

**Disclosures made by Nova KBM on the basis of  
its consolidated financial position for  
the year 2015**

Maribor, March 2016



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## 1. Preliminary observations

In accordance with Part 8 of Regulation (EU) No. 575/2013 of the European Parliament and the European Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereafter: the Regulation), Nova KBM is, on the basis of its consolidated financial position, obliged to disclose important information that could, if omitted or misstated, change or influence the assessment or decision of a user relying on that information to make business decisions. The legislation gives reporting entities the option of not disclosing confidential information or business secrets.

As the parent company of the Nova KBM Group, Nova KBM is obliged to publish the relevant disclosures on the basis of its consolidated financial position.

The method and frequency of disclosing important information, as well as the method used to verify this information, are set out in the Nova KBM Disclosure Policy. Considering the options available, Nova KBM has decided to publish the disclosures in a separate document in which it has described each individual disclosure in accordance with the Regulation. The majority of requested information is disclosed by Nova KBM in its annual report, in compliance with the applicable legislation and International Financial Reporting Standards. The disclosures, which form an integral part of the annual report and must, in addition, be published under the Regulation, are not contained herein; only a reference is given in this document to the relevant disclosures in Nova KBM's annual report.

The disclosures have been verified from the point of view of integrity and accuracy by the Internal Audit Centre of Nova KBM.

## **2. Risk management objectives and policies**

### **2.1 Strategies and processes to manage risks**

*(Article 435(1.a) of the Regulation)*

This disclosure is included in the 2015 Annual Report of the Nova KBM Group and Nova KBM; an overview of strategies and processes with respect to risk management is presented in the business part of the annual report (Section 8: 'Risk Management'), while the disclosures made by individual types of risk are set out in the notes to the financial statements (Note 4: 'Risk exposure').

In accordance with its mission, the Nova KBM Group will always ensure the security of its operations and will comply with the highest standards of risk management. The basic approach to risk management in the Nova KBM Group is based on this premise. The Nova KBM Group is aware of all the risks that are inherent in its operations, and categorizes these according to the type of risk, individual organizational units, business lines, and employees.

The Nova KBM Group uses a systematic approach for measuring risks. It identifies and assesses each type of risk. Based on appropriate risk assessments, measures are adopted to mitigate the identified risks, with the forward-looking analysis being used as the basis for active risk management.

In order to be able to continue identifying, measuring and managing in an effective and advanced manner all types of risks to which it is exposed in its operations, in 2016 the Nova KBM Group will start a comprehensive upgrade of its internal capital adequacy assessment process (ICAAP).

The management of individual types of risk is regulated by the respective risk management policies that set out the acceptable level of risk exposure.

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

- the identification and assessment of all types of risk
- the monitoring of risk factors using internal methodologies
- the continuous monitoring of exposure to risk and consideration of established limits
- adapting risk management methodologies, rules and processes to the evolving business environment.

### **2.2 Structure and organization of the relevant risk management function, including information on its authority and status, or other appropriate arrangements**

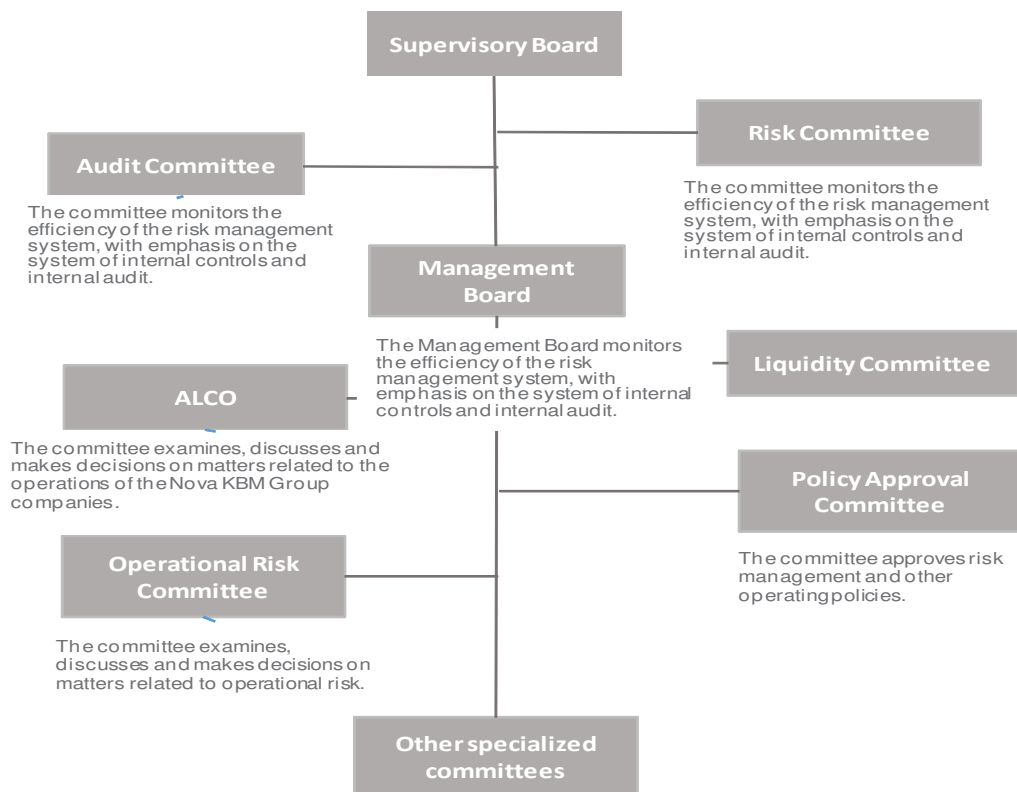
*(Article 435(1.b) of the Regulation)*

The Nova KBM Group has set up a risk management structure that requires an active role of the Supervisory and Management Boards, while ensuring that risk management is an independent function, organizationally segregated from business functions. Key decisions in respect of risk management are made by the Management and Supervisory Boards. In order to comply with Article 138 of the Banking Act (ZBan-2), the Executive Director of the Risk Management Division has been provided with direct access to the Supervisory Board since May 2015. The established risk management framework ensures a clear demarcation of responsibilities, with the independent Risk Management Division having a complete overview

of the exposure to all types of risk and being responsible for their effective management, while the business functions, where most of the decisions that affect the Nova KBM Group's exposure to risk are made, are responsible for taking risk in a thoughtful manner.

To ensure systematic control of exposure to principal banking risks, a system of internal controls has been set up at all organizational levels, with managers being charged with the task of implementing appropriate internal controls in their respective departments. Risk management strategies, policies, procedures, processes, methodologies and reporting systems adopted by Nova KBM and other companies within the Nova KBM Group are, in terms of their efficiency and compliance with the established internal governance structures, verified and assessed by the Internal Audit Centre and the Compliance Office, two functions that are independent of other functions, including the risk management function. While the duty of the Compliance Office is to ensure proper management of compliance risk by adhering to the applicable regulations, legislation and standards of good business practice, the Internal Audit Centre is responsible for providing the Management Board, the Audit Committee and the senior management personnel with an impartial assessment of the effectiveness and efficiency of the internal governance frameworks, including the risk management systems and processes and the systems of internal controls. In addition, the Internal Audit Centre provides support and assistance to the Management Board in protecting the long-term interests of Nova KBM and its reputation. As part of the assessment of the internal governance frameworks, the Internal Audit Centre conducts an independent assessment of the compliance and risk management functions.

As presented in the picture below, Nova KBM's governance structure has several levels, which is to ensure effective management of risk. Decisions in respect of risk management and significant risk taking are made by the bodies presented on the following pages.



### **Supervisory Board**

The Supervisory Board is regularly informed of the performance of Nova KBM, significant risks to which Nova KBM is exposed in its operations, and measures taken to effectively manage those risks. It is also informed of any significant legal risks to which Nova KBM is exposed and that may affect its reputation. To perform its function in the most efficient way, the Supervisory Board is assisted by the Audit Committee and the Risk Committee. The Executive Director of the Risk Management Division reports on Nova KBM's exposure to credit, operational, market, liquidity and profitability risks at each meeting of the Risk Committee. The Risk Committee and the Supervisory Board regularly consider the loan portfolio reports, and the Supervisory Board gives consent to any transaction based on which Nova KBM's total exposure to an individual customer or a group of related customers would exceed 10% of Nova KBM's capital.

### **Audit Committee**

The Management Board regularly reports to the Audit Committee on the performance and results of Nova KBM, while the Internal Audit Centre reports to the Audit Committee on the implementation of recommendations given by the former to individual business segments of Nova KBM. The reports presented to the Audit Committee are prepared in such a way as to ensure proper monitoring of the effectiveness of the risk management system and the functioning of the system of internal controls.

The Nova KBM Management Board is responsible for governing the Nova KBM Group and for setting up an organizational structure that enables effective management of risk. The systematic reports on risks taken by the Nova KBM Group make it possible for the Management Board to reach decisions in respect of any changes to the adopted risk management strategies, methodologies, instructions and processes, if this proves necessary. In order to manage risks and the funding in an even more effective manner, the Management Board has, in addition to the ALCO, set up the Policy Approval Committee and, in 2015, also the Operational Risk Committee.

At the Nova KBM Group level, Nova KBM manages risks on the basis of monthly reporting provided by each company within the Nova KBM Group. Through its representatives on supervisory boards of subsidiary companies, Nova KBM regularly controls the operations of the Nova KBM Group companies.

### **Assets and Liabilities Committee (ALCO)**

The ALCO is responsible for reviewing, discussing and reaching decisions on the following issues related to the operations of the Nova KBM Group companies:

- movements in assets and liabilities
- movements in the statement of financial position and the income statement
- results and projections of interest income
- capital position and capital adequacy
- movements in the loan portfolio quality
- liquidity position and liquidity ratios
- market (interest rate, foreign exchange and position) risks
- implementation of the adopted policies and methodologies
- exposure to financial risks.

In addition to the competences listed in the previous paragraph, the ALCO may also decide on other issues related to Nova KBM's management of assets, liabilities and risks.

Members of the ALCO are members of the Nova KBM Management Board, Nova KBM's executive directors and managers of the areas concerned, and representatives and members of management boards of the Nova KBM Group companies. Each member of the

ALCO has a deputy. The Chair of the ALCO may invite other officers to present reports on specific topics at the meetings of the ALCO. The Chair of the ALCO is the President of the Nova KBM Management Board, while the Deputy Chair is a Nova KBM Management Board member.

### **Operational Risk Committee**

The Operational Risk Committee is responsible for reviewing, discussing and reaching decisions on the following issues related to the operations of Nova KBM:

- quarterly, semi-annual and annual operational risk management reports
- opinions regarding the monitoring, measurement, assessment and management of operational risk
- initiatives regarding the monitoring, measurement, assessment and management of operational risk
- reasons for and consequences of significant or material loss events
- assessments of the exposure to operational risk made by other organizational units (e.g. the Internal Audit Centre, the Legal Office, the Compliance and Integrity Department, the Information Technology Department, the HR Department, etc.)
- requirements of regulators (the Bank of Slovenia, the ECB and external auditors) regarding operational risk management.

In addition to the competences listed in the previous paragraph, the Operational Risk Committee may, based on a decision of the Management Board, discuss and decide on other issues related to Nova KBM's management of operational risk.

Members of the Operational Risk Committee are members of the Nova KBM Management Board, executive directors, managers of the areas concerned, and three representatives of commercial departments. The Chair and the Deputy Chair of the committee are appointed by its members for a period of one year.

### **Policy Approval Committee**

The Policy Approval Committee, set up at the senior management level, is responsible for approving business policies and strategies, as well as for reconciling open issues with regard to business policies.

Members of the Policy Approval Committee are members of the Nova KBM Management Board, executive directors, policy holders and officers responsible for assessing individual types of risk. The Chair of the committee is the President of the Nova KBM Management Board, while the Deputy Chair of the committee is a Nova KBM Management Board member. The chief internal auditor may vote only on policies of which he/she is the holder. The manager of the Credit Risk Management Department and the manager of the Non-Credit Risk Management Department have no voting rights in the committee, but this will change following the revision of the rules of procedure of the committee, which will be made in 2016.

The committee has the following powers:

- to make proposals for, or give consent to, new policies
- to discuss new strategies and policies and to align any new policy or strategy with the applicable legislation as well as other strategies and policies of Nova KBM
- to periodically discuss the existing policies and strategies and to make sure they are reconciled with each other
- to approve new and existing strategies and policies
- to discuss and approve the methodologies used for calculating Nova KBM's adequate economic capital
- to register the adopted methodologies and regulations.

As a rule, the committee meets once a year, typically before the planning begins of business and internal development objectives for the next year, and each time there is a significant change in the operations of Nova KBM or the Nova KBM Group.

Following each meeting of the committee, the strategy and policy schemes of Nova KBM and the Nova KBM Group, as well as all currently applicable strategies, policies and methodologies, are published on Nova KBM's intranet site. The intranet site may be accessed by all Nova KBM employees.

The Management Board delegates risk management to the senior management. Senior managers are responsible for developing risk management policies that must set out the method of measuring individual risks, the acceptable level of risk, and the method of monitoring exposure to risk.

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 adopted risk management policies constitute the basis for managing individual types of risk across the entire Nova KBM Group.

Subject to the approval of Nova KBM, the Nova KBM Group companies may use their own approach to managing individual risks, taking into consideration the importance of risk and the regulatory framework.

## 2.3 Scope and nature of risk reporting and measurement systems

*(Article 435(1.c) of the Regulation)*

Respective risk management policies set out the methods and frequency of reporting on exposure to risk. The scope and frequency of reporting depend on the category of risk and the recipients of reports. The persons responsible for managing and reporting on individual risks are independent of the organizational units accepting risks, which ensures the prevention of conflicts of interest.

REPORTS	SUPERVISORY BOARD	RISK COMMITTEE	ALCO	MANAGEMENT	OPERATIONAL RISK COMMITTEE
Loan portfolio quality	x	x	x	x	
Capital, capital adequacy and economic capital	x	x	x	x	
Financial restructuring ratios	x	x	x	x	
Limits by sectors			x	x	
Changes to credit rating classification and movements in the level of provisioning charges			x	x	
Newly-approved on- and off-balance sheet transactions			x	x	
Exposures to customers belonging to groups of related entities				x	
Monthly report on risk management	x	x	x	x	
Results of stress tests and the level of liquidity reserves	x	x	x	x	
Operational risk reports prepared by: - Risk Management Division - Corporate Governance Division					x

Red Alert Reports prepared in cases where a loss event or aggregate loss events exceed the set limit (as specified in the Recovery Plan)	x	x		x	x
Operational risk reports				x	x
Risk profile of the Nova KBM Group	x	x		x	

The reports comply with the requirements in respect of impartial, informative and transparent reporting on individual risks. The regular reports are standardized. For compiling consolidated accounts, an automated system for collecting data has been set up at the Nova KBM Group level.

## 2.4 Policies for hedging and mitigating risks, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

*(Article 435(1.d) of the Regulation)*

The monitoring and managing of specific types of risk is described in detail in the respective risk management policies that take 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, taking into account the applicable legislation and best banking practice. The minimum scope of risk management policies has been determined; each policy must set out the activities to be undertaken in the current year, and must include the definition of risk, the method for measuring risk and reporting on risk, the method for limiting the exposure, and a clear definition of responsibilities of individual persons.

The following risk management policies are considered to be the most important for managing risks at the Nova KBM Group level:

- Credit Risk Management Policy
- Policy of Managing Capital and Capital Requirements
- Policy of Managing Market Risks Arising From the Banking Book
- Policy of Managing Market Risks Arising From the Trading Book
- Interest Rate Risk Management Policy
- Operational Risk Management Policy
- Liquidity Risk Management Policy
- Policy of Recovering and Restructuring NPLs
- Loan Collateral Policy
- Compliance and Security Policy
- Information Security Policy
- Consolidated Supervision Policy
- Reputational Risk Management Policy
- Internal Audit Policy
- Nova KBM and the Nova KBM Group Governance Policy
- Nova KBM Group Procurement Policy

Risk management policies form the basis for managing respective risks across the entire Nova KBM Group. Considering the volume of their operations, the Nova KBM Group companies may use their own approach to managing risk, but must in each case receive approval from the officer at Nova KBM responsible for the risk management in question.

Risk management reports are reviewed by the ALCO on a monthly basis. Key performance indicators of the Nova KBM Group are monitored in the form of a semaphore system. If a yellow or red alert is triggered, the ALCO must, based on the report provided by the responsible officer, adopt measures necessary to deal with the situation.

Nova KBM manages its exposure to credit risk using the following tools:

- statistical credit rating models that are used to accurately assess the creditworthiness of counterparties (probability of default)
- statistical credit rating models that are used to accurately assess the loss given default
- monitoring of early warnings on a daily basis
- appropriate classification of collateral in terms of type, legal certainty and techniques applicable to its valuation
- indirect (through a loan-approval model) and direct participation of representatives of the Risk Management Division in decision-making on loan approvals
- clear guidelines and rules applicable to the loan approval process
- adoption of appropriate strategies for counterparties experiencing financial difficulties
- risk assessment methodologies, risk reporting, adoption of measures to mitigate risks and the monitoring of their implementation
- appropriate IT support for data documentation and effective management of operational risk.

## **2.5 Declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy**

*(Article 435(1.e) of the Regulation)*

A declaration approved by the management body on the adequacy of risk management arrangements in Nova KBM is included in Section 7 of the 2015 Annual Report of the Nova KBM Group and Nova KBM.

## **2.6 Concise risk statement approved by the management body**

*(Article 435(1.f) of the Regulation)*

### **Business strategy and key performance indicators**

The adopted strategic development programme, the Restructuring Programme and the management of the key strategic project provide a framework for the execution of the adopted strategic directions of Nova KBM and the Nova KBM Group. This framework makes it possible for Nova KBM and the Nova KBM Group to focus on the set strategic goals, while at the same time ensuring that they strategically adapt to new market opportunities, changes and requirements arising from their business environment.

Following the conclusion of Nova KBM's privatization process, which is expected to take place in 2016, the adopted strategic directions will be revised and adjusted to the development and business strategy developed by Nova KBM in cooperation with its future owners, namely the financial fund Apollo Global Management and the EBRD.

Nova KBM and the Nova KBM Group are executing their current mission and are promoting their vision and values within the strategic framework described above.



## **Mission**

Nova KBM, as the leading company within the Nova KBM Group, operates as a modern, stable and reliable bank, and has 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. It considers the satisfaction of its shareholders, 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**

By 2018, Nova KBM will have preserved its status as one of the leading, systemically important banks in Slovenia. Nova KBM will 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 will favour stability (i.e. ensuring the quality of its loan portfolio 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.

Nova KBM will continue doing business with trustworthy stakeholders to whom it will provide contemporary products and services. It will perform successfully and profitably.

## **Corporate culture**

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

## **Principal strategic directions of Nova KBM and their implementation in 2015**

The strategy of Nova KBM and the Nova KBM Group is based on the following strategic directions:

- Focus on customers:
  - Development and strengthening of relationships with retail customers, in particular young people, the most important customers, more demanding customers and users of contemporary banking services.
  - Development and strengthening of relationships with corporate customers, in particular SMEs.
  - Development of lasting relationships with customers, and strengthening of their loyalty.
  - Development and introduction of new and upgraded services and the provision to customers of a wide range of appropriate value-added services.
- European orientation and compliance with European banking standards.
- Consolidation of the Nova KBM Group and focus on principal activities – mainly banking:
  - Efficient management of strategic equity investments with the aim of maximizing the return generated by the Nova KBM Group.
  - Divestment and liquidation of non-performing investments.
  - Introduction of Nova KBM's operating standards in investments that are regarded as strategic ones.
- Efficiency, profitability and stability of operations:
  - Attainment of target values set for key performance indicators.
  - Withdrawal from markets and from the provision of services that do not generate a sufficient return and do not constitute the basis for profitable growth.
  - Focus on markets and services where Nova KBM can demonstrate competitive advantages and achieve above-average growth.
  - Increase in non-interest income.

- Strengthening of the funding base, with focus on retail and corporate deposits.
- Safety and stability of operations and safety of customer deposits.
- Strengthening of lending and other investment activities at an acceptable level of risk exposure.
- Streamlining of operations, and cost-efficiency:
  - Concern for cost-efficiency and management of costs at all operating levels.
  - Optimization and upgrade of Nova KBM's branch office network and opening of new branch offices in market-attractive locations.
- Effective process organization and IT infrastructure.
- Effective management of all types of risk.
- Concern for development of employees.
- Enhancement of reputation.

As regards corporate banking, Nova KBM 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 Nova KBM to minimize its exposure to credit risk by properly dispersing all types of risk arising from its credit relationships.

In the retail banking segment, Nova KBM 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.

Key performance indicators of the Nova KBM Group and Nova KBM are presented in Section 1 of the 2015 Annual Report of the Nova KBM Group and Nova KBM.

In accordance with the Bank of Slovenia's Regulation Governing the Internal Governance, the Governing Body and the ICAAP (Official Gazette of RS, No. 73/15, dated 30 September 2015), in 2016 Nova KBM will overhaul its ICAAP in order to accomplish the following objectives:

- an improvement of its risk identification process
- an improvement of its methodologies for measuring identified risks
- a more thorough and long-term planning of economic capital
- development of the risk management strategy
- preparation of a declaration on its readiness to accept risk
- the implementation of stress tests on the basis of comprehensive economic scenarios
- an upgrade its risk profile assessment process.

### **Risk profile**

A risk profile is a documented and categorized collection of quantitative and/or qualitative assessments of measurable and non-measurable risks which Nova KBM takes within the scope of its operations. The presentation of risks that are subject to the assessment is given in the picture below. The areas of circles have been used to graphically depict the proportion of the Nova KBM Group's economic capital as of 30 September 2015 needed to support individual types of risk.

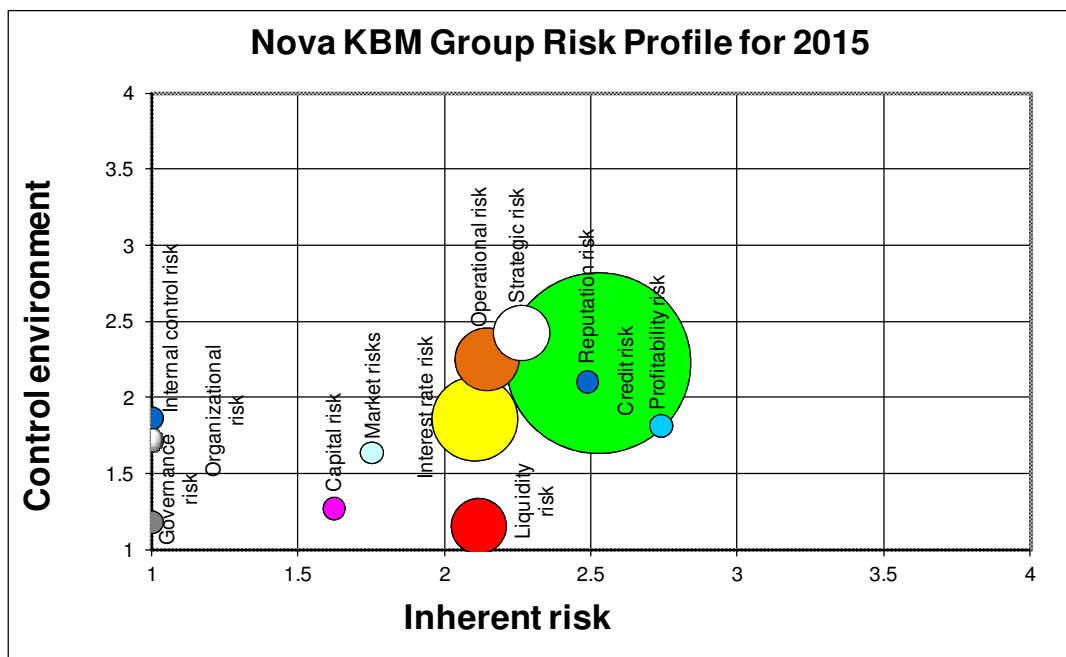
The 2015 risk profile of Nova KBM was derived from a self-assessment. The purposes of evaluating the overall risk profile on a regular basis are to gain an overview of the management of individual types of risk in the Nova KBM Group, to determine the key risk areas, and to identify priorities with respect to risk management. While the overall numerical

assessment of risk profile depends on various subjective assessments, it provides a more accurate value if risks are monitored and assessed over a long period of time. More important than the risk assessment are the process of identifying threats, the assessment of threats in terms of their probability of occurrence and their impact on the operations, and the assessment of established controls.

The risk profile of Nova KBM is assessed once a year by the Non-Credit Risk Management Department in accordance with an internal methodology, taking into consideration the provisions of the Bank of Slovenia's Regulation on Risk Management and Implementation of the ICAAP for Banks and Savings Banks (as applicable at the time of risk assessment). The assessment of Nova KBM's risk profile is conducted according to a standardized procedure. The information needed to assess the risk profile is obtained through questionnaires that must be completed by managers of the selected organizational units in Nova KBM and in all companies within the Nova KBM Group. The information so obtained is used as input data for questionnaires to be completed by the officers responsible for managing individual types of risks. Depicted in the picture below is the Nova KBM Group's risk profile for 2015, including the relationships between individual types of risks.

Picture legend:

- **X-axis:** assessment of inherent risk
- **Y-axis:** assessment of control environment
- **Area of a circle:** the proportion of the Nova KBM Group's economic capital as of 30 September 2015 needed to support individual types of risk



Management Board of Nova KBM d.d.

Supervisory Board of Nova KBM d.d.

Sabina Župec Kranjc  
Member

Robert Senica  
President

Peter Kukovica  
Chair

## 2.7 Information about the number of directorships held by members of the management body

(Article 435(2.a) of the Regulation)

Positions of governance body members in other entities (31.12.2015)				
Management Board	Name of the entity	Activity	Management Board	Supervisory Board
Robert Senica, President	Bank Association of Slovenia	Banking		X
Sabina Župec Kranjc, Member	PBS d.d.	Banking		X
	KBM Infond d.o.o.	Fund management company		X
	Terme Olimia d.d.	Health resort		X

Supervisory Board	Name of the entity	Activity	Management Board	Supervisory Board
Peter Kukovica, Chair	Gorenje d.d.	Production of appliances	Member	
Niko Samec, Deputy Chair	University of Maribor – Faculty of Mechanical Engineering	Education	Dean	
Andrej Fatur, Member	Fatur Legal Office		Director	
Miha Glavič, Member	Public Intermunicipal Housing Fund of Maribor	Management of real estate owned by municipalities	Deputy Director	
Peter Kavčič, Member	ComTEC d.o.o. – Visual Solutions	Communications	Authorized representative	

## 2.8 Recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise

(Article 435(2.b) of the Regulation)

### Management Board

Nova KBM is in the process of drafting a comprehensive Policy for the Selection of Candidates for a Governance Body, which is expected to be submitted for approval in the first half of 2016. The Fit and Proper Policy that is currently used by Nova KBM sets out the key criteria that members of a governance body, as well as members of a body assessing the fulfilment of criteria, must meet. These criteria are as follows: experience (education, work experience and expertise in pivotal areas), personal reliability, reputation and management capability. Assessment of governance body members and of candidates for the governance bodies is carried out by the Nova KBM Fit and Proper Committee.

Special requirements apply to the president and members of a governance body. In addition, the Fit and Proper Policy stipulates that members of each of the Supervisory Board committees must possess necessary expertise and experience in the relevant area, which is to ensure that the committee as a whole possesses appropriate qualification and competence. Hence, the composition of each of the committees must be such that its members can cover all relevant professional areas in a systemic manner, thereby ensuring that the committee can carry out its work in a thoughtful and prudent manner.

Rules applicable to the implementation of the Fit and Proper Policy and the functioning of the Fit and Proper Committee of PBS, a banking subsidiary of Nova KBM, are similar to those used by Nova KBM.

Irrespective of the above, in appointing the President and members of the Management Board, the Supervisory Board observes the provisions of the Companies Act (ZGD-1), the

ZBan-2, implementing regulations of the Bank of Slovenia, Nova KBM's Articles of Association and the Corporate Governance Code for Public Limited Companies.

### **Profile of the Management Board**

Robert Senica has been the President of the Nova KBM Management Board since 28 February 2015. He holds a BSc in Economics (major in Finance) and has 15 years of work experience in the banking, commercial activities, and finance. He started his career in 2000 at Banka Celje. Between 2007 and 2013, he held various management positions at Hypo Leasing: initially, he served as the Manager of the Celje business unit, and later, from 2011 onwards, as the Director of Sales and the authorized representative of the company. His main focus in the latter position was on crisis management. From January 2013 to July 2014, a period in which the banking system was faced with numerous challenges, he acted as the President of the Management Board of PBS, a Nova KBM Group company, with his duties including crisis management, market repositioning of PBS, and the management of its 242 employees. He has developed his professional skills by attending various training programmes, seminars and conferences, both in Slovenia and abroad (the IEDC Business School, the training programmes Leading from the Middle, and Risk Analysis for Corporate Banking, among others). In 2015, the Shareholders' Meeting of the Bank Association of Slovenia appointed him as a member of the Supervisory Board of this association, and he was later, based on the results of his work, promoted to the position of Deputy Chair of the Supervisory Board.

Sabina Župec Kranjc has been a member of the Nova KBM Management Board since 17 November 2014. She holds an MSc in Economic and Business Sciences (major in Business Finance and Banking) and has 17 years of work experience in banking. She began her career in 1998 in the Treasury Department of Abanka Vipava, later advancing to become the Manager of the Customer Trading Desk, a position she held from 2003 to 2004. Between 2004 and 2008, she worked at Raiffeisen Banka, initially as the Head of Trading, and later as the Manager of the Treasury Department, after which, from 2008 to 2013, she headed the Treasury Department of Abanka Vipava. She joined Nova KBM in July 2013 as the Executive Director for Financial Markets, with her responsibilities including the Asset Quality Review project and Nova KBM's privatization process. She has developed her expertise by regularly participating in investment conferences and meetings, both in Slovenia and abroad (Euromoney Conferences in the years 2009–2016, the EBRD's Annual Meetings, SIBOS Conferences, seminars at the Bank Association of Slovenia, among others). She is a member of the Treasury Committee at the Bank Association of Slovenia, as well as of several working groups and the FOREX Association. In addition, she regularly participates in professional gatherings on financial and risk-related topics. Sabina Župec Kranjc is the Chair of the PBS Supervisory Board, and a member of the Supervisory Boards of KBM Infond and Terme Olimia.

### **Supervisory Board**

Relevant provisions of the following documents are consulted in the appointment of Supervisory Board members: the ZGD-1, the ZBan-2, implementing regulations of the Bank of Slovenia, Nova KBM's Articles of Association, the Corporate Governance Code for Public Limited Companies, the Governance Policy of the Slovene Sovereign Holding, and the Rules Governing the Conditions, Criteria, Procedures and Evaluation for Determining Suitability and Selecting Potential Candidates for Members of Supervisory Bodies of Companies with Capital Assets of the State.

Nova KBM has adopted the Nova KBM and the Nova KBM Group Governance Policy, which sets out the division of responsibilities and powers between members of the Management Board and the Supervisory Board.

To support the decision-making process regarding the assessment of suitability and the selection of officers holding key positions, including members of the Management and Supervisory Boards, Nova KBM has drafted the Fit and Proper Policy and has set up the Fit and Proper Committee. In addition, within its powers, the Supervisory Board has extended the competences of the Nomination Committee (previously the Remuneration and Nomination Committee) with respect to the selection and appointment of members of management and supervisory bodies.

### ***Profile of the Supervisory Board***

Peter Kukovica, Chair of the Nova KBM Supervisory Board, holds a PhD in Management and Organization. He has more than 25 years of experience in junior and senior management positions. Between 1991 and 1994, he was a department manager at Nissan Adria, after which, until 2001, he acted as the Manager of Panadria, a company of which he was also a co-founder. In 2001, he was appointed as the Deputy Manager of the Strategic Development and Marketing Department at ACH, while between 2007 and 2009 he was the Deputy Director at AMZS. He joined Iskra MIS as a member of the Management Board in 2009. From 2010 to 2012, he held the position of the President of the Management Board of this company, with his responsibilities including sales, research and development, finance, accounting, controlling, investments, general services and human resources management. At the beginning of 2012, he was appointed as the President of the Management Board of Iskra Sistemi. In Gorenje, which he joined in 2013, he first acted as an adviser to the President of the Management Board, and has been acting as a member of the Management Board since 2014, with his responsibilities including the coordination of the supply chain, logistics, quality, organization, information technology, and the Strategic Business Office. He has completed training for supervisory board members. He participated in a seminar on negotiation tactics, held at the London Business School, in addition to taking part in numerous other training programmes and seminars on topics relevant to his field of work. Between 2003 and 2008, Peter Kukovica acted as a lecturer at the Faculty of Economics in Ljubljana, during which time he wrote the chapter titled 'Strategic Management for Supervisors' for the book 'Knowledge for Supervisors', published by the Slovene Directors' Association. While he was a member of the Supervisory Boards of Pošta Slovenije, ACH and several subsidiaries of ACH in the past, he now holds positions on several corporate governance bodies of the Gorenje Group.

Niko Samec, Deputy Chair of the Nova KBM Supervisory Board, holds a PhD from the Faculty of Mechanical Engineering of the University of Maribor, where he had been acting from 1992 to 2015, first as a young researcher, later as a university professor, and in the last ten years as the Dean. He is currently acting as the Vice-Chancellor at the University of Maribor, responsible for scientific and research work as well as the financial supervision of research activities carried out by faculties of the University of Maribor. During his career, he has given lectures at numerous foreign universities and has managed various project teams as well as research and development projects from an organizational and financial point of view. He was a member of the Supervisory Board of Paloma and the Chair of the Supervisory Board of KIV.

Peter Kavčič, a member of the Nova KBM Supervisory Board and the Chair of its Audit Committee, holds an MSc in Strategic Management and Finance and a BSc in Economics. He also studied mechanical engineering and is now pursuing doctoral studies in Economic and Business Sciences. Peter Kavčič has over 20 years of work experience in the commercial sector. He started his career and is still acting as an independent adviser on strategic management and finance, in addition to being a founder and an authorized representative of ComTEC Visual Solutions, a company that has been awarded numerous times for its extraordinary commercial and entrepreneurial achievements. Since 2011, he has been heading a research team engaged in the fundamental econometric and industry research and experimental development, the purpose of which is to enable the transfer of

knowledge and innovations to the business environment. During his career, he has widened his skills at numerous training programmes, seminars and conferences, both at home and abroad, on corporate governance, banking, automation, and informatics. Since 2004, he has been a member of the Slovene Directors' Association, holding an 'A' certificate as an expert supervisory board member. He regularly participates in seminars, mainly on banking supervision, the functioning of audit committees, and risk management. He is involved in the work of the Bank Association of Slovenia, and is a holder of the Excellence in Corporate Governance certificate (I and II), bestowed by Deloitte Academy. The Bank of Slovenia granted him a licence to act as a bank supervisor in 2012. Peter Kavčič is a member of the programme council of the PODIM conference and an assessor and mentor of business plans developed by start-ups working within the Enterprise Incubator of the University of Maribor. He is also engaged in the Start:up Slovenia initiative. Being a recipient of numerous awards and recognitions for his achievements and innovations in industry, Peter Kavčič is frequently invited as a guest lecturer on his work.

Miha Glavič, Nova KBM Supervisory Board member with a BSc in Civil Engineering, started his career in 1996 in Opifex, a company active in the manufacturing industry, as a work manager. In 1999, he took the position of assistant professor at the Faculty for Civil Engineering, where he stayed for eight years before taking the role of an adviser to the mayor of the Duplek municipality. Since 2008, he has been serving as the Deputy Director of the Public Intermunicipal Housing Fund of Maribor, with his responsibilities including management and organization of the work, representation and presentation of the fund, and development strategy and policy. He has completed training for supervisory board members, and has been the Chair of the Supervisory Board of Snaga and a member, and later the Chair, of the Supervisory Board of Dom pod Gorco.

Andrej Fatur, Nova KBM Supervisory Board member with a PhD from King's College London, School of Law, has many years of work experience in local and international environments (he was a legal adviser at the Court of Justice of the European Union, a periodic lecturer at King's College London, School of Law, and the manager of, as well as a period adviser to, NEOS Business Consulting, London). After completing a traineeship at a court, he started his career as an attorney, a profession he resumed after having worked abroad for several years. He has his own legal office and serves as an attorney in corporate law. In the past, he acted for several months as a legal adviser to the Bank of Slovenia, primarily in the area of banking supervision and regulation. He is the author of numerous professional papers on corporate law, particularly competition law. As a lecturer on this subject, he has participated in several important conferences, both in Slovenia and abroad.

## **2.9 Policy on diversity with regard to selection of members of the management body, its objectives and relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved**

*(Article 435(2.c) of the Regulation)*

While Nova KBM has so far not adopted a separate policy that would set out the requirements with respect to diversity in the selection of members of the management body, it intends to address this issue in a comprehensive manner in its Policy on the Selection of Suitable Candidates for a Governing Body, which is currently being drafted and is expected to be adopted in the first half of 2016. The currently applicable Fit and Proper Policy includes the provisions setting out the criteria regarding experience that Supervisory Board members must meet in order to ensure that the Supervisory Board as a whole meets the requirements concerning suitability. To that effect, the composition of the Supervisory Board must be such that, taking into consideration the desirable diversity of professional and educational backgrounds of its members, any lack of specific knowledge shown by any of its members can be compensated for by the professional expertise of other members.

As regards the process of selecting suitable candidates for its governance bodies, Nova KBM fully observes the relevant regulatory provisions, the provisions of Nova KBM's Articles of Association, the provisions of various corporate governance codes, and best practice recommendations on corporate governance. Further details in this regard are set out in the 2015 Annual Report of the Nova KBM Group and Nova KBM, in Section 4.4.3 (Corporate governance of Nova KBM) and Section 12 (Corporate governance statement of Nova KBM).

## **2.10 Information on whether or not the institution has set up a separate risk committee and the number of times the risk committee has met**

*(Article 435(2.d) of the Regulation)*

At the beginning of September 2015, Nova KBM set up the Risk Committee as an advisory body of the Supervisory Board, charged with the task of supervising the implementation of risk management strategies by the senior management of Nova KBM and the Nova KBM Group. The Risk Committee also provides advice regarding Nova KBM's current and future propensity to assume risks. The Risk Committee meets on a monthly basis. Four meetings of the Risk Committee were held in 2015.

## **2.11 Description of the information flow on risk to the management body**

*(Article 435(2.e) of the Regulation)*

The Risk Management Division and the Finance Division prepare and present to the Management and Supervisory Boards and the Risk Committee various risk management reports. The reporting on risk management is carried out on a daily, monthly, quarterly and annual basis. Risk reports are also discussed at the monthly meetings of the ALCO.

Respective risk management policies set out the frequency of reporting and identify the officers responsible for the reporting on risk.

The Risk Management Division publishes on the intranet site on a daily basis the most important elements of liquidity, interest rate and market risks. This intranet site is meant to be reviewed by the Management Board, the management of the Financial Markets Division, and the management of the Support to Financial Markets Department. The monthly reports on



risk management are submitted to the Management Board, executive directors and department managers.

The monthly reports on NPLs, the management of distressed loans, and the performance of Nova KBM are presented to the Management and Supervisory Boards, the Risk Committee and the Audit Committee.

In April 2015, Nova KBM set up the Operational Risk Committee, members of which are executive directors and managers of departments involved in the management of operational risk. The Operational Risk Committee has the task of assessing and discussing operational risks to which Nova KBM is exposed in its operations, as well as making decisions on operational risk-related issues. The committee meets on a quarterly basis, or more frequently if required. Three meetings of the Operational Risk Committee were held in 2015.

The Corporate Security Department reports to the Management Board on the management of incidents and risks threatening business continuity and information security following the occurrence of any significant incidents, on the measures taken to mitigate the consequences and risks arising from incidents, and on the progress made to remedy the consequences of incidents. Monthly reports on incidents are also submitted to the Risk Management Department, while the Operational Risk Committee is furnished with quarterly reports, in addition to being regularly informed of any newly-identified risks.

The officer responsible for the prevention of money laundering and terrorist financing reports quarterly and annually to the Management Board on any suspicious transactions identified within Nova KBM.

The Risk Management Division assesses once a year the risk profile of Nova KBM and the Nova KBM Group, the report on which is discussed by the Management and Supervisory Boards and the Audit Committee.

### 3. Scope of application

#### 3.1 Name of the institution to which the requirements apply

*(Article 436(a) of the Regulation)*

The institution obliged to make disclosures for the Nova KBM Group is Nova KBM.

#### 3.2 Outline of the differences in the basis of consolidation for accounting and prudent purposes, with a brief description of the respective entities

*(Article 436(b) of the Regulation)*

The calculation of the Nova KBM Group's capital adequacy is based on its consolidated financial statements.

In accordance with the requirements of International Financial Reporting Standards, all subsidiaries of Nova KBM are fully consolidated in the financial statements of the Nova KBM Group (Nova KBM does not have any associates or joint ventures). Nova KBM has set up a reporting, controlling and risk monitoring system for all Nova KBM Group companies through their integration in the risk assessment system.

The Nova KBM Group comprises the parent bank (Nova KBM) and its subsidiary companies.

Company	Position in the Nova KBM Group	Nova KBM Group's voting rights in the company (%)	Registered office (country of incorporation)
Nova KBM d.d.	parent bank		Maribor, Slovenia
Poštna banka Slovenije d.d. (PBS)	subsidiary bank	99.12	Maribor, Slovenia
KBM Banka a.d.	subsidiary bank	89.53	Kragujevac, Serbia
Adria Abwicklungs GmbH in Liqu.	subsidiary company	100.00	Vienna, Austria
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	Nova Gorica, Slovenia
M-PAY d.o.o.	subsidiary company	50.00	Maribor, Slovenia
KBM Leasing Hrvatska d.o.o. (in liquidation)	subsidiary company	100.00	Zagreb, Croatia
MB Finance B.V.	subsidiary company	00.00 <sup>2</sup>	Netherlands

In 2015, Nova KBM further impaired its investments in the equity of its subsidiaries by a total of €3,595,000 (2014: €14,391,000), broken down as follows:

- impairment of equity investment in KBM Leasing (in liquidation): €2,535,000
- impairment of equity investment in Gorica Leasing (in liquidation): €946,000
- impairment of equity investment in KBM Leasing Hrvatska (in liquidation): €114,000.

<sup>1</sup> The Nova KBM Group's stake in the share capital of KBM Infond accounts for 72.00%. Because KBM Infond holds a certain number of its own shares, the Nova KBM 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 Nova KBM Group.

In December 2015, Nova KBM sold its 45% shareholding in Moja naložba, its associated company, to Sava Re, thereby taking a further step towards pursuing the Nova KBM Group's strategic direction of concentrating mainly on its core business, banking. The sale and purchase agreement (SPA) was signed between Nova KBM and Sava Re on 16 December 2015. A purchase consideration of €3,982,000 was paid to Nova KBM on 30 December 2015, the same day on which all conditions precedent stipulated in the SPA, such as the receipt of the relevant approvals from the Insurance Supervision Agency and the Competition Protection Agency, were met.

Also in December 2015, Nova KBM's investment in the equity of Adria Abwicklungs was reduced by €8,531,000 gross, based on a decision made by the Shareholders' Meeting of Adria Abwicklungs to reduce the company's share capital. Adria Abwicklungs' share capital reduction was registered with the competent Registration Court in Vienna on 18 December 2015.

In December 2014, the Nova KBM Management Board passed a decision to sell KBM Banka, based on which the investment of Nova KBM in KBM Banka was reclassified as non-current assets held for sale. KBM Banka is fully consolidated in the consolidated financial statements, with its assets, liabilities and profit and loss components being presented as separate items. Since 31 March 2014, KBM Banka has been under-capitalized and subject to specific measures imposed on it by the National Bank of Serbia. Efforts to sell KBM Banka continued throughout 2015. On 17 February 2016, based on the prior consent of the Nova KBM Supervisory Board, Nova KBM signed the agreement concerning the sale of its 546,683 shares in KBM Banka, representing 89.53% of all outstanding shares of KBM Banka. The completion of the sale process is expected to take place within a period that is customary in similar transactions.

Istra Plan, a company 100% owned by KBM Invest, is not regarded as a business entity. Consequently, only the assets of this company, totalling €238,000, have been included in the consolidated financial statements.

### **3.3 Information about any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries**

*(Article 436(c) of the Regulation)*

Subject to observance of regulatory requirements applicable to the operations of the Nova KBM Group companies, there are no legal impediments to the transfer of own funds or repayment of liabilities between Nova KBM and its subsidiaries. Currently, particular attention is being devoted to the Nova KBM Group leasing companies that are undergoing liquidation proceedings. While Nova KBM is making every effort, during their liquidation processes, to conclude as many as possible of the transactions and court actions these companies are parties to, the conclusion of this work by Nova KBM represents a significant practical obstacle to completing the liquidation proceedings and transferring the remaining assets of the companies to Nova KBM.

An exception applies to KBM Banka which, because it has not complied with the minimum capital adequacy requirements, is not allowed to meet its obligations arising from the subordinated loan provided to it by Nova KBM. However, it must be noted that, following the preparation of this document, Nova KBM has signed an agreement concerning the sale of its equity investment in KBM Banka, along with its outstanding subordinated debt. The completion of the sale process is subject to meeting certain conditions precedent.

**3.4 Information about the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries**

*(Article 436(d) of the Regulation)*

All subsidiaries of Nova KBM are included in the supervision on a consolidated basis.

**3.5 Information about the circumstances of making use of the provisions laid down in Articles 7 and 9 of the Regulation**

*(Article 436(e) of the Regulation)*

This disclosure requirement is not applicable to Nova KBM.

## 4. Own funds

### 4.1 Information about full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 of the Regulation to own funds of the institution and the balance sheet in the audited financial statements of the institution

(Article 437(1.a) of the Regulation)

The scope of consolidation and the method used to consolidate the statement of financial position are the same as the scope and the method of consolidation set out in Chapter II, Part One, Title II of the Regulation.

€000

Capital items	Amount 31.12.2015
Shareholders' equity	623,073
+/- Adjustments	
Intangible assets	(21,806)
Deferred tax assets	(2,284)
Translation reserves	(3,230)
Non-controlling interests	(3,116)
Accumulated other comprehensive income	(29,585)
Revaluation surplus in respect of available-for-sale financial assets	2,068
Difference arising from the revaluation of investment property and from other adjustments	4,274
<b>Common Equity Tier 1 capital</b>	<b>569,394</b>

### 4.2 Description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution

(Article 437(1.b) of the Regulation)

Capital instruments main features template (1)		
1	Issuer	Nova KBM d.d.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	SI0021116494
3	Governing law(s) of the instruments	The Companies Act, the Financial Instruments Market Act and the Book-Entry Securities Act
	Regulatory treatment	CRR
4	Transitional CRR rules	Common Equity Tier 1 capital
5	Post transitional CRR rules	Common Equity Tier 1 capital
6	Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated	Solo and consolidated
7	Instrument type (to be specified by each jurisdiction)	Common Equity Tier 1 capital
8	Amount recognised in the regulatory capital (€million; as of the most recent reporting date)	€511 million
9	Nominal amount of instrument	€150 million
9a	Issue price	€87 per share
9b	Redemption price	N/A

Capital instruments main features template (1)		
10	Accounting classification	Equity
11	Original date of issuance	19 December 2013
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	N/A
17	Fixed or floating dividend / coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Full discretionary, partially discretionary or mandatory (in terms of timing)	N/A
20b	Full discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Non-cumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Ordinary liabilities
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
(1) Insert N/A if the question is not applicable.		

A more detailed description of Nova KBM's capital and its movements in 2015 is provided in the 2015 Annual Report of the Nova KBM Group and Nova KBM, in the notes to the financial statements (Note 4.6: Capital risk).

#### 4.3 Description of the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

*(Article 437(1.c) of the Regulation)*

With respect to their characteristics, the own funds of a bank are made up of two categories: Tier 1 capital and Tier 2 capital. The characteristics of individual categories are set out in the Regulation.

Tier 1 capital is the sum of Common Equity Tier 1 and Additional Tier 1 capital.

Common Equity Tier 1 capital comprises capital instruments, share premium, retained earnings, accumulated other comprehensive income, other reserves, and funds for general banking risks.

Additional Tier 1 capital comprises capital instruments of Additional Tier 1 capital and the related share premium. The Nova KBM Group has not issued such instruments.

Tier 2 capital comprises capital instruments of Tier 2 capital and the related share premium, and any credit risk adjustments. The Nova KBM Group has not issued such instruments.

#### 4.4 Separate disclosure of the nature and amounts of filters and deductions (Article 437(1.d) of the Regulation)

Separate disclosures must be made of the following:

- (i) each prudential filter applied pursuant to Articles 32 to 35
- (ii) each deduction made pursuant to Articles 36, 56 and 66
- (iii) items not deducted pursuant to Articles 47, 48, 56, 66 and 79.

€000

		(A)	(B)	(C)
	Common Equity Tier 1 (CET1) capital: instruments and reserves	AMOUNT AT DISCLOSURE DATE	REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
1	Capital instruments and the related share premium accounts	510,572	26(1), 27, 28, 29, 26(3), EBA list	
	Of which: paid-in capital instruments	150,000	26(3), EBA list	
	Of which: paid-in share premium	360,572	26(3), EBA list	
2	Retained earnings	42,612	26(1)c	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	28,224	26(1)	27,828
3a	Funds for general banking risk		26(1)(f)	
4	Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase-out from CET1		286(2)	
	Public sector capital injections grandfathered until 1 January 2018		283(2)	
5	Minority interests (amount allowed in consolidated CET1)		84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	16,121	26(2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	597,529		27,828
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>				
7	Additional value adjustments (negative amount)		34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	(21,806)	36(1)(b), 37, 472(4)	
9	Empty Set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	(2,284)	36(1)(c), 38, 472(5)	(3,426)

		(A)	(B)	(C)
	Common Equity Tier 1 (CET1) capital: instruments and reserves	AMOUNT AT DISCLOSURE DATE	REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
11	Fair value reserves related to gains or losses on cash flow hedges		33(a)	
12	Negative amounts resulting from the calculation of expected loss amounts		36(1)(d), 40, 159, 472(6)	
13	Any increase in equity that results from securitised assets (negative amount)		32(1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33(b)	
15	Defined-benefit pension fund assets (negative amount)		36(1)(e), 41, 472(7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36(1)(f), 42, 472(8)	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36(1)(g), 44, 472(9)	
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)		36(1)(h), 43, 45, 46, 49(2) and (3), 79, 472(10)	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36(1)(i), 43, 45, 47, 48(1)(b), 49(1) to (3), 79, 470, 472(11)	
20	Empty Set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36(1)(k)	
20b	Of which: qualifying holdings outside the financial sector (negative amount)		36(1)(k)(i), 89 to 91	
20c	Of which: securitisation positions (negative amount)		36(1)(k)(ii), 243(1)(b), 244(1)(b), 258	
20d	Of which: free deliveries (negative amount)		36(1)(k)(iii), 379(3)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38(3) are met) (negative amount)		36(1)(c), 38, 48(1)(a), 470, 472(5)	
22	Amount exceeding the 15% threshold (negative amount)		48(1)	
23	Of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36(1)(ii), 48(1)(b), 470, 472(11)	
24	Empty Set in the EU			
25	Of which: deferred tax assets arising from temporary differences		36(1)(c), 38, 48(1)(a), 470, 472(5)	



		(A)	(B)	(C)
	Common Equity Tier 1 (CET1) capital: instruments and reserves	AMOUNT AT DISCLOSURE DATE	REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
25a	Losses for the current financial year (negative amount)	(9,724)	36(1)(a), 472(3)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36(1)(l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(4,045)		
	Of which: ...filter for unrealised loss 1		467	
	Of which: ...filter for unrealised loss 2		467	
	Of which: ...filter for unrealised gain 1		468	
	Of which: ...filter for unrealised gain 2		468	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR		481	
	Of which: ...		481	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36(1)(j)	
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	(28,134)		24,403
29	<b>Common Equity Tier 1 (CET1) capital</b>	569,394		593,798
<b>Additional Tier 1 (AT1) capital: instruments</b>				
30	Capital instruments and the related share premium accounts		51, 52	
31	Of which: classified as equity under applicable accounting standards			
32	Of which: classified as liabilities under applicable accounting standards			
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase-out from AT1		486(3)	
	Public sector capital injections grandfathered until 1 January 2018		483(3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	
35	Of which: instruments issued by subsidiaries subject to phase-out		486 (3)	
36	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>			
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52(1)(b), 56(a), 57, 475(2)	

		(A)	(B)	(C)
	<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>	<b>AMOUNT AT DISCLOSURE DATE</b>	<b>REGULATION (EU) No. 575/2013 ARTICLE REFERENCE</b>	<b>AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013</b>
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56(b), 58, 475(3)	
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)		56(c), 59, 60, 79, 475(4)	
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)		56(d), 59, 79, 475(4)	
41	Regulatory adjustments applied to additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013		472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	
	Of which items to be detailed line by line, e.g. material net interim losses, intangibles, shortfall of provisions to expected losses etc.			
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013		477, 477(3), 477(4)(a)	
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in Tier 2 instruments, direct holdings of non- significant investments in the capital of other financial sector entities, etc.			
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre CRR		467, 468, 481	
	Of which: ...possible filter for unrealised losses		467	
	Of which: ...possible filter for unrealised gains		468	
	Of which: ...		481	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56(e)	
43	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>			
44	<b>Additional Tier 1 (AT1) capital</b>			
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	569,394		593,798

		(A)	(B)	(C)
Common Equity Tier 1 (CET1) capital: instruments and reserves		AMOUNT AT DISCLOSURE DATE	REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
<b>Tier 2 (T2) capital: instruments and provisions</b>				
46	Capital instruments and the related share premium accounts		62, 63	
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase-out from T2		486(4)	
	Public sector capital injections grandfathered until 1 January 2018		483(4)	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		87, 88, 480	
49	Of which: instruments issued by subsidiaries subject to phase-out		486(4)	
50	Credit risk adjustments		62(c) and (d)	
51	<b>Tier 2 (T2) capital before regulatory adjustments</b>			
<b>Tier 2 (T2) capital: regulatory adjustments</b>				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63(d)(i), 66(a), 67, 477(2)	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66(b), 68, 477(3)	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		66(c), 69, 70, 79, 477(4)	
54a	Of which new holdings not subject to transitional arrangements			
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements			
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		66(d), 69, 79, 477(4)	
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)			
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013		472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
	Of which items to be detailed line by line, e.g. material net interim losses, intangibles, shortfall of provisions to expected losses etc.			
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013		475, 475(2)(a), 475(3), 475(4)(a)	
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non- significant investments in the capital of other financial sector entities, etc.			
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR		467, 468, 481	
	Of which: ...possible filter for unrealised losses		467	
	Of which: ...possible filter for unrealised gains		468	
	Of which: ...		481	
57	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>			
58	<b>Tier 2 (T2) capital</b>			
59	<b>Total capital (TC = T1 + T2)</b>	569,394		593,798
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase- out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)			
	Of which: ...items not deducted from CET1 (Regulation (EU) No. 575/2013 residual amounts)		472, 472(5), 472(8)(b), 472(10)(b), 472(11)(b)	
	(items to be detailed line by line, e.g. deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)			
	Of which: ...items not deducted from AT1 items (Regulation (EU) No. 575/2013 residual amounts)			
	(items to be detailed line by line, e.g. reciprocal crossholdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)		475, 475(2)(b), 475(2)(c), 475(4)(b)	
	Items not deducted from T2 items (Regulation (EU) No. 575/2013 residual amounts)			
	(items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)		477, 477(2)(b), 477(2)(c), 477(4)(b)	

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
60	<b>Total risk weighted assets</b>	2,266,025		2,266,025
<b>Capital ratios and buffers</b>				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	25.13%	92(2)(a), 465	26.20%
62	Tier 1 (as a percentage of risk exposure amount)	25.13%	92(2)(b), 465	26.20%
63	Total capital (as a percentage of risk exposure amount)	25.13%	92(2)(c)	26.20%
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92(1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)		128, 129 and 130, (CRD)	
65	Of which: capital conservation buffer requirement			
66	Of which: countercyclical buffer requirement			
67	Of which: systemic risk buffer requirement			
67a	Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		131 (CRD)	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		128 (CRD)	
69	[not relevant in EU regulation]			
70	[not relevant in EU regulation]			
71	[not relevant in EU regulation]			
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	148,322	36(1)(h), 45, 46, 472(10) 56(c), 59, 60, 475(4) 66(c), 69, 70, 477(4)	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	374,981	36(1)(i), 45, 48, 470, 472(11)	
74	Empty Set in the EU			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38(3) are met)	(3,146)	36(1)(c), 38, 48, 470, 472(5)	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)		62	

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
77	Cap on inclusion of credit risk adjustments in T2 under standardized approach		62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)</b>				
80	Current cap on CET1 instruments subject to phase-out arrangements		484(3), 486(2) and (58)	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484(3), 486(2) and (58)	
82	Current cap on AT1 instruments subject to phase-out arrangements		484(3), 486(2) and (58)	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484(3), 486(2) and (58)	
84	Current cap on T2 instruments subject to phase-out arrangements		484(3), 486(2) and (58)	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484(3), 486(2) and (58)	

**4.5 Description of all restrictions applied to the calculation of own funds in accordance with the Regulation, and the instruments, prudential filters and deductions to which those restrictions apply**  
(Article 437(1.e) of the Regulation)

The required data are presented in the table included in Point 4.4.

**4.6 Comprehensive explanation of the basis on which the institution calculates its capital ratios, if the disclosed capital ratios are calculated using elements of own funds determined on the basis other than that laid down in the Regulation**  
(Article 437(1.f) of the Regulation)

This disclosure requirement is not applicable to Nova KBM.

## 5. Capital requirements

The Nova KBM Group uses the standardized approach to calculate its capital requirements for credit and market risks, while the basic indicator approach is used to calculate the capital requirements for operational risk.

### 5.1 Summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities

*(Article 438(a) of the Regulation)*

As part of the internal capital adequacy assessment process, Nova KBM has set up a methodology to calculate the available and adequate economic capital.

The available economic capital is the Nova KBM Group's own estimate of the amount of available capital. The amount of available economic capital equals the amount of regulatory available capital, increased by a certain proportion of the profit for the current year.

The adequate economic capital is the Nova KBM Group's own estimate of the amount of capital needed to cover any unexpected risks the Nova KBM Group is exposed to in its operations. The amount of adequate economic capital equals the amount of minimum capital as prescribed by the regulator (Pillar I), taking into account additional capital requirements

The adequate economic capital takes separately into account the following types of risk:

- credit risk: in accordance with Pillar I
- market risks (other than foreign exchange risk): in accordance with Pillar I
- operational risk: in accordance with Pillar I
- banking book interest rate risk: an internal methodology based on stress tests
- foreign exchange risk: an internal methodology based on VaR
- liquidity risk: an internal methodology based on the calculation of costs of substituting an unexpected loss of liquidity
- capital risk: availability of fresh capital
- reputational risk: an expert assessment
- strategic risk: an expert assessment
- profitability risk: an internal methodology that takes into consideration the changes in deposit interest rates
- control environment adjustment factor and factors arising from external environment: stress tests.

The target values of capital components for the Nova KBM Group as a whole are determined by Nova KBM in its annual plans. The ALCO is responsible for reviewing available and regulatory minimum capital as well as available and adequate economic capital.

In 2016, the Nova KBM Group plans to improve its methodologies for measuring the adequate and available economic capital by making the following upgrades:

- an improvement of the risk identification process
- an improvement of the methodologies for measuring the identified risks
- a more thorough and long-term planning of economic capital
- an improvement of the management of identified risks.

**5.2 Information about the results of the institution's internal capital adequacy assessment process, including the composition of the additional own funds requirements based on the supervisory review process referred to in Point (a) of Article 104(1) of Directive 2013/36/EU**  
(Article 438(b) of the Regulation)

Nova KBM is not obliged to disclose the results of its internal capital adequacy assessment process.

**5.3 Information regarding 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 of the Regulation**  
(Article 438 (c) of the Regulation)

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Exposure classes	Capital requirements 31.12.2015
Exposures to central governments or central banks	492
Exposures to regional governments or local authorities	1,008
Exposures to public sector entities	415
Exposures to multilateral development banks	0
Exposures to international organizations	0
Exposures to institutions	14,085
Exposures to corporates	40,331
Exposures to retail	51,239
Exposures secured by mortgages on immovable property	6,373
Exposures in default	27,541
Items associated with particular high risk	4,584
Covered bonds	0
Exposures to institutions and corporates with short-term credit assessment	0
Collective investment undertakings	467
Equity	75
Other items	10,976
<b>Total</b>	<b>157,586</b>

**5.4 Disclosure of 8% of the risk-weighted exposure amounts for each type of the exposure classes specified in Article 147 of the Regulation, if the institution calculates risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II of the Regulation**  
(Article 438(d) of the Regulation)

This disclosure requirement is not applicable to Nova KBM because it does not use the IRB approach to calculate capital requirements for credit risk.



## 5.5 Information about own funds requirements calculated in accordance with Points (b) and (c) of Article 92(3) of the Regulation

(Article 438(e) of the Regulation)

€000

Type of capital requirements	Capital requirements 31.12.2015
Capital requirement for market risks	2,374
Capital requirement for position risk	2,374
<i>of which: for debt securities</i>	1
<i>of which: for equity instruments</i>	2,373
Capital requirement for foreign exchange risk	0
Capital requirement for commodities risk	0
Capital requirement for settlement risk	0
Capital requirement for large exposure risk	0
<b>Total capital requirements</b>	<b>2,374</b>

## 5.6 Information about own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 of the Regulation

(Article 438(f) of the Regulation)

The Nova KBM Group uses the basic indicator approach to calculate its requirements for operational risk, in accordance with Article 315 of the Regulation.

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Type of capital requirement	Capital requirement 31.12.2015
Capital requirement for operational risk	21,320
<b>Total</b>	<b>21,320</b>

## 5.7 Disclosure of the exposures assigned to each category in Table 1 of Article 152(5), or to each risk weight mentioned in Article 155 (2) of the Regulation, if the institution calculates the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2)

(Article 438 of the Regulation)

This disclosure requirement is not applicable to Nova KBM because it does not use the IRB approach to calculate capital requirements for credit risk.

## **6. Exposure to counterparty credit risk**

### **6.1 Description of the methodology used to assign internal capital and credit limits for counterparty credit exposures**

*(Article 439(a) of the Regulation)*

The calculation of adequate economic capital needed to support the transactions in derivatives, repo transactions and securities lending transactions is carried out in accordance with an internal methodology that defines the method of calculating available and adequate economic capital. The calculation of adequate economic capital for the transactions referred to above is made in accordance with Pillar I and is the same as prescribed by the regulator for the calculation of capital requirements for credit risk.

Under Pillar I, the capital requirements for derivatives, repo transactions and securities lending transactions are calculated using the mark-to-market (current exposure) method, in accordance with Article 274 of the Regulation.

The Nova KBM Group has set up a system of limits to control its exposure to counterparty credit risk. Exposures to counterparties and the levels up to which the exposure limits determined for counterparties are utilised are monitored on a daily basis. The system of limits has been developed to set the maximum allowable exposure to each counterparty, taking into consideration the credit rating of the respective counterparty, its size, and the type of financial instrument or transaction to be entered into.

Limits for currency forward transactions are determined based on the value-at-risk of exposure, which is calculated taking into consideration the current market value of the transaction and the potential exposure to a change in exchange rates in the period until the transaction falls due. The volatility of currencies is calculated based on the actual data on exchange rates for a one-year period and the 99% probability of event occurrence.

### **6.2 Description of policies for securing collateral and establishing credit reserves**

*(Article 439(b) of the Regulation)*

To be able to conclude transactions in derivatives outside the regulated markets, the Nova KBM Group has signed the ISDA (International Swaps and Derivatives Association) Master Agreement. In addition, it has signed the Credit Support Annex (CSA) to the ISDA Master Agreement, which defines the rules under which collateral must be provided between counterparties in order to mitigate credit risk arising from unfavourable movements in the market.

Transactions in derivatives with non-bank customers are contracted by the Nova KBM Group subject to customers signing a framework agreement on transactions in derivatives, according to which the claims and liabilities under derivatives are offset if the counterparty fails to meet its obligations.

Nova KBM offers transactions in derivatives without requesting collateral only to customers with the highest credit rating; the exposure to credit risk under these transactions is included in the calculation of the total exposure to a customer. Transactions in derivatives entered into with all other customers are subject to providing prime collateral.

**6.3 Description of policies with respect to Wrong-Way risk exposures***(Article 439(c) of the Regulation)*

For repo transactions, Nova KBM has determined the minimum eligible credit quality of assets accepted as collateral.

If the exposure to a counterparty is increased as a result of unfavourable market movements, Nova KBM requests the counterparty to provide additional prime collateral. A failure on the side of the counterparty to meet such a request may result in Nova KBM closing the position. Counterparty credit risk is monitored daily on the basis of available market prices or prices calculated according to an internal methodology, the input data of which are the prevailing market prices.

**6.4 Description of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating***(Article 439(d) of the Regulation)*

Considering that the volume of derivatives constitutes only a small proportion of the Nova KBM Group's trading portfolios, any additional collateral that the Nova KBM Group might be requested to provide would not have a material impact on its financial position.

**6.5 Disclosure of the gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure***(Article 439(e) of the Regulation)*

The Nova KBM Group does not use netting contracts. The gross positive value of contracts equals the net credit exposure in derivatives.

Type of derivatives	Total gross positive value of contracts or net credit exposure	
	31.12.2015	
Currency forwards		401
Derivatives on securities		179
Interest rate swaps		166

€000

**6.6 Disclosure of measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Section 3 to 6 of the Regulation**

*(Article 439(f) of the Regulation)*

The Nova KBM Group monitors counterparty credit risk exposure using the mark-to-market method, in accordance with Article 274 of the Regulation. The replacement cost is the sum of current and potential future exposures.

Repo transactions are valued as the difference between the current value of investment (nominal amount plus accrued interest) and the current value of collateral (market value of the collateral instrument). The maximum exposure must be within the set credit limits, and additional collateral must be provided if the set limits are exceeded. Counterparty exposure is monitored in accordance with the provisions set out in the Credit Risk Management Policy.

Currency forward contracts used to regulate the open foreign currency position are entered into only with customers with the highest credit ratings, and within the set limits. Currency forward contracts held in the trading book are entered into up to the limit set for each counterparty.

**6.7 Disclosure of the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure**

*(Article 439(g) of the Regulation)*

This disclosure requirement is not applicable to the Nova KBM Group because it does not hold credit derivatives in its portfolios.

**6.8 Disclosure of the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivative products used, broken down further by protection bought and sold within each product group**

*(Article 439(h) of the Regulation)*

This disclosure requirement is not applicable to the Nova KBM Group because it does not hold credit derivatives in its portfolios.

**6.9 Disclosure of the estimate of  $\alpha$  if the institution has received the permission of the competent authorities to estimate  $\alpha$**

*(Article 439(i) of the Regulation)*

The Nova KBM Group has not obtained the Bank of Slovenia authorization to use its own estimate of  $\alpha$ .

## **7. Capital buffers**

*(Article 440 of the Regulation)*

This disclosure requirement is not relevant because the capital buffers must be disclosed for the first time for the year 2016.

## **8. Indicators of global systemic importance**

*(Article 441 of the Regulation)*

This disclosure requirement is not applicable to Nova KBM because it is not identified as a global systemically important institution.

## 9. Credit risk adjustments

### 9.1 Definition of 'past due' and 'impaired' for accounting purposes

*(Article 442(a) of the Regulation)*

The Nova KBM Group treats as past due items all on- and off-balance sheet items for which a counterparty has not met its contractual obligations on time and within the agreed scope.

Impaired items for accounting purposes are all non-performing on- and off-balance sheet exposures for which the Nova KBM Group has recognised impairment losses or provisions. Impairment losses and provisions are also recorded on performing exposures. Performing exposures are impaired using the collective impairment rates applicable to the respective groups of financial assets and commitments.

Further details regarding the definition of past due and impaired items for accounting purposes are set out in the 2015 Annual Report of the Nova KBM Group and Nova KBM, in the notes to the financial statements (Note 3.4.6: Impairment of financial assets).

### 9.2 Description of the approaches and methods adopted for determining specific and general credit risk adjustments

*(Article 442(b) of the Regulation)*

The Nova KBM Group records financial assets and liabilities at amortised cost or at fair value, while the off-balance sheet commitments are recorded at contractual value.

The amortised cost of a financial asset equals the amount of outstanding principal, increased by outstanding interest and fees, and decreased by corresponding impairment losses recognised in accordance with the Nova KBM Group Methodology for Assessing Losses.

The fair value of a financial asset equals its current market value. If the market price of a financial asset cannot be determined, Nova KBM applies the fair value hierarchy, in accordance with International Accounting Standards. If the market price of a financial asset is not available for one month, the fair value of such an asset is determined using a model that takes into consideration market values. If the value of a financial asset cannot be determined according to this model, the acquisition cost of a financial asset is regarded as its fair value, or the financial asset is valued according to a model that does not entirely take into consideration data derived from the market.

The Nova KBM Group assesses on a daily basis 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, or off-balance sheet commitments, which can be reliably assessed. Significant information that indicates impairment of a financial asset or the possibility of a loss under off-balance sheet items includes: non-fulfilment of obligations to the Nova KBM Group companies, significant financial difficulties of the debtor, and the likelihood of bankruptcy, compulsory composition or a financial reorganization of the debtor. Nova KBM has determined events and factors that indicate impairment of financial assets.

Individually significant financial assets and off-balance sheet items are assessed individually for impairment.

If, in an individual assessment of a financial asset, the impartial evidence exists that the asset is impaired, the replacement value of this asset must be assessed. The replacement value is assessed based on the expected discounted cash flows generated from the realisation of collateral and/or the expected cash flows generated from the operating activities of the debtor. The contractual interest rate applicable to the financial asset is used for discounting cash flows.

Individually insignificant financial assets and off-balance sheet items are assessed collectively for impairment. The collective impairment rates applicable to homogeneous asset classes are determined in accordance with the Methodology for Assessing Credit Risk Losses.

The method for assessing collective impairment and provisioning rates is based on:

- the proportion of customers becoming defaulting customers (credit rating 'D' and 'E') in a period of one year
- assessed losses
- loss identification period (LIP).

If the level of impairment decreases in the subsequent period, the previously recognised loss due to impairment will be reversed. The amount of reversed loss is recognised through profit or loss.

### 9.3 Disclosure of the total amount of exposures after accounting for offsets and without taking into account the effects of credit risk mitigation, and of the average amount of the exposures over the period broken down by different types of exposure classes

(Article 442(c) of the Regulation)

€000

Exposure classes	31.12.2015	Average in 2015
Exposures to central governments or central banks	1,525,084	1,475,339
Exposures to regional governments or local authorities	13,336	12,736
Exposures to public sector entities	196,887	351,048
Exposures to multilateral development banks	10,956	11,017
Exposures to international organizations	12,499	11,489
Exposures to institutions	388,172	231,313
Exposures to corporates	751,651	684,405
Exposures to retail	1,072,851	1,100,844
Exposures secured by mortgages on immovable property	219,484	188,829
Exposures in default	335,504	434,791
Items associated with particular high risk	38,196	37,775
Covered bonds	0	0
Exposures to institutions and corporates with short-term credit assessment	0	0
Collective investment undertakings	20,642	20,792
Equity	375	9,448
Other items	201,617	204,221
<b>Total</b>	<b>4,787,254</b>	<b>4,774,047</b>

## 9.4 Disclosure of the geographic distribution of the exposures, broken down in significant areas by material exposure classes

(Article 442(d) of the Regulation)

€000

Exposure classes	Slovenia	Other EU countries	Non-EU European countries	Other countries	TOTAL 31.12.2015
Exposures to central governments or central banks	1,107,126	386,858	31,100	0	1,525,084
Exposures to regional governments or local authorities	13,321	0	15	0	13,336
Exposures to public sector entities	196,887	0	0	0	196,887
Exposures to multilateral development banks	0	10,956	0	0	10,956
Exposures to international organizations	0	12,499	0	0	12,499
Exposures to institutions	52,484	289,676	14,265	31,747	388,172
Exposures to corporates	720,866	17,175	325	13,285	751,651
Exposures to retail	1,052,587	3,354	16,731	179	1,072,851
Exposures secured by mortgages on immovable property	219,129	356	0	0	219,484
Exposures in default	305,843	11,466	18,195	0	335,504
Items associated with particular high risk	18,894	19,287	15	0	38,196
Covered bonds	0	0	0	0	0
Exposures to institutions and corporates with short-term credit assessment	0	0	0	0	0
Collective investment undertakings	20,642	0	0	0	20,642
Equity	375	0	0	0	375
Other items	200,209	1,407	0	0	201,617
<b>Total</b>	<b>3,908,363</b>	<b>753,034</b>	<b>80,646</b>	<b>45,211</b>	<b>4,787,254</b>



## 9.5 Disclosure of the distribution of the exposures by industry or counterparty type, broken down by exposure classes (Article 442(e) of the Regulation)

€000

Exposure classes	Central government	Regional government	Public sector	Institutions	Corporates	Retail	Funds	TOTAL 31.12.2015
Exposures to central governments or central banks	1,525,084	0	0	0	0	0	0	1,525,084
Exposures to regional governments or local authorities	0	13,336	0	0	0	0	0	13,336
Exposures to public sector entities	0	0	196,887	0	0	0	0	196,887
Exposures to multilateral development banks	0	0	0	10,956	0	0	0	10,956
Exposures to international organizations	0	0	0	0	12,499	0	0	12,499
Exposures to institutions	0	0	0	377,181	10,991	0	0	388,172
Exposures to corporates	0	0	0	0	745,504	6,147	0	751,651
Exposures to retail	0	0	0	0	170,786	902,065	0	1,072,851
Exposures secured by mortgages on immovable property	0	0	0	0	65,710	153,774	0	219,484
Exposures in default	0	0	0	4	289,862	45,638	0	335,504
Items associated with particular high risk	0	0	0	0	38,196	0	0	38,196
Covered bonds	0	0	0	0	0	0	0	0
Exposures to institutions and corporates with short-term credit assessment	0	0	0	0	0	0	0	0
Collective investment undertakings	0	0	0	0	0	0	20,642	20,642
Equity	0	0	0	0	375	0	0	375
Other items	0	0	0	198,220	3,397	0	0	201,617
<b>Total</b>	<b>1,525,084</b>	<b>13,336</b>	<b>196,887</b>	<b>586,361</b>	<b>1,337,320</b>	<b>1,107,624</b>	<b>20,642</b>	<b>4,787,254</b>

## 9.6 Disclosure of the residual maturity breakdown of all the exposures, broken down by exposure classes (Article 442(f) of the Regulation)

€000

Exposure classes	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	TOTAL 31.12.2015
Exposures to central governments or central banks	256,261	109,052	176,800	704,687	278,284	<b>1,525,084</b>
Exposures to regional governments or local authorities	367	1	4461	2297	6210,36994	<b>13,336</b>
Exposures to public sector entities	42,58046	23	195119	1574	128,87234	<b>196,887</b>
Exposures to multilateral development banks	0	0	0	10,956	0	<b>10,956</b>
Exposures to international organizations	0	0	0	8455	4044	<b>12,499</b>
Exposures to institutions	114,144	9,427	9,611	182,462	72,528	<b>388,172</b>
Exposures to corporates	26,291	51,084	206,209	257,849	210,218	<b>751,651</b>
Exposures to retail	52,675	45,995	271,035	267,385	435,761	<b>1,072,851</b>
Exposures secured by mortgages on immovable property	1,202	3,621	13,457	42,787	158,418	<b>219,484</b>
Exposures in default	107,143	4,199	20,845	112,398	90,920	<b>335,504</b>
Items associated with particular high risk	29,976	2,908	524	2,328	2,460	<b>38,196</b>
Covered bonds	0	0	0	0	0	<b>0</b>
Exposures to institutions and corporates with short-term credit assessment	0	0	0	0	0	<b>0</b>
Collective investment undertakings	4,344	0	0	0	16,298	<b>20,642</b>
Equity	27	0	0	0	348	<b>375</b>
Other items	201,616	0	0	0	0	<b>201,617</b>
<b>Total</b>	<b>794,088</b>	<b>226,310</b>	<b>898,061</b>	<b>1,593,178</b>	<b>1,275,618</b>	<b>4,787,254</b>

**9.7 Disclosure, by significant industry or counterparty type, of (i) impaired exposures and past due exposures, provided separately; (ii) specific and general credit risk adjustments; and (iii) charges for specific and general credit risk adjustments during the reporting period**

*(Article 442(g) of the Regulation)*

€000

Industry	Impaired exposures 31.12.2015	Past due impaired exposures 31.12.2015	Specific and general credit risk adjustments 31.12.2015	Charges for specific and general credit risk adjustments during 2015
Households	70,318	47,553	40,798	5,115
Agriculture and hunting, forestry, fishing	18,281	12,970	11,867	2,472
Mining	2,570	1,381	1,889	3
Manufacturing industry	176,322	83,636	84,227	(10,774)
Electricity, gas and steam supply	17,295	17,124	16,286	(1,625)
Water supply, waste and sewage management, rehabilitation of the environment	7,828	6,671	6,515	5,424
Construction	166,739	112,854	110,562	(12,314)
Trade, maintenance and repair of motor vehicles	200,234	115,466	131,358	4,907
Transportation and storage	11,768	4,856	7,522	1,256
Accommodation and food service activities	48,762	39,389	33,225	1,808
Information and communication activities	40,695	29,985	27,259	7,230
Financial intermediation	109,554	22,263	39,019	(10,802)
Real estate activities	91,610	74,603	68,409	8,310
Professional, scientific and technical activities	52,888	35,554	33,959	3,766
Other various business activities	7,234	4,910	4,650	1,322
Public administration and defence services, compulsory social security activities	588	304	99	57
Education	36	8	36	(638)
Health and welfare security	9,925	21	2,952	(198)
Arts, entertainment and recreation	1,790	1,441	932	(9,951)
Other activities	1,661	1,149	970	37
<b>Total</b>	<b>1,036,098</b>	<b>612,138</b>	<b>622,534</b>	<b>(4,595)</b>

**9.8 Disclosure of the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas, including, if practical, the amounts of specific and general risk adjustments related to each geographical area**

*(Article 442(h) of the Regulation)*

€000

Geographical area	Impaired exposures 31.12.2015	Past due impaired exposures 31.12.2015	Specific and general credit risk adjustments 31.12.2015	Charges for specific and general credit risk adjustments during 2015
Slovenia	793,208	440,943	469,645	(12,008)
EU countries	151,785	138,885	123,949	3,308
Republics of the former Yugoslavia	87,605	28,810	25,440	605
Other countries	3,500	3,500	3,500	3,500
<b>Total</b>	<b>1,036,098</b>	<b>612,138</b>	<b>622,534</b>	<b>(4,595)</b>

**9.9 Disclosure of the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures**

*(Article 442(i) of the Regulation)*

The Nova KBM Group recognises collective impairment losses and provisions (credit risk adjustments) for homogeneous asset classes. If impartial evidence exists that a financial asset is impaired, Nova KBM assesses the replacement value of this asset based on the expected discounted cash flows generated from any of the following:

- the operations of the debtor
- the realisation of collateral
- a combination of the aforementioned.

The total volume of impaired exposures declined from €1,215,904,000 at the end of 2014 to €1,036,098,000 at the end of 2015, while the total level of impairment losses and provisions recorded on impaired exposures declined by €4,595,000 in the same period.

€000

Changes in specific and general credit risk adjustments for impaired exposures in 2015	Amount
Credit risk adjustments at the end of 2014	627,129
Change in credit risk adjustments in 2015	(4,595)
<b>Credit risk adjustments at the end of 2015</b>	<b>622,534</b>

## 10. Unencumbered assets

(Article 443 of the Regulation)

Encumbered assets are assets of Nova KBM that have been pledged either with the Bank of Slovenia for the settlement guarantee scheme, the pool of assets and the Bank Resolution Fund, or as collateral for some other purposes. A certain proportion of Nova KBM's portfolio of marketable securities issued by governments, banks and non-financial institutions has been encumbered for various purposes.

Disclosure on asset encumbrance					€000
<b>Template A - Assets</b>					31/12/2015
		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
<b>010</b>	<b>Assets of the reporting institution</b>	155,665		3,407,690	
030	Equity instruments	0	0	35,516	35,516
040	Debt securities	128,675	130,989	1,320,084	1,323,416
120	Other assets	0		241,650	
<b>Template B - Collateral received</b>					
		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance		
		010	040		
<b>130</b>	<b>Collateral received by the reporting institution</b>	0	0		
150	Equity instruments	0	0		
160	Debt securities	0	0		
230	Other collateral received	0	0		
<b>240</b>	<b>Own debt securities issued other than own covered bonds or ABSs</b>	0	0		
<b>Template C - Sources of encumbrance</b>					
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered		
		010	030		
<b>010</b>	<b>Carrying amount of selected financial liabilities</b>	2,060,365	133,465		
<div style="display: inline-block; width: 50px; height: 15px; background-color: #cccccc; margin-right: 5px;"></div> Not to be filled					
<b>D - Information on importance of encumbrance</b>					
For funds totalling €88,006,000 borrowed through TLTRO, Nova KBM pledged debt securities worth €88,139,000 in total. As a coverage for deposits totalling €2,183,408,000 that are guaranteed up to €100,000, Nova KBM pledged debt securities worth €43,539,000.					

## 11. Use of ECAIs

### 11.1 Names of the nominated ECAIs and ECAs and the reasons for any changes

*(Article 444(a) of the Regulation)*

For the calculation of risk-weighted exposure amounts, Nova KBM has nominated SID Banka as a reference Export Credit Agency (ECA) and Moody's Investors Service as a reference External Credit Assessment Institution (ECAI).

### 11.2 Information about the exposure classes for which each ECAI or ECA is used

*(Article 444(b) of the Regulation)*

The Nova KBM Group calculates capital requirements for credit risk under the standardized approach. For calculating risk-weighted exposure amounts for the exposure class 'Central governments or central banks', Nova KBM has nominated SID Banka as a reference Export Credit Agency (ECA), while Moody's Investors Service has been nominated as a reference External Credit Assessment Institution (ECAI) for calculating risk-weighted exposure amounts for the following exposure classes:

- exposures to regional governments and local authorities
- exposures to public sector entities
- exposures to institutions
- exposures to corporates
- exposures to covered bonds
- exposures to collective investment undertakings.

### 11.3 Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book

*(Article 444(c) of the Regulation)*

For exposure classes for which the ECAI has been nominated, the assignment of risk weights depends on the rating of the financial instrument. If the financial instrument is not rated, the long-term credit rating of the debtor or of a comparable financial instrument issued by the respective debtor is used to assign the appropriate risk weight. If none of these ratings is available, the sovereign rating of the country in which the debtor is domiciled is taken into consideration in the assignment of risk weights.

### 11.4 Information about the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2 of the Regulation, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA

*(Article 444(d) of the Regulation)*

This disclosure requirement is not relevant because the Nova KBM Group complies with the standard association published by the competent authority.

**11.5 Information about the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 of the Regulation as well as those deducted from own funds**

*(Article 444(e) of the Regulation)*

€000

Credit quality step		Exposure values	Exposure values after credit risk
MEIP	ECAI	31.12.2015	mitigation 31.12.2015
0,1	1 (Aaa to Aa3)	1,429,222	1,429,222
2	2 (A1 to A3)	162,888	162,888
3	3 (Baa1 to Baa3)	76,445	76,445
4	4 (Ba1 to Ba3)	0	0
5,6	5 (B1 to B3)	12,130	12,130
7a, 7b	6 (Caa1 and below)	0	0
<b>Total</b>		<b>1,680,685</b>	<b>1,680,685</b>

## **12. Exposure to market risk**

*(Article 445 of the Regulation)*

The Nova KBM Group uses the standardized approach for calculating the capital requirements for credit risk. The required disclosure is provided in Point 5.5.

The Nova KBM Group does not hold securitisation positions.



## 13. Operational risk

*(Article 446 of the Regulation)*

Operational risk, which includes legal 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.

Operational risks the Nova KBM Group is exposed to are managed within the following two divisions:

- Risk Management Division
- Corporate Governance Division.

The Non-Credit Risk Management Department, set up within the Risk Management Division, ensures that operational risk loss events are registered in a systematic fashion. The reporting on loss events captures all costs centres of Nova KBM and is carried out on a monthly, quarterly, half-yearly and yearly basis. While companies within the Nova KBM Group report to Nova KBM on operational risk loss events on a regular basis, the reports on loss events registered across the entire Nova KBM Group are reviewed by the 2015-formed Operational Risk Committee, which meets at least once every quarter.

The committee referred to above works with organizational units at all hierarchical levels of Nova KBM to ensure an appropriate flow of information needed to manage operational risk in a comprehensive manner. Operational risk management reports are discussed by the committee, but also by the Management Board and senior management of Nova KBM, which provides assurance that immediate action can be taken to deal with any operational risk related issues. The Operational Risk Committee reviews, on a quarterly or more frequent basis, the reports on incidents recorded by all most important business segments. It then adopts necessary measures in this regard, and monitors their implementation.

The Operational Risk Committee is responsible for dealing with the following matters:

- operational risk loss events recorded across the Nova KBM Group
- technical security incidents
- information security incidents
- operational disruptions and business continuity plans of Nova KBM
- compliance and integrity of operations
- prevention of money laundering and terrorist financing.

While both the Nova KBM Group and Nova KBM calculate capital requirements for operational risk in accordance with the basic indicator approach, they also annually calculate these requirements under the standardized approach. The latter calculation, however, is made for informative purposes only. In the second half of each year, an interim monthly assessment is made of the capital requirements for operational risk. These monthly assessments take into consideration the dynamics of income during the first half of the year and the projection of income over the next few months.

Nova KBM 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. Operational risk loss events may also be non-financial in nature. Since not all operational risk losses can be measured, an assessment of losses is made when determining the annual risk profile of Nova KBM. The determination 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 Nova KBM that cannot be reliably measured; they can only be, and must be, assessed.

Operational risk loss events are classified by Nova KBM by operating segments and type of loss events, in accordance with the guidelines of the Basel capital standards.

In terms of type, the majority of loss events recorded by the Nova KBM Group in 2015 related to (according to the Basel capital standards) '*Clients, products and business practices*' (55%), followed by '*Execution, Delivery and Process Management*' (39%), '*Damages to Physical Assets*' (4%) and '*External Fraud*' (2%). In 2014, the majority of loss events related to '*Execution, Delivery and Process Management*' (53%), followed by '*Damages to Physical Assets*' (19%) and '*External Fraud*' (13%).

Most loss events recorded in 2015 by the Nova KBM Group were attributable to Nova KBM (60%), followed by PBS (20%) and KBM Banka (16%). In 2014, the majority of loss events occurred in PBS (65%), followed by Nova KBM (15%) and KBM Banka (12%).

By ensuring systematic reporting on operational risk loss events through the APIS application, the Nova KBM Group successfully accomplished its short-term objective in respect of operational risk management. The mid-term objective remains the development of software to determine the risk profile of the Nova KBM Group, taking into consideration an assessment of operational risk.

The Nova KBM 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.

The Corporate Governance Division concentrated in 2015 on the following areas: the monitoring of operational risk, fraud detection, identification of IT risks, and identification of risks associated with outsourcing.

Nova KBM has in place the Corporate Security Department, which is dedicated to managing operational risks related to the following areas: (1) prevention of illegal conduct, (2) business continuity management, (3) information security management and (4) personal and property protection.

Ad 1: With its constant desire to adhere to the highest risk management standards, Nova KBM devotes particular attention to the prevention, identification and treatment of illegal conduct, fraud and other illegal actions. Pursuant to the adopted policy of ensuring integrity within Nova KBM and the Nova KBM Group, the zero-tolerance principle is applied by Nova KBM to any illegal practices that might be undertaken by its employees or customers. Nova KBM has a system in place to manage the risk of illegal conduct through the process of prevention, detection, treatment and intervention, the aim of which is to improve internal controls and to raise the core values of corporate culture. To reduce the risk of fraud, Nova KBM is developing a system that will help it identify any fraud in advance.

Ad 2: Nova KBM has in place a business continuity management system to deal with any extraordinary events that might cause disruption to its operations, such as breakdowns of information and communication flows, natural disasters and other undesired impacts from the environment. This system makes it possible for Nova KBM to take effective action to protect its services, processes, operations and assets. The business continuity system was developed by Nova KBM based on its Business Continuity Management Policy and the related documents, taking into consideration the applicable regulations. As part of the established governance system of Nova KBM, the Corporate Governance Division is required to conduct, on an annual basis, the business impact analysis, in addition to being responsible for risk assessments, maintenance and testing of business continuity plans, and reporting to the Operational Risk Committee on any exceptional events and identified risks. The division also provides assistance to other Nova KBM Group companies.

Ad 3: Nova KBM has set up an information security management system with the aim of protecting the *confidentiality* (of business information from unauthorized access and interception), *integrity* (i.e. accuracy and completeness of information and business software) and *availability* of information (i.e. provision of business information and information technology services to intended users to enable them to carry out their day-to-day operations). In 2015, Nova KBM worked with several outside contractors to carry out a security review of its external and internal information technology networks. Based on the findings of this review, the necessary measures were taken to improve Nova KBM's control environment. Furthermore, Nova KBM started preparations to implement a centralized security information and event management system.

Ad 4: Services related to the protection of persons and property are carried out in accordance with the applicable regulations and standards. While several types of personal protection systems are provided within Nova KBM, including mechanical protection, physical protection by a security guard, and protection of cash transports, activities concerning personal and property protection are regulated by the relevant policy and related regulations. In addition to providing regular internal training on personal and property protection, Nova KBM ensures that preventive measures addressed in risk assessment reports are promptly implemented.

Through the provision to the Operational Risk Committee of reports on the work in each of the four above-described areas, Nova KBM has ensured that the reporting on all operational risks to which it is exposed is carried out in an integrated and systematic fashion.

#### **Development of and investments in Nova KBM's information technology in 2015**

Nova KBM develops technological support for its business processes in accordance with its information technology strategy. In-house development of the key components of its information system, a complete control over the system architecture and systematic management of outsourcers enables Nova KBM to take a focused approach to the design of the entire infrastructure at different levels: from processes and business software to system infrastructure.

Comprehensive upgrades made in 2015 to Nova KBM's and the Nova KBM Group's information technology strategy took into consideration the business requirements of Nova KBM, with the changes made being reflected in its application solutions and information infrastructure. In line with the strategy referred to in the previous sentence, in 2015 Nova KBM began working on the optimization and upgrading of its development procedures, with the purpose of improving the quality of its information solutions.

With regards to the development of application solutions, Nova KBM consolidated its online banking services through uniform information support for its corporate and retail customers. In the area of payment card transactions, all information solutions used by Nova KBM to support these types of transactions were consolidated into a single processing centre. Based on a successful upgrade made in 2015 to its own-developed application solution for the data warehouse, Nova KBM managed to enhance its reporting system to the extent necessary to comply with all regulatory requirements with respect to reporting. Furthermore, Nova KBM set up a complex business intelligence platform, enabling it to automate its planning process, and implemented appropriate solutions offered by external vendors in order to fully support the processing of the entire range of cash transactions it provides.

The project of centralizing the transactional information system continued with the consolidation of all key applications used to support the transactions of corporate customers. While the migration of data on corporate deposits into the central transactional system was successfully completed, the migration of data on loans and those included in the general ledger was in the phase where the appropriate solutions were being implemented. In the

area of current account transactions, Nova KBM expects to install in 2016 the necessary adjustment interfaces and the kernel of its central transactional information system, having completed an analysis of its requirements in this regard in 2015. The final stage of this project, involving the migration of the kernel to a more recent platform, began in 2015 with activities concerning the selection of a suitable provider for the migration.

Consolidation of the IT infrastructure in the area of virtualization of branch office servers began in 2015, with the work continuing into 2016, in accordance with the adopted IT strategy. To ensure that its workstations are up to date, Nova KBM began upgrading them to more recent versions of the Microsoft Windows operating system and Office software.

With regards to the server equipment of branch offices, work was carried out to consolidate, optimize and upgrade computer hardware and system software. Centralization and virtualization of branch office servers has begun. Investments were made by Nova KBM to expand the capacity of its systems that are of vital importance to its operations.

Nova KBM is aware that up-to-date software is an essential and necessary part of the information system, as such software reduces information security risks, while at the same time enabling employees to be more productive. To this effect, a decision was made to sign a long-term cooperation agreement with Microsoft, allowing Nova KBM to utilize Microsoft products and technologies to the maximum extent practicable. In order for Nova KBM to retain its software licence compliance, investments were also made in 2015 in the purchase of licensed software and in the setting up of a process for managing licensed software.

The management of operational risks within Nova KBM became even more important with the decision to merge its operations with those of PBS. In order to reduce risks that may arise in this regard, particularly from the integration of business processes and the information systems of both banks, Nova KBM has developed the operating models for the functioning of the merged bank, along with the merger implementation plans.

#### **Objectives set for 2016 in respect of operational risk management**

- Nova KBM will ensure appropriate staffing to effectively manage the principal operational risks. At present, the management of operational risk is being carried out by two divisions (the Risk Management Division and the Corporate Governance Division), with the result that certain tasks concerning risk management are duplicated and that there are some gaps in the risk management process.
- Nova KBM will draft a comprehensive training plan for employees involved in operational risk management in order to raise control awareness of all employees, but especially department managers.
- Appropriate information systems will be set up to provide support to the procedures relating to the identification, assessment, measurement, management and monitoring of operational risks.
- An organizational structure will be set up that will ensure effective communication and cooperation at all organizational levels, as well as an adequate flow of information.

## 14. Exposure in equities not included in the trading book

### 14.1 Information about the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices

*(Article 447(a) of the Regulation)*

With respect to the investment purpose, the Nova KBM Group's portfolio of equity instruments is divided into the following three sub-portfolios:

- investments needed for regular operations of the Nova KBM Group (Bankart, S.W.I.F.T., the SISBON credit bureau, the Bank Resolution Fund)
- investments in equities and funds for which the Nova KBM Group, as an investor, has adopted appropriate exit strategies to be carried out once the financial objectives are achieved
- temporary investments in equities which result from the realisation of collateral or debt-to-equity conversions and which the Nova KBM Group intends to sell within a short period of time.

€000

Type of investment	Investment value 31.12.2015
Investments needed for regular operations of the Nova KBM Group	16,070
Investments in equities and funds with an exit strategy	9,791
Temporary investments in equities resulting from the realisation of collateral and debt-to-equity conversions	875
<b>Total</b>	<b>26,736</b>

The accounting techniques and valuation methodologies used by the Nova KBM Group, including key assumptions and practices affecting valuation, are set out in the 2015 Annual Report of the Nova KBM Group and Nova KBM, in the notes to the financial statements (Note 5: Fair value of financial assets and financial liabilities).

### 14.2 Information about the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value

*(Article 447(b) of the Regulation)*

The Nova KBM Group has adopted a policy that a fair value of a financial instrument that is traded on the stock market must equal its market price. The Nova KBM Group's balance sheet value of financial instruments that are traded on the stock market was €86,000 at the end of 2015.

### 14.3 Information about the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures

(Article 447(c) of the Regulation)

€000

Exposure types	Exposure values 31.12.2015
Quoted shares	86
Unquoted shares	5,318
Mutual fund units	4,997
Investments in non-public companies	690
Bank Resolution Fund	15,645
<b>Total</b>	<b>26,736</b>

All of the exposures listed above are included in the portfolio of available-for-sale financial assets.

### 14.4 Information about the cumulative realised gains or losses arising from sales and liquidations in the period

(Article 447(d) of the Regulation)

In 2015, the Nova KBM Group generated gains of €5,941,000 on the sale of equity instruments that were held in its banking book.

### 14.5 Information about the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in Tier 1 or Tier 2 capital

(Article 447(e) of the Regulation)

In accordance with the applicable legislation, the Nova KBM Group deducts from its Tier 1 capital 40% of the total unrealised gains and losses generated on equity instruments and non-sovereign debt securities held in the banking book. In addition, in accordance with the discretionary powers of the Bank of Slovenia to determine which items may be included in the calculation of capital, the Nova KBM Group does not include in the calculation of its capital the unrealised gains or losses generated on sovereign debt securities.

€000

Item description	Value 31.12.2015
<b>Unrealised gains or losses</b>	<b>815</b>
Unrealised gains	(2,345)
Unrealised losses	3,160
Unrealised gains on the exposure to central governments classified into the category of available-for-sale financial instruments	0
Unrealised losses on the exposure to central governments classified into the category of available-for-sale financial instruments	0
<b>Deductions</b>	<b>37,044</b>
Loss reported for the current financial year	9,724
Intangible assets	21,806
Deferred tax assets that are attributable to future profits and do not arise from temporary differences	2,284
Translation reserves	3,230

## **15. Exposure to interest rate risk on positions not included in the trading book**

### **15.1 Information about the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk**

*(Article 448(a) of the Regulation)*

Interest rate risk is a risk of loss arising due to sudden and unexpected changes in market interest rates, and derives from maturity mismatches of interest-sensitive asset and liability items, which form the largest proportion of the Nova KBM Group's total assets and liabilities. In addition, interest rate risk may derive from a shift in the yield curve, from the basis risk, or from the risk resulting from options embedded in interest-rate sensitive items.

Nova KBM assesses its exposure to interest rate risk on the basis of assumptions set out in the Methodology for Managing Interest Rate Risk, and monitors interest rate risk in accordance with the Interest Rate Risk Management Policy. As many as 91% of Nova KBM's assets are denominated in euros. Nova KBM provides its customers with the option to repay early the loan they have taken out, subject to paying loan prepayment costs, including the anticipated interest. Given that the total volume of prepaid loans is not material, Nova KBM does not take into account the effects of options in the management of interest rate risk. Nova KBM uses its own-developed model for determining the level of stable demand deposits, which is taken into account in the management of interest rate risk. Customer deposits that are regarded as stable are distributed across individual time buckets depending on their stability rate, taking into consideration the interest rate repricing periods as applicable to fixed interest rates. Exposure to interest rate risk is measured monthly for Nova KBM, and quarterly for the Nova KBM Group.

### **15.2 Information about the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency**

*(Article 448(b) of the Regulation)*

To manage interest rate risk, Nova KBM calculates monthly the impact on its net interest income and net present value of interest-sensitive items of interest rate changes in the next three months, as well as of the parallel shift in the yield curve by 200 basis points. The impact of changes in interest rates on Nova KBM's profit or loss is measured for a one-year period. In addition, Nova KBM regularly calculates the impact of interest rates changes on its net interest income and 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 its equity. For the purpose of these calculations, demand deposits are distributed across various time buckets in accordance with the relevant internal models.

Stress tests are carried out separately for interest rates for EUR, USD and CHF. In addition, Nova KBM conducts stress tests on its entire exposure to interest rate risk, given that the standardized stress test provides for a uniform shift in the yield curve, irrespective of the currency or the reference interest rate.

Nova KBM carries out the following three different calculations of a change in the NPV:

- a change in the NPV of all banking book items, taking into consideration the level of stability of demand deposits under a +/- 200 basis points stress test (this calculation is conducted for the purpose of calculating the economic capital and for comparing the calculated level of economic capital with the regulatory capital)
- a change in the NPV of all banking book items on the basis of an internally determined movement in the yield curve
- a change in the NPV of the portfolio of available-for-sale financial assets under a +/- 200 basis points stress test.

In assessing its exposure to changes in reference interest rates (basic risk), Nova KBM takes into consideration the method of determining variable interest rates that are linked to the respective reference interest rates.

Nova KBM manages interest rate risk by setting allowable exposure limits for each individual time bucket, separately for each key currency (EUR, USD and CHF). Allowable limits for individual time buckets are proposed based on an analysis of the potential impact of changes in interest rates on the NPV of on- and off-balance sheet items, interest income and, indirectly, equity.

## **16. Exposure to securitisation positions**

*(Article 449 of the Regulation)*

This disclosure requirement is not applicable to the Nova KBM Group because it does not hold securitisation positions.



## 17. Remuneration policy

### 17.1 Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders

*(Article 450(1.a) of the Regulation)*

The Nova KBM Remuneration Policy, which was drafted in 2012, is revised on an annual basis. The last revision took place at the end of 2015, when it was amended to comply with the new Banking Act (ZBan-2) and the provisions of the Bank of Slovenia's Regulation Governing Internal Governance. Technical support in the drafting and revision of the Remuneration Policy was provided by the Human Resources Department, the Management Board Office and some other specialist departments. Any changes to the Remuneration policy proposed by the departments referred to in the previous sentence are discussed and approved by the Management Board, which submits the proposal to the Remuneration Committee for consideration. The Remuneration Policy and any changes to it are approved by the Supervisory Board.

As a systemically important bank, Nova KBM has in place the Remuneration Committee (previously the Remuneration and Nomination Committee), the members of which are: Niko Samec (Chair), Peter Kukovica (Deputy Chair) and Miha Glavič. All Remuneration Committee members are members of the Supervisory Board, which is in compliance with the ZBan-2.

The Remuneration Committee serves as an advisory body to the Supervisory Board and performs the following tasks:

- carries out technical and independent assessments of the Remuneration Policy and remuneration practices, and formulates initiatives for measures on the basis thereof with the aim of improving the management of the risks to which Nova KBM is exposed, its capital and liquidity
- draws up proposals for decisions by the governing body regarding the remuneration of employees, including remuneration that impacts the risks to which Nova KBM is exposed and the management thereof
- controls the remuneration of members of senior management who perform risk management functions and ensure the compliance of operations
- prepares proposals on general principles of the Remuneration Policy, including formulation of positions on individual aspects of the Remuneration Policy
- assesses remuneration system methodologies that are designed to encourage appropriate management of risk, capital and liquidity
- prepares reports for the Supervisory Board regarding the implementation of the Remuneration Policy
- prepares proposals on the remuneration of employees, including those that are involved in risk taking and risk management
- verifies the suitability of external consultants whose services the Supervisory Board may use in determining the Remuneration Policy
- verifies the suitability of general principles of the Remuneration Policy, and of their implementation

- verifies the Remuneration Policy's consistency with Nova KBM's business policy over a prolonged period of time.

The Remuneration and Nomination Committee held three meetings in 2015, while the Remuneration Committee has held two meetings since its formation in July 2015. In 2015, the Remuneration Committee was actively involved in the drafting of Nova KBM's new Remuneration Policy, which was submitted for approval to the Supervisory Board after being agreed by the Remuneration Committee.

## **17.2 Information on link between pay and performance**

*(Article 450(1.b) of the Regulation)*

The Nova KBM Remuneration Policy was issued on 16 January 2012, and has been revised on an annual basis ever since. In 2015, the Remuneration Policy was revised twice – on 30 January and on 18 December. The PBS Remuneration Policy, the last revision of which took place in December 2015, is fully aligned with that of Nova KBM.

In accordance with the ZBan-2 and the Bank of Slovenia's Regulation Governing the Internal Governance, the Governing Body and the ICAAP for Banks and Savings Banks (hereafter: the BS Regulation), Nova KBM has, at the level of the Nova KBM Group, set up and is implementing a remuneration policy for the categories of employees whose work is of a specific nature that encourages these employees to manage risks in an appropriate and effective manner.

The Nova KBM Remuneration Policy sets out the categories of employees whose work is of a specific nature, the type of remuneration those employees are entitled to, general and specific principles applicable to the adjustment of remuneration to risk, and the persons responsible for setting up, amending and supervising the implementation of the policy, and for reporting on the policy implementation.

The Nova KBM Remuneration Policy is designed in such a way that it ensures appropriate motivation of employees, but does not encourage them to take disproportionately excessive risks. This is ensured by:

- an appropriate balance between the fixed and variable components of remuneration provided to different categories of employees, meaning that the total amount of remuneration is not highly dependent on the variable component of remuneration which, at the same time, represents an effective way to encourage employees to achieve or exceed planned work results
- taking into consideration the assessment of the performance of employees, their organizational units and Nova KBM as a whole, and by aligning the variable component of remuneration with all types of risk to which Nova KBM is or could be exposed in its operations
- an appropriate method for the payment of the variable component of remuneration.

The Remuneration Policy is designed in such a way as to discourage the employees from engaging in excessive risk-taking or to take a level of risk that exceeds Nova KBM's risk-taking capacity. This is ensured by having an appropriate balance between the fixed and variable components of remuneration, taking into consideration that any variable component of remuneration can only make up a small proportion of the total remuneration. In addition, no bonuses are paid on pre-agreed variable components of remuneration, except under exceptional circumstances as allowed by the BS Regulation.

The Remuneration Policy is applicable to all Nova KBM employees, with emphasis on the categories of employees whose work is of a specific nature (Nova KBM has waived the variable component of remuneration for all employees, with the exception of the Management Board).

The categories of employees whose work is of a specific nature are: the Nova KBM Management Board, senior management, the management bodies of the system of internal control functions and of other independent control functions, direct risk-takers (the employees who are authorized to take business decisions that have an impact on the risk profile of Nova KBM), and other employees whose total remuneration, including special pension benefits, is at or exceeds the level of remuneration provided to senior management or direct risk-takers. According to the adopted criteria, employees whose work is of a specific nature are employees who may, within the scope of their duties and functions, have a significant influence on Nova KBM's risk profile.

The Remuneration Policy is aligned with the Slovene labour legislation, the collective agreements, internal acts of Nova KBM, and resolutions of the Supervisory Board. Furthermore, in view of the specific ownership structure of Nova KBM, its Remuneration Policy has also been adjusted to conform to the Act Fixing the Reimbursement Amounts for Work Related Expenses and Certain Other Receipts, and the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities.

### **17.3 Information about the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria**

*(Article 450(1.c) of the Regulation)*

Up until the adoption of the revised Remuneration Policy on 18 December 2015, Nova KBM waived the implementation of the Remuneration Policy as regards the remuneration of employees working on collective or individual agreements, with the exception of Management Board members. Since 18 December 2015, the principles of remuneration set out in the Remuneration Policy have been applied to all employees.

The following ratios and weights are taken into consideration in assessing the performance of the Management Board:

#### **1. Common financial ratios (30 points):**

- a year-on-year increase in the pre-tax profit (5 points)
- a year-on-year increase in the pre-tax, pre-provision profit (5 points)
- the achieved ROAA before tax vs. the projection:  
(if it equals the projection: 3 points; if it exceeds the projection: 5 points)
- the achieved ROAE before tax vs. the projection:  
(if it equals the projection: 3 points; if it exceeds the projection: 5 points)
- the achieved CIR vs. the projection:  
(if it equals the projection: 3 points; if it is better than projected: 7 points)
- comparison with the banking system of the level of operating costs as a proportion of the average total assets  
(if the ratio is equal to that of the banking system: 1 point; if the ratio is better than that of the banking system: 3 points).

- 2. Asset quality, provisions and capital adequacy (30 points):**
- improvement or preservation of the loan portfolio quality measured as a year-on-year increase in the proportion of loans outstanding to A- and B-rated customers within the total loans (10 points)
  - market share in the level of provisions: if it is larger or equal to the market share in customer loans (10 points)
  - compliance with Articles 68 to 72 of the ZBan-2 (capital adequacy) (5 points)
  - compliance with the EBA's recommendations on capital adequacy (5 points).
- 3. Increase in the volume of loans and deposits (20 points):**
- a year-on-year increase in the volume of customer deposits (5 points)
  - a year-on-year increase in market share in customer deposits (5 points)
  - a year-on-year increase in the volume of customer loans (5 points)
  - a year-on-year increase in market share in customer loans (5 points).
- 4. Qualitative ratios – to be determined by the Supervisory Board on the basis of the following assessments (20 points):**
- an assessment of the functioning of the internal control and risk management systems
  - an assessment of reputation of Nova KBM, its management and succession systems
  - an assessment of the information system quality
  - an assessment of communication and reporting systems
  - an assessment of the contribution of operations to social responsibility
  - an assessment of cooperation between the Management Board and the Supervisory Board.

Depending on the total points achieved, the variable component of the total remuneration of the Management Board is determined as presented in following table:

<b>Variable component of remuneration<sup>3</sup></b>	
<b>Up to and including 50 points</b>	7.5%
<b>Above 50 and up to and including 70 points</b>	15 %
<b>Above 70 and up to and including 90 points</b>	22.5 %
<b>Above 90 points</b>	30 %

The variable component of remuneration is paid to Management Board members in two parts: the first part is paid after the end of the accounting period, while the second part is paid during the deferral period.

In accordance with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, the variable component of remuneration paid to members of the Management Board is determined by a resolution of the Supervisory Board at the end of each financial year, and paid out in accordance with the said act, provided that the annual variable remuneration shall not exceed 30% of the basic salary paid to a member of the Management Board in one year.

The payment of 50% of the variable component of remuneration is deferred for at least two years, or is paid out upon the termination of the term of office of a Management Board member if his/her term of office ends before the payment deferral period. Members of the Management Board who have held their office for less than two years are not entitled to receive 50% of the variable component of remuneration.

<sup>3</sup> As a proportion of the basic annual remuneration.

Apart from the fixed and any variable component of remuneration, members of the Nova KBM Management Board are entitled to bonuses to be determined by the Supervisory Board and specified in their employment contracts.

The remuneration package of employees whose basic salary is determined in their individual employment contracts (the tariff part of the collective agreement does not apply to this category of employees), such as managers with specific powers and responsibilities, including executive directors, advisers to and authorized representatives of the Management Board, managers of specialist services that report directly to the Management Board, department managers that report directly to executive directors, and deputy managers, is composed of the following components:

- a fixed component, which represents the agreed basic salary and is determined based on the complexity and amount of work done, taking into consideration that it must correlate to the level of responsibility assumed, the targets set and the risk taken (the fixed component of remuneration cannot exceed 85% of the basic remuneration paid to the President of the Management Board)
- seniority bonus
- a non-binding variable component of the remuneration (performance bonus) that may account for up to 20% of the gross monthly salary of the respective employee and is paid for the month in which the employee delivered above-average performance
- bonuses to be determined by the Management Board in employment contracts.

The non-binding variable remuneration (performance bonus) may be determined by the Management Board in duly justified cases, when it determines that an employee has delivered an above-average performance in his/her regular or extraordinary work, or has in some other way contributed to the successful completion of certain tasks of projects, or has contributed to the successful performance of Nova KBM as a whole. Based on a relevant written justification, the Management Board may increase the monthly gross salary of such an employee by up to 20% for the month in which the above-average performance was delivered.

#### **17.4 Information about the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU**

*(Article 450(1.d) of the Regulation)*

Nova KBM has ensured that its Remuneration Policy reflects a close link between remuneration and prudent risk taking. The Remuneration Policy is not formulated in such a way as to encourage employees to engage in excessive risk taking or to act in such a way as to become exposed to any conflict of interest. This is ensured by having an appropriate balance between the fixed and variable components of remuneration, taking into consideration that any variable component of remuneration is not directly related either to the volume or value of transactions entered into, or to the exposure to risk associated with these transactions. The annual amount of a variable component of remuneration the employees may receive shall not exceed their monthly salary. This non-binding variable remuneration is paid for extraordinary performance, to be assessed at the discretion of the Management Board in accordance with internal documents, taking into account quantitative and qualitative criteria. Any variable component of remuneration is paid by Nova KBM after the end of the accounting period, without any deferral.

The entire variable component of remuneration is determined on the basis of the performance of an employee, an employee's organizational unit and the general operating results of Nova KBM. In assessing the performance of an employee, Nova KBM takes into

account certain financial and non-financial criteria. Each assessment process is based on long-term performance.

The fixed component of remuneration constitutes the basic salary the employees are entitled to. While the fixed component of remuneration depends on the complexity and amount of work done, it is also correlated to the responsibilities assumed, the targets set, and the risk taken (the maximum amount of the fixed component of remuneration cannot exceed 85% of the monthly basic salary of a Management Board member).

Employees working in control functions are independent in carrying out their work. Remuneration provided to this category of employees depends on the objectives achieved by the control functions and is independent of the performance of the business units they control.

Members of the Nova KBM Management Board are not exempt from the implementation of the provisions of the Remuneration Policy referring to the payment of the variable component of remuneration. Remuneration provided to members of the Management Board is determined and limited by the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities. In accordance with this Act, members of the Management Board are, apart from a fixed remuneration, entitled to a variable component of remuneration, which depends on the performance achieved, and to a severance benefit.

The variable component of remuneration is paid to Management Board members in two parts: the first part is paid after the end of the accounting period, while the second part is paid during the deferral period. Nova KBM has ensured that the variable component of remuneration is paid during the deferral period in proportionate amounts depending on the length of the deferral period (but not more than once a year) or in a lump sum at the end of the deferral period.

In accordance with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, the variable component of remuneration paid to members of the Management Board shall be determined by a resolution of the Supervisory Board at the end of each financial year, and paid out in accordance with the said act, provided that the annual variable remuneration shall not exceed 30% of the basic salary paid to a member of the Management Board in one year. The method of paying any variable component of remuneration (criteria, restrictions, whether in the form of a financial instrument or cash, payment deferral, reimbursement) is laid down in the act referred to above, the Corporate Governance Code for Public Limited Companies, and resolutions of the Supervisory Board. The amount of variable remuneration paid to Management Board members is determined on the basis of a balanced system of performance indicators, which is such that it stimulates members of the Management Board to strive for an equal growth in assets and deposits, and to achieve profits, efficiently manage costs, preserve a low level of provisioning, and maintain a robust control environment.

In accordance with the act referred to in the previous paragraph, the variable component of remuneration paid to members of the Management Board is determined by a resolution of the Supervisory Board at the end of each financial year. The payment of 50% of the variable component of remuneration is deferred for at least two years, or is paid out upon the termination of the term of office of a Management Board member if his/her term of office ends before the payment deferral period. Members of the Management Board who have held their office for less than two years are not entitled to receive 50% of the variable component of remuneration.

Apart from the fixed and any variable component of remuneration, members of the Nova KBM Management Board are entitled to bonuses to be determined by the Supervisory Board and specified in their employment contracts.

### 17.5 Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based

*(Article 450(1.e) of the Regulation)*

Nova KBM does not provide the variable component of remuneration in the form of financial instruments (shares or options). As regards other non-cash benefits (bonuses), which do not have a material impact on the amount of remuneration, Nova KBM employees are entitled to such benefits in accordance with their employment contracts and Nova KBM's internal rules.

### 17.6 Information about the main parameters and rationale for any variable component scheme and any other non-cash benefits

*(Article 450(1.f) of the Regulation)*

Up until the adoption of the revised Remuneration Policy on 18 December 2015, Nova KBM waived the implementation of the Remuneration Policy as regards the remuneration of employees working on collective or individual agreements, with the exception of Management Board members. Since 18 December 2015, the principles of remuneration set out in the Remuneration Policy have been applied to all employees. Further details in this regard are disclosed in Point 17.3.

### 17.7 Disclosure of the aggregate quantitative information on remuneration, broken down by business area

*(Article 450(1.g) of the Regulation)*

The information about the aggregate amount of remuneration provided in 2015 to Nova KBM employees whose work is of a specific nature is presented in the table below (the data for the Nova KBM Group as a whole are presented in Point 17.8).

Nova KBM

€000

Business area	Number of employees	Gross remuneration (salary + pay for annual leave)	Variable component	Bonuses	Supplementary pension insurance premiums	Other remuneration	Total remuneration
Commercial departments	17	927	0	21	6	4	958
Other departments	35	1,987	0	41	22	93	2,144
<b>Total</b>	<b>52</b>	<b>2,914</b>	<b>0</b>	<b>62</b>	<b>28</b>	<b>97</b>	<b>3,102</b>

### 17.8 Disclosure of the aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution

(Article 450(1.h) of the Regulation)

Other remuneration paid in 2015 to Nova KBM employees whose work is of a specific nature amounted to €97,053, of which €84,246.32 was attributable to severance packages paid to three employees who had worked in 'Other departments', with the remaining balance being attributable to the payment of the balance of pay for annual leave for the year 2012.

Nova KBM

€000

Business area	Number of employees	Remuneration – fixed component	Remuneration – variable component
Management Board	3	274	0
Senior management	14	1,065	0
Other areas	35	1,762	0
<b>Total</b>	<b>52</b>	<b>3,102</b>	<b>0</b>

Remuneration paid to other Nova KBM 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, compensations for a non-competition clauses, and some other remuneration under employment contracts).

€000

	Nova KBM Group	Nova KBM
Nova KBM Management Board	274	274
Other employees on individual contracts	4,945	2,828
<b>Total</b>	<b>5,400</b>	<b>3,283</b>

### 17.9 Information about the number of individuals being remunerated €1 million or more per financial year, for remuneration between €1 million and €5 million broken down into pay bands of €500,000 and for remuneration of €5 million and above broken down into pay bands of €1 million

(Article 450(1.i) of the Regulation)

No employee of Nova KBM received remuneration of €1 million or more in 2015.

### 17.10 Information about the total remuneration for each member of the management body or senior management, if so requested by the Member State or competent authority

(Article 450(1.j) of the Regulation)

Given that Nova KBM is regarded as a bank that is important to the Slovene banking system, in accordance with the third paragraph of Article 7 of the ZBan-2, it must disclose separately



the information about the total remuneration paid to each member of the Management Board. Remuneration paid in 2015 to Management Board members is disclosed in the 2015 Annual Report of the Nova KBM Group and Nova KBM, in the notes to the financial statements (Note 57: Remuneration).

**17.11 Disclosure to the public of quantitative information regarding remuneration at the level of members of the management body of the institution, if the institution is significant in terms of its size, internal organization and the nature, scope and the complexity of its activities**

*(Article 450 (2) of the Regulation)*

The required data are disclosed in the 2015 Annual Report of the Nova KBM Group and Nova KBM, in the notes to the financial statements (Note 57: Remuneration).

## 18. Financial leverage

(Article 451 of the Regulation)

This is the first time that Nova KBM is reporting on the financial leverage in accordance with Article 451 of the Regulation.

### 18.1 Leverage ratio

(Article 451(a) to (c) of the Regulation)

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		Applicable amounts 31.12.2015
1	Total assets as per published financial statements	4,846,817
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No. 575/2013	0
4	Adjustments for derivative financial instruments	1,005
5	Adjustments for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	(455,787)
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429(7) of Regulation (EU) No. 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429(14) of Regulation (EU) No. 575/2013)	0
7	Other adjustments	(27,068)
8	<b>Total leverage ratio exposure</b>	<b>4,364,967</b>

Table LRCom: Leverage ratio common disclosure		CRR leverage ratio exposures 31.12.2015
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	4,246,051
2	(Asset amounts deducted in determining Tier 1 capital)	(26,952)
3	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>4,219,099</b>
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	116
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	889
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>1,005</b>

<b>Securities financing transaction exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No. 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
<b>16</b>	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>0</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	600,650
18	(Adjustments for conversion to credit equivalent amounts)	(455,787)
<b>19</b>	<b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>	<b>144,863</b>
<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)</b>		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No. 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No. 575/2013 (on and off balance sheet))	0
<b>Capital and total exposures</b>		
<b>20</b>	<b>Tier 1 capital</b>	<b>569,395</b>
<b>21</b>	<b>Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>	<b>4,364,967</b>
<b>Leverage ratio</b>		
<b>22</b>	<b>Leverage ratio</b>	<b>13.04%</b>
<b>Choice on transitional arrangements for the definition of the capital measure</b>		
EU-23	Choice on transitional arrangements for the definition of the capital measure	No
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	0

**Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

<b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)</b>		<b>CRR leverage ratio exposures 31.12.2015</b>
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	4,219,099
EU-2	<i>Trading book exposures</i>	109
EU-3	Banking book exposures, of which:	4,218,989
EU-4	<i>Covered bonds</i>	0
EU-5	<i>Exposures treated as sovereigns</i>	1,524,457
EU-6	<i>Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns</i>	232,063
EU-7	<i>Institutions</i>	387,658
EU-8	<i>Secured by mortgages of immovable properties</i>	204,348
EU-9	<i>Retail exposures</i>	460,244
EU-10	<i>Corporate exposures</i>	851,417
EU-11	<i>Exposures in default</i>	259,926
EU-12	<i>Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)</i>	298,877

## **18.2 Description of procedures used to manage the risk of excessive exposure**

*(Article 451(d) of the Regulation)*

Movements in the Nova KBM Group's financial leverage ratio are, along with movements in other capital ratios, monitored by Nova KBM on a regular basis, in accordance with the requirements set out in the Nova KBM Group Recovery Plan. The value of the financial leverage ratio is reported by the competent departments to the following bodies:

- Supervisory Board
- Management Board
- various internal committees (e.g. the ALCO).

Nova KBM's ALCO is responsible for dealing with situations of excessive leverage ratio. The Nova KBM Group Recovery Plan stipulates the threshold for the financial leverage ratio, with the so-called yellow alert being triggered if the threshold is reached. When the threshold is exceeded, the ALCO must reach a decision on how to manage the excessive leverage ratio in an effective manner.

At the end of 2015, the Nova KBM Group's financial leverage ratio stood at 13.04%, which was fully in compliance with the financial plan of the Nova KBM Group, partially reflecting its focus on the provision of mainstream lending products (including to the corporate segment to which high exposure risk-weights apply), and partially its robust capital position.

## **18.3 Description of the factors that had an impact on the leverage ratio to which the disclosed leverage ratio refers**

*(Article 451(e) of the Regulation)*

This is the first time that the Nova KBM Group is reporting on the financial leverage in accordance with Article 451 of the Regulation. The financial leverage ratio was calculated by taking into account the adequate level of on- and off-balance sheet exposures as well as the amount of the Nova KBM Group's Tier 1 capital at the end of 2015.

## **19. Use of the IRB Approach to credit risk**

*(Article 452 of the Regulation)*

Nova KBM is in the process of setting up an IRB-compliant credit rating system, which will be fully operational at the end of 2018. While this system will be used for the purpose of classifying customers and in the processes linked to the process of calculating capital requirements, Nova KBM will continue to use the standardized approach for the calculation of capital requirements.

## **20. Use of credit risk mitigation techniques**

### **20.1 Policies and processes for, and an indication of the extent to which the institution makes use of, on- and off-balance sheet netting**

*(Article 453(a) of the Regulation)*

The Nova KBM Group does not use on- and off-balance sheet netting as a credit risk mitigation technique.

### **20.2 Policies and processes for collateral valuation and management**

*(Article 453(b) of the Regulation)*

The Nova KBM Group Credit Risk Management Policy is the umbrella document that governs the secured lending of Nova KBM and the Nova KBM Group, in addition to setting out the principal guidelines regarding the acceptance and valuation of collateral, the monitoring of the adequacy of collateral, and the reporting on collateral, with the aim of mitigating credit risk.

The conditions that must be met in order for a certain type of collateral to be accepted by Nova KBM are specified in the Nova KBM Regulations on Secured Lending, which also set out the obligation to monitor the adequacy of collateral. Valuation of collateral is described in the Nova KBM Methodology for Loan Collateral Valuation, while the valuation of real estate is described in the Nova KBM Group Methodology for Real Estate Valuation, which is, *mutatis mutandis*, also applicable to the valuation of movable property.

The principal objective of the implementation of the Loan Collateral Policy is to mitigate credit risk. Collateral provided as security for loans is used as a secondary source for the repayment of contractual obligations; it is liquidated if a debtor, for whatever reason, ceases to pay its debts, or if there is a change in the circumstances that prevailed at the time the loan was approved.

In cases where a loan is to be secured by the pledge of property, in particular real estate, movable property or financial instruments, Nova KBM pursues the policy of having its lien registered as a priority creditor.

Prior to entering into a credit relationship, Nova KBM and the Nova KBM Group must obtain appropriate documentation for each type of collateral, which ensures adequate legal protection in case the secondary repayment source needs to be utilised. In accordance with the applicable legislation, Nova KBM has set up a system for monitoring the adequacy of, and reporting on, collateral. Valuation of property to be provided as security for a loan is carried out prior to the loan being granted. The information about the market value of the majority of the pledged real estate units and movable assets is taken from the assessment reports drawn up by certified external appraisers. Nova KBM has signed agreements with several external appraisers for real estate and movable property in order to have access to up-to-date valuation reports. Valuation reports drafted by external appraisers are checked by the competent department, primarily with a view to establishing its credibility and whether it complies with the International Valuation Standards. The verified and approved value assessment forms the basis for making the necessary collateral arrangements. Particular attention is devoted to the legal certainty, integrity and saleability of assets to be provided as collateral, the verification of which is carried out by the competent departments prior to making collateral arrangements. The fair value of quoted financial instruments is determined

based on their market value, while that of unquoted instruments is determined using an internal methodology.

During the credit relationship with the customer, Nova KBM monitors the adequacy of collateral and the collateral coverage, while ensuring that it has up-to-date valuation reports available. The monitoring of the value of collateral during the loan repayment period is carried out in accordance with internal methodologies, taking into consideration the legal requirements in respect of the monitoring frequency. For example, the value of real estate provided as collateral is checked at least once a year, either via a valuation report prepared by an external appraiser or by using an internal methodology that determines the value on the basis of publicly available data on transactions in real estate and the achieved prices, which are published by the competent government institutions (the Surveying and Mapping Authority of the Republic of Slovenia, and the Statistical Office of the Republic of Slovenia). Where appropriate, Nova KBM may request that additional collateral be provided if there is a drop in the value of the collateral.

While the market value of the asset to be provided as collateral is used to determine the value of collateral, in the loan-approval process, the process of assessing impairments of financial assets and in the reporting process, Nova KBM also takes into consideration expert adjustments to asset valuations, which reflect its expectations regarding the cash flow to be generated on a potential realisation of collateral. For the purpose of calculating capital requirements for credit risk, Nova KBM uses value adjustments as prescribed by the regulator for individual types of assets.

### **20.3 Description of the main types of collateral taken by the institution**

*(Article 453(c) of the Regulation)*

To reduce its exposure to credit risk, Nova KBM accepts as collateral all types of collateral that meet the minimum requirements to recognise the effects of collateral. Nova KBM accepts as collateral different types of funded and unfunded credit protection instruments.

Nova KBM regards as eligible collateral those types of collateral that are classified as such in accordance with the provisions of the Bank of Slovenia's Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks. Corporate loans and loans approved to sole proprietors may also be secured by funded and unfunded credit protection instruments for which it is assessed that, in case of need, they can generate a cash flow and therefore be used as a secondary source of repayment, and that the conditions regarding legal certainty and operational requirements of the instruments are met. Where it is assessed that there is a probability that any such collateral instrument may generate cash flow, Nova KBM applies the conservative principle and does not accept such collateral. Other funded and unfunded protection instruments are accepted only if they meet the following minimum requirements to recognise the effects of collateral:

- legal certainty
- quality
- operational requirements.

Nova KBM accepts as collateral the following funded credit protection instruments:

- commercial and residential real estate
- movable property
- money claims
- financial collateral (e.g. bank deposits, investment gold, debt securities issued by various issuers, investment fund units, equity instruments, pledge of a business interest)

- pledge or cession of a claim
- pledge of other assets (e.g. trademarks, inventory)
- other types of funded credit protection (e.g. unit linked insurance policies).

The following unfunded credit protection instruments are accepted by Nova KBM as collateral:

- joint and several guarantees provided by natural or legal persons
- guarantees provided by banks and state-owned entities
- guarantees provided by the central and local governments and central banks
- insurance provided by insurance companies.

Loans are often secured by a combination of various types of collateral.

Nova KBM aims to have its loan portfolio adequately secured, while at the same time having legal certainty in case of realisation of collateral. Internal instructions set out the general principles and recommendations regarding the collateral to be provided for securing loans. The decision regarding the type of collateral to be provided and the collateral coverage depends on the assessment of the respective customer's creditworthiness and the maturity of the loan, and on whether the loan is to be approved to a retail or corporate customer. Corporate customers and private undertakings must present a bill of exchange, together with the bill of exchange statement, when applying for a loan.

The largest proportion of Nova KBM's loan portfolio is secured by real estate, state guarantees and guarantees provided by other issuers, movable property, bank deposits and sureties, while a certain proportion of the loan portfolio is insured with an insurance company. Other types of collateral make up only a small proportion of collateral possessed by Nova KBM.

#### **20.4 Information about the main types of guarantor and credit derivative counterparty and their creditworthiness**

*(Article 453(d) of the Regulation)*

Insurance provided by insurance companies and guarantees are regarded by Nova KBM as eligible forms of collateral. To be accepted by Nova KBM, a guarantee must be issued by any of the following entities:

- central governments or central banks
- regional governments or local authorities
- multilateral development banks
- international organizations to which a 0% risk weight applies according to the standardized approach
- public sector entities, claims against which are treated as claims against institutions or central governments
- institutions (export agencies and insurance companies)
- other commercial companies, including those that are controlled by, or exert control over, Nova KBM.

Also accepted as collateral are guarantees issued by the following counterparties acting as guarantors:

- individuals, provided the repayment capability of the respective guarantor is ensured
- sole proprietors, provided the value of the respective guarantor's property is sufficient to cover the obligations of the debtor.

Nova KBM regards unfunded credit protection (guarantees) as an acceptable type of collateral only if the issuer of the guarantee is solvent and classified into the credit rating category A or B. Personal guarantees issued by customers rated lower than that are regarded as having no value.

The following tables present the most important types of guarantors, broken down by the type of guarantees:

### Guarantees

ISSUER	INTERNAL CREDIT RATING	CREDITWORTHINESS
Banks	A	3
	A	N.A.
Slovene Enterprise Fund	A	N.A.
Other	A	N.A.
	B	N.A.

### Sureties

ISSUER	INTERNAL CREDIT RATING	CREDITWORTHINESS
Central governments	A	1
	A	3
Companies and sole proprietors	A	3
	A	N.A.
	B	N.A.
Individuals	A	N.A.
	B	N.A.

### Loans insured with insurance companies

ISSUER	INTERNAL CREDIT RATING	CREDITWORTHINESS
Insurance companies	A	N.A.

## 20.5 Information about market or credit risk concentrations within the credit mitigation taken

*(Article 453(e) of the Regulation)*

In accordance with its policies, the Nova KBM Group grants loans and advances which are expected to be repaid from future cash flows generated by debtors. Collateral provided as security for loans is used to pay off loans only if the debtor fails to meet its payment obligations.

In monitoring large exposures, the Nova KBM Group checks the concentration of credit risk resulting from personal guarantees taken as collateral.

The amount of the guarantee given by the guarantor as security for a loan is included in the lending limit assigned to the customer acting as a guarantor. The amount of the guarantee is weighted depending on the rating of the underlying debtor for whom the guarantor gives a guarantee.

The Nova KBM Group monitors the market risk concentration within the credit mitigation taken from the point of view of liquidity of securities received as collateral. With the support of specialised departments, the Nova KBM Group assesses the liquidity of securities taken as protection on the basis of regular turnover in securities and the amount of securities



received. In the same way, it also assesses value adjustments to be made as a result of reduced liquidity in securities received as collateral.

Nova KBM monitors the value of collateral by individual types of collateral, and reports thereon to the competent authorities.

**20.6 Disclosure of the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered – after the application of volatility adjustments – by eligible financial collateral, and other eligible collateral, separately for each exposure class, if the institution calculates risk-weighted exposure amounts under the Standardized Approach or the IRB Approach, but does not provide own estimates of LGDs or conversion factors in respect of the exposure class**

*(Article 453(f) of the Regulation)*

€000

Exposure classes	Secured by financial collateral 31.12.2015
Exposures to central governments or central banks	0
Exposures to regional governments or local authorities	0
Exposures to public sector entities	0
Exposures to multilateral development banks	0
Exposures to international organizations	0
Exposures to institutions	0
Exposures to corporates	0
Exposures to retail	7,967
Exposures secured by mortgages on immovable property	2,014
Exposures in default	5
Items associated with particular high risk	0
Covered bonds	0
Exposures to institutions and corporates with short-term credit assessment	0
Collective investment undertakings	0
Equity	0
Other items	0
<b>Total</b>	<b>9,986</b>

**20.7 Disclosure of the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives, separately for each exposure class, if the institution calculates risk-weighted exposure amounts under the Standardized Approach or the IRB Approach**

*(Article 453(g) of the Regulation)*

€000

Exposure classes	Unfunded credit protection (personal guarantees) 31.12.2015
Exposures to central governments or central banks	0
Exposures to regional governments or local authorities	0
Exposures to public sector entities	191,213
Exposures to multilateral development banks	0
Exposures to international organizations	0
Exposures to institutions	0
Exposures to corporates	30,247
Exposures to retail	38
Exposures secured by mortgages on immovable property	993
Exposures in default	0
Items associated with particular high risk	0
Covered bonds	0
Exposures to institutions and corporates with short-term credit assessment	0
Collective investment undertakings	0
Equity	0
Other items	0
<b>Total</b>	<b>222,491</b>

The Nova KBM Group does not enter into credit derivative transactions.

## **21. Use of advanced measurement approaches to operational risk**

*(Article 454 of the Regulation)*

This disclosure requirement is not applicable to the Nova KBM Group because it does not use advanced measurement approaches to operational risk.

## **22. Use of internal market risk models**

*(Article 455 of the Regulation)*

This disclosure requirement is not applicable to the Nova KBM Group because it does not use internal market risk models.