foreign entities	8	13	8	8
<b>Debt securities</b>	<b>1,463,106</b>	<b>1,432,103</b>	<b>1,261,435</b>	<b>1,180,979</b>
– issued by the state and the central bank	1,377,062	1,294,634	1,185,493	1,099,301
– issued by banks	47,692	105,402	44,598	60,962
– issued by other issuers	38,352	32,067	31,344	20,716
<b>Total</b>	<b>1,482,120</b>	<b>1,466,864</b>	<b>1,275,213</b>	<b>1,210,799</b>
Quoted	1,472,541	1,451,551	1,269,513	1,199,406
Unquoted	9,579	15,313	5,700	11,393
<b>Total</b>	<b>1,482,120</b>	<b>1,466,864</b>	<b>1,275,213</b>	<b>1,210,799</b>

## 27.3 MOVEMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

Nova KBM Group	Equity instruments	Debt securities	Total
<b>1 January 2014</b>	<b>34,761</b>	<b>1,432,103</b>	<b>1,466,864</b>
Recognition of additional financial assets	2,949	514,209	517,158
Interest	0	934	934
Net exchange rate differences	(3)	(1,167)	(1,170)
Net revaluation through equity	4,049	37,818	41,867
Net impairment through profit or loss	(3,050)	(450)	(3,500)
Derecognition of financial assets upon disposal	(24,804)	(106,901)	(131,705)
Derecognition of financial assets upon maturity	0	(412,894)	(412,894)
Net gains on sale	5,156	8,180	13,336
Other	(44)	(8,726)	(8,770)
<b>31 December 2014</b>	<b>19,014</b>	<b>1,463,106</b>	<b>1,482,120</b>

Nova KBM Group	Equity instruments	Debt securities	Total
<b>1 January 2013</b>	<b>74,035</b>	<b>515,378</b>	<b>589,413</b>
Recognition of additional financial assets	19,106	1,162,938	1,182,044
Interest	0	9,741	9,741
Net exchange rate differences	11	(136)	(125)
Net revaluation through equity	161	12,728	12,889
Net impairment through profit or loss	(32,922)	(8,230)	(41,152)
Derecognition of financial assets upon disposal	(11,359)	(30,200)	(41,559)
Derecognition of financial assets upon maturity	0	(206,852)	(206,852)
Transfer to BAMC	(13,305)	0	(13,305)
Net (losses) on sale	(966)	(23,264)	(24,230)
<b>31 December 2013</b>	<b>34,761</b>	<b>1,432,103</b>	<b>1,466,864</b>

Nova KBM d.d.	Equity instruments	Debt securities	Total
<b>1 January 2014</b>	<b>29,820</b>	<b>1,180,979</b>	<b>1,210,799</b>
Recognition of additional financial assets	2,869	445,606	448,475
Interest	0	2,029	2,029
Net revaluation through equity (Note 45.1)	2,987	30,049	33,036
Net impairment through profit or loss (Note 20.1)	(3,022)	(450)	(3,472)
Derecognition of financial assets upon disposal	(23,908)	(38,479)	(62,387)
Derecognition of financial assets upon maturity	0	(361,931)	(361,931)
Net gains on sale (Note 11)	5,032	3,632	8,664
<b>31 December 2014</b>	<b>13,778</b>	<b>1,261,435</b>	<b>1,275,213</b>

Nova KBM d.d.	Equity instruments	Debt securities	Total
<b>1 January 2013</b>	<b>68,506</b>	<b>348,596</b>	<b>417,102</b>
Recognition of additional financial assets	19,106	1,073,958	1,093,064
Interest	0	6,472	6,472
Net revaluation through equity (Note 45.1)	588	10,152	10,740
Net impairment through profit or loss (Note 20.1)	(32,910)	(8,248)	(41,158)
Derecognition of financial assets upon disposal	(11,156)	(29,200)	(40,356)
Derecognition of financial assets upon maturity	0	(198,487)	(198,487)
Transfer to BAMC	(13,305)	0	(13,305)
Net (losses) on sale (Note 11)	(1,009)	(22,264)	(23,273)
<b>31 December 2013</b>	<b>29,820</b>	<b>1,180,979</b>	<b>1,210,799</b>

## 28 / LOANS AND ADVANCES TO BANKS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Current loans	47,915	106,709	47,199	108,903
Impairment of current loans	(3)	(2,501)	0	(7,955)
Non-current loans	2,212	65	17,113	45,441
Impairment of non-current loans	0	(45)	(5,013)	(12,441)
<b>Total – net amount</b>	<b>50,124</b>	<b>104,228</b>	<b>59,299</b>	<b>133,948</b>
<b>Impairment</b>	<b>3</b>	<b>2,546</b>	<b>5,013</b>	<b>20,396</b>
<b>Total – gross amount</b>	<b>50,127</b>	<b>106,774</b>	<b>64,312</b>	<b>154,344</b>

### 28.1 MOVEMENTS IN IMPAIRMENT OF LOANS AND ADVANCES TO BANKS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>1 January</b>	<b>2,546</b>	<b>2,878</b>	<b>20,396</b>	<b>289</b>
Net impairment of principal	(34)	(908)	(14,741)	19,454
Additional impairment/reversal of impairment of interest	(1)	653	(642)	653
Exchange rate differences	8	(77)	0	0
Other	(2,516)	0	0	0
<b>31 December</b>	<b>3</b>	<b>2,546</b>	<b>5,013</b>	<b>20,396</b>

In 2014, the largest proportion of the amount of reversed impairment on loans and advances to banks recorded by the Bank related to the reversal of impairments of loans to Adria Bank. These impairments were subject to elimination in the preparation of the consolidated financial statements.

The figure under the item 'Other' relates to the transfer to discontinued operations of impairments of loans given to KBM Banka.

Recognition of additional impairment/reversal of impairment of interest on loans given to banks is reflected in Note 8 (Interest income and interest expenses) to the income statement.

## 29 / LOANS AND ADVANCES TO CUSTOMERS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Current loans	500,375	623,657	333,318	420,225
Impairment of current loans	(139,005)	(183,970)	(61,026)	(118,665)
Non-current loans	2,024,575	2,187,224	1,662,227	1,846,670
Impairment of non-current loans	(471,195)	(398,338)	(344,483)	(323,725)
Claims under guarantees	14,752	10,841	9,747	6,347
Impairment of claims under guarantees	(8,627)	(7,649)	(6,490)	(4,481)
<b>Total – net amount</b>	<b>1,920,875</b>	<b>2,231,765</b>	<b>1,593,294</b>	<b>1,826,371</b>
<b>Impairment</b>	<b>618,827</b>	<b>589,957</b>	<b>411,999</b>	<b>446,871</b>
<b>Total – gross amount</b>	<b>2,539,702</b>	<b>2,821,722</b>	<b>2,005,293</b>	<b>2,273,242</b>

### 29.1 MOVEMENTS IN IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>1 January</b>	<b>589,957</b>	<b>641,358</b>	<b>446,871</b>	<b>573,234</b>
Net impairment of principal	51,823	567,596	50,530	464,800
Additional impairment of interest	16,931	30,794	12,275	24,747
Additional impairment/reversal of impairment of fees	(592)	4	179	4
Write-off of loans and advances to customers	(52,533)	(19,967)	(48,297)	(7,308)
Exchange rate differences	(375)	(98)	0	0
Transfer to BAMC	0	(640,039)	0	(608,606)
Assets received from subsidiaries	0	0	33,849	0
Conversion of loans into equity of subsidiaries	0	0	(83,408)	0
Other	13,616	10,309	0	0
<b>31 December</b>	<b>618,827</b>	<b>589,957</b>	<b>411,999</b>	<b>446,871</b>

In 2014, the Bank converted loans given to its subsidiaries KBM Leasing (in liquidation), Gorica Leasing (in liquidation) and KBM Invest into investments in the equity of subsidiaries. Impairment losses set aside for loans that were subject to the conversion, totalling €76,773,000, were transferred to investments in the equity of subsidiaries. In accordance with the rules set out in IAS 39 that govern the transfer of assets, it was necessary to set aside additional impairment losses of €6,635,000 prior to converting loans into equity. These additional impairment losses were also transferred to investments in the equity of subsidiaries. Thus, the total impairment losses in respect of the converted loans amounted to €83,408,000.

Other impairments of €13,616,000 recorded by the Group in 2014 were attributable mainly to the transfer from 'Other assets' to 'Loans and advances to customers' of value adjustments of items seized by the Group leasing companies. This reclassification was partially the result of the transfer of real estate items to the BAMC (€17,425,000), and partially due to the sale of items that had been seized by the Group leasing companies (€10,920,000). The increase in other impairments resulting from this reclassification was partially offset by a decrease of €12,625,000 arising from the reclassification into discontinued operations of loans given to KBM Banka.

Recognition of additional impairment/reversal of impairment of interest and fees on loans given to customers is reflected in Note 8 (Interest income and interest expenses) and Note 10 (Fee and commission income and fee and commission expenses) to the income statement.

## 30 / OTHER FINANCIAL ASSETS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Cheques	46	278	39	80
Claims for fees and commissions	1,909	1,890	1,396	1,403
Accounts receivables	2,324	1,014	38	38
Surplus arising from authorised transactions for customers	0	16	0	0
Other	16,064	14,685	10,281	9,638
<b>Total – net amount</b>	<b>20,343</b>	<b>17,883</b>	<b>11,754</b>	<b>11,159</b>
<b>Impairment</b>	<b>4,552</b>	<b>4,853</b>	<b>1,537</b>	<b>1,667</b>
<b>Total – gross amount</b>	<b>24,895</b>	<b>22,736</b>	<b>13,291</b>	<b>12,826</b>

The claims accounted for in respect of transactions with households (daily turnover on cards with deferred payment option) made up the largest proportion of the figure under the item 'Other' in 2014.

### 30.1 MOVEMENTS IN IMPAIRMENT OF OTHER FINANCIAL ASSETS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>1 January</b>	<b>4,853</b>	<b>10,053</b>	<b>1,667</b>	<b>7,721</b>
Assets acquired through business combinations	8	0	8	0
Net impairment of principal (Note 20.1)	218	(4,701)	222	(5,536)
Additional impairment of interest	30	29	29	28
Additional impairment of fees	390	498	240	498
Write-off of other financial assets	(759)	(384)	(628)	(383)
Exchange rate differences	(2)	22	(1)	0
Transfer to BAMC	0	(668)	0	(661)
Other	(186)	4	0	0
<b>31 December</b>	<b>4,552</b>	<b>4,853</b>	<b>1,537</b>	<b>1,667</b>

Recognition of additional impairment/reversal of impairment of interest and fees on other financial assets is reflected in Note 8 (Interest income and interest expenses) and Note 10 (Fee and commission income and fee and commission expenses) to the income statement.

## 31 / HELD-TO-MATURITY FINANCIAL ASSETS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Debt securities</b>	<b>206,540</b>	<b>280,153</b>	<b>89,950</b>	<b>192,437</b>
– current securities issued by the state and the central bank	30,930	35,722	0	29,736
– non-current securities issued by the state and the central bank	142,078	210,770	79,943	152,739
– non-current securities issued by banks and savings banks	24,920	24,791	6,136	6,088
– current securities issued by other issuers	0	248	0	0
– non-current securities issued by other issuers	8,612	8,622	3,871	3,874
<b>Total</b>	<b>206,540</b>	<b>280,153</b>	<b>89,950</b>	<b>192,437</b>
Quoted	206,540	279,906	89,949	192,437
Unquoted	0	247	1	0
<b>Total</b>	<b>206,540</b>	<b>280,153</b>	<b>89,950</b>	<b>192,437</b>

As of 31 December 2014, the Group had assets of this portfolio worth €128,172,000 pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.



## 31.1 MOVEMENTS IN HELD-TO-MATURITY FINANCIAL ASSETS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>1 January</b>	<b>280,153</b>	<b>500,108</b>	<b>192,437</b>	<b>397,130</b>
<b>Increase during the year</b>	<b>91,313</b>	<b>56,128</b>	<b>3,553</b>	<b>40,386</b>
– acquisition	84,527	41,485	0	29,628
– gains (Note 11)	0	903	0	903
– reversal of impairment	7	108	0	0
– other (deferred interest)	6,779	13,632	3,553	9,855
<b>Decrease during the year</b>	<b>164,926</b>	<b>276,083</b>	<b>106,040</b>	<b>245,079</b>
– disposal (sale and redemption)	154,865	259,511	100,000	232,162
– losses (Note 11)	0	4,295		4,295
– impairment	178	816	0	1,657
– exchange rate differences	8	39	0	0
– other (interest received)	9,875	11,422	6,040	6,965
<b>31 December</b>	<b>206,540</b>	<b>280,153</b>	<b>89,950</b>	<b>192,437</b>

## 32 / PROPERTY, PLANT AND EQUIPMENT

Nova KBM Group	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
<b>Cost</b>					
<b>1 January 2014</b>	<b>104,104</b>	<b>35,240</b>	<b>36,846</b>	<b>2,040</b>	<b>178,230</b>
Transfer between types of assets	(8,211)	(590)	(707)	(1,628)	(11,136)
Additions	0	508	56	1,269	1,833
Disposals	(4,317)	(12,492)	(3,466)	(1,032)	(21,307)
Exchange rate differences	(547)	(74)	(61)	(22)	(704)
<b>31 December 2014</b>	<b>91,029</b>	<b>22,592</b>	<b>32,668</b>	<b>627</b>	<b>146,916</b>
<b>Accumulated depreciation</b>					
<b>1 January 2014</b>	<b>46,001</b>	<b>28,995</b>	<b>28,576</b>	<b>981</b>	<b>104,553</b>
Assets acquired through business combinations	(351)	0	0	0	(351)
Transfer between types of assets	(7,188)	(783)	(632)	0	(8,603)
Depreciation	2,333	2,746	1,725	0	6,804
Disposals	(2,023)	(11,642)	(2,406)	(576)	(16,647)
Revaluation	212	0	10	24	246
Exchange rate differences	(431)	(46)	(40)	0	(517)
<b>31 December 2014</b>	<b>38,553</b>	<b>19,270</b>	<b>27,233</b>	<b>429</b>	<b>85,485</b>
<b>Book value as of 1 January 2014</b>	<b>58,103</b>	<b>6,245</b>	<b>8,270</b>	<b>1,059</b>	<b>73,677</b>
<b>Book value as of 31 December 2014</b>	<b>52,476</b>	<b>3,322</b>	<b>5,435</b>	<b>198</b>	<b>61,431</b>

Nova KBM Group	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
<b>Cost</b>					
<b>1 January 2013</b>	<b>113,019</b>	<b>33,183</b>	<b>38,631</b>	<b>3,606</b>	<b>188,439</b>
Transfer between types of assets	(8,416)	2,423	417	(3,407)	(8,983)
Additions	0	888	377	2,505	3,770
Disposals	(319)	(1,237)	(2,533)	(663)	(4,752)
Exchange rate differences	(180)	(17)	(46)	(1)	(244)
<b>31 December 2013</b>	<b>104,104</b>	<b>35,240</b>	<b>36,846</b>	<b>2,040</b>	<b>178,230</b>
<b>Accumulated depreciation</b>					
<b>1 January 2013</b>	<b>46,384</b>	<b>27,047</b>	<b>27,947</b>	<b>296</b>	<b>101,674</b>
Transfer between types of assets	(2,550)	1	(1)	49	(2,501)
Additions	0	27	0	0	27
Depreciation	2,508	3,161	2,465	0	8,134
Disposals	(250)	(1,230)	(2,043)	0	(3,523)
Revaluation	0	1	236	636	873
Exchange rate differences	(91)	(12)	(28)	0	(131)
<b>31 December 2013</b>	<b>46,001</b>	<b>28,995</b>	<b>28,576</b>	<b>981</b>	<b>104,553</b>
<b>Book value as of 1 January 2013</b>	<b>66,635</b>	<b>6,136</b>	<b>10,684</b>	<b>3,310</b>	<b>86,765</b>
<b>Book value as of 31 December 2013</b>	<b>58,103</b>	<b>6,245</b>	<b>8,270</b>	<b>1,059</b>	<b>73,677</b>

Nova KBM d.d.	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
<b>Cost</b>					
<b>1 January 2014</b>	<b>81,784</b>	<b>26,218</b>	<b>26,536</b>	<b>332</b>	<b>134,870</b>
Transfer between types of assets	(1,243)	627	286	(1,224)	(1,554)
Additions	0	22	17	1,261	1,300
Disposals	(728)	(11,788)	(433)	(176)	(13,125)
<b>31 December 2014</b>	<b>79,813</b>	<b>15,079</b>	<b>26,406</b>	<b>193</b>	<b>121,491</b>
<b>Accumulated depreciation</b>					
<b>1 January 2014</b>	<b>33,087</b>	<b>21,895</b>	<b>21,878</b>	<b>0</b>	<b>76,860</b>
Transfer between types of assets	(886)	0	10	0	(876)
Additions	0	18	8	0	26
Depreciation (Note 18)	1,824	1,679	1,117	0	4,620
Disposals	(367)	(10,943)	(399)	0	(11,709)
<b>31 December 2014</b>	<b>33,658</b>	<b>12,649</b>	<b>22,614</b>	<b>0</b>	<b>68,921</b>
<b>Book value as of 1 January 2014</b>	<b>48,697</b>	<b>4,323</b>	<b>4,658</b>	<b>332</b>	<b>58,010</b>
<b>Book value as of 31 December 2014</b>	<b>46,155</b>	<b>2,430</b>	<b>3,792</b>	<b>193</b>	<b>52,570</b>

Nova KBM d.d.	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
<b>Cost</b>					
<b>1 January 2013</b>	<b>84,882</b>	<b>24,628</b>	<b>27,078</b>	<b>1,548</b>	<b>138,136</b>
Transfer between types of assets	(2,809)	2,401	535	(3,330)	(3,203)
Additions	0	0	0	2,129	2,129
Disposals	(289)	(811)	(1,077)	(15)	(2,192)
<b>31 December 2013</b>	<b>81,784</b>	<b>26,218</b>	<b>26,536</b>	<b>332</b>	<b>134,870</b>
<b>Accumulated depreciation</b>					<b>0</b>
<b>1 January 2013</b>	<b>34,056</b>	<b>20,662</b>	<b>21,414</b>	<b>0</b>	<b>76,132</b>
Transfer between types of assets	(2,594)	0	0	0	(2,594)
Depreciation (Note 18)	1,875	2,041	1,407	0	5,323
Disposals	(250)	(808)	(943)	0	(2,001)
<b>31 December 2013</b>	<b>33,087</b>	<b>21,895</b>	<b>21,878</b>	<b>0</b>	<b>76,860</b>
<b>Book value as of 1 January 2013</b>	<b>50,826</b>	<b>3,966</b>	<b>5,664</b>	<b>1,548</b>	<b>62,004</b>
<b>Book value as of 31 December 2013</b>	<b>48,697</b>	<b>4,323</b>	<b>4,658</b>	<b>332</b>	<b>58,010</b>

Most of the 2014 transfers between types of assets were related to the transfer of KBM Banka's assets to non-current assets held for sale and discontinued operations. The net transfer value of this transaction was €2,624,000. The transfer value of real estate units to non-current assets held for sale totalled €6,389,000 in 2013.

As of 31 December 2014, the acquisition cost of completely depreciated items of property plant and equipment that are still used by the Group totalled €36,442,000 (2013: €44,026,000).

The Group's liabilities to suppliers of items of property plant and equipment equalled €100,000 at the end of 2014 (2013: €265,000).

The value of the Group's items of property, plant and equipment pledged as collateral totalled €313,000 at the end of 2014.

### 33 / INVESTMENT PROPERTY

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>1 January</b>	<b>38,426</b>	<b>53,317</b>	<b>2,339</b>	<b>1,660</b>
Transfer between types of assets	114	266	0	0
Additions	27,163	3,168	27,148	1,381
Disposals	(27,783)	(1,254)	0	0
Change in fair value (Note 20.2)	(1,161)	(17,071)	(299)	(702)
<b>31 December</b>	<b>36,759</b>	<b>38,426</b>	<b>29,188</b>	<b>2,339</b>

As of 31 December 2014, the Group had in place 113 agreements for renting out investment properties.

The aggregate annual rent amounted last year to €4,358,000, inclusive of VAT (2013: €4,491,000).

The year-on-year increase in the balance of investment property registered by the Bank pertained to the purchase of three real estate units worth €27,144,000 in total (the Mercator Shopping Centre, a commercial building at Cesta Krških žrtev 135, and the Kungota Primary School). The purchase of these real estate units had no impact on the balance of the Group's investment property because the units were purchased from the Group companies.

Direct operating expenses incurred by the Group in respect of investment property amounted to €102,000 in 2014, compared to €71,000 in 2013.

Items of investment property are not subject to any sale restrictions.

### 34 / INTANGIBLE ASSETS

Nova KBM Group	Computer software	Intangible assets in preparation	Other intangible assets	Total
<b>Cost</b>				
<b>1 January 2014</b>	<b>79,251</b>	<b>552</b>	<b>9,663</b>	<b>89,466</b>
Transfer between types of assets	(655)	(2,563)	(8)	(3,226)
Additions	596	2,419	14	3,029
Disposals	(2,430)	(20)	(33)	(2,483)
Exchange rate differences	(170)	0	0	(170)
<b>31 December 2014</b>	<b>76,592</b>	<b>388</b>	<b>9,636</b>	<b>86,616</b>
<b>Accumulated amortisation</b>				
<b>1 January 2014</b>	<b>54,664</b>	<b>0</b>	<b>1,939</b>	<b>56,603</b>
Transfer between types of assets	(1,187)	0	(229)	(1,416)
Amortisation	7,247	0	1,203	8,450
Disposals	(2,427)	0	(11)	(2,438)
Exchange rate differences	(59)	0	(7)	(66)
<b>31 December 2014</b>	<b>58,238</b>	<b>0</b>	<b>2,895</b>	<b>61,133</b>
<b>Book value as of 1 January 2014</b>	<b>24,587</b>	<b>552</b>	<b>7,724</b>	<b>32,863</b>
<b>Book value as of 31 December 2014</b>	<b>18,354</b>	<b>388</b>	<b>6,741</b>	<b>25,483</b>

The Group may freely dispose of its intangible assets and none of these assets are pledged as collateral.

The acquisition cost of completely amortised intangible assets that are still used by the Group totalled €25,480,000 at the end of 2014 (2013: €21,129,000).

The Group's liabilities to suppliers of intangible assets totalled €545,000 at the end of 2014 (2013: €716,000).

The Group did not capitalise development costs in 2014 or 2013.

Nova KBM Group	Computer software	Intangible assets in preparation	Other intangible assets	Total
<b>Cost</b>				
<b>1 January 2013</b>	<b>74,694</b>	<b>2,400</b>	<b>9,661</b>	<b>86,755</b>
Transfer between types of assets	3,260	(3,260)	0	0
Additions	2,441	2,002	2	4,445
Disposals	(1,121)	(590)	0	(1,711)
Exchange rate differences	(23)	0	0	(23)
<b>31 December 2013</b>	<b>79,251</b>	<b>552</b>	<b>9,663</b>	<b>89,466</b>
<b>Accumulated amortisation</b>				
<b>1 January 2013</b>	<b>48,296</b>	<b>0</b>	<b>974</b>	<b>49,270</b>
Additions	31	0	0	31
Amortisation	7,355	0	965	8,320
Disposals	(1,005)	0	0	(1,005)
Exchange rate differences	(13)	0	0	(13)
<b>31 December 2013</b>	<b>54,664</b>	<b>0</b>	<b>1,939</b>	<b>56,603</b>
<b>Book value as of 1 January 2013</b>	<b>26,398</b>	<b>2,400</b>	<b>8,687</b>	<b>37,485</b>
<b>Book value as of 31 December 2013</b>	<b>24,587</b>	<b>552</b>	<b>7,724</b>	<b>32,863</b>

Nova KBM d.d.	Computer equipment	Intangible assets in preparation	Total
<b>Cost</b>			
<b>1 January 2014</b>	<b>64,729</b>	<b>514</b>	<b>65,243</b>
Transfer between types of assets	2,563	(2,563)	0
Additions	0	2,252	2,252
<b>31 December 2014</b>	<b>67,292</b>	<b>203</b>	<b>67,495</b>
<b>Accumulated amortisation</b>			
<b>1 January 2014</b>	<b>46,914</b>	<b>0</b>	<b>46,914</b>
Amortisation (Note 18)	6,246	0	6,246
<b>31 December 2014</b>	<b>53,160</b>	<b>0</b>	<b>53,160</b>
<b>Book value as of 1 January 2014</b>	<b>17,815</b>	<b>514</b>	<b>18,329</b>
<b>Book value as of 31 December 2014</b>	<b>14,132</b>	<b>203</b>	<b>14,335</b>

Nova KBM d.d.	Computer equipment	Intangible assets in preparation	Total
<b>Cost</b>			
<b>1 January 2013</b>	<b>63,887</b>	<b>909</b>	<b>64,796</b>
Transfer between types of assets	1,807	(1,807)	0
Additions	0	2,002	2,002
Disposals	(965)	(590)	(1,555)
<b>31 December 2013</b>	<b>64,729</b>	<b>514</b>	<b>65,243</b>
<b>Accumulated amortisation</b>			
<b>1 January 2013</b>	<b>41,415</b>	<b>0</b>	<b>41,415</b>
Amortisation (Note 18)	6,465	0	6,465
Disposals	(966)	0	(966)
<b>31 December 2013</b>	<b>46,914</b>	<b>0</b>	<b>46,914</b>
<b>Book value as of 1 January 2013</b>	<b>22,472</b>	<b>909</b>	<b>23,381</b>
<b>Book value as of 31 December 2013</b>	<b>17,815</b>	<b>514</b>	<b>18,329</b>

## 35 / INVESTMENTS IN THE EQUITY OF SUBSIDIARIES AND ASSOCIATES

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Investments in the equity of banks in the Group</b>	<b>0</b>	<b>0</b>	<b>49,509</b>	<b>44,329</b>
– equity investments in banks in the Group	0	0	49,509	44,329
<b>Investments in the equity of other Group companies</b>	<b>3,164</b>	<b>2,957</b>	<b>47,255</b>	<b>9,810</b>
– equity investments in associated financial organisations	3,164	2,957	2,352	2,237
– equity investments in other subsidiary financial organisations	0	0	40,613	6,719
– equity investments in non-financial subsidiary companies	0	0	4,290	854
<b>Total</b>	<b>3,164</b>	<b>2,957</b>	<b>96,764</b>	<b>54,139</b>

### 35.1 MOVEMENTS IN INVESTMENTS IN THE EQUITY OF SUBSIDIARIES AND ASSOCIATES

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>1 January</b>	<b>2,957</b>	<b>3,090</b>	<b>54,139</b>	<b>55,980</b>
<b>Increase during the year</b>	<b>207</b>	<b>0</b>	<b>58,870</b>	<b>121,593</b>
– debt-to-equity conversions and capital injections	0	0	58,870	121,593
– other	207	0	0	0
<b>Decrease during the year</b>	<b>0</b>	<b>133</b>	<b>16,245</b>	<b>123,434</b>
– derecognition due to the liquidation of KBM Fineko	0	0	854	0
– impairment	0	0	14,391	119,483
– other	0	133	1,000	3,951
<b>31 December</b>	<b>3,164</b>	<b>2,957</b>	<b>96,764</b>	<b>54,139</b>

In May 2014, Nova KBM infused fresh capital of €12,200,000 into Adria Bank, while in July 2014 it infused fresh capital of €7,485,000 into KBM Leasing Hrvatska.

In December 2014, Nova KBM recapitalised several of its subsidiaries through debt-to-equity conversions. The book value of loans (including the impairment losses already set aside) outstanding to each subsidiary became the acquisition value of investment in its equity, except in the cases where, in accordance with the methodology for valuing equity investments, it was necessary, prior to conversion, to further impair loans that were subject to conversion. Subsidiaries were recapitalised as follows:

- KBM Leasing (in liquidation): €14,551,000 (gross loans of €56,699,000 less the amount of impairment losses that had already been set aside, totalling €39,890,000, and the amount of additionally required impairment losses, totalling €2,258,000).
- Gorica Leasing (in liquidation): €20,344,000 (gross loans of €46,894,000 less the amount of impairment losses that had already been set aside, totalling €23,775,000, and the amount of additionally required impairment losses, totalling €2,775,000).
- KBM Invest: €4,290,000 (gross loans of €19,000,000 less the amount of impairment losses that had already been set aside, totalling €13,108,000, and the amount of additionally required impairment losses, totalling €1,602,000).

In 2014, the Bank set aside additional impairment losses of €14,391,000 (2013: €119,483,000) for its investments in the equity of subsidiaries. Impairments made in respect of KBM Leasing Hrvatska, Adria Bank and KBM Banka totalled €7,371,000, €3,669,000 and €3,351,000, respectively.

In December 2014, the equity investment in KBM Banka was reclassified into assets of discontinued operations when the process of selling KBM Banka began (Notes 38 and 55).

Any other increase in investments in the equity of the Group's associated companies registered in 2014 is attributable to the shares in profits and the revaluation surplus in respect of the associated company accounted for using the equity method.

## 35.2 INFORMATION ABOUT COMPANIES IN WHICH THE NOVA KBM GROUP HOLDS AT LEAST A 20% EQUITY STAKE

Name of the company	31.12.2014				2014		31.12.2014			
	Total assets	Total liabilities	Total equity	Equity attributable to the Nova KBM Group	Technical and investment income	Net profit	Acquisition cost	Nova KBM Group's equity stake (%)	Nova KBM Group's voting rights (%)	Investment value
Moja naložba, pokojninska družba, d.d.	115,242	108,212	7,030	3,164	2,099	343	2,237	45.00	45.00	3,164

## 35.3 INFORMATION ABOUT COMPANIES IN WHICH NOVA KBM HOLDS AT LEAST A 20% EQUITY STAKE

Name and registered office of the company	31.12.2014	2014	31.12.2014				
	Total equity	Net profit/(loss)	Equity attributable to Nova KBM	Acquisition cost	Nova KBM's equity stake (%)	Nova KBM's voting rights (%)	Investment value
<b>Investments in the equity of banks</b>				<b>81,984</b>			<b>49,508</b>
Adria Bank AG, Vienna	12,171	(219)	12,171	28,349	100.00	100.00	8,530
Poštna banka Slovenije d.d., Maribor	50,303	246	50,303	53,635	99.12	99.12	40,978
<b>Investments in the equity of other companies</b>				<b>149,279</b>			<b>47,256</b>
Gorica Leasing d.o.o. (in liquidation), Nova Gorica	21,672	(5,100)	21,672	45,954	100.00	100.00	20,344
KBM Infond d.o.o., Maribor	12,590	1,309	12,590	5,660	72.73	72.73	5,660
KBM Invest d.o.o., Maribor	4,332	(1,345)	4,332	29,433	100.00	100.00	4,290
KBM Leasing d.o.o. (in liquidation), Maribor	14,654	(4,421)	14,654	48,613	100.00	100.00	14,551
KBM Leasing Hrvatska d.o.o., Zagreb	552	(2,071)	552	17,323	98.54	98.54	115
M-PAY d.o.o., Maribor	224	15	224	59	50.00	50.00	59
Moja naložba, pokojninska družba d.d., Maribor	7,031	326	3,164	2,237	45.00	45.00	2,237
<b>Total</b>				<b>231,263</b>			<b>96,764</b>
<b>Assets of discontinued operations</b>							
KBM Banka a.d., Kragujevac	14,246	(2,120)	14,246	30,057	89.53	89.53	0

## 36 / TAX ASSETS AND LIABILITIES

### 36.1 TAX ASSETS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Current income tax assets	258	960	2	2
Deferred tax assets (Note 36.3)	12,726	10,739	12,289	10,288
<b>Total</b>	<b>12,984</b>	<b>11,699</b>	<b>12,291</b>	<b>10,290</b>

Of the amount of deferred tax assets reported by the Bank, €11,757,000 relates to tax assets established by the Bank in respect of a portion of the uncovered tax loss (Note 36.3).

The amount of €2,000 represents a claim against a foreign tax administration for the tax on dividends paid abroad.



## 36.2 TAX LIABILITIES

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Current income tax liabilities	3,021	88	2,494	0
Deferred tax liabilities (Note 36.3)	1,536	8	0	0
<b>Total</b>	<b>4,557</b>	<b>96</b>	<b>2,494</b>	<b>0</b>

Last year, the Group companies accounted for an income tax expense of €3,146,000 (of which €25,000 related to the settlement of income tax from previous years). According to their income tax returns, the Group companies must pay an additional tax liability of €3,021,000 in total.

For 2014, Nova KBM accounted for an income tax expense of €2,508,000. During the year, Nova KBM paid to foreign tax authorities a withholding tax on interest of €14,000, but it did not make any income tax prepayments due to reporting a tax loss for 2013. As a result, Nova KBM reports a current income tax liability of €2,494,000.

The Financial Administration of the Republic of Slovenia requested the Bank to examine and assess, by taking into account Article 29 of the Corporate Income Tax Act, the loan impairment losses and the provisions it had set aside for off-balance sheet liabilities. Due to different interpretations between banks and the Financial Administration of the Republic of Slovenia about tax legislation, there is uncertainty as to whether the Bank will be subject to a tax inspection.

## 36.3 NET DEFERRED TAXES

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Deferred tax assets (Note 36.1)</b>	<b>12,726</b>	<b>10,739</b>	<b>12,289</b>	<b>10,288</b>
– relating to tax loss	11,757	0	11,757	0
– relating to investments in fixed assets	0	352	0	352
– relating to available-for-sale financial assets	(74)	9,275	(73)	9,330
– relating to other provisions for pending legal issues	70	70	70	70
– relating to other provisions for employees	968	899	535	536
– relating to temporary differences in respect of impairments	5	144	0	0
– relating to other items	0	(1)	0	0
<b>Deferred tax liabilities (Note 36.2)</b>	<b>1,536</b>	<b>8</b>	<b>0</b>	<b>0</b>
– relating to available-for-sale financial assets	1,807	280	0	0
– relating to other provisions for pending legal issues	(113)	(75)	0	0
– relating to other provisions for employees	(150)	(121)	0	0
– relating to other items	(8)	(76)	0	0
<b>Included in profit or loss (Note 22)</b>	<b>7,570</b>	<b>(26,537)</b>	<b>7,593</b>	<b>(23,006)</b>
– relating to tax loss	11,757	(26,661)	11,757	(25,767)
– relating to investments in fixed assets	(352)	42	(352)	42
– relating to available-for-sale financial assets	(3,783)	2,595	(3,786)	2,675
– relating to provisions for pending legal issues	38	(69)	0	8
– relating to other provisions for employees	52	(38)	(26)	36
– relating to temporary differences in respect of impairments	(139)	(2,146)	0	0
– relating to other items	(3)	(260)	0	0
<b>Included in equity (Note 45)</b>	<b>(8,832)</b>	<b>(1,820)</b>	<b>(7,023)</b>	<b>(1,432)</b>
– relating to available-for-sale financial assets	(8,849)	(1,794)	(7,023)	(1,407)
– relating to provisions for retirement benefits	17	(26)	0	(25)

For the year ended 31 December 2014, the Group reported the uncovered tax loss of €979,527,000, of which €757,051,000 was attributable to the Bank. For a portion of this figure, totalling €69,157,000, the Bank has set up deferred tax assets in the amount of €11,757,000. The remaining tax loss, in respect of which the Group had not established any deferred

tax assets, amounted to €910,369,000 (of which €687,894,000 was attributable to the Bank), while the unrecognised deferred tax assets totalled €157,113,000 (of which €116,942,000 was attributable to the Bank). The total level of deferred tax assets was determined on the basis of the projections of future taxable income in the next five years.

As of 31 December 2014, the Bank had no deferred tax assets recognised in respect of the impairment of equity investments in its subsidiaries. The total amount of impairment recognised from 2011 to 2014 amounted to €178,798,000, while the unrecognised deferred tax assets in respect of this impairment totalled €30,396,000.

The negative amount of €73,000, included in the item 'Deferred tax assets relating to available-for-sale financial assets', is the result of Nova KBM disclosing deferred taxes by individual types. The difference arises from the increase in the price of several available-for-sale securities, as a consequence of which the Bank reversed impairment losses previously set aside for these instruments. At the end of 2014, the total deferred tax assets and liabilities in respect of available-for-sale financial assets amounted to €7,006,000 and €7,079,000, respectively.

In accounting for the 2014 income tax expense, Nova KBM reduced its tax base by the amount of an investment tax relief from previous years, as a result of which it cancelled in full the deferred tax assets that it had previously recognised for this purpose.

## 37 / OTHER ASSETS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Inventory	37,587	53,050	13,061	13,453
– assets received in settlement of claims	8,136	4,644	12,766	13,440
– other inventory	29,451	48,406	295	13
Claims for advance payments	254	332	36	29
Prepayments and accrued income	1,320	1,182	320	490
Other claims	6,791	550	5,814	36
<b>Total – net amount</b>	<b>45,952</b>	<b>55,114</b>	<b>19,231</b>	<b>14,008</b>
<b>Impairment</b>	<b>48,579</b>	<b>106,825</b>	<b>32,333</b>	<b>30,221</b>
<b>Total – gross amount</b>	<b>94,531</b>	<b>161,939</b>	<b>51,564</b>	<b>44,229</b>

Real estate units held for sale, totalling €25,000,000, and movable and immovable items seized under lease agreements and held for the purpose of sale or lease, totalling €4,100,000, accounted for the largest proportion of the Group's inventory at the end of 2014.

At the end of 2014, the Group's claims for the refund of deductible VAT in respect of the purchase of goods and services for the fixed assets made up the largest proportion of the amount under the item 'Other claims'.

### 37.1 MOVEMENTS IN IMPAIRMENT OF OTHER ASSETS

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>1 January</b>	<b>106,825</b>	<b>58,310</b>	<b>30,221</b>	<b>12,281</b>
Net impairment of principal	3,222	48,810	675	17,941
Additional impairment of fees	41	56	0	0
Write-off of other assets	(11,844)	(326)	0	0
Exchange rate differences	(18)	(24)	0	(1)
Transfer to BAMC	(40,522)	(1)	0	0
Other	(9,125)	0	1,437	0
<b>31 December</b>	<b>48,579</b>	<b>106,825</b>	<b>32,333</b>	<b>30,221</b>

The 2014 reduction of €40,522,000 in value adjustments and the reduction of €11,844,000 in write-offs of other assets recorded by the Group were attributable to the transfer of real estate units to the BAMC. The largest proportion of the amount under the item 'Other' (€9,125,000) relates to the reclassification into 'Loans and advances to customers' of value adjustments of items that had been seized by the Group leasing companies and later sold.

### 38 / NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Items of property, plant and equipment held for sale	1,439	7,397	865	780
Items of investment property held for sale	11	471	0	0
Assets of discontinued operations	59,823	0	0	0
<b>Total</b>	<b>61,273</b>	<b>7,868</b>	<b>865</b>	<b>780</b>

In December 2014, Nova KBM made a decision to sell its investment in the equity of KBM Banka, based on which it reclassified this investment into non-current assets held for sale, in accordance with IFRS 5. Prior to making this transfer, the equity investment in KBM Banka was impaired in full. The assets of KBM Banka, totalling €59,823,000, are reported as assets of discontinued operations (Note 55).

### 39 / FINANCIAL LIABILITIES HELD FOR TRADING

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Derivatives	1,229	1,422	1,170	976
– forwards	107	362	107	362
– swaps	197	641	138	195
– other derivatives	925	419	925	419
<b>Total</b>	<b>1,229</b>	<b>1,422</b>	<b>1,170</b>	<b>976</b>

### 40 / FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Deposits (Note 40.1)	3,095,021	3,135,019	2,475,148	2,411,535
Loans (Note 40.2)	396,942	902,325	366,281	788,461
Debt securities (Note 40.4)	59,129	60,973	67,452	69,284
Subordinated liabilities (Note 40.5)	1,250	1,250	0	0
Other financial liabilities (Note 40.6)	33,551	34,266	26,396	26,185
<b>Total</b>	<b>3,585,893</b>	<b>4,133,833</b>	<b>2,935,277</b>	<b>3,295,465</b>

The year-on-year decline in the balance of loans taken by the Bank was attributable to the early repayment of funds borrowed through the longer-term refinancing operations from the Bank of Slovenia.

## 40.1 DEPOSITS BY TYPE OF CUSTOMERS AND MATURITY

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Deposits from banks</b>	<b>20,875</b>	<b>60,271</b>	<b>11,780</b>	<b>51,982</b>
– demand deposits	1,793	1,520	10,718	2,657
– current deposits	18,570	57,924	550	2,298
– non-current deposits	512	827	512	47,027
<b>Deposits from customers</b>	<b>3,074,146</b>	<b>3,074,748</b>	<b>2,463,368</b>	<b>2,359,553</b>
– demand deposits	1,469,985	1,349,936	1,116,225	979,958
– current deposits	585,405	742,991	458,957	545,819
– non-current deposits	1,018,756	981,821	888,186	833,776
<b>Total</b>	<b>3,095,021</b>	<b>3,135,019</b>	<b>2,475,148</b>	<b>2,411,535</b>

## 40.2 LOANS BY TYPE OF CUSTOMERS AND MATURITY

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Loans from banks</b>	<b>394,213</b>	<b>897,774</b>	<b>363,552</b>	<b>783,912</b>
– current loans	0	10,711	0	0
– non-current loans	394,213	887,063	363,552	783,912
<b>Loans from customers</b>	<b>2,729</b>	<b>4,551</b>	<b>2,729</b>	<b>4,549</b>
– current loans	0	1	0	0
– non-current loans	2,729	4,550	2,729	4,549
<b>Total</b>	<b>396,942</b>	<b>902,325</b>	<b>366,281</b>	<b>788,461</b>

## 40.3 DEPOSITS AND LOANS BY MARKET SEGMENTS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Deposits</b>	<b>3,095,021</b>	<b>3,135,019</b>	<b>2,475,148</b>	<b>2,411,535</b>
– from banks	20,875	60,271	11,780	51,982
– from non-financial companies	341,088	372,680	316,823	333,798
– from the state	91,076	81,117	72,375	56,696
– from other financial organisations	81,889	55,098	83,757	45,733
– from foreign persons	41,432	109,247	40,496	37,734
– from non-profit institutions serving households	38,118	35,045	30,800	23,837
– from households	2,480,543	2,421,561	1,919,117	1,861,755
<b>Loans</b>	<b>396,942</b>	<b>902,325</b>	<b>366,281</b>	<b>788,461</b>
– from banks	394,213	897,774	363,552	783,912
– from the state	2,729	4,549	2,729	4,549
– from foreign persons	0	2	0	0
<b>Total</b>	<b>3,491,963</b>	<b>4,037,344</b>	<b>2,841,429</b>	<b>3,199,996</b>

## 40.4 DEBT SECURITIES BY TYPE AND MATURITY

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Non-current securities issued</b>	<b>45,412</b>	<b>45,412</b>	<b>45,412</b>	<b>45,412</b>
– bonds	45,412	45,412	45,412	45,412
<b>Certificates of deposit issued</b>	<b>13,717</b>	<b>15,561</b>	<b>22,040</b>	<b>23,872</b>
– current	7,646	9,255	7,646	9,255
– non-current	6,071	6,306	14,394	14,617
<b>Total</b>	<b>59,129</b>	<b>60,973</b>	<b>67,452</b>	<b>69,284</b>

## 40.5 SUBORDINATED LIABILITIES

Issuer	Currency	Date of maturity	Interest rate	Nova KBM Group		Nova KBM d.d.	
				31.12.2014	31.12.2013	31.12.2014	31.12.2013
Subordinated debt							
Adria Bank AG	EUR	perpetual; call option on each 28.12.	variable	1,250	1,250	0	0
Total				1,250	1,250	0	0

Subordinated liabilities are included in the calculation of capital adequacy. Capital risk is presented in Note 4.6.

## 40.6 OTHER FINANCIAL LIABILITIES

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Liabilities for fees and commissions	71	73	35	25
Liabilities for gross salaries of employees	3,141	3,367	2,305	2,445
Liabilities to suppliers	4,446	5,097	3,528	3,965
Liabilities related to payment card transactions	7,965	7,629	7,939	7,599
Liabilities related to ATM transactions	1,747	1,785	1,614	1,640
Liabilities related to funds provided by customers for making payments abroad	659	595	647	594
Liabilities related to cash transactions	2,596	2,524	1,279	1,240
Liabilities arising from participation in profits – dividends	22	75	22	75
Accruals and deferred income	5,797	6,999	2,596	3,472
Surplus arising from authorised transactions for customers	179	139	179	135
Other financial liabilities	6,928	5,983	6,252	4,995
<b>Total</b>	<b>33,551</b>	<b>34,266</b>	<b>26,396</b>	<b>26,185</b>

The largest proportion of the amount shown under the item 'Other financial liabilities' arises from the balances held in transitional accounts.

## 41 / PROVISIONS

Nova KBM Group	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	(8,151)	1,151	490	(11,622)	2,377	(15,755)
– provisions made during the year	1,449	4,418	1,343	31,261	2,394	40,865
– provisions reversed during the year	(9,600)	(3,267)	(853)	(42,883)	(17)	(56,620)
Net creation/reversal of provisions through equity	0	0	864	0	0	864
Provisions used during the year	(1,101)	(167)	(428)	0	(238)	(1,934)
Exchange rate differences	0	(5)	(10)	(78)	(1)	(94)
Other	0	(11)	(131)	(88)	(3)	(233)
<b>31 December 2014</b>	<b>2,028</b>	<b>18,753</b>	<b>7,334</b>	<b>52,272</b>	<b>2,624</b>	<b>83,011</b>

Nova KBM Group	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>

Nova KBM d.d.	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 (Note 19)	1,449	1,721	91	(11,718)	(3)	(8,460)
– provisions made during the year	1,449	3,872	442	27,689	0	33,452
– provisions reversed during the year	0	(2,151)	(351)	(39,407)	(3)	(41,912)
Net reversal of provisions through equity	0	0	725	0	0	725
Provisions used during the year	(1,101)	(80)	(105)	0	(225)	(1,511)
<b>31 December 2014</b>	<b>2,028</b>	<b>17,508</b>	<b>4,651</b>	<b>50,225</b>	<b>193</b>	<b>74,605</b>

Nova KBM d.d.	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 (Note 19)	1,680	12,593	87	28,945	(7)	43,298
– provisions made during the year	1,680	14,580	372	52,388	0	69,020
– provisions reversed during the year	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>

In 2014, the Group set aside provisions of €2,394,000 for potential claims for interest on lease transactions. These provisions are included in the item 'Other provisions'.



Provisions for Adria Bank's restructuring of €9,600,000 were reversed by the Group in 2014 because, in accordance with the Restructuring Programme, the appropriate amount of provisions for restructuring was set aside by Adria Bank itself.

Claims brought against the Group totalled €40,139,000 at the end of 2014 (2013: €34,419,000). Considering legal opinions obtained, the Group had €18,753,000 of provisions set aside for these claims as of 31 December 2014 (2013: €17,785,000).

## 42 / OTHER LIABILITIES

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Liabilities for prepayments received	509	599	0	0
Liabilities related to taxes and contributions	7,502	2,243	7,063	1,612
Accruals and deferred income	10,129	12,409	7,259	10,367
<b>Total</b>	<b>18,140</b>	<b>15,251</b>	<b>14,322</b>	<b>11,979</b>

Most of the liabilities of the Group in respect of taxes and contributions relate to the liabilities for VAT arising from the purchase of investment property, as well as to liabilities for the payment of contributions on wages, the financial services tax and the balance sheet tax.

Accruals and deferred income of the Group relate mainly to deferred income arising from loan origination fees, and to accrued expenses incurred by the Group.

## 43 / SHARE CAPITAL

Nova KBM Group and Nova KBM d.d.	31.12.2014	31.12.2013
<b>Ordinary shares</b>	<b>150,000</b>	<b>150,000</b>
– subscribed by the state	150,000	150,000

As of 31 December 2014, the share capital of Nova KBM 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 accounting value of each ordinary no-par-value share, calculated as the ratio between the share capital and the total number of outstanding shares, was €15 at the end of 2014.

No changes took place in Nova KBM's share capital in 2014. In 2013, based on a decision made by the Bank of Slovenia, all qualified liabilities of Nova KBM were written off, with the result that the share capital of Nova KBM was reduced to zero (€0). On 18 December 2013, the Republic of Slovenia subscribed for and paid for all of the 10,000,000 newly issued shares of Nova KBM, the total issue value of which was €870,000,000. The share capital of Nova KBM was increased by €150,000,000, while the difference totalling €720,000,000 was credited to share premium as paid-in capital surplus.

In 2014 and 2013, Nova KBM did not purchase or sell treasury shares, and no treasury shares were held by Nova KBM at the end of 2014, nor were shares of Nova KBM held by any of the Group companies.

## 44 / SHARE PREMIUM

Nova KBM Group and Nova KBM d.d.	31.12.2014	31.12.2013
Paid-in capital surplus	360,572	360,572
<b>Total</b>	<b>360,572</b>	<b>360,572</b>

Paid-in capital surplus is recorded as share premium. Share premium was partially used to cover the loss incurred by the Group in 2013.

## 45 / ACCUMULATED OTHER COMPREHENSIVE INCOME

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Other accumulated comprehensive income in respect of available-for-sale financial assets	43,375	8,708	34,292	6,872
– revaluation	52,224	10,502	41,315	8,279
– deferred taxes (Note 36.3)	(8,849)	(1,794)	(7,023)	(1,407)
Other accumulated comprehensive income	(534)	273	(433)	268
– revaluation	(551)	299	(433)	293
– deferred taxes (Note 36.3)	17	(26)	0	(25)
<b>Total</b>	<b>42,841</b>	<b>8,981</b>	<b>33,859</b>	<b>7,140</b>

### 45.1 MOVEMENTS IN ACCUMULATED OTHER COMPREHENSIVE INCOME

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>1 January</b>	<b>8,981</b>	<b>(1,149)</b>	<b>7,140</b>	<b>(2,092)</b>
Net change arising from the valuation of available-for-sale financial assets	41,722	11,824	33,036	10,740
– gains recognised in revaluation surplus	41,718	5,976	33,036	4,895
– transfer of losses from revaluation surplus to profit or loss	4	5,848	0	5,845
Net change in other revaluation surplus	(850)	299	(725)	293
Exchange rate differences	0	1	0	0
Net change in deferred taxes	(7,012)	(1,993)	(5,592)	(1,801)
<b>Other</b>	<b>0</b>	<b>(1)</b>	<b>0</b>	<b>0</b>
<b>31 December</b>	<b>42,841</b>	<b>8,981</b>	<b>33,859</b>	<b>7,140</b>

## 46 / RESERVES FROM PROFIT

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Regulatory reserves	2,302	663	1,796	0
Statutory reserves	17,062	0	17,062	0
Other reserves from profit	8,531	0	8,531	0
<b>Total</b>	<b>27,895</b>	<b>663</b>	<b>27,389</b>	<b>0</b>

### 46.1 MOVEMENTS IN RESERVES FROM PROFIT

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>1 January</b>	<b>663</b>	<b>289,741</b>	<b>0</b>	<b>275,044</b>
Increase/(decrease) in regulatory reserves	1,639	(12,953)	1,796	(12,145)
Increase/(decrease) in statutory reserves	17,062	(174,184)	17,062	(172,158)
(Decrease) in reserves for treasury shares	0	(1,412)	0	0
Increase/(decrease) in other reserves	8,531	(100,529)	8,531	(90,741)
<b>31 December</b>	<b>27,895</b>	<b>663</b>	<b>27,389</b>	<b>0</b>

In accordance with the provisions of the Companies Act, the Nova KBM Management Board has, with the consent of the Supervisory Board, appropriated the 2014 net profit for reserves as follows:

- for regulatory reserves: €1,796,000
- for statutory reserves: €17,062,000
- for other reserves from profit: €8,531,000.

## 47 / RETAINED EARNINGS OR LOSSES (INCLUDING NET PROFIT OR LOSS FOR THE FINANCIAL YEAR)

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Retained earnings from previous years	41,081	8,767	0	0
Net profit/(loss) for the financial year	(5,743)	40,170	8,527	0
<b>Total</b>	<b>35,338</b>	<b>48,937</b>	<b>8,527</b>	<b>0</b>

## 48 / PROFIT AVAILABLE FOR APPROPRIATION

	Nova KBM d.d.	
	31.12.2014	31.12.2013
Net profit/(loss) for the financial year	35,916	(656,500)
– accumulated losses from previous years	0	(287,234)
– retained earnings from previous years	0	262
– creation/release of reserves from profit and share premium	(27,389)	943,472
– regulatory reserves	(1,796)	12,145
– statutory reserves	(17,062)	172,158
– other reserves from profit	(8,531)	90,741
– share premium	0	668,428
<b>Profit available for appropriation</b>	<b>8,527</b>	<b>0</b>

For 2014, Nova KBM reported a net profit of €35,916,000. After transferring €27,389,000 to reserves, a total of €8,527,000 of the 2014 net profit remains undistributed and constitutes the profit available for appropriation. The decision regarding the use of the profit available for appropriation is to be made by the Nova KBM Shareholders' Meeting.

## OTHER NOTES

## 49 / COMMITMENTS AND CONTINGENT LIABILITIES BY TYPE

	Nova KBM Group			Nova KBM d.d.		
	31.12.2014			31.12.2014		
	Current	Non-current	Total	Current	Non-current	Total
Financial guarantees	48,703	30,379	79,082	42,934	26,854	69,788
Service guarantees	107,269	73,784	181,053	87,509	65,142	152,651
<b>Total guarantees</b>	<b>155,972</b>	<b>104,163</b>	<b>260,135</b>	<b>130,443</b>	<b>91,996</b>	<b>222,439</b>
<b>Unsecured letters of credit</b>	<b>58</b>	<b>0</b>	<b>58</b>	<b>172</b>	<b>0</b>	<b>172</b>
Approved and undrawn loans	138,665	4,290	142,955	135,475	4,034	139,509
Approved and undrawn overdrafts	180,752	1,232	181,984	155,570	0	155,570
Approved credit lines	8,078	0	8,078	0	0	0
<b>Total commitments and contingent liabilities</b>	<b>327,495</b>	<b>5,522</b>	<b>333,017</b>	<b>291,045</b>	<b>4,034</b>	<b>295,079</b>
<b>Derivatives</b>	<b>124,910</b>	<b>0</b>	<b>124,910</b>	<b>122,910</b>	<b>0</b>	<b>122,910</b>
<b>Total</b>	<b>608,435</b>	<b>109,685</b>	<b>718,120</b>	<b>544,570</b>	<b>96,030</b>	<b>640,600</b>

	Nova KBM Group			Nova KBM d.d.		
	31.12.2013			31.12.2013		
	Current	Non-current	Total	Current	Non-current	Total
Financial guarantees	46,797	45,634	92,431	39,391	36,888	76,279
Service guarantees	106,145	96,806	202,951	89,808	84,904	174,712
<b>Total guarantees</b>	<b>152,942</b>	<b>142,440</b>	<b>295,382</b>	<b>129,199</b>	<b>121,792</b>	<b>250,991</b>
<b>Unsecured letters of credit</b>	<b>128</b>	<b>0</b>	<b>128</b>	<b>293</b>	<b>0</b>	<b>293</b>
Approved and undrawn loans	69,714	1,039	70,753	68,093	870	68,963
Approved and undrawn overdrafts	184,838	1,196	186,034	157,640	0	157,640
Approved credit lines	9,696	0	9,696	0	0	0
<b>Total commitments and contingent liabilities</b>	<b>264,248</b>	<b>2,235</b>	<b>266,483</b>	<b>225,733</b>	<b>870</b>	<b>226,603</b>
<b>Derivatives</b>	<b>123,713</b>	<b>40,000</b>	<b>163,713</b>	<b>112,213</b>	<b>40,000</b>	<b>152,213</b>
<b>Total</b>	<b>541,031</b>	<b>184,675</b>	<b>725,706</b>	<b>467,438</b>	<b>162,662</b>	<b>630,100</b>

## Liabilities under rental agreements

	Nova KBM Group			Nova KBM d.d.		
	Annual amount in 2015	2 to 5 years 2016 – 2019	Over 5 years	Annual amount in 2015	2 to 5 years 2016 – 2019	Over 5 years
Business premises, parking spaces and ATMs	1,091	4,303	5,939	863	3,390	3,743
Computer software	155	620	1,508	86	344	859
Information channels	591	2,366	5,914	327	1,310	3,274
Other equipment	1,702	6,511	2,012	1,700	6,511	2,012
<b>Total</b>	<b>3,539</b>	<b>13,800</b>	<b>15,373</b>	<b>2,976</b>	<b>11,555</b>	<b>9,888</b>

	Nova KBM Group			Nova KBM d.d.		
	Annual amount in 2014	2 to 5 years 2015 – 2018	Over 5 years	Annual amount in 2014	2 to 5 years 2015 – 2018	Over 5 years
Business premises, parking spaces and ATMs	1,490	5,454	6,983	891	3,534	4,308
Computer software	142	567	1,418	89	357	893
Information channels	731	2,925	7,312	453	1,812	4,530
Other equipment	82	229	351	23	9	2
<b>Total</b>	<b>2,445</b>	<b>9,175</b>	<b>16,064</b>	<b>1,456</b>	<b>5,712</b>	<b>9,733</b>

Agreements for renting business premises, ATMs and information channels under operating lease agreements account for the largest proportion of the Group's liabilities under rental agreements.

The Group has not entered into any irrevocable rental agreements.

## Receivables under rental agreements

	Nova KBM Group			Nova KBM d.d.		
	Annual amount in 2015	2 to 5 years 2016 – 2019	Over 5 years	Annual amount in 2015	2 to 5 years 2016 – 2019	Over 5 years
Business premises, parking spaces and apartments	4,598	17,419	42,192	4,222	16,808	41,324
Other equipment	20	79	197	20	79	197
<b>Total</b>	<b>4,618</b>	<b>17,498</b>	<b>42,389</b>	<b>4,242</b>	<b>16,887</b>	<b>41,521</b>

	Nova KBM Group			Nova KBM d.d.		
	Annual amount in 2014	2 to 5 years 2015 – 2018	Over 5 years	Annual amount in 2014	2 to 5 years 2015 – 2018	Over 5 years
Business premises, parking spaces and apartments	4,836	18,323	35,267	365	1,400	2,835
Other equipment	22	79	197	20	79	197
<b>Total</b>	<b>4,858</b>	<b>18,402</b>	<b>35,464</b>	<b>385</b>	<b>1,479</b>	<b>3,032</b>

The most significant rental agreements have been made for renting out business premises and apartments under operating leases.

## 50 / DERIVATIVES

### 50.1 DERIVATIVES BY TYPE

	Nova KBM Group			Nova KBM d.d.		
	31.12.2014			31.12.2014		
	Current	Non-current	Total	Current	Non-current	Total
<b>Forwards</b>	<b>64,349</b>	<b>0</b>	<b>64,349</b>	<b>64,349</b>	<b>0</b>	<b>64,349</b>
– trading	64,349	0	64,349	64,349	0	64,349
<b>Other derivatives</b>	<b>16,254</b>	<b>0</b>	<b>16,254</b>	<b>16,254</b>	<b>0</b>	<b>16,254</b>
– trading	16,254	0	16,254	16,254	0	16,254
<b>Swaps</b>	<b>44,307</b>	<b>0</b>	<b>44,307</b>	<b>42,307</b>	<b>0</b>	<b>42,307</b>
– trading	44,307	0	44,307	42,307	0	42,307
<b>Total</b>	<b>124,910</b>	<b>0</b>	<b>124,910</b>	<b>122,910</b>	<b>0</b>	<b>122,910</b>

	Nova KBM Group			Nova KBM d.d.		
	31.12.2013			31.12.2013		
	Current	Non-current	Total	Current	Non-current	Total
<b>Forwards</b>	<b>85,241</b>	<b>0</b>	<b>85,241</b>	<b>85,241</b>	<b>0</b>	<b>85,241</b>
– trading	85,241	0	85,241	85,241	0	85,241
<b>Other derivatives</b>	<b>24,353</b>	<b>0</b>	<b>24,353</b>	<b>24,353</b>	<b>0</b>	<b>24,353</b>
– trading	24,353	0	24,353	24,353	0	24,353
<b>Swaps</b>	<b>14,119</b>	<b>40,000</b>	<b>54,119</b>	<b>2,619</b>	<b>40,000</b>	<b>42,619</b>
– trading	14,119	40,000	54,119	2,619	40,000	42,619
<b>Total</b>	<b>123,713</b>	<b>40,000</b>	<b>163,713</b>	<b>112,213</b>	<b>40,000</b>	<b>152,213</b>

## 50.2 DERIVATIVES HELD FOR TRADING

Type of risk	31.12.2014							
	Nova KBM Group				Nova KBM d.d.			
	Type of derivative	Book value taken to the statement of financial position		Off-balance sheet amount	Type of derivative	Book value taken to the statement of financial position		Off-balance sheet amount
		Assets	Liabilities			Assets	Liabilities	
Interest rate risk	Interest rate swaps	144	197	44,307	Interest rate swaps	144	138	42,307
Equity instrument price risk	Other derivatives	0	925	16,254	Other derivatives	0	925	16,254
Foreign exchange risk	Currency forwards	43	107	64,349	Currency forwards	43	107	64,349
<b>Total</b>		<b>187</b>	<b>1,229</b>	<b>124,910</b>		<b>187</b>	<b>1,170</b>	<b>122,910</b>

Type of risk	31.12.2013							
	Nova KBM Group				Nova KBM d.d.			
	Type of derivative	Book value taken to the statement of financial position		Off-balance sheet amount	Type of derivative	Book value taken to the statement of financial position		Off-balance sheet amount
		Assets	Liabilities			Assets	Liabilities	
Interest rate risk	Interest rate swaps	210	641	54,119	Interest rate swaps	210	195	42,619
Equity instrument price risk	Other derivatives	372	419	24,353	Other derivatives	372	419	24,353
Foreign exchange risk	Currency forwards	30	362	85,241	Currency forwards	30	362	85,241
<b>Total</b>		<b>612</b>	<b>1,422</b>	<b>163,713</b>		<b>612</b>	<b>976</b>	<b>152,213</b>

## 51 / AUTHORISED TRANSACTIONS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Non-financial companies	0	3	0	3
State	5,277	7,268	5,277	7,268
Banks and other financial organisations	4,143	10,675	9,272	22,745
Households	7	11	7	11
Non-profit institutions serving households	1,273	1,253	1,273	1,253
Foreign persons	0	78	0	0
Liabilities related to transactions in securities	2,580	615	2,580	615
<b>Total fiduciary activities</b>	<b>13,280</b>	<b>19,903</b>	<b>18,409</b>	<b>31,895</b>
Other activities	555,882	363,511	555,882	363,511
<b>Total fiduciary and other activities</b>	<b>569,162</b>	<b>383,414</b>	<b>574,291</b>	<b>395,406</b>



## 52 / FIDUCIARY ACTIVITIES

Nova KBM Group and Nova KBM d.d.	31.12.2014	31.12.2013
<b>ASSETS</b>	<b>2,336</b>	<b>614</b>
<b>Claims of settlement and transactions accounts for customer assets</b>	<b>821</b>	<b>117</b>
– from financial instruments	135	75
– against the Central Securities Clearing Corporation or the Bank 's clearing account for sold financial instruments	243	42
– against other settlement systems and institutions for sold financial instruments (buyers)	443	0
<b>Customers ' cash</b>	<b>1,515</b>	<b>497</b>
– in the settlement account for customer assets	811	363
– in banks ' transaction accounts	704	134
<b>LIABILITIES</b>	<b>2,336</b>	<b>614</b>
<b>Liabilities of settlement and transactions accounts for customer assets</b>	<b>2,336</b>	<b>614</b>
– to customers from cash and financial instruments	2,201	539
– to the Central Securities Clearing Corporation or the Bank 's clearing account for purchased financial instruments	18	0
– to other settlement systems and institutions for purchased financial instruments (suppliers)	19	0
– to the Bank or the Bank 's settlement account for commissions, fees, etc.	98	75
<b>OFF-BALANCE SHEET ITEMS</b>	<b>37</b>	<b>0</b>
<b>Customers ' financial instruments, itemised by service</b>	<b>37</b>	<b>0</b>
– receipt, transmission and execution of orders	37	0

## 53 / RELATED PARTY TRANSACTIONS

### 53.1 STATEMENT OF FINANCIAL POSITION AND OFF-BALANCE SHEET ITEMS

	Associates		Associates		Subsidiaries	
	Nova KBM Group		Nova KBM d.d.		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Assets</b>						
Deposits and loans given (gross amount)	2	1	2	1	48,732	323,994
– deposits and loans to banks	0	0	0	0	14,901	76,283
– deposits and loans to customers	2	1	2	1	33,512	247,661
– other financial assets	0	0	0	0	319	50
Investments in securities	2,237	2,237	2,237	2,237	177,935	56,752
– equity instruments	2,237	2,237	2,237	2,237	177,935	55,064
– debt securities	0	0	0	0	0	1,688
Other claims	0	0	0	0	0	165
<b>Liabilities</b>						
Deposits and loans received	1,755	1,759	1,755	1,748	15,914	53,924
– deposits and loans from banks and central banks	0	0	0	0	10,080	48,208
– deposits and loans from customers	1,755	1,749	1,755	1,748	5,675	4,616
– other financial liabilities	0	10	0	0	159	1,100
Securities issued	0	0	0	0	8,323	8,279
– debt securities	0	0	0	0	8,323	8,279
Subordinated liabilities	0	0	0	0	0	100
Other liabilities	0	0	0	0	0	1
<b>Off-balance sheet items</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>1,983</b>	<b>4,063</b>

	Key management personnel				Other related persons			
	Nova KBM Group		Nova KBM d.d.		Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Assets</b>								
Deposits and loans given (gross amount)	332	297	332	297	44,406	5,166	306	4,621
– loans to customers	332	297	332	297	44,406	5,166	306	4,621
Investments in securities	0	0	0	0	417	382	383	348
– equity instruments	0	0	0	0	417	382	383	348
<b>Liabilities</b>								
Deposits and loans received	495	574	495	474	1,678	1,560	654	164
– deposits and loans from customers	495	574	495	474	1,479	1,442	535	46
– other financial liabilities	0	0	0	0	199	118	119	118
<b>Off-balance sheet items</b>	44	69	44	69	3,487	371	122	132

Key management personnel of the Group include members of the Management Board, executive directors and members of the Supervisory Board of Nova KBM.

Other related persons of the Group include:

- immediate families 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 families
- key management personnel of subsidiaries (management board and executive directors)
- immediate families 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 families.

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

## 53.2 INCOME STATEMENT

	Associates		Associates		Subsidiaries	
	Nova KBM Group		Nova KBM d.d.		Nova KBM d.d.	
	2014	2013	2014	2013	2014	2013
Net interest income	(67)	(89)	(90)	(89)	9,085	12,567
Dividend income	0	0	0	0	583	526
Net fee and commission income	18	(3)	7	7	679	997
Costs of services	0	(24)	0	0	(66)	(101)
Impairment of loans	0	0	0	0	16,074	(52,025)
Provisions	0	0	0	0	1,412	(1,056)
Impairment of investments	0	0	0	0	(14,391)	(119,482)
<b>Total</b>	<b>(49)</b>	<b>(116)</b>	<b>(83)</b>	<b>(82)</b>	<b>13,376</b>	<b>(158,574)</b>

	Key management personnel				Other related persons			
	Nova KBM Group		Nova KBM d.d.		Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013	2014	2013	2014	2013
Net interest income	(2)	(17)	(1)	(13)	1,478	1,419	285	233
Net fee and commission income	0	0	0	0	(328)	(430)	3	7
Costs of services	(258)	(421)	(179)	(233)	(2,364)	(1,598)	(2,248)	(1,520)
Impairments	0	0	0	0	7,462	(2,167)	(1,139)	(2,167)
Provisions	0	0	0	0	(435)	0	0	0
<b>Total</b>	<b>(260)</b>	<b>(438)</b>	<b>(180)</b>	<b>(246)</b>	<b>5,813</b>	<b>(2,776)</b>	<b>(3,099)</b>	<b>(3,447)</b>

## 53.3 LOANS AND GUARANTEES GIVEN

Nova KBM Group	Management Board members		Supervisory Board members		Other Group employees on individual contracts	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Loans	92	6	29	47	2,111	2,539
Average interest rate on loans (%)	4.14	8.48	3.61	3.66	3.36	3.48
Repayments	7	0	7	12	496	490

Nova KBM d.d.	Management Board members		Supervisory Board members		Other Bank employees on individual contracts	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Loans	92	6	29	47	1,336	1,422
Average interest rate on loans (%)	4.14	8.48	3.61	3.66	3.22	3.43
Repayments	7	0	7	12	262	267

## 54 / SUBSIDIARY AND ASSOCIATED COMPANIES

### 54.1 DISCLOSURES ON SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

	KBM Infond d.o.o.	
	2014	2013
Share of non-controlling interests in voting rights (%)	27.27	27.27
Share of non-controlling interests in equity (%)	27.27	27.27
Financial assets held for trading	1,373	816
Available-for-sale financial assets	3,545	3,770
Loans and advances	618	580
Other assets	77	70
Financial liabilities measured at amortised cost	428	919
<b>Net worth (equity)</b>	<b>12,590</b>	<b>12,671</b>
<b>Equity attributable to non-controlling interests</b>	<b>2,383</b>	<b>2,133</b>
Net income	4,751	4,865
Operating costs	(3,172)	(3,209)
Provisions and impairment losses	(13)	(192)
Profit from continuing operations	1,566	1,464
Tax (expense) related to profit or loss from continuing operations	(257)	(6)
<b>Net profit for the financial year</b>	<b>1,309</b>	<b>1,458</b>
<b>Net profit for the financial year attributable to non-controlling interests</b>	<b>357</b>	<b>398</b>
Other comprehensive income	191	(436)
Total comprehensive income	1,501	1,022
<b>Total comprehensive income attributable to non-controlling interests</b>	<b>409</b>	<b>279</b>
Cash flows from operating activities	1,001	1,368
Cash flows from financing activities	(237)	(25)
Cash flows from investing activities	(583)	(2,621)
<b>Net increase/(decrease) in cash and cash equivalents during the period</b>	<b>181</b>	<b>(1,278)</b>
<b>Dividends paid to non-controlling interests</b>	<b>159</b>	<b>169</b>

## 54.2 DISCLOSURES ON SIGNIFICANT ASSOCIATES

The associated company Moja naložba is an independent commercial company headquartered in the Republic of Slovenia and engaged in the provision of supplementary pension insurance.

The services provided by Moja naložba are regarded as auxiliary services offered by the Nova KBM Group and constitute an alternative to investments in mutual funds or bank deposits.

Moja naložba is a non-listed company. In the consolidated financial statements, it is accounted for using the equity method, as set out in IAS 28.

	Moja naložba d.d.	
	2014	2013
<b>Share of the reporting entity in voting rights (%)</b>	<b>45</b>	<b>45</b>
<b>Share of the reporting entity in equity (%)</b>	<b>45</b>	<b>45</b>
Financial assets	6,835	5,994
Assets from financial contracts	105,105	100,784
Insurance technical provisions	3,066	2,309
Liabilities for financial contracts	104,849	100,956
Net worth (equity)	7,030	6,572
<b>Equity attributable to the reporting entity</b>	<b>3,164</b>	<b>2,957</b>
Net earned premiums	815	1,065
Income from investments	494	363
Other insurance income	1,284	1,500
Change in insurance technical provisions	(756)	(1,014)
Operating costs	(1,238)	(1,437)
Expenses for investments	(261)	(649)
Profit/(loss) before tax	343	(387)
Income tax expense	0	0
Net profit/(loss) for the financial year	343	(387)
<b>Net profit/(loss) attributable to the reporting entity</b>	<b>147</b>	<b>(174)</b>
<b>Other comprehensive income</b>	<b>115</b>	<b>92</b>
<b>Total comprehensive income</b>	<b>457</b>	<b>(295)</b>
Cash flows from operating activities	723	177
Cash flows from financing activities	(739)	(142)
Cash flows from investing activities	0	0
<b>Net increase/(decrease) in cash equivalents during the period</b>	<b>(16)</b>	<b>35</b>
<b>Dividends paid to the reporting entity</b>	<b>0</b>	<b>0</b>

## 55 / TOTAL LOSS AFTER TAX FROM DISCONTINUED OPERATIONS

KBM Banka was founded in 1955 and has focused on the provision of corporate and retail banking services. It became a member of the Nova KBM Group in 2010. In December 2014, the Nova KBM Management Board passed a decision to sell KBM Banka to a strategic investor, and the investment in KBM Banka was book-transferred to 'Non-current assets held for sale and discontinued operations'. Components of profit and loss and assets and liabilities included in disposal groups classified as held for sale are presented in the tables below.

## Income statement of discontinued operations

ITEM DESCRIPTION	Year ended 31.12.2014	Year ended 31.12.2013
Income of discontinued operations	9,406	12,010
Expenses of discontinued operations	(12,363)	(17,674)
Profit/(loss) of discontinued operations before tax	(2,957)	(5,664)
Income tax relating to discontinued operations	257	583
Fair value measurement loss, reduced by costs to sell	(16,407)	0
<b>Total (loss) after tax from discontinued operations</b>	<b>(19,107)</b>	<b>(5,081)</b>
a) Attributable to owners of the parent	(17,560)	(4,521)
b) Attributable to non-controlling interests	(1,547)	(560)

The Group recognised a loss of €16,407,000 arising from the impairment as a result of the initial write-down of the disposal group to fair value less cost to sell.

The effect on Nova KBM's profit or loss of the reclassification into discontinued operations of the investment in the equity of a subsidiary bank is reported in the item 'Net loss from discontinued operations' and totalled €3,351,000 in 2014 (2013: €17,199,000).

## Statement of comprehensive income of discontinued operations

ITEM DESCRIPTION	Year ended 31.12.2014	Year ended 31.12.2013
<b>NET (LOSS) FOR THE FINANCIAL YEAR AFTER TAX</b>	<b>(19,107)</b>	<b>(5,081)</b>
<b>OTHER COMPREHENSIVE (LOSS) AFTER TAX</b>	<b>(703)</b>	<b>(146)</b>
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>	<b>(6)</b>	<b>0</b>
Actuarial (losses) on defined benefit pension plans	(6)	0
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>	<b>(697)</b>	<b>(146)</b>
Foreign currency translation differences arising from consolidation	(753)	(191)
– translation (losses) taken to equity	(753)	(191)
<b>Available-for-sale financial assets</b>	<b>56</b>	<b>45</b>
– valuation gains taken to equity	56	45
<b>TOTAL COMPREHENSIVE (LOSS) FOR THE FINANCIAL YEAR AFTER TAX</b>	<b>(19,810)</b>	<b>(5,227)</b>
a) Attributable to owners of the parent	(18,189)	(4,655)
b) Attributable to non-controlling interests	(1,621)	(572)

## Statement of cash flows of discontinued operations

ITEM DESCRIPTION	Year ended 31.12.2014	Year ended 31.12.2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(8,261)</b>	<b>(14,911)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>1,960</b>	<b>1,006</b>
Receipts from investing activities	2,030	2,636
Cash payments on investing activities	(70)	(1,630)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>0</b>	<b>0</b>
Effects of change in exchange rates on cash and cash equivalents	(997)	(423)
<b>Net (decrease) in cash and cash equivalents</b>	<b>(6,301)</b>	<b>(13,905)</b>
<b>Opening balance of cash and cash equivalents</b>	<b>29,942</b>	<b>44,270</b>
<b>Closing balance of cash and cash equivalents</b>	<b>22,644</b>	<b>29,942</b>

## Assets and liabilities of discontinued operations

ITEM DESCRIPTION	31.12.2014
Cash, cash balances at central banks and other demand deposits at banks	22,613
Financial assets held for trading	1,183
Available-for-sale financial assets	8,770
<b>Loans and advances</b>	<b>20,711</b>
– loans and advances to banks	27
– loans and advances to customers	20,461
– other financial assets	223
Held-to-maturity financial assets	26
Non-current assets held for sale and discontinued operations	604
Property, plant and equipment	4,534
Intangible assets	1,138
<b>Tax assets</b>	<b>44</b>
– deferred tax assets	44
Other assets	200
<b>TOTAL ASSETS</b>	<b>59,823</b>
<b>Financial liabilities measured at amortised cost</b>	<b>59,212</b>
– deposits from banks and central banks	3,232
– deposits from customers	55,648
– loans from banks and central banks	45
– loans from customers	2
– other financial liabilities	285
Provisions	321
<b>Tax liabilities</b>	<b>(267)</b>
– deferred tax liabilities	(267)
Other liabilities	557
<b>TOTAL LIABILITIES</b>	<b>59,823</b>

In the note on operating segments, KBM Banka is presented in a separate item called 'Total loss after tax from discontinued operations'. Financials included in the analysis for the comparable period have been restated to reflect the effects of discontinued operations up to the date of the preparation of financial statements and the related notes for the last reported period.

## 56 / EXPOSURE TO THE BANK OF SLOVENIA, REPUBLIC OF SLOVENIA AND STATE-OWNED INSTITUTIONS

Exposure to:	Nova KBM Group		Nova KBM d.d.	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
<b>Bank of Slovenia</b>	<b>281,328</b>	<b>329,921</b>	<b>232,344</b>	<b>293,717</b>
– settlement account	266,557	323,191	221,167	289,938
– other	14,771	6,730	11,177	3,779
<b>Republic of Slovenia</b>	<b>1,260,066</b>	<b>1,396,878</b>	<b>1,039,086</b>	<b>1,155,415</b>
– bonds	548,532	705,739	416,031	504,918
– other securities	276,093	276,472	213,222	263,594
– loans	22,099	1,765	20,909	0
– loans guaranteed by the Republic of Slovenia, by type	405,400	411,335	379,574	385,587
– other	7,041	666	8,449	415
<b>State-owned institutions</b>	<b>452,348</b>	<b>440,272</b>	<b>480,439</b>	<b>543,943</b>
– loans	186,426	212,252	190,177	346,021
– securities	97,913	88,632	148,025	101,117
– commitments and contingent liabilities	101,867	83,504	100,270	83,302
– other	66,142	55,884	41,967	13,503
<b>Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions</b>	<b>1,993,742</b>	<b>2,167,071</b>	<b>1,751,869</b>	<b>1,993,075</b>
Share in total assets (%)	45.63	45.05	48.55	50.97
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	901	901	901	901
<b>Total assets</b>	<b>4,369,010</b>	<b>4,810,793</b>	<b>3,608,215</b>	<b>3,909,983</b>



## 57 / MOVEMENTS IN PAST-DUE AND UNPAID CLAIMS

Nova KBM Group	01.01.2014	(%)	Net increase	Write-offs	Exchange rate differences	31.12.2014	(%)
Loans and advances to banks	2,523	1.91	(2,376)	0	(132)	15	0.03
Loans and advances to customers	614,763	21.79	95,234	(53,084)	(1,091)	655,822	25.82
Other financial assets	4,613	20.29	1,311	(961)	0	4,963	19.94
<b>Total</b>	<b>621,899</b>		<b>94,169</b>	<b>(54,045)</b>	<b>(1,223)</b>	<b>660,800</b>	

Nova KBM Group	01.01.2013	(%)	Net increase/(decrease)	Write-offs	Exchange rate differences	Transfer to BAMC	31.12.2013	(%)
Available-for-sale financial assets	82	0.01	0	(82)	0	0	0	0.00
Loans and advances to banks	2,586	1.56	(35)	0	(28)	0	2,523	1.91
Loans and advances to customers	934,175	23.13	414,880	(20,193)	(17)	(714,082)	614,763	21.79
Other financial assets	5,028	6.06	801	(462)	0	(754)	4,613	20.29
<b>Total</b>	<b>941,871</b>		<b>415,646</b>	<b>(20,737)</b>	<b>(45)</b>	<b>(714,836)</b>	<b>621,899</b>	

Nova KBM d.d.	01.01.2014	(%)	Net increase	Write-offs	31.12.2014	(%)
Loans and advances to banks	2	0.00	14	0	16	0.02
Loans and advances to customers	345,156	15.18	98,618	(48,352)	395,422	19.72
Other financial assets	1,781	13.89	567	(701)	1,647	12.39
<b>Total</b>	<b>346,939</b>		<b>99,199</b>	<b>(49,053)</b>	<b>397,085</b>	

Nova KBM d.d.	01.01.2013	(%)	Net increase/(decrease)	Write-offs	Transfer to BAMC	31.12.2013	(%)
Loans and advances to banks	29	0.02	(27)	0	0	2	0.00
Loans and advances to customers	701,372	20.25	326,384	(7,382)	(675,218)	345,156	15.18
Other financial assets	2,171	2.91	797	(441)	(746)	1,781	13.89
<b>Total</b>	<b>703,572</b>		<b>327,154</b>	<b>(7,823)</b>	<b>(675,964)</b>	<b>346,939</b>	

## 58 / REMUNERATION

	Nova KBM Group		Nova KBM d.d.	
	2014	2013	2014	2013
<b>Management Board</b>	<b>374</b>	<b>275</b>	<b>314</b>	<b>275</b>
Aleš Hauc	135	138	135	138
Igor Žibrik	172	137	112	137
Robert Senica	52	0	52	0
Sabina Župec Kranjc	15	0	15	0
<b>Supervisory Board members</b>	<b>130</b>	<b>186</b>	<b>130</b>	<b>186</b>
<b>Members of Supervisory Board committees</b>	<b>70</b>	<b>88</b>	<b>70</b>	<b>88</b>
<b>Other Group employees on individual contracts</b>	<b>6,745</b>	<b>8,196</b>	<b>2,902</b>	<b>3,675</b>
<b>Total</b>	<b>7,319</b>	<b>8,745</b>	<b>3,416</b>	<b>4,224</b>

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

Igor Žibrik ended his term of office as a member of the Management Board on 31 October 2014. Robert Senica and Sabina Župec Kranjc were appointed as new members of the Management Board on 1 August 2014 and 17 November 2014, respectively.

Remuneration paid to members of the Supervisory Board, the Audit Committee, and the Remuneration and Nomination Committee comprises: a payment for holding the office, and to cover 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, retirement benefits, compensation for a non-competition clause, and some other remuneration under employment contracts).

The total amounts paid in 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 were €36,000 and €41,000, respectively.

## 58.1 ANALYSIS OF REMUNERATION PAID TO MANAGEMENT BOARD MEMBERS, EXECUTIVE DIRECTORS, SUPERVISORY BOARD MEMBERS AND MEMBERS OF SUPERVISORY BOARD COMMITTEES

### Remuneration of the Management Board

Nova KBM d.d.	2014											
	Salary		Pay for annual leave		Awards		Bonuses	Supplementary pension insurance premiums	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
Aleš Hauc	126,346.57	59,663.83	789.15	474.25	0.00	0.00	4,662.79	2,819.04	0.00	0.00	134,617.55	60,138.08
Igor Žibrik (up to 31.10.2014)	100,647.49	46,321.93	789.15	476.59	0.00	0.00	8,328.40	2,349.20	60,388.38	23,521.28	172,502.62	70,319.80
Robert Senica (from 01.08.2014)	48,154.21	23,140.90	328.81	200.87	0.00	0.00	2,666.23	1,174.60	0.00	0.00	52,323.85	23,341.77
Sabina Župec Kranjc (from 17.11.2014)	14,302.49	7,183.22	0.00	0.00	0.00	0.00	318.82	234.92	0.00	0.00	14,856.23	7,183.22
<b>Total</b>	<b>289,450.76</b>	<b>136,309.88</b>	<b>1,907.11</b>	<b>1,151.71</b>	<b>0.00</b>	<b>0.00</b>	<b>15,976.24</b>	<b>6,577.76</b>	<b>60,388.38</b>	<b>23,521.28</b>	<b>374,300.25</b>	<b>160,982.87</b>

Nova KBM d.d.	2013											
	Salary		Pay for annual leave		Awards		Bonuses	Supplementary pension insurance premiums	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
Aleš Hauc	129,049.76	59,796.91	783.66	470.15	0.00	0.00	5,333.65	2,819.04	0.00	0.00	137,986.11	60,267.06
Igor Žibrik	122,597.22	55,517.15	783.66	472.63	0.00	0.00	10,396.94	2,819.04	0.00	0.00	136,596.86	55,989.78
<b>Total</b>	<b>251,646.98</b>	<b>115,314.06</b>	<b>1,567.32</b>	<b>942.78</b>	<b>0.00</b>	<b>0.00</b>	<b>15,730.59</b>	<b>5,638.08</b>	<b>0.00</b>	<b>0.00</b>	<b>274,582.97</b>	<b>116,256.84</b>

### Remuneration of Executive Directors

Nova KBM d.d.	2014											
	Salary		Pay for annual leave		Awards		Bonuses	Supplementary pension insurance premiums	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
<b>Total</b>	<b>483,013.23</b>	<b>241,918.07</b>	<b>4,077.28</b>	<b>2,608.82</b>	<b>0.00</b>	<b>0.00</b>	<b>21,324.08</b>	<b>3,050.00</b>	<b>0.00</b>	<b>0.00</b>	<b>511,464.59</b>	<b>244,526.89</b>

Nova KBM d.d.	2013											
	Salary		Pay for annual leave		Awards		Bonuses	Supplementary pension insurance premiums	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
<b>Total</b>	<b>641,004.33</b>	<b>294,294.06</b>	<b>6,957.04</b>	<b>4,417.54</b>	<b>0.00</b>	<b>0.00</b>	<b>37,712.29</b>	<b>4,350.00</b>	<b>77,934.84</b>	<b>48,781.62</b>	<b>767,958.50</b>	<b>347,493.22</b>

## Remuneration of the Supervisory Board

€

Nova KBM d.d.	2014			
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees and liability insurance	Total
Peter Kukovica	24,945.00	2,391.35	113.33	27,449.68
Niko Samec	19,470.04	452.77	113.33	20,036.14
Karmen Dvorjak	1,810.47	67.32	0.00	1,877.79
Andrej Fatur	17,739.96	1,205.29	113.32	19,058.57
Miha Glavič	18,664.96	0.00	113.32	18,778.28
Peter Kavčič	17,299.96	534.21	367.52	18,201.69
Egon Žižmond	4,040.64	0.00	0.00	4,040.64
Keith Charles Miles	13,237.19	7,541.46	113.32	20,891.97
<b>Total</b>	<b>117,208.22</b>	<b>12,192.40</b>	<b>934.14</b>	<b>130,334.76</b>

€

Nova KBM d.d.	2013			
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees and liability insurance	Total
Peter Kukovica	26,305.00	2,570.13	414.00	29,289.13
Niko Samec	20,451.71	353.29	413.98	21,218.98
Karmen Dvorjak	18,318.29	654.31	414.00	19,386.60
Andrej Fatur	18,251.29	3,066.08	676.73	21,994.10
Miha Glavič	19,088.29	0.00	414.00	19,502.29
Peter Kavčič	18,603.29	770.18	1,210.87	20,584.34
Keith Charles Miles	19,884.62	10,628.65	414.00	30,927.27
Egon Žižmond	18,813.29	0.00	413.97	19,227.26
Aljoša Tomaž	3,817.21	262.64	0.00	4,079.85
<b>Total</b>	<b>163,532.99</b>	<b>18,305.28</b>	<b>4,371.55</b>	<b>186,209.82</b>

## Remuneration of the Audit Committee

€

Nova KBM d.d.	2014			
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Aleksander Igličar	6,950.00	786.78	0.00	7,736.78
Keith Charles Miles	7,426.12	1,782.79	0.00	9,208.91
Andrej Fatur	5,009.96	1,625.76	0.00	6,635.72
Peter Kavčič	4,840.81	105.89	0.00	4,946.70
Gojko Koprivec	5,998.21	654.12	0.00	6,652.33
Jernej Pirc	3,364.84	331.18	0.00	3,696.02
<b>Total</b>	<b>33,589.94</b>	<b>5,286.52</b>	<b>0.00</b>	<b>38,876.46</b>

€

Nova KBM d.d.	2013			
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Andrej Svetina	220.00	0.00	0.00	220.00
Kosta Bizjak	220.00	0.00	0.00	220.00
Franc Koletnik	220.00	0.00	0.00	220.00
Aleksander Igličar	10,782.00	946.60	0.00	11,728.60
Keith Charles Miles	8,154.93	4,263.45	0.00	12,418.38
Andrej Fatur	5,852.79	1,947.08	0.00	7,799.87
John Harris	11,002.00	5,978.87	0.00	16,980.87
Peter Kavčič	2,348.17	54.05	0.00	2,402.22
<b>Total</b>	<b>38,799.89</b>	<b>13,190.05</b>	<b>0.00</b>	<b>51,989.94</b>

## Remuneration of the Remuneration and Nomination Committee

				€
Nova KBM d.d.				2014
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Peter Kukovica	6,567.52	552.46	0.00	7,119.98
Niko Samec	4,129.96	0.00	0.00	4,129.96
Peter Kavčič	3,859.13	30.28	0.00	3,889.41
Romana Košorok	8,460.00	427.54	0.00	8,887.54
Adriana Rejc Buhovac	6,510.00	209.64	0.00	6,719.64
<b>Total</b>	<b>29,526.61</b>	<b>1,219.92</b>	<b>0.00</b>	<b>30,746.53</b>

				€
Nova KBM d.d.				2013
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Peter Kukovica	7,142.93	1,073.67	0.00	8,216.60
Niko Samec	5,500.79	0.00	0.00	5,500.79
Peter Kavčič	4,840.79	33.39	0.00	4,874.18
Romana Košorok	10,210.00	1,109.93	0.00	11,319.93
Jure Srhoj	125.81	0.00	0.00	125.81
Adriana Rejc Buhovac	5,550.00	61.59	0.00	5,611.59
<b>Total</b>	<b>33,370.32</b>	<b>2,278.58</b>	<b>0.00</b>	<b>35,648.90</b>

## 59 / EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

In February 2015, the Supervisory Board recalled Aleš Hauc from the position of the President of the Management Board, and appointed Robert Senica, who was then a member of the Management Board, as the new President.