ANNUAL REPORT

Nova KBM Group and Nova KBM d.d.

2012

Nova KBM
READY FOR TOMORROW

The Future is Now

We live in a time of constant change. A single glance around us reveals the characteristics of this new era - an era of technology innovations.

If we recognize the latest achievements that technology has to offer and are able to put them to use, we can always remain in the lead. Not only does this prepare us for tomorrow, we can live in tomorrow today.

Nova KBM is the bank of the future. We live for tomorrow. So we can give you today, what you will need in the future.

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Business Report

The business report is proof of our performance, of the successful implementation of our strategy and strategic objectives, and of our achievements in the past year. We are also proud of the technology innovations we have implemented to update the processes of our operations. These demonstrate that we are on the right track in the current market conditions and are taking care of tomorrow.

1 KEY PERFORMANCE INDICATORS

1.1 KEY PERFORMANCE INDICATORS OF THE NOVA KBM GROUP[1]

ITEM DESCRIPTION	2012	2011	Index
1	2	3	4=2/3
Statement of financial position (€000)	**31.12.**	**31.12.**	
Total assets	**5,321,810**	5,813,071	92
Total deposits from the non-banking sector measured at amortised cost	**3,618,678**	3,760,639	96
Total loans and advances to the non-banking sector measured at amortised cost	**3,397,900**	3,844,085	88
Total shareholders' equity	**253,204**	435,563	58
Impairment of financial assets, provisions	**759,234**	497,601	153
Off-balance sheet items	**789,457**	889,043	89
Statement of income (€000)	**12M 2012**	**12M 2011**	
Net interest income	**105,844**	135,593	78
Net fee and commission income	**105,937**	62,332	170
Staff, general and administrative costs	**(104,059)**	(108,455)	96
Depreciation and amortisation	**(16,443)**	(16,644)	99
Impairment losses and provisions	**(309,466)**	(175,391)	176
(Loss) before tax from continuing and discontinued operations	**(218,187)**	(102,565)	213
Income tax related to profit or loss from continuing and discontinued operations	**12,490**	21,443	58
Net (loss)	**(205,697)**	(81,122)	254
Statement of comprehensive income (€000)	**12M 2012**	**12M 2011**	
Other comprehensive income/(loss) before tax	**28,254**	(24,811)	
Income tax related to other comprehensive income or loss	**(6,020)**	5,164	
	31.12.	**31.12.**	
Number of employees	**2,027**	2,991	68
Shares			
Number of shareholders	**97,429**	98,354	99
Number of shares	**39,122,968**	39,122,968	100
Accountable par value of one share (€)	**1.04**	1.04	100
Book value per share (€)	**5.37**	10.07	53
Ratios (%)			
a) Equity			
- total capital adequacy ratio	**9.17**	11.47	
- Tier I capital ratio	**8.17**	8.59	
- Core Tier I capital ratio	**5.26**	8.06	
- Core Tier I capital ratio (EBA methodology)[2]	**7.57**	8.06	
b) Quality of assets			
- impairment of financial assets measured at amortised cost and provisions for commitments/classified on- and off-balance sheet items	**12.93**	8.93	
- premium for risk	**6.77**	3.15	
- NPLs as a percentage of gross loan portfolio	**18.72**	13.86	
- total impairment losses and provisions as a percentage of NPLs	**69.05**	64.44	
c) Profitability			
- interest margin	**1.87**	2.31	
- margin of financial intermediation	**3.73**	3.37	
- ROAA before tax	**(3.85)**	(1.75)	
- ROAE before tax	**(55.00)**	(21.51)	
- ROAE after tax	**(51.85)**	(17.01)	
d) Operating costs			
- operating costs/average total assets	**2.12**	2.13	
- cost/income (margin of financial intermediation)	**56.90**	63.21	
e) Net loans and advances to customers/deposits from customers	**93.90**	102.22	

1 All references in this Annual Report to the 'Group' are to the Nova KBM Group.

2 In accordance with the EBA methodology, a hybrid loan facility that can be converted into equity is included in the calculation of the Core Tier I capital, while according to the Bank of Slovenia methodology, such a hybrid loan facility forms part of Tier I capital.

1.2 KEY PERFORMANCE INDICATORS OF NOVA KBM[3]

ITEM DESCRIPTION	2012	2011	Index
1	2	3	4=2/3
Statement of financial position (€000)	**31.12.**	**31.12.**	
Total assets	**4,338,568**	4,810,537	90
Total deposits from the non-banking sector measured at amortised cost	**2,917,317**	3,061,835	95
a) from legal and other entities that carry out economic activity	**974,082**	1,057,291	92
b) from households	**1,943,235**	2,004,544	97
Total loans and advances to the non-banking sector measured at amortised cost	**2,891,136**	3,342,123	87
a) to legal and other entities that carry out economic activity	**2,017,969**	2,412,756	84
b) to households	**873,167**	929,367	94
Total shareholders' equity	**192,569**	373,736	52
Impairment of financial assets, provisions	**634,558**	367,729	173
Off-balance sheet items	**699,155**	799,439	87
Statement of income (€000)	**12M 2012**	**12M 2011**	
Net interest income	**71,736**	99,257	72
Net fee and commission income	**101,057**	43,651	232
Staff, general and administrative costs	**(70,157)**	(75,580)	93
Depreciation and amortisation	**(11,986)**	(13,162)	91
Impairment losses and provisions	**(304,985)**	(158,184)	193
(Loss) before tax from continuing and discontinued operations	**(214,335)**	(104,018)	206
Income tax related to profit or loss from continuing and discontinued operations	**11,080**	20,043	55
Net (loss)	**(203,255)**	(83,975)	242
Statement of comprehensive income (€000)	**12M 2012**	**12M 2011**	
Other comprehensive income/(loss) before tax	**27,765**	(19,347)	
Income tax related to other comprehensive income or loss	**(5,676)**	3,870	
	31.12.	**31.12.**	
Number of employees	**1,280**	1,346	95
Shares			
Number of shareholders	**97,429**	98,354	99
Number of shares	**39,122,968**	39,122,968	100
Accountable par value of one share (€)	**1.04**	1.04	100
Book value per share (€)	**4.92**	9.55	52
Ratios (%)			
a) Equity			
- total capital adequacy ratio	**9.18**	10.83	
- Tier I capital ratio	**8.33**	8.47	
- Core Tier I capital ratio	**4.91**	7.81	
- Core Tier I capital ratio (EBA methodology)[4]	**7.62**	7.81	
b) Quality of assets			
- impairment of financial assets measured at amortised cost and provisions for commitments/classified on- and off-balance sheet items	**13.55**	7.94	
- premium for risk	**8.82**	2.78	
- NPLs as a percentage of gross loan portfolio	**16.94**	12.05	
- total impairment losses and provisions as a percentage of NPLs	**79.99**	65.90	
c) Profitability			
- interest margin	**1.54**	2.05	
- margin of financial intermediation	**3.71**	2.96	
- ROAA before tax	**(4.60)**	(2.15)	
- ROAE before tax	**(65.54)**	(24.32)	
- ROAE after tax	**(62.15)**	(19.63)	
d) Operating costs			
- operating costs/average total assets	**1.76**	1.84	
- cost/income (margin of financial intermediation)	**47.54**	62.10	
e) Net loans and advances to customers/deposits from customers	**99.10**	109.15	
f) Liquidity			
- liquid assets/current financial liabilities to the non-banking sector, measured at amortised cost	**43.40**	32.50	
- liquid assets/average total assets	**15.66**	12.23	

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

4 In accordance with the EBA methodology, a hybrid loan facility that can be converted into equity is included in the calculation of the Core Tier I capital, while according to the Bank of Slovenia methodology, such a hybrid loan facility forms part of Tier I capital.

2 STATEMENT BY THE MANAGEMENT BOARD

Dear Shareholders and Business Partners,

First, we would like to offer you our warmest greetings!

We can say that the year 2012 was a year of tectonic changes for Nova KBM. The running of the Bank was taken over by a new Management Board which instantly started taking decisions aimed at improving the performance of the Bank. Since its appointment, the Management Board has made over a thousand decisions which significantly helped the Bank make its operations more efficient and effective. Until the end of 2012, we had managed to thoroughly restructure the loan portfolio and reduce the number of employees. By implementing a project aimed at streamlining our business processes, we reduced operating costs by almost 8% compared to a year earlier. In order to strengthen the capital position of both the Bank and the Nova KBM Group, we sold certain equity investments and partially redeemed the hybrid instruments that the Bank had issued in the past. Moreover, the Management Board has implemented new policies across all business segments of the Bank, and has improved the loan approval procedures by setting up additional internal controls to build a stronger risk management environment. All this and much more was done in just over half the year. The implementation of these measures, and of numerous others, is continuing into 2013. The objectives that the Management Board is pursuing are as follows: to maintain an adequate capital position of the Bank; to implement a slimmer organisational structure; to further streamline business processes; and to strengthen the Bank's development and commercial functions, with emphasis on the management of all types of risk, particularly credit risk.

In 2012, we saw the global economy gradually exiting from the crisis. The economic recovery was more robust in those countries that had implemented necessary reforms in the past, which helped them reduce budget deficits, streamline the government bureaucracy, and introduce a more flexible labour market, all of which was reflected in their enhanced competitiveness. Several countries were forced to adopt such reforms in 2012 when the crisis deepened further. Slovenia made some progress in moving out of recession by endorsing the pension reform package and bringing down the budget deficit. The latter, however, has resulted in shrinkage of demand and negative economic growth. The number of bankruptcy proceedings started in 2012 (595) remained approximately at the same high level as in 2011 (675). The impact of the crisis on the Slovene economy and, consequently, on the Slovene banking system has been rather considerable. The level of non-performing loans reported by the Slovene banking system registered a heavy increase in 2012, requiring banks to set aside significant reserves for loan losses. According to a report published by the Institute of Macroeconomic Analysis and Development, the provisioning expenses incurred by Slovene banks in 2012 totalled as much as €1.6 billion, an increase of just over 30% from 2011. The total assets of Slovene banks decreased in 2012, particularly due to the redemption of debt instruments by banks, a downsizing of their loan portfolios, and a reduced amount of funds being deposited with banks by the government. Due to the downgrade of the long-term sovereign rating of Slovenia and the ratings of several Slovene banks, the trend of repaying loans to foreign lenders continued throughout 2012.

The 2012 results of the Nova KBM Group were affected by an increased number of bankruptcy proceedings and the resultant fairly high level of net impairment losses and provisions recorded by the Nova KBM Group. These amounted to €309.5 million last year, up 76.4% on 2011. As a result, the Nova KBM Group made a net loss of €205.7 million, against a profit of €69.8 million before provisions and impairment losses. The Nova KBM Group's total assets decreased year-on-year by €491.3 million, or 8.5%, to reach €5,321.8 million at the end of 2012, with its total capital adequacy and Core Tier I capital ratios standing at 9.17% and 5.26%, respectively. The net loss posted by Nova KBM was €203.3 million.

At the end of 2012, Nova KBM had 97,429 shareholders, the largest number of any Slovene company. Nova KBM shares lost 58.8% of their value in 2012, with the share price dropping from €3.16 at the beginning of the year to €1.30 as of 31 December 2012. The decrease in the share price was closely related to the weak performance of Nova KBM, reduced capital market confidence and, consequently, the lower interest of investors in Nova KBM shares.

Important events during 2012

Notwithstanding the crisis, Nova KBM saw a number of changes in 2012. The Shareholders' Meeting agreed to the changes in the composition of Nova KBM's Supervisory Board. In the first quarter of the year, the Supervisory Board appointed Aleš Hauc as the new President of Nova KBM's Management Board. Igor Žibrik joined as a Member of the Management Board in the third quarter of the year. The cooperation between the Management and the Supervisory Board continued smoothly and professionally.

Nova KBM has implemented all the measures set out in the action plan to ensure an adequate capital position. The measures that the Bank took in 2012 in this regard involved several complex and interrelated activities that were carried out with the support of the Government of the Republic of Slovenia (as the largest shareholder of the Bank), the Bank of Slovenia, and several other institutions. The most important measures were the sale of the Bank's 51% shareholding in Zavarovalnica Maribor, redemption and/or conversion of hybrid instruments issued by the Bank in the past, and the raising of a hybrid loan facility in the amount of €100 million. Following the implementation of these measures, the Core Tier I capital of the Nova KBM Group increased by €183 million. During the audit of the 2012 Annual Report of the Nova KBM Group and Nova KBM, additional impairment losses were set aside as a result of the Bank receiving new appraisals of real estate provided to it as security for loans. These appraisals, which could not have been taken into consideration when preparing the estimates for the 2012 year-end figures, undermined the level of the Bank's capital

to such an extent that the criteria for converting the hybrid loan facility of €100 million into Bank equity were met.

The hybrid loan facility of €100 million, which was provided to the Bank by the Republic of Slovenia, is regarded by the European Commission as government support and was approved on the condition that restructuring of the Nova KBM Group takes place. Following the completion of restructuring, the Nova KBM Group will be slimmer and more efficient. As part of this restructuring, we plan to either merge certain activities of the Nova KBM Group companies or incorporate them into the operations of the Bank, while some non-core businesses will be disposed of.

To ensure normal development of operations of both itself and the Nova KBM Group, the Bank drew funds from the ECB. These funds were used by the Bank at the beginning of the year to repay a syndicated term loan facility, the agreement for which included certain early repayment triggers linked to a minimum credit rating threshold and maintenance of several financial ratios. As of 31 December 2012, the Nova KBM Group had a total of €488 million borrowed from the ECB, an amount that equalled 8.8% of the Nova KBM Group's total assets.

Due to pressures on the interest margin and a high level of provisioning expenses, a great deal of effort was invested in cost-cutting measures, especially in the reduction of staff costs, which account for over one-half of the Nova KBM Group's total costs. Year-on-year, the number of staff at the Nova KBM Group was reduced from 2,991 in 2011 to 2,027 in 2012, which resulted in a decrease in administration costs of 4.1% in 2012. Most of the decrease in the number of staff was accounted for by 881 employees of Zavarovalnica Maribor, which was sold last year. However, since this company was consolidated in the accounts of the Nova KBM Group using the equity method, the reduction in the number of staff was not reflected proportionally in the reduction of administration costs. The number of staff at the Bank decreased year-on-year from 1,346 to 1,280.

The year 2013

The Nova KBM Group ended the difficult year of 2012 with a loss, which was mainly the result of high provisions and impairment losses. Notwithstanding its somewhat weak performance, a number of efforts were made to improve the capital and liquidity position of the Nova KBM Group, and to cut its costs, on the basis of which both the Bank and the Nova KBM Group will build their sustainable development and independent operations in the long run.

The planning of the business policy and financial plan of Nova KBM and the Nova KBM Group for the year 2013 was based on the macroeconomic projections that were supported mainly by the autumn forecasts of the Institute of Macroeconomic Analysis and Development. According to these forecasts, a drop of 1.4% in Slovenia's GDP is expected in 2013. This certainly indicates that the year 2013 will be a very demanding one for the Slovene economy and banking system. In its January 2013 report, Moody's forecast a GDP growth of about 1.9% for 2013 for the Central and Eastern Europe. According to the projections of the International Monetary Fund, the global economic growth is expected to be around 3.6% in 2013. The expectations at the global level are optimistic and suggest a boost in economic activity of developed countries, which is reflected in stock market prices that already include the expected economic growth. Enhanced liquidity due to historically low interest rates raises fears of growing inflationary pressures, especially in food and raw materials. With countries having different approaches to the implementation of economic policies, and due to the manipulation of exchange rates and the protection of exporters by the most important global economies, substantial foreign exchange fluctuations will probably continue to affect the markets.

We project the total assets of the Nova KBM Group to be €5,345.7 million at the end of 2013, up 0.4% on 2012. Interest income is projected to be €227.0 million, while interest expenses are projected to amount to €113.3 million, providing net interest income of €113.7 million, an increase of 7.4% relative to 2012. Due to the ongoing economic crisis and the projected drop in Slovenia's GDP, net provisions and impairment losses will remain at a very high level in 2013. Consequently, the management forecast that the Nova KBM Group will end the year 2013 with a loss from continuing operations.

Strategy

In spite of the gloomy economic conditions, the Nova KBM Group complies with the minimum capital requirements under the Banking Act, and maintains its liquidity ratios above the prescribed limit. In the second half of 2012, the management started redefining the strategy, mission and vision of both the Bank and the Nova KBM Group for the period 2013 to 2016. The Bank will focus even more on doing business with small- and medium-sized companies and households, while selectively supporting large corporate customers. The organisational structure of the Nova KBM Group will be slimmed down and streamlined, which, according to the plan, will make its operations more efficient, effective and profitable. Particular emphasis will be placed on ensuring the transparency of our operations. In 2013, the Bank will continue restructuring the loan portfolio and cutting down on operating costs. Moreover, business processes will be further improved and the structure of the Nova KBM Group will be changed. The reorganisation of the Nova KBM Group will be carried out according to the restructuring plan, which must also be approved by the European Commission. A conservative approach to lending and risk management discipline will remain at the centre of our business.

At this point, dear shareholders, employees and business partners, we wish to thank each of you separately and all of you together. Without the support of each one of you, and without your diligence, commitment and loyalty, Nova KBM would have found it much more difficult to navigate through the crisis period. We would like to thank all of you once again for continuing to support our efforts. Fortune favours the brave, and we believe that Nova KBM will return to successful performance in the future.

Management Board of Nova KBM d.d.

Igor Žibrik
Member

Aleš Hauc
President

3 REPORT OF THE SUPERVISORY BOARD

Introduction

The Supervisory Board of the Bank pursued its activities during 2012 in two different formations. Until the Nova KBM Shareholders' Meeting on 8 June 2012, the Supervisory Board was composed of the following members: Dušan Jovanovič, Chairman, Franc Škufca, Deputy Chairman, and members Janez Košak, Anton Guzej, Andrej Svetina, Aleš Krisper, Darjan Petrič and Vida Lebar. Ivan Simič resigned as a Supervisory Board member on 27 January 2012.

On 8 June 2012, the Shareholders' Meeting recalled the then members of the Supervisory Board and appointed instead Peter Kukovica, Niko Samec, Egon Žižmond, Andrej Fatur, Keith Charles Miles, Miha Glavič, Karmen Dvorjak, Peter Kavčič and Dušanka Jurenec. The term of office of the newly appointed Supervisory Board members started on 15 July 2012. At the first meeting of the new Supervisory Board on 24 July 2012, Peter Kukovica was appointed as its Chairman, and Niko Samec as his Deputy.

Dušanka Jurenec resigned as a Supervisory Board member on 21 November 2012.

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

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

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

The work of the Supervisory Board was adequately organised and was carried out in accordance with the Rules of Procedure of the Supervisory Board. Supervisory Board members received professionally prepared materials which enabled them to be well-informed on the matters on which they had to decide.

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

Members of the Supervisory Board took all precautionary measures to avoid any conflicts of interest that might influence their decisions. In case of conflicts of interest, the Supervisory Board members acted in accordance with law and the Corporate Governance Code for Public Limited Companies.

Any conflicts of interest for individual Supervisory Board members were only provisional and were not a reason for ending his/her term of office.

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

The Chairman of the Supervisory Board did his work in accordance with the competencies and the Rules of Procedure of the Supervisory Board, and also cooperated with the Bank's Management Board during Supervisory Board meetings. The Chairman of the Supervisory Board encouraged other Supervisory Board members to perform their duties efficiently and actively. He chaired the meetings in such a way as to provide for responsible decision-making by the Supervisory Board. The communication of the Supervisory Board with the public was conducted through its Chairman.

The composition of the Supervisory Board, the members of which have proper and complementary knowledge, experience and skills, as well as personal integrity and professional ethics, provides for responsible supervision and decisions to be reached to the benefit of the Bank. The manning of the Supervisory Board provides for and enables well-focused discussions and the adoption of correct decisions based on the excellent balance of experience and skills of its members.

Supervisory Board members came to meetings well prepared, and meetings were regularly attended by the majority of its members. Supervisory Board members were adequately prepared for discussing relevant affairs; they presented constructive proposals and, on the basis of professionally prepared and comprehensive information provided by the Management Board, reached decisions in compliance with the Rules and competencies. The Rules of Procedure of the Supervisory Board are harmonised with the Corporate Governance Code for Public Limited Companies. The Management Board of the Bank was invited to all Supervisory Board meetings.

The Supervisory Board believes that its members carried out their work with great responsibility and commitment. In 2012, some members of the Supervisory Board attended the supervisory board members' training programmes organised by the Slovene Directors' Association and the Bank Association of Slovenia.

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

Based on a self-assessment of the Supervisory Board and its committees carried out in 2012, it was established that, as regards the preparation for the meetings, their participation in and activity at the meetings, and their contribution to formulating individual decisions reached, the Supervisory Board members had effectively performed their supervising function during 2012 and had acted in accordance with the interests of the Bank. The change in the composition of both the Management Board and Supervisory Board in 2012 led to an improvement in the work of both these governing bodies, which undoubtedly contributed to the efficient corporate governance of the Bank and the Group and to better protection of the interests of the Bank's shareholders and creditors.

The analysis of the self-assessment carried out in 2012 showed that the Supervisory Board achieved a high overall level and a high average rating of governance, which enabled its members to perform their work and duties effectively. Compared to the previous assessment period, the ratings assigned to the work of the Supervisory Board improved in all key categories. This improvement can be attributed to both the new Management Board and the new composition of the Supervisory Board.

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

During 2012 the Supervisory Board (in both formations) met at 20 regular and two correspondence meetings. The most important issues discussed at the Supervisory Board meetings in 2012 were connected with the Bank's current operations that had been impacted by the changed market conditions as a result of the financial and economic crisis. The Supervisory Board was given the reports prepared by the Bank's Management Board on the exposure to customers with financial difficulties, and the reports on changes in the quality of portfolios of leasing companies and banks in the Group. It was also informed of the measures and activities undertaken by the Bank's Management Board with the aim of reducing the Bank's exposure to credit risk. Furthermore, the Supervisory Board was given reports prepared by the Bank's Management Board on the method and progress of the capital raising by Nova KBM. In January 2012, it gave consent to the 2012 Business Policy and Financial Plan of Nova KBM, while in February 2012 it was informed of the 2012 Business Policy and Financial Plan of the Nova KBM Group. The Supervisory Board monitored the implementation of the 2012 Business Policy and Financial Plan of Nova KBM and the Nova KBM Group. In July 2012, it consented to the revised Business Policy and Financial Plan of Nova KBM for 2012. The Supervisory Board directed particular attention to efforts made to ensure the Bank had an adequate capital position. In addition to these key issues, the Supervisory Board deliberated on and approved the 2011 Annual Report of the Bank and the Group, as well as other materials which the Supervisory Board submitted for approval to the Shareholders' Meeting. It discussed other important affairs as well.

The Supervisory Board dealt with the following key affairs and issues in 2012:

- At the beginning of the year, it reviewed the unaudited 2011 report on operations of the Bank and the Group.
- In January 2012, it considered the Bank's Management Board's proposal regarding the covering of the 2011 loss incurred by the Bank.

- It considered the action plan for the Bank to maintain a sufficient level of capital, and was regularly informed of the Management Board's reports regarding the implementation of measures in this regard.
- Within the scope of following the operations of the Bank, it regularly discussed quarterly reports on the Bank's and the Group's performance and quarterly internal audit reports.
- It discussed and approved the 2011 Annual Report of Nova KBM and the Nova KBM Group.
- It discussed the materials for the 21st Shareholders' Meeting, and proposed that the Shareholders' Meeting should reach decisions on the covering of the 2011 loss; on granting the discharge to the Management and the Supervisory Board; on nominating the auditor; on amendments to the Bank's Articles of Association; and on candidates for new Supervisory Board members. Furthermore, the Shareholders' Meeting was informed of the remuneration provided to members of management and supervisory bodies in 2011.
- Considering the fact that no auditor was appointed for the financial year 2012 at the 21st Bank's Shareholders' Meeting on 8 June 2012, in July 2012 the Supervisory Board made a new proposal for the appointment of the auditor for the audit of the 2012 accounts of Nova KBM and the Nova KBM Group, which it submitted for approval to the 22nd Bank's Shareholders' Meeting that took place on 14 August 2012.
- It consented to the Management Board's proposal for setting up a system of internal controls in the Bank. It regularly followed and assessed the strategies and policies of risk acceptance and management, and of the risk management system and capital adequacy.
- On 9 March 2012, it appointed Aleš Hauc as the new President of Nova KBM's Management Board, with a five-year term of office starting on 24 April 2012.
- In April 2012, it took a declaratory decision based on which Manja Skernišak, then a Management Board member, ended her term of office as of 24 April 2012, while Andrej Plos, then the President of the Management Board, was appointed as a Management Board member on the same day.
- In May 2012, as part of measures to improve the Bank's capital position, it consented to the sale of the Bank's shareholding in Zavarovalnica Maribor, and considered the Management Board's reports on the implementation of capital raising activities.
- On 6 June 2012, it appointed Igor Žibrik as a new Management Board member, with his term of office starting on 18 August 2012.
- In July 2012, it was informed of the progress made in the selection of the adviser for the sale of the Bank's shareholding in Zavarovalnica Maribor.
- Also in July 2012, it took a declaratory decision to terminate the term of office of Andrej Plos as a Management Board member, effective from 14 July 2012.
- On 24 July 2012, it appointed Peter Kukovica as its Chairman, and Niko Samec as his Deputy.
- In August 2012, it considered the report on the due diligence review of Nova KBM, drafted by European Resolution Capital.
- It consented to the offer of PricewaterhouseCoopers (PwC) regarding a forensic audit of Nova KBM's operations.
- In November 2012, it was given the oral report of PwC representatives on the forensic audit, on further steps to be taken in this regard, and on the time schedule of the audit.
- In November 2012, it discussed materials for the 23rd Shareholders' Meeting concerning the amendments to the Bank's Articles of Association related to the capital raising activities and maintenance of adequate capital levels, and submitted proposals in this regard to the Shareholders' Meeting for approval.
- In December 2012, it was informed of the progress made in the Bank's capital improvement efforts, i.e. the redemption of hybrid instruments.
- Also in December 2012, it consented to the sale of the Bank's shareholding in Zavarovalnica Maribor.
- In March 2013, it considered the action plan to increase the capital of Nova KBM in 2013.
- On 2 April 2013, it was informed of the Nova KBM Group's final restructuring plan.
- In April 2013, it was informed of the forensic audit report.

At each of its meetings, the new Supervisory Board was informed of the progress of policies to improve the Bank's and the Group's capital position, and monitored their implementation.

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

- A report on the Bank's exposure to the largest borrowers, including collateral provided.
- It gave its consent to the annual plan of work of the Internal Audit Centre for 2012.
- It was informed of the 2011 Report on Internal Audit in the Nova KBM Group.
- On 29 February 2012, it adopted the Corporate Governance Statement for 2011.
- In February 2012, it made a ruling requiring the Bank's Management Board to order an audit of the company Zadar Projekt from the point of view of diligence, efficiency and effectiveness.
- It was informed of the letters of the Bank of Slovenia to the Management and the Supervisory Board, and of the decisions, resolutions and recommendations of the Bank of Slovenia and the explanations of the Management Board in respect of these documents.
- It considered the report by the Internal Audit Centre on certain transactions entered into by the Bank.
- It was informed of the extraordinary audit review of the Bank and the Group carried out by the Bank of Slovenia on the request of the Capital Assets Management Agency of the Republic of Slovenia.
- At its regular meetings, the Supervisory Board gave its consent to the Bank's exposure to individual customers pursuant to the Banking Act, and approval to the exposure of the Bank to persons having a special relation with the Bank.
- It considered the reports on Nova KBM's information system overhaul.
- It considered the report drafted by the Internal Audit Centre following an extraordinary audit review of transactions entered into between Nova KBM Group companies and several companies located in Croatia.
- It gave its consent to the Rules of Procedure of Nova KBM's Management Board.
- In July 2012, it adopted the revised annual plan of work of the Internal Audit Centre.
- It was informed of the decision made by the Securities Market Agency regarding the suppression of voting rights of shareholders belonging to the so-called state bloc.
- It appointed new members to the Audit Committee and the Remuneration and Nomination Committee.
- In November 2012, it adopted the amended Remuneration Policy of Nova KBM.
- In December 2012, it adopted the amended Governance Policy of Nova KBM.
- In January 2013, it considered the draft report on the forensic audit of past operations, and proposed measures and actions to be taken to establish the responsibility of persons involved in the transactions that had been subject to audit, and measures to be taken to remedy deficiencies set out in the forensic report.
- In January 2013, it was informed of the proposal on the Bank's new organisation structure, and was given a report setting out a review of business processes and proposed optimisations.
- On 29 January 2013, it adopted the Corporate Governance Statement for 2012.
- In March 2013, it was informed of the 2012 risk profile of the Bank.
- Also in March 2013, it considered the Bank's Management Board's proposal regarding the covering of the 2012 loss.

Based on the aforementioned, and Articles 272 and 281 of the Companies Act, the Supervisory Board asserts and establishes that it regularly and thoroughly monitored the operations of the Bank and the Group in 2012 within its competencies, thus adequately supervising the management and operations of the Bank and the Nova KBM Group and the work of the Internal Audit Centre.

Supervisory Board committees

The following committees carried out their work during 2012 in accordance with the Companies Act and the Banking Act: the Audit Committee, the Remuneration and Nomination Committee, and the Appointment Board.

The Nomination Committee was dissolved on 14 July 2012, i.e. on the day the previous Supervisory Board ended its term of office.

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

Review and approval of the Annual Report and taking note of the proposal of the Bank's Management Board with regard to covering the 2012 loss

The Management Board submitted to the Supervisory Board the audited 2012 Annual Report of Nova KBM and the Nova KBM Group, together with the auditor's report, within the legal deadline. It also submitted the annual report on the internal audit of the Nova KBM Group for the year 2012.

The Supervisory Board deliberated on the audited 2012 Annual Report of Nova KBM and the Nova KBM Group. It established that both annual reports gave a complete overview of the Bank's and the Group's operations in 2012. The Supervisory Board was also informed of the opinions of the certified auditor Deloitte revizija. As stated in these opinions, the financial statements of the Bank and the consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2012, and their financial performance and their cash flows for the year ended 31 December 2012 in accordance with International Financial Reporting Standards as endorsed by the EU, and in accordance with the requirements of the Companies Act and the Banking Act relating to the drafting of the financial statements. The external auditor is of the opinion that the business part of the annual report is also in compliance with the audited financial statements.

The Supervisory Board also verified the proposal of the Bank's Management Board with regard to covering the 2012 loss. It agreed that the 2012 loss would not be covered and that the total accumulated losses would amount to €286,971,694.10 at the end of 2012.

Maribor, 25 April 2013

Supervisory Board of Nova KBM d.d.

Peter Kukovica
Chairman

4 PROFILE OF THE NOVA KBM GROUP AND NOVA KBM

4.1 IMPORTANT EVENTS AND ACHIEVEMENTS DURING 2012

January

- Two notable milestones were celebrated by the Nova KBM Group – 150 years of operations of Mestna hranilnica Maribor, a predecessor of Nova KBM, and 85 years of the foundation of Zavarovalnica Maribor[5].
- Zavarovalnica Maribor was ranked among the most socially responsible companies in Slovenia in 2011 by the country's leading financial newspaper, Finance.

February

- KBM Infond[6] took over the management of the Probanka Umbrella Fund, which had eight sub-funds, and the Probanka Global Mutual Investment Fund.
- Nova KBM started marketing the investment funds that KBM Infond took over from Probanka.
- The Supervisory Board of Nova KBM accepted the resignation of Andrej Plos as the President of Nova KBM's Management Board.
- Barbara Gačnik of KBM Infond was awarded the 'Best Investment Fund Manager in 2011' prize from the magazine Moje Finance, while Infond Life, an equity sub-fund managed by KBM Infond, was selected as the best pharmaceutical mutual fund offered in the Slovene market in the last three years.
- Zavarovalnica Maribor received the 2011 Golden Thread award from the newspaper Dnevnik for being listed among the best large employers in Slovenia.

March

- The Supervisory Board of Nova KBM appointed Aleš Hauc as the new President of Nova KBM's Management Board.
- Nova KBM was awarded the regional prize Emerald for its campaign aimed at attracting young people, marketed under the brand name 'Sveta vladar' (*Ruler of the world*).
- Nova KBM also won the prestigious Gold Quill award for excellence in communication for its marketing campaign 'Sveta vladar' (*Ruler of the world*).
- At the 21st Slovene advertising festival, SOF, Nova KBM won the silver prize for its website www.pripravi.se, designed and launched as part of its marketing campaign under the slogan 'Pripravljeni na jutri' (*Ready for tomorrow*), and a prize for the best illustration in advertising.

April

Aleš Hauc took over the position of President of Nova KBM's Management Board.

5 All references in this Annual Report to 'Zavarovalnica Maribor' or 'ZM' are to Zavarovalnica Maribor d.d.
6 All references in this Annual Report to 'KBM Infond' are to KBM Infond DZU d.o.o.

- The Supervisory Board of Nova KBM appointed Andrej Plos as a member of Nova KBM's Management Board, while Manja Skernišak, then a member of the Management Board, ended her term of office.
- Nova KBM presented its products and services at the international conference PODIM.
- Representatives of Nova KBM participated in the Slovene Capital Market Days in Ljubljana and in an investors' conference in Warsaw.
- Nova KBM's branch in Celje opened for business at a new location.
- Moody's Investors Service downgraded Nova KBM from Ba1/Non-Prime to Ba2/Non-Prime.

May

- Nova KBM hosted the 40th international annual conference of Eurobanking.
- Representatives of Nova KBM participated in an investors' conference in Prague.
- The Shareholders' Meeting of Credy banka[7] appointed Dušan Jovanovič as the new Chairman of Credy banka's Supervisory Board.

June

- Nova KBM launched a new generation of its mobile banking facility, mBank@Net, the most advanced of its kind in Slovenia, and was the first bank in Slovenia to enable the scanning of payment orders, thereby making payments via mobile devices even simpler (for the Android operating system).
- Nova KBM participated in an international competition in managing the operations of Virtual Bank.
- In Warsaw, representatives of Nova KBM presented the operations of both the Group and the Bank to potential investors.

The following new members were elected to the Supervisory Board of Nova KBM at its 21st Shareholders' Meeting: Keith Charles Miles, Egon Žižmond, Dušanka Jurenec, Peter Kavčič, Karmen Dvorjak, Peter Kukovica, Andrej Fatur, Miha Glavič and Niko Samec.

- Igor Žibrik was appointed as a member of Nova KBM's Management Board.
- The Shareholders' Meeting of Poštna banka Slovenije[8] appointed the following members to PBS's Supervisory Board: Aleš Hauc, Miha Šlamberger, Simon Hvalec, Boris Novak and Vinko Filipič.
- Credy banka started carrying out international payments through Nova KBM.

July

- By opening a new branch office in Lucija, Nova KBM expanded its operations in the Primorska region.
- The new Supervisory Board of Nova KBM started its work. Peter Kukovica was appointed as its Chairman, and Niko Samec as his Deputy.
- Andrej Plos stepped down as a member of Nova KBM's Management Board.
- Moody's Investors Service downgraded Nova KBM from Ba2/Non-Prime to B3/Non-Prime.
- Aleš Hauc was appointed as the new Chairman and Miha Šlamberger as a new member of the Supervisory Board of Zavarovalnica Maribor.
- PBS celebrated the 20th anniversary of its operations.
- On the basis of regulatory and statutory provisions, and in accordance with the Shareholders' Agreement between Nova KBM and Pošta Slovenije, the Supervisory Board of PBS appointed Boris Novak as the Chairman of PBS's Supervisory Board, and Aleš Hauc as his Deputy.

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

August

Igor Žibrik was granted a licence to hold the office of a member of Nova KBM's Management Board, and started working at Nova KBM in that position.

- Nova KBM announced the start of procedures for the sale of its 51% shareholding in Zavarovalnica Maribor.
- Fitch Ratings downgraded Nova KBM from BBB/F3 to BBB-/F3.

September

- Nova KBM began its annual marketing activities under the slogan 'Oktober je dober' (*October is good*).
- At BalCannes, a media festival that brings together advertisers and media from the former Yugoslavia and where the most creative and innovative communication campaigns are presented, Nova KBM's marketing campaign called 'Rimaj z Zlatkom' (*Rhyme with Zlatko*) was ranked among the 25 best out of the 101 registered projects.
- The Shareholders' Meeting of KBM Infond recalled Manja Skernišak, Simon Hvalec and Darko Kovačič from the company's Supervisory Board, and appointed instead Aleš Hauc, Igor Žibrik and Miha Šlamberger.
- Moja naložba[9], an associated company of the Nova KBM Group engaged in providing pension schemes, started implementing a completely new information system that complies with the latest industry standards and fully meets the requirements of the company.
- The management of KBM Invest[10] was taken over by Damjan Kozjak.
- The management of KBM Leasing[11] was taken over by Irena Brumen.
- The Shareholders' Meeting of Adria Bank[12] elected a new Supervisory Board with the following members: Igor Žibrik, Aleš Hauc, Guy Snoeks, Miha Šlamberger, Ljubinka Lovčević and Maruša Kosovinc Dragonja.
- Zavarovalnica Maribor opened new premises in Tolmin.

October

- Nova KBM's facility Moneta mTerminal was recognized by ArenaLab as the best business solution for entrepreneurs.
- Representatives of Nova KBM held several meetings with investors in Warsaw.
- The liquidation of KBM Projekt[13] began.
- The Supervisory Board of Adria Bank appointed Martin Czurda as a new Management Board member.

November

Nova KBM started implementing the RAST project, the aim of which is to reduce the operating costs across the entire Nova KBM Group.

- Dušanka Jurenec resigned as a member of Nova KBM's Supervisory Board.
- At its 28th session, the Shareholders' Meeting of PBS appointed Igor Žibrik as a Supervisory Board member instead of Simon Hvalec.
- Nova KBM won the Golden Sempler award in the category Strategic Use of the Media Mix for its marketing communication campaign 'Pripravljeni na jutri' (*Ready for tomorrow*), and the Golden Sempler award in the category Best Use of the Digital World for its project 'Rimaj z Zlatkom' (*Rhyme with Zlatko*), which was launched as part of its marketing campaign for young people called 'Sveta vladar' (*Ruler of the world*).

9 All references in this Annual Report to 'Moja naložba' are to Moja naložba d.d.
10 All references in this Annual Report to 'KBM Invest' are to KBM Invest d.o.o.
11 All references in this Annual Report to 'KBM Leasing' are to KBM Leasing d.o.o.
12 All references in this Annual Report to 'Adria Bank' are to Adria Bank AG.
13 All references in this Annual Report to 'KBM Projekt' are to KBM Projekt d.o.o.

- Nova KBM's marketing campaign for young people 'Rimaj z Zlatkom' (*Rhyme with Zlatko*) was shortlisted for the European Excellence Awards.
- As a result of Pošta Slovenije downsizing its branch network, PBS started providing certain services through contract post offices.
- Due to the term of office of Drago Pišek coming to an end, the Supervisory Board of PBS appointed Robert Senica as the new President of the Management Board, with the start of his term of office being subject to the approval of the Bank of Slovenia. The Supervisory Board also decided that Viktor Lenče would remain a member of PBS's Management Board.
- The Shareholders' Meeting of Credy banka appointed Igor Žibrik as the new Chairman of Credy banka's Supervisory Board, and Drago Bahun as a Supervisory Board member.

December

- Nova KBM signed an agreement for the sale of its 51% shareholding in Zavarovalnica Maribor to Pozavarovalnica Sava and Slovenska odškodninska družba.
- Representatives of Nova KBM participated in an investors' conference in Warsaw and in the Slovene Capital Market Days in Ljubljana.
- Nova KBM's marketing communication campaign 'Rimaj z Zlatkom' (*Rhyme with Zlatko*) was awarded the golden prize by the Midas Awards, the only international competition to recognize excellence in financial marketing and advertising.
- KBM Infond restructured the investment funds it manages by (i) merging similar sub-funds; (ii) adding the prefix INFOND to the names of all its investment funds; (iii) adjusting its investment policies to the requirements of the Investment Trusts and Management Companies Act; and (iv) pooling all but the Infond PBGS fund into the single Infond Umbrella Fund. KBM Infond now manages 17 sub-funds of the Infond Umbrella Fund, and the listed mutual investment fund INFOND PBGS.
- Igor Šujica, the previous Manager of KBM Leasing, left the company.
- Jure Hartman left KBM Leasing as the Deputy Manager to assume the position of Manager of KBM Leasing Hrvatska[14].
- Zavarovalnica Maribor set up a call centre to serve its insurance holders.
- Drago Pišek ended his term of office as the President of PBS's Management Board.

4.2 IMPORTANT EVENTS IN 2013

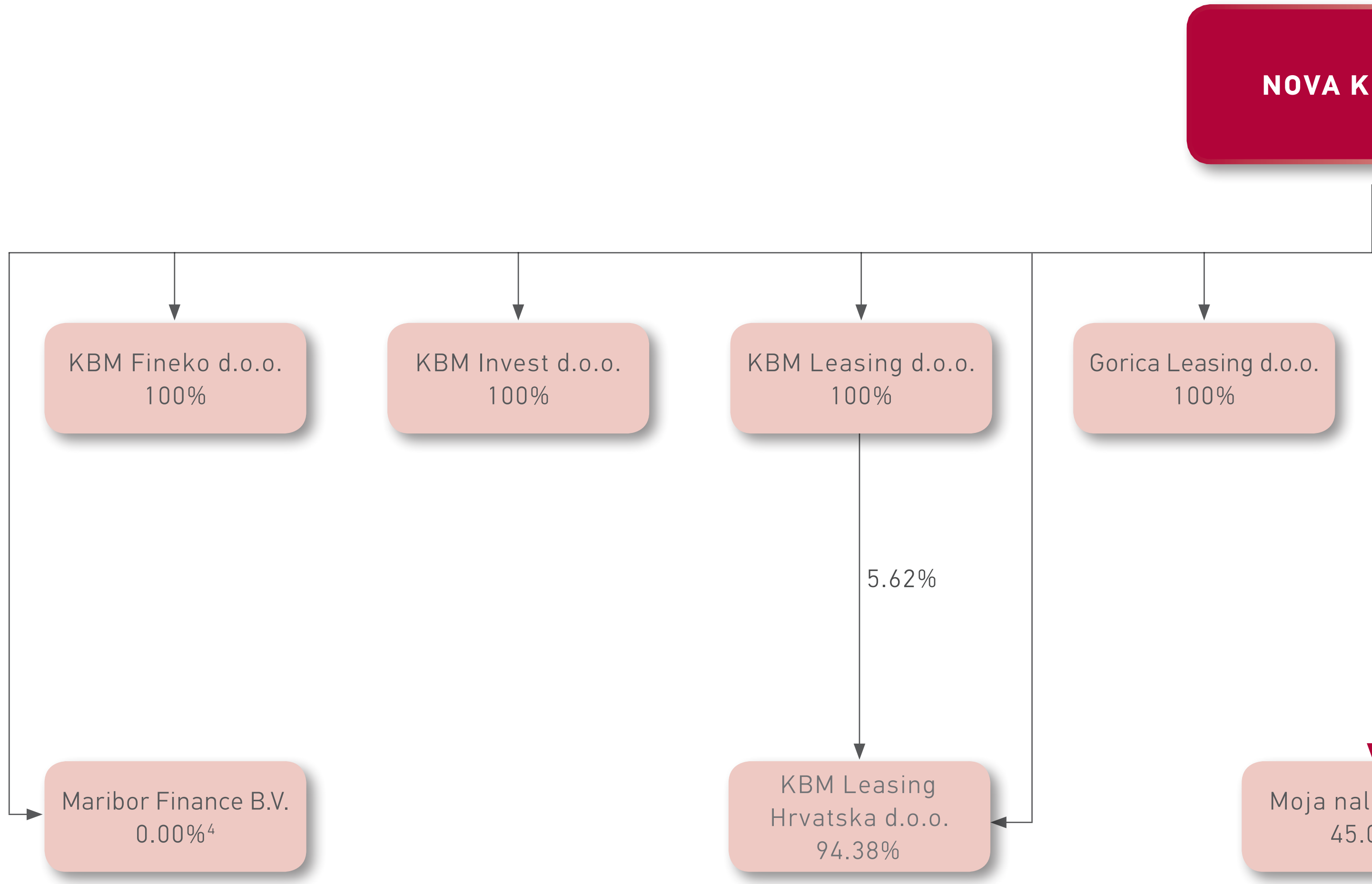
Moody's Investors Service downgraded Nova KBM's long-term rating to Caa2 from B3, with a negative outlook. The junior subordinate ratings were downgraded to C(hyb) from Caa3(hyb). The Bank's standalone E bank financial strength rating (BFSR) has been affirmed. In addition, Moody's Investors Service lowered the Bank's baseline credit assessment (BCA) to caa3 from caa1 within E standalone BFSR.

Robert Senica, who was appointed as the new President of PBS's Management Board at the end of 2012, was on 4 January 2013 granted a licence by the Bank of Slovenia to hold the office of member of PBS's Management Board. Following this approval by the Bank of Slovenia, the Supervisory Board of PBS decided for Robert Senica to start his five-year term of office as the President of PBS's Management Board on 15 January 2013. Since then, PBS has been presented and represented by Robert Senica, President of the Management Board, and Viktor Lenče, Management Board Member.

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

4.3 GOVERNANCE OF THE NOVA KBM GROUP AND NOVA KBM

4.3.1 ORGANISATIONAL STRUCTURE OF THE NOVA KBM GROUP



LEGEND:

Direct shareholding of the Bank in an entity.

Direct shareholding of a subsidiary in an entity.

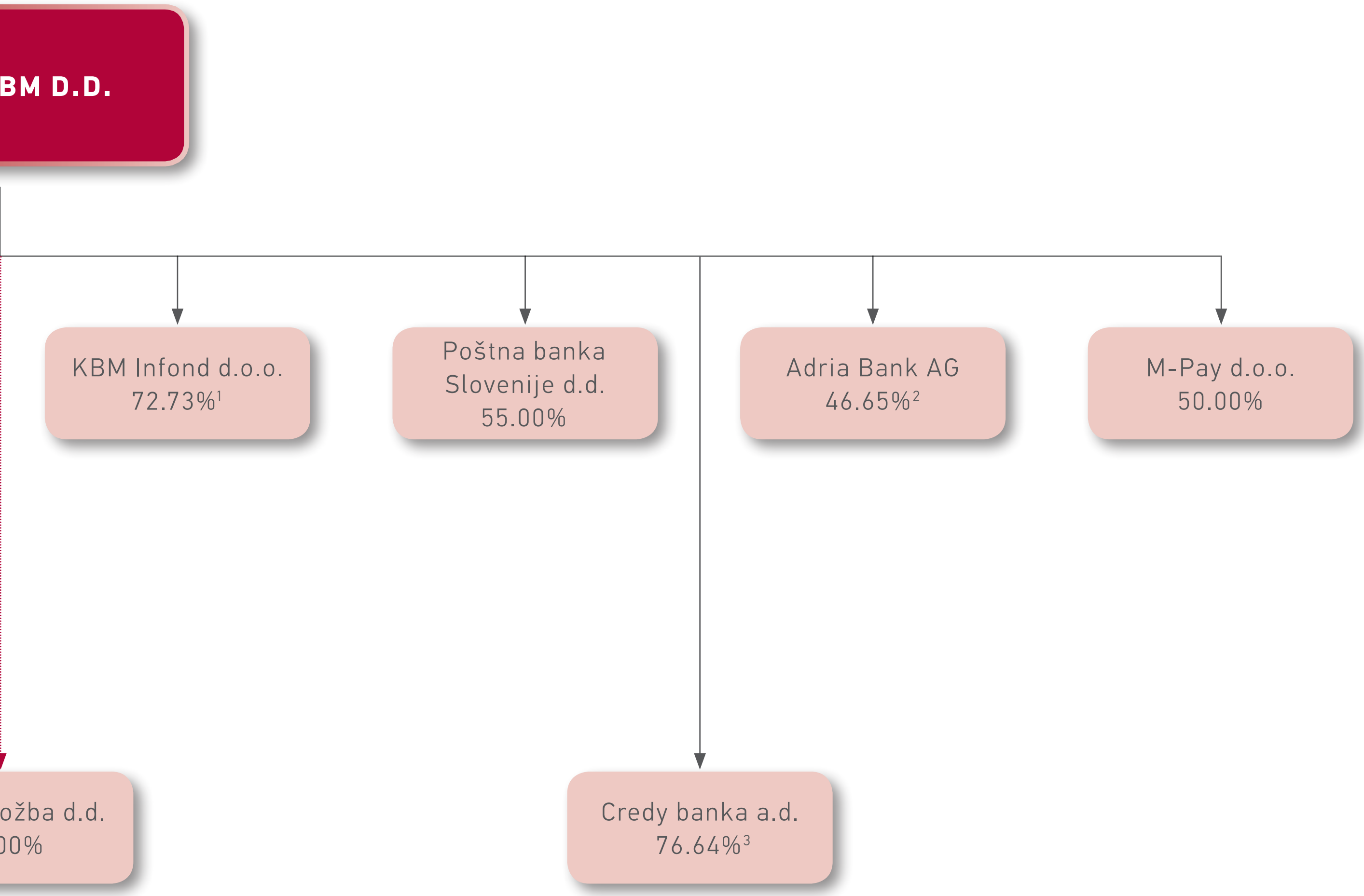
Direct shareholding of an associated company in an entity.

1 The Nova KBM Group's stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain percentage of its own shares, the Nova KBM Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.

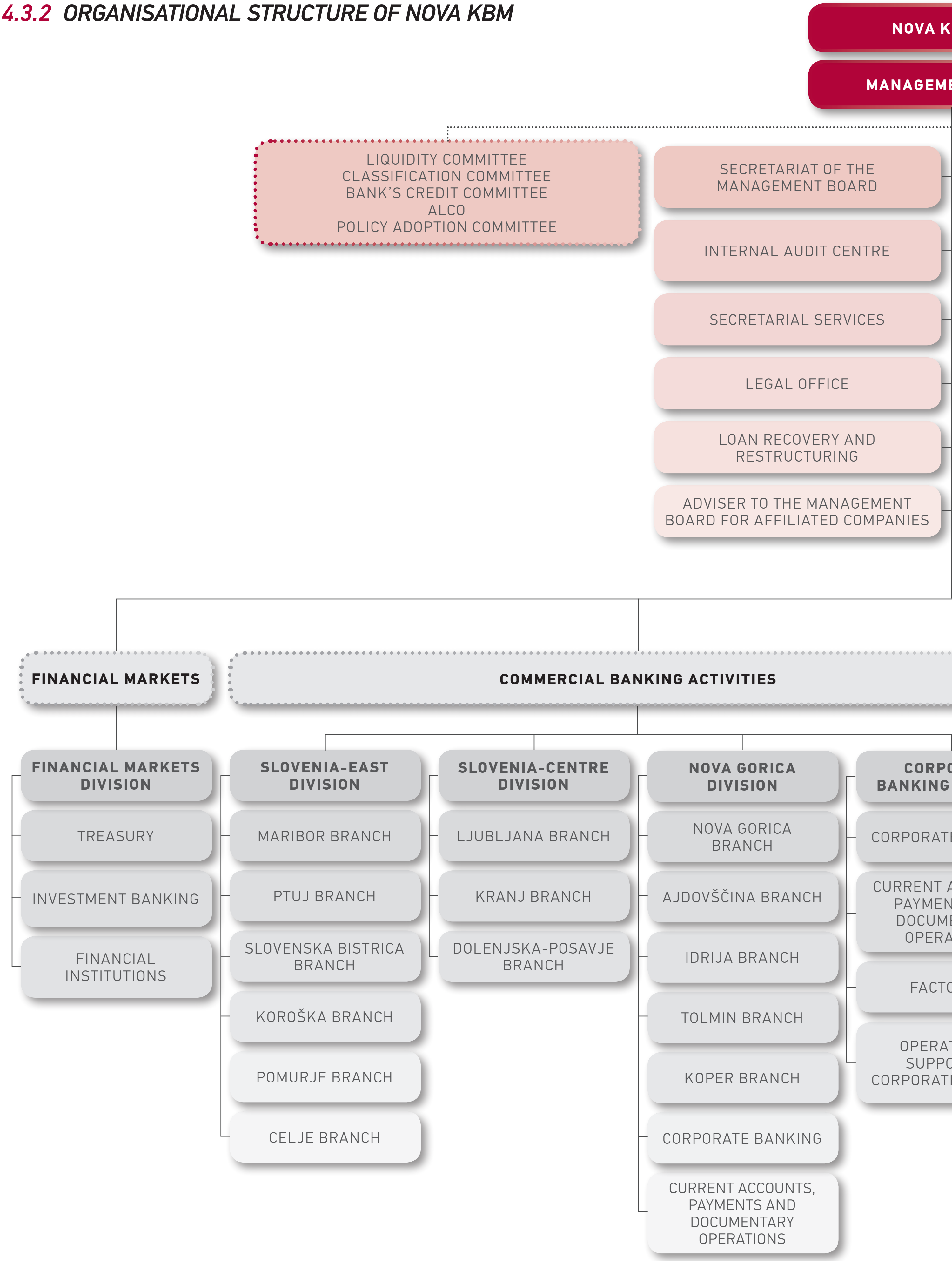
2 The Nova KBM Group's stake in the share capital of and voting rights in Adria Bank accounts for 50.54%, while its stake in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.

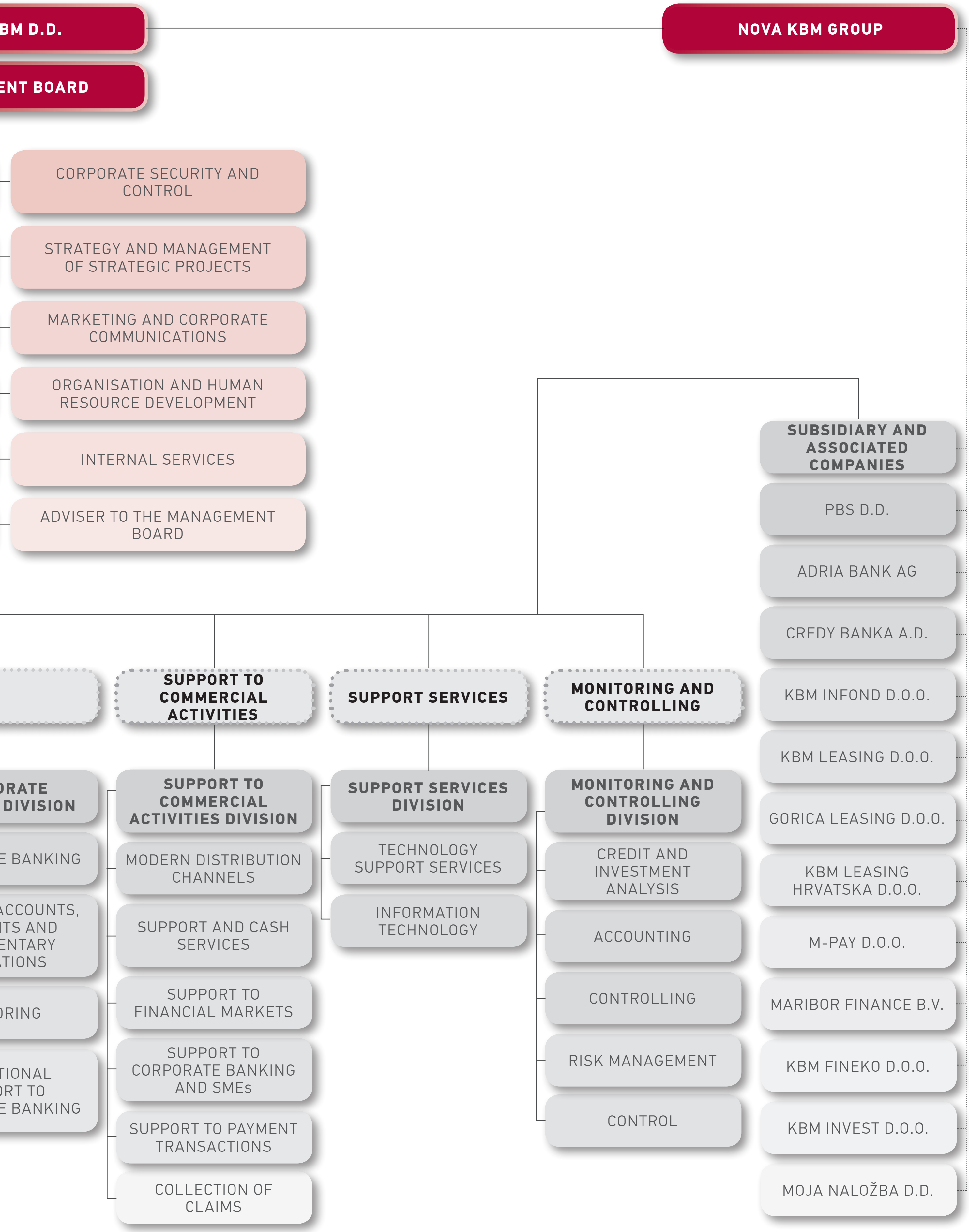
3 The shareholders' agreement entered into between the Bank and the Republic of Serbia includes a provision under which a 12.89% stake of the Republic of Serbia in Credy banka is subject to a call option available to the Bank and a put option available to the Republic of Serbia. Following the exercise of the option, the shareholding of the Bank in Credy banka will increase to 89.53%, while the shareholding of the Republic of Serbia will fall to nil.

4 Maribor Finance B.V. is a special purpose vehicle controlled by Nova KBM.


BM D.D.
KBM Infond d.o.o. 72.73%1
Poštna banka Slovenije d.d. 55.00%
Adria Bank AG 46.65%2
M-Pay d.o.o. 50.00%
ožba d.d. 00%
Credy banka a.d. 76.64%3

4.3.2 ORGANISATIONAL STRUCTURE OF NOVA KBM




BM D.D.
NOVA KBM GROUP
ENT BOARD
CORPORATE SECURITY AND CONTROL
STRATEGY AND MANAGEMENT OF STRATEGIC PROJECTS
MARKETING AND CORPORATE COMMUNICATIONS
ORGANISATION AND HUMAN RESOURCE DEVELOPMENT
INTERNAL SERVICES
ADVISER TO THE MANAGEMENT BOARD
SUBSIDIARY AND ASSOCIATED COMPANIES
PBS D.D.
ADRIA BANK AG
CREDY BANKA A.D.
KBM INFOND D.O.O.
KBM LEASING D.O.O.
GORICA LEASING D.O.O.
KBM LEASING HRVATSKA D.O.O.
M-PAY D.O.O.
MARIBOR FINANCE B.V.
KBM FINEKO D.O.O.
KBM INVEST D.O.O.
MOJA NALOŽBA D.D.
SUPPORT TO COMMERCIAL ACTIVITIES
SUPPORT SERVICES
MONITORING AND CONTROLLING
RATE DIVISION
E BANKING
ACCOUNTS, ITS AND ENTARY ATIONS
ORING
TIONAL ORT TO E BANKING
SUPPORT TO COMMERCIAL ACTIVITIES DIVISION
MODERN DISTRIBUTION CHANNELS
SUPPORT AND CASH SERVICES
SUPPORT TO FINANCIAL MARKETS
SUPPORT TO CORPORATE BANKING AND SMEs
SUPPORT TO PAYMENT TRANSACTIONS
COLLECTION OF CLAIMS
SUPPORT SERVICES DIVISION
TECHNOLOGY SUPPORT SERVICES
INFORMATION TECHNOLOGY
MONITORING AND CONTROLLING DIVISION
CREDIT AND INVESTMENT ANALYSIS
ACCOUNTING
CONTROLLING
RISK MANAGEMENT
CONTROL

4.3.3 GOVERNING BODIES OF NOVA KBM

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

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

In the development of its governance system, the Bank complies with the principles of the Corporate Governance Code for Public Limited Companies, the Code of Best Practice for WSE Listed Companies, and the Corporate Governance Code for Companies with State Capital Investments.

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

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

By being admitted to the Warsaw Stock Exchange (WSE), Nova KBM must comply with the Code of Best Practice (corporate governance rules) for WSE listed companies. Nova KBM has formulated the Statement of Compliance with the WSE Code of Best Practice, setting out the recommendations which have not been complied with and the reasons for deviations.

As a company in which the Republic of Slovenia holds an equity investment, Nova KBM must also comply with the Corporate Governance Code for Companies with State Capital Investments, adopted by the Council of the Capital Assets Management Agency of the Republic of Slovenia on 13 January 2011. The purpose of this document is to make members of the management and supervisory bodies of companies with state shareholding aware of, and compliant with, the best corporate governance practice.

On the basis of objectives set out in the strategy, the Agreement on Group Governance and Management has been signed by the majority of Nova KBM Group companies.

A new Management Board and Supervisory Board of Nova KBM were appointed in 2012.

Management Board of Nova KBM

As of 31 December 2012, the Management Board of Nova KBM had the following two members: Aleš Hauc, President, and Igor Žibrik, Member.

On 9 March 2012, the Supervisory Board appointed Aleš Hauc as the President of the Bank's Management Board, with a term of office starting on 24 April 2012. At the end of 2012, Aleš Hauc was the Chairman of the Supervisory Board of Zavarovalnica Maribor and KBM Infond, a Deputy Chairman of the Supervisory Board of PBS, and a Supervisory Board member of Adria Bank.

On 6 June 2012, the Supervisory Board appointed Igor Žibrik as a new member of the Bank's Management Board, with a term of office starting on 18 August 2012. At the end of 2012, Igor Žibrik was the Chairman of the Supervisory Board of Credy banka, Adria Bank and KBM Leasing Hrvatska, and a member of the Supervisory Board of PBS and KBM Infond. He was also a Deputy Chairman of the Supervisory Board of KBM Projekt.

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

Based on adopted performance criteria, the Supervisory Board takes decisions with regard to the award to be paid to the Management Board members for their performance. The Bank discloses the remuneration of the Management Board in compliance with regulations governing that issue. The remuneration of Management Board members is disclosed in the financial part of the Annual Report.

Management Board members act also as members of supervisory bodies of the Bank's subsidiaries and of other companies, for which work they receive an attendance fee and are entitled to share in profits in accordance with the resolution of the Shareholders' Meeting of respective companies.

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

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

Other committees of Nova KBM

Credit Committee of the Bank

The Credit Committee is responsible for the management of credit risk and risks of large exposure during operations with legal entities. The members of the Credit Committee at the end of 2012 were: Anton Guzej (President), Simon Hvalec, Aleksander Batič, Ksenija Mrevlje, Peter Kupljen and Irena Lah. Deputy Members were Peter Budin and Valentino Mendek. The Credit Committee meets once a week.

Subprime Lending Credit Committee

The Bank has set up a separate credit committee responsible for approving loans to C-, D- and E-rated customers. New loans are not approved to customers with a subprime credit rating, but the Bank may, on a case by case basis, restructure the existing loans given to customers that have run into difficulties in order to find the best possible solution for both the Bank and the customer. The majority of the members of the Subprime Lending Credit Committee are from the Risk Management Department. The members of the Subprime Lending Credit Committee at the end of 2012 were: Igor Žibrik (President), Anton Guzej (Deputy President), Ksenija Dougan, Irena Lah, Marjetka Šušterič and Miha Šlamberger.

Liquidity Committee

The Liquidity Committee reviews the provision of short-term liquidity. The members of the Liquidity Committee at the end of 2012 were: Valerija Pilih Grah (President), Aleš Hauc, Igor Žibrik, Simon Hvalec, Anton Guzej, Ksenija Mrevlje, Peter Kupljen and Vlasta Brečko. Deputy Members were Sandra Vincekovič, Marjetka Šušterič, Valentino Mendek, Ksenija Dougan and Peter Budin. The Liquidity Committee meets daily.

Assets and Liabilities Committee (ALCO)

The ALCO reviews balance sheet structure, capital adequacy, interest rate risk, structural liquidity, market risks, currency risk, profitability and the performance of profit centres, financial plans, aggregate credit risk, regulatory requirements, tax aspects of operations and other risks associated with new products and services. The members of the ALCO at the end of 2012 were: Aleš Hauc (President), Igor Žibrik (Deputy President), Peter Kupljen, Valerija Pilih Grah, Marjetka Šušterič and Tatjana Skaza. The ALCO meets once every month.

Policy Adoption Committee

The Policy Adoption Committee is responsible for: adopting business policies and strategies, reconciling open issues with regard to business polices, methodologies for the calculation of adequate economic capital of the Bank, the risk matrix, assessment matrix and the risk profile, and the assessment of the Bank's economic capital for covering risks for which the Bank does not calculate adequate internal capital. The members of the Policy Adoption Committee at the end of 2012 were: Aleš Hauc (President), Igor Žibrik (Deputy President), Simon Hvalec, Ksenija Mrevlje, Aleksander Batič, Anton Guzej, Vlasta Brečko, Nataša Fesel, Nataša Ziherl, Marko Tišma, Alenka Erker Lozinšek, Miha Šlamberger, Matjaž Likar, Vesna Rožanc, Boža Korbar, Marjetka Šušterič, Irena Komel and Peter Kupljen.

Classification Committee

The Classification Committee is responsible for the review and approval of changes in the classification of customers. The members of the Classification Committee at the end of 2012 were: Peter Kupljen (President), Marjetka Šušterič, Irena Lah, Anton Guzej, Ksenija Mrevlje and Irena Komel. The Classification Committee meets on a monthly basis.

Supervisory Board of Nova KBM

On 8 June 2012, the Shareholders' Meeting recalled the then members of the Supervisory Board and appointed instead Peter Kukovica, Niko Samec, Egon Žižmond, Andrej Fatur, Keith Charles Miles, Miha Glavič, Karmen Dvorjak, Peter Kavčič and Dušanka Jurenec. The term of office of the newly appointed Supervisory Board members started on 15 July 2012. At the constituent meeting of the new Supervisory Board on 24 July 2012, Peter Kukovica was appointed as its Chairman, and Niko Samec as his Deputy.

Dušanka Jurenec resigned as a Supervisory Board member on 21 November 2012. As of 31 December 2012, the Supervisory Board of the Bank consisted of eight members, as evident from the information above.

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

Peter Kukovica has been a Supervisory Board member since July 2012. He has a PhD in Management and

Organisation. Until the end of 2012, he had served as the President of the Management Board of Iskra Sistemi, prior to which he was a member and later the President of the Management Board of Iskra MIS, and the Manager of the Tevis Recruitment Agency, among other positions.

Keith Charles Miles has been a Supervisory Board member since July 2012. He is a member of the Institute of Chartered Accountants in England and Wales, and a lecturer on finance, economics, business administration and marketing. He has been a director of several British companies, and has worked for a number of financial institutions, including the Grindlays Bank Group and Datnow Group. Keith Charles Miles is a Slovene and British citizen, and is a Trustee of the British-Slovene Society, through which he helps strengthen relations between the two countries.

Egon Žižmond has been a Supervisory Board member since July 2012. He has a PhD in Economics and is currently serving as a professor at the University of Primorska. He also heads the chair of economic sciences at the same university. In the past, he was the Dean of the Faculty of Management in Koper, the Dean of the College of Management in Koper, and a professor at the University of Maribor, among other positions. He was a member of Nova KBM's Supervisory Board between 2008 and 2009.

Peter Kavčič has been a Supervisory Board member since July 2012. He has an MSc in business administration. He is an entrepreneur and independent adviser for strategic management. He is also the founder and the authorised representative of the company Vizualne komunikacije comTEC and the leader of a research team in this company.

Karmen Dvorjak has been a Supervisory Board member since July 2012. She holds a BSc in Economics and is currently serving as the President of the Management Board of the company Polzela, prior to which she was the Manager of the Economics Department at Livar, the Manager of Accounting, Finance and Controlling at Steklarna Rogaška Slatina, and the Manager of Steklarski Hram, among other roles.

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

Miha Glavič has been a Supervisory Board member since July 2012. He holds a BSc in Civil Engineering and is currently serving as a Deputy Director of the Public Intermunicipal Housing Fund, Maribor. In the past, he was an Occupational Health and Safety Inspector at the Health Inspectorate of the Republic of Slovenia, among other positions.

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

In accordance with the decision passed by the Shareholders' Meeting, the amount of attendance fees and other remuneration paid to members of the Supervisory Board and Supervisory Board committees has been aligned with the Criteria for the Remuneration of Members of Supervisory Bodies in Companies with State Capital Investments, and the Recommendations for Determining the Amounts of Attendance Fees and Remuneration paid to Supervisory Board members, as adopted by the Capital Assets Management Agency of the Republic of Slovenia in 2011. The total remuneration paid to Supervisory Board members consists of: payment for holding the office, meeting attendance fees, and the reimbursement of costs incurred as a result of performing their duties, as well as participation fees and costs related to participation fees.

Pursuant to the decision passed by the Shareholders' Meeting on 22 July 2011, members of the Supervisory Board shall receive a gross attendance fee in the amount of €275. Members of Supervisory Board committees shall receive a gross attendance fee amounting to 80% of the attendance fees referred to in the previous sentence. The attendance fee for each correspondence meeting amounts to 80% of the regular attendance fee. In addition to attendance fees, each Supervisory Board member shall receive an annual basic gross payment of €13,000. The amount of extra remuneration paid to the Chairman and Deputy Chairman of the Supervisory Board and to presidents of Supervisory Board committees, the method of payment and the limit on the total remuneration payable to them, as well as the reimbursement of costs incurred as a result of holding their office, have been adjusted to the Criteria and Recommendations of the Capital Assets Management Agency referred to above.

The Supervisory Board has, in compliance with the Criteria issued by the Capital Assets Management Agency of the Republic of Slovenia, determined the remuneration to be paid to external members of Supervisory Board committees, which, for members of standing committees and bodies of the Supervisory Board, amounts to €650 gross per month. External members of non-standing committees are entitled to the same amount for the actual duration of a committee or body. External members are reimbursed for costs in the same way as Supervisory Board members.

Supervisory Board committees

The following committees carried out their work during 2012 in accordance with the Companies Act and the Banking Act: the Audit Committee, the Remuneration and Nomination Committee, and the Appointment Board.

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

Shareholders' Meeting of Nova KBM

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

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

Three Shareholders' Meetings of Nova KBM were held in 2012.

At the Shareholders' Meeting held on 8 June 2012, the shareholders of the Bank were informed of the 2011 internal audit report, the Supervisory Board's opinion, the Annual Report of the Nova KBM Group and Nova KBM d.d. for the year 2011, and the auditor's and the Supervisory Board's report on the Annual Report examination of the Nova KBM Group and Nova KBM d.d. for 2011. The shareholders of the Bank were also informed of the amount and the method of covering the Bank's 2011 loss, and decided on granting a discharge to the Management and Supervisory Boards for the year 2011. Furthermore, the shareholders were informed of remuneration paid to the members of the management and supervisory bodies in 2011, and passed a decision on the amendments to Nova KBM's Articles of Association. The Shareholders' Meeting also appointed new Supervisory Board members for the next four-year period.

Deloitte revizija was elected as the auditor for the financial year 2012 at the Shareholders' Meeting on 14 August 2012.

At the Shareholders' Meeting held on 11 December 2012, the shareholders of the Bank made a decision to amend the Bank's Articles of Association to reflect the anticipated increase in share capital and to include the requirements with respect to the Bank's capital adequacy.

On 26 September 2012, as part of the process to establish whether a concerted action had been taken and the takeover threshold had been achieved, the Securities Market Agency took a decision, in accordance with Article 64 of the Takeover Act, based on which the following institutions have been restricted from exercising their voting rights in Nova KBM: the Capital Assets Management Agency of the Republic of Slovenia, Pošta Slovenije, GEN energija, Kapitalska družba pokojninskega in invalidskega zavarovanja, Slovenska odškodninska družba, ELES and Aerodrom Ljubljana.

As a result, the aforementioned institutions did not participate in the voting on the amendments to the Bank's Articles of Association relating to the capital raising activities and requirements with respect to the Bank's capital adequacy, which took place at the Shareholders' Meeting on 11 December 2012.

4.3.4 INTERNAL AUDIT CENTRE

The supervisory bodies and management boards of Nova KBM Group companies are aware that the setting up and implementation of a proper risk management system and a system of internal controls is of key importance for secure, effective, economical and successful management of the Nova KBM Group. The internal auditors give assurance of their organisational independence, which was not threatened in any way during 2012. The internal auditors also give assurance as to the consistency of the Charter of Internal Auditing in the Group, which provides for proper functioning of the internal auditors of Group companies with regard to their mission, the method of their work, their competences and responsibilities, and the area and scope of their work.

Implementation of the annual programme of work

The internal auditors perform their work in compliance with the Charter of Internal Auditing in the Group and the rules applicable to functioning of the internal auditors of Group companies. No significant changes were made in the organisation and method of work of the internal auditors in 2012. The annual plan for internal auditing was prepared based on the document Methodology for Planning Internal Auditing on the Basis of Risk Assessment, the Group's business policy, the annual business plans of individual Group companies, and on the basis of annual plans of work of the Group companies' internal auditors. A total of 23 internal auditors conducted the audit of all those key segments of individual Group companies that are considered to be most at risk. The Internal Audit Centre (hereafter 'CNR') took part in the audit of Credy banka and PBS, and the internal auditor specialising in information systems participated in the audit review in Moja naložba. A total of 99 audit reviews were carried out last year, based on which 268 recommendations were given on how to improve the operations and management of both individual Group companies and the Group as a whole. Apart from regular audits of its operations, a forensic audit review of the Bank and its subsidiaries was included in the annual plan of internal auditing of Nova KBM for 2012. This audit review will be completed during 2013.

In addition to carrying out audit reviews, the internal auditors offer advice, coordinate audit reviews and inspections conducted by external auditors and the Bank of Slovenia, participate in due diligence reviews and other projects deemed important for the Group, and follow the implementation of recommendations given by them or by external auditors or authorities. Quarterly reports and the annual CNR report were discussed by the Supervisory Board Audit Committee prior to being submitted to the Supervisory Board.

Accomplishing the objectives of internal auditing

The principal objectives of the internal auditors set out in the plan of internal auditing for 2012 were accomplished. The implementation of key findings and recommendations given by internal auditors to the management of Group companies contributed to reducing risk to an acceptable level.

The **banking division** includes the following companies: Nova KBM, PBS, Credy banka and Adria Bank. In 2012, CNR discussed the quarterly reports of internal auditors of all banks included in the banking division, with the exception of Adria Bank.

In Nova KBM, audits were carried out of interest rate risk management and of corporate and retail lending. Branch offices of the Bank were also subject to audit of cash and payment card transactions. In addition, the annual audit of disclosures according to the Banking Act was carried out. As regards operational risk management, audits were carried out on the management of costs of materials and on the implementation of rules and regulations governing the prevention of money laundering. There were also checks of the accuracy and timeliness of the implementation of measures imposed by the Bank of Slovenia. The audit of information systems focused on the implementation of applications and the execution of projects. In addition to scheduled audit reviews, 13 extraordinary audits were carried out based on the decisions of the Bank's Management and Supervisory Boards, and following the implementation of a corrective measure imposed by the Bank of Slovenia. On the proposal of the Bank's Management Board, the Audit Committee and the Supervisory Board discussed an agreement for a forensic review of certain operating segments of the Bank and the Group. Most of the external audit reviews were carried out with the aim of establishing whether all the procedures related to corporate lending were carried out with due care and diligence and in compliance with legislation. The audit findings disclosed that the system of controls in procedures related to lending to corporate customers and sole proprietors had not been of a sufficiently high standard in previous years and that internal controls had sometimes not worked. The deficiencies detected during the review contributed to an increased exposure to credit and operational risk due to the breach of internal organisational rules and, consequently, incomplete procedures applied to approval and utilisation of loans. Increased credit risk was also due to insufficient collateral for loans, and incomplete documentation on, and the recording of, collateral. Loan recovery procedures are adequate, but need to be properly documented by setting up a reporting system. Extraordinary audit reviews confirmed that the recommendations given by the internal auditors in respect of lending to particular customers of the Bank had not been complied with. By implementing recommendations given once again by the internal auditors, an adequate control environment will be set up that will help improve the lending procedures and better control the exposure of the Bank to operational and credit risk. The responsible officers are implementing the recommendations with due diligence and within required deadlines.

Nova KBM has set up a system for managing interest rate risk that is substantially in compliance with the common standards. Following an audit review, the Bank improved its system used for measuring, monitoring, managing and reporting on interest rate risk by defining undated interest-sensitive items and confirming assumptions regarding the impact of embedded options in interest-rate sensitive items.

The audit of transactions with households focused on the collection of past due and unpaid loans and unauthorised account overdrafts. The recording of collateral provided for loans was also subject to an audit review. The implementation of recommendations and of the projected organisational changes will improve the loan recovery procedures and enable the centralised management of defaulting customers. The audit of cash operations in branch offices is carried out on an annual basis. The implementation of the findings of audit reviews ensures compliance of cash handling with internal rules as regards the cash handling processes, cash-storing sites, cash and information protection. Procedures related to the banknotes that are placed in the custody of the Bank by the Bank of Slovenia are in compliance with the rules and provisions set out in the agreement governing the custody of banknotes and the Decision on the Recycling of Euro Banknotes.

The scope and the type of disclosures provided by the Bank in its annual reports are in accordance with the

Regulation on Disclosures by Banks and Savings Banks. The findings of the audit gave an assurance that the information included in the annual reports of the Bank are complete and accurate and in accordance with applicable legislation. The information and reporting system is an adequate one and ensures compliance with the provisions of the Regulation on Disclosures by Banks and Savings Banks. As regards compliance with legislation, an audit was carried out of the procedures related to prevention of money laundering and terrorism financing. The Bank has set up a system of internal controls to allow for transparent monitoring of the implementation of measures taken in this regard, but must improve the monitoring of customer transactions and the traceability of internal controls carried out by supervising coordinators.

In the area of information systems, audits were carried out of the following: the application used to administer and implement enforcement activities; the application used to provide financial services of the Bank through universal-service post counters; the application used to record losses; the CRM project; the procedures related to the settlement of outstanding amounts in payment card operations; and an application used by Moja naložba. By implementing the recommendations given by the auditors, the Bank has appropriately limited risks identified in access controls, service outsourcing, management of changes in the information technology support, planning and implementation of testing, user testing, and the assignment of access rights. Bankart, a company specialising in payments processing, requested that an independent review be carried out periodically of compliance with the terms and conditions applicable to the participation in the payment system used to process payment card and ATM transactions. Such a review is now conducted by the internal auditor specialising in information systems. The findings of the review carried out last year gave an assurance that the Bank meets the requested conditions, while minor deficiencies will be corrected following the implementation of recommendations given at the end of the review.

In PBS, audits were carried out last year of the credit risk management, which included an audit of loan approval procedures and procedures related to the management of collateral in the corporate banking segment. The audit of the PBS's loan portfolio was completed at the beginning of 2013. As for risk management, audits were carried out of capital risk management, market risk management, and cash transactions. Based on the findings of the audits, recommendations were made to set up a more efficient system of internal controls and to improve risk management practices in the audited segments.

In the area of information systems, audits were carried out of the process and data flows in the PPB software (used for payment services), of the application support used for reporting, and of the adequacy and functioning of controls in the CRE software (central register of enforcements), which is used to support transactions with legal entities. Audits of compliance with the legislation focused on the prevention of money laundering and terrorism financing, on the remuneration system, and on the verification of credibility of disclosures and data included in the semi-annual report of PBS. Furthermore, an audit was carried out of the overhaul of software used to support retail banking operations, and of the implementation of recommendations given to commercial banks regarding harmonised control of the use of sub-loans financed from SID Banka sources.

In Credy banka, the auditors carried out six extraordinary audit reviews on the basis of the decision of the Management and Executive Boards, in addition to scheduled regular audit reviews. Extraordinary audit reviews were carried out related to the audit of balances of branch offices that were later closed, to the accounting of travel orders, to the bank's corporate loan portfolio, and to cost management. The Management Board discussed with particular care the findings and recommendations in respect of the loan portfolio and the management of credit risk, the purpose of which was to align the lending policies, methodologies and instructions with those of

Nova KBM. A legally required audit was carried out of Credy banka's operations to verify the compliance of its internal documents with the legislation governing the prevention of money laundering, and the compliance of its training programmes and methodologies with the implementation of the training of employees. In addition to extraordinary audit reviews with respect to credit risk management, scheduled audits were carried out of the loan recovery procedures, of collateral provided as security for loans, and of the analysis used to assess the creditworthiness of borrowers. Credy banka must improve the quality of risk assessments for borrowers by including an opinion on the borrowers' future operations and cash flows. With respect to the audit of its retail loan portfolio, an assurance was given that necessary controls are carried out and that the identification and measurement of credit and operational risk, as well as the limiting of risks, are properly managed. Loan files needed to be put in order, and regular monitoring of bad and doubtful loans must be provided. Based on the audit of cash transactions, a reconciliation had to be made of the figures in the account books with the actual cash balances.

In the **insurance division**, which includes Zavarovalnica Maribor, an audit was carried out of the procedures for managing insurance risk in the non-life insurance segment. This included an audit of the completeness of the bordereau of policies that exceed Zavarovalnica Maribor's own insurance coverage, an audit of payments of damages, an audit of the efficiency and effectiveness of the system of internal controls, an audit of the list of special terms and conditions applicable to insured people who make many claims, and an audit of the management of the payment of damages within the stop-loss aggregate. The audit of the credit risk management related to the audit of the management of the risk of a drop in the value of investments, which could result in a mismatch between technical provisions and investments, and to the audit of the redemption of standard and unit-linked insurance policies. In addition, an audit was carried out of the insurance risk related to the life insurance segment, which included an audit of the functioning of internal control for administering the portfolio of life insurance policies, and an audit of the operations of specialised life-insurance agents, ZM Providus and Vivus, in 2011 and 2012. With respect to audits of operational risk, there was an audit of the register of insurance agents, an audit of compliance with the regulatory provisions in respect of the prevention of money laundering and terrorism financing, an audit of the Maribor business unit, an audit of contracts entered into with insurance agents, an audit of internal controls implemented with the aim of ensuring operations in the long run (exclusiveness, non-compete clause, etc.), an audit of internal competition between agents when renewing insurance policies, and an audit of the functioning of internal investigation control. In 2012, no events were detected that would have suggested any suspicion of material losses due to internal fraud. Suspicion of external insurance fraud is dealt with by the Department for Control, Supervision and Investigation of Insurance Procedures in the Non-life Insurance Segment on a daily basis.

Based on the internal audits carried out, an assurance was given that the key risks to which Zavarovalnica Maribor is exposed in its operations are at an acceptable level. The Management Board has appropriately discussed and approved the measures recommended by the internal auditors in 2012, with the aim of improving the functioning of internal controls and making the risk management practices more efficient. The internal controls of the audited segments function efficiently and in such a way as to prevent the occurrence of significant fraud and substantial losses to the company. The situation in this regard has improved even further following the implementation of the measures recommended by the internal auditors.

The **fund management and pension savings division** includes KBM Infond and the pension company Moja naložba.

In Moja naložba, audits were carried out of working procedures and internal controls in the following segments: pension insurance, administration of personal accounts of policyholders, and investments. Focus was also put on the control of costs. Based on the audit findings, an assurance was given that Moja naložba has an adequate system of internal controls in place and that the organisation of the company is such that there is proper separation between commercial activities, the bookkeeping segment, and the execution of payments. The Management Board controls the performance of the company through monthly reports. In addition, it is actively involved in the reporting and the decision-making processes in respect of investment activities of the company and the investment policy applied to the company's long-term business fund. By verifying the register of working procedures and internal controls, and by testing internal controls in key processes, the internal auditors obtained proof that the decree issued by the Insurance Supervision Agency had been taken account of in the administration of personal accounts of policyholders. An audit of the software used to administer annuity insurance plans was also carried out in 2012. Exposure to operational risk was reduced following the implementation of recommendations given by the internal auditors.

Based on the audits carried out in KBM Infond, an assurance was given that the company has set up proper internal controls in the key operating segments. The company has a proper management system in place, and the management and supervision bodies carry out their work in accordance with regulatory requirements. In order to improve the transparency of the work carried out by the Supervisory Board, CNR recommended that the company set up a procedure that will allow for self-assessment of the work of the Supervisory Board by using a self-assessment matrix. Also, a recommendation was given by the internal auditors to amend and redraft the regular report for the Supervisory Board on operations of the company and the funds it manages. In accordance with the annual plan of work, in 2012 an audit was made of the procedures related to the takeover of the management of the sub-funds of two umbrella funds and one mutual fund. The procedures were carried by the company's own personnel and were in compliance with legislation, and the Supervisory Board was regularly updated on the progress. Following the takeover, the company rationalised its operations by either merging mutual funds with similar investment policies or restructuring mutual funds.

The leasing and real estate activity division includes KBM Leasing, Gorica Leasing[15], KBM Leasing Hrvatska, KBM Invest, KBM Projekt and KBM Fineko[16].

The audit findings revealed that the risks of companies involved in leasing operations and of the company undertaking real estate projects increased as a result of both adverse economic conditions and internal factors, such as business organisation, a growth in non-performing investments, inadequate management of operational risk, and ineffective supervision. These increased risks were reflected in lower income, losses, a higher volume of NPLs and inactive investments, a high level of impairment losses, an increase in inventories, poor liquidity of companies, failure to meet the projections, and unsatisfactory implementation of some recommendations given by the internal auditors. The overestimated value of inventories and their large volume, as well as an increased amount of outstanding claims and the related lower cash inflow, represent the most considerable risks to operations of leasing companies. KBM Invest, a company undertaking real estate development projects, was faced with a substantial reduction in sales revenue from both the construction and sale of real estate as well as investment engineering services provided to the Bank. KBM Fineko is the only company in this division that managed to increase its business volume and to generate a profit. The companies included in this division need to mark to market their assets, adjust their liabilities to the value of their assets, and ensure the adequate composition and responsibility of supervisory boards.

15 All references in this Annual Report to 'Gorica Leasing' are to Gorica Leasing d.o.o.
16 All references in this Annual Report to 'KBM Fineko' are to KBM Fineko d.o.o.

5 INFORMATION FOR SHAREHOLDERS

The shareholders' equity of the Bank consists of:

€000

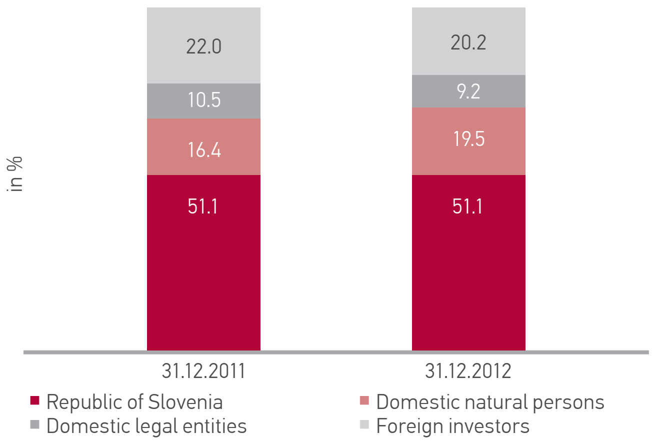
	31.12.2012	31.12.2011
1. Share capital	**40,814**	**40,815**
- ordinary shares – subscribed by non-financial companies	7,209	7,305
- ordinary shares – subscribed by the state	14,562	14,562
- ordinary shares – subscribed by banks	458	615
- ordinary shares – subscribed by other financial organisations	2,409	2,663
- ordinary shares – subscribed by households	7,952	6,693
- ordinary shares – subscribed by foreign investors	8,224	8,977
2. Share premium	**165,775**	**165,775**
- paid-in capital surplus	143,467	143,467
- share premium arising from the general capital revaluation	22,308	22,308
3. Capital related to compound financial instruments	**0**	**0**
4. Revaluation reserves	**(2,092)**	**(24,181)**
5. Reserves from profit	**275,044**	**275,044**
- regulatory reserves	12,145	12,145
- statutory reserves	172,158	172,158
- other reserves from profit	90,741	90,741
6. Treasury shares	**0**	**0**
7. Retained (loss) (including net loss for the financial year)	**(286,972)**	**(83,717)**
- retained earnings/(loss)	(83,717)	262
- net (loss) for the financial year	(203,255)	(83,979)
- undistributed net profit for the financial year	0	0
8. Interim dividends	**0**	**0**
TOTAL	**192,569**	**373,736**

The shareholders' equity of the Bank decreased year-on-year by 48.5%, or €181,167,000, to €192,569,000 at the end of 2012, mainly as a result of a net loss of €203,255,000 reported for the year, offset by an increase of €22,089,000 arising from a recovery in the market price of securities that are fair valued through equity.

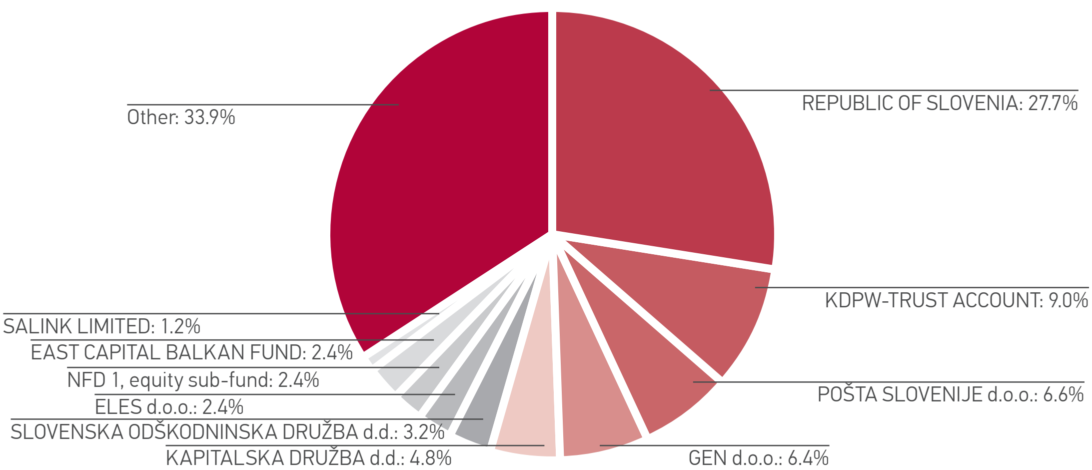
Shareholder structure and share capital of the Bank

At the end of 2012, the share capital of the Bank totalled €40,814,313.08 and was split into 39,122,968 ordinary no-par value shares.

Shareholder structure of the Bank



The largest shareholders of the Bank on 31 December 2012



The 10 largest shareholders of the Bank on 31 December 2012

Shareholder	Number of shares	Shareholding[17] (%)
REPUBLIC OF SLOVENIA	10,822,805	27.66
KDPW – TRUST ACCOUNT	3,522,974	9.00
POŠTA SLOVENIJE d.o.o.	2,599,192	6.64
GEN d.o.o.	2,500,000	6.39
KAPITALSKA DRUŽBA d.d.	1,875,920	4.79
SLOVENSKA ODŠKODNINSKA DRUŽBA d.d.	1,250,614	3.20
ELES d.o.o.	937,500	2.40
NFD 1, equity sub-fund	935,833	2.39
EAST CAPITAL BALKAN FUND	925,067	2.36
SALINK LIMITED	476,550	1.22

17 Voting rights equal ownership interest.

Number of Nova KBM shares held by members of the Management and Supervisory Board on 31 December 2012

Out of the members of the Bank's Management and Supervisory Board, Keith Charles Miles, a Supervisory Board member, held 24 Nova KBM shares (0.000061% shareholding) as of 31 December 2012.

Information on shares

Nova KBM shares (ticker symbol: KBMR) are traded in the prime market segment of the Ljubljana Stock Exchange. The prime market is the most prominent segment of the equity market of the Ljubljana Stock Exchange on which the shares of the best Slovene public limited companies are traded. Since May 2011, Nova KBM shares have also been traded in the main market of the Warsaw Stock Exchange. Nova KBM has issued only one class of shares which are all freely transferable and bear the same rights. Each ordinary share entitles its holder to one vote at the Shareholders' Meeting.

Holders of ordinary shares have the following rights:

- participation in the management of the Bank
- participation in profits (dividend)
- pro-rata distribution of residual assets in case of bankruptcy or liquidation of the Bank.

The Bank is bound to pay a dividend to shareholders, and shall enable shareholders to participate and to vote at Shareholders' Meetings.

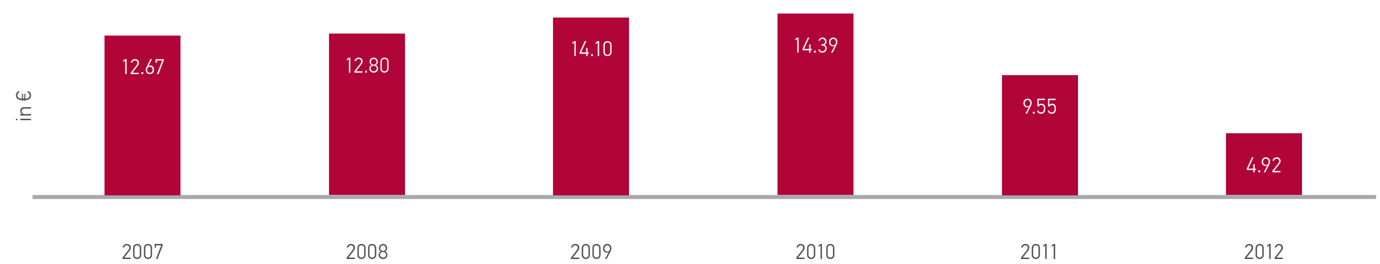
No treasury shares were held by the Bank at the end of 2012.

Information on shares

	31.12.2012	31.12.2011	31.12.2010
Number of shareholders	97,429	98,354	100,295
Number of ordinary shares	39,122,968	39,122,968	26,081,979
Share price on the last trading date (€)	1.30	3.16	10.20
Market capitalisation (€000)	50,860	123,629	266,036

	Nova KBM			Nova KBM Group		
	31.12.2012	31.12.2011	31.12.2010	31.12.2012	31.12.2011	31.12.2010
Book value per share[18] (€)	4.92	9.55	14.39	5.37	10.07	15.22
Net earnings/(loss) per share[19] (€)	(5.20)	(2.42)	0.36	(5.25)	(2.38)	0.41
P/E ratio[20]	(0.25)	(1.31)	28.33	(0.25)	(1.33)	24.88
P/B ratio[21]	0.26	0.33	0.71	0.24	0.31	0.67

Nova KBM's per-share book value (from end-2007 to end-2012)



18 Book value per share on the last day of the reporting period is calculated as the ratio between the total shareholders' equity of the Bank (for the Group: equity attributable to owners of the parent) and the weighted average number of shares in the period.

19 Net earnings or loss per share is calculated as the ratio between the Bank's net profit or loss (for the Group: net profit or loss attributable to owners of the parent) and the weighted average number of shares in the period.

20 P/E ratio is calculated as the ratio between the share price on the last trading date and the Bank's net profit or loss (for the Group: net profit or loss attributable to owners of the parent) per share.

21 P/B ratio is calculated as the ratio between the share price on the last trading date and the book value per share.

Dividend policy

	2013–2015	2012	2011	2010	2009	2008	2007
Gross dividend per share[22] (€)	-	0	0	0.08	0	0.2	0.2
Dividend yield[23]	-	-	-	0.8%	-	2.1%	1.5%
Dividend as a percentage of net profit of the Bank[24]	35%	-	-	36.2%	-	29.4%	11.0%

The Bank implements a dividend policy that envisages an annual dividend payment equalling 35% of net profit for a financial year, on the condition that the Bank generates a profit and that the capital adequacy of the Bank and the Group is not jeopardised.

Nova KBM share performance

In the period from 1 January to 31 December 2012, the price of KBMR shares traded on the Ljubljana Stock Exchange, which is the prime market for KBMR shares, ranged between €1.03 and €3.87 per share. The highest share price, at €3.87, was achieved on 20 March 2012, while the lowest price was registered on 6 August 2012 when KBMR shares traded at €1.03 per share.

The combined turnover in Nova KBM shares on the Ljubljana Stock Exchange and Warsaw Stock Exchange totalled 4,644,000 shares, giving an average daily turnover of 18,900 shares. At the end of 2012, the Bank had 97,429 shareholders in total.

Nova KBM (trading symbol: KBMR; in €) share performance on the Ljubljana Stock Exchange and the SBITOP Index movement in 2012 are presented in the chart below.

KBMR - SBITOP

22 Gross dividend per share from the profit for the financial year.
23 Gross dividend per share/share price on the last trading date.
24 Gross dividend per share/net earnings per share.

Risk Management

Being well-prepared for tomorrow also means that you need to be ready to take risks. Our forecast of future conditions is the foundation on which we are preparing ourselves. This way, we can also see risks as challenges, which leads us to actively grow and ensures security at the same time.

6 RISK MANAGEMENT

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

In 2012, the Management Board placed additional emphasis on the importance of risk management and on the impartial disclosure of risk exposure across the entire Group. With the support provided by auditors, both internal and external, the deficiencies detected in the risk management were remedied and the risk management system was upgraded in accordance with the best practice. Among the most important improvements made in 2012 in the risk management system were the following:

- the introduction of upper lending limits, at the Group level, for individual customers and for groups or related persons
- the introduction of a separate independent opinion of the Risk Management Department at each credit committee
- the introduction of appraisal procedure standards applicable to real estate taken as collateral
- improvement of the internal reporting system
- improvement of communication at the Bank's division level, as well as at the level of the Bank and the Group as a whole
- improvement of control over the Group, and unification of reporting standards.

The Group identifies, measures or assesses, monitors and manages each type of risk. For each specific type of risk, the Group identifies the factors that have an impact on the size of exposure to risk, and risk factors that cause a change in the value of financial assets. A quantified level of acceptable risk is determined for each individual type of risk at least at the level of each Group company and, where appropriate and reasonable, also at the level of organisational units.

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

- the identification of all risks that arise in the operations of the Group
- the evaluation of the extent of risk as well as the method of monitoring individual risk factors
- the continuous monitoring of Nova KBM Group companies' exposure to a specific risk and consideration of established limits, and
- learning and adapting in an evolving business environment, which includes re-evaluating limits and methodologies for establishing limits when conditions change.

The acceptable level and the method of measuring and monitoring the risks are defined by individuals who specialise in dealing with each type of risk. The organisational unit responsible for defining the acceptable level of specific type of risk and the method of measuring and monitoring the risks is organisationally separate from the unit it monitors.

The monitoring and managing of specific types of risk are described in detail in the respective risk management policy that takes into account specific characteristics of individual risk types. For each risk management policy, one person is responsible. This person must also take care of adjusting the respective policy to other policies while taking into account the applicable legislation and best banking practice.

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

Companies in the Nova KBM Group operate independently in accordance with established objectives and legal requirements. The following methodologies for measuring, monitoring, and managing risks, which have been developed by Nova KBM, are harmonised at the Group level and then applied within the Group companies:

- Methodology for the classification of customers into credit rating categories
- Treatment of shared customers
- Methodology for assessing credit risk losses
- Criteria for defining and monitoring related parties
- Monitoring exposure by regions, market segments and industry sectors
- Monitoring position, interest rate and exchange rate risk
- Monitoring exposure due to assets and liabilities maturity mismatch.

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

The principal categories of risk inherent to Nova KBM are briefly presented below. Additional quantitative and qualitative information concerning measuring and managing individual types of risk, the methodologies applied, and the exposure of the Group and the Bank to risks are presented in the section headed 'Risk exposure' in the financial part of the Annual Report.

Credit risk

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

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

Pursuant to its credit risk management policy, the Bank has set up appropriate loan approval and monitoring procedures according to which the approval of loans is separate from loan monitoring and the risk management process.

The principal goal of credit risk management is to ensure the stable and profitable performance of the Bank while assuming the necessary level of credit risk that arises from the nature of Bank operations. By complying with the Bank of Slovenia regulations based on EU directives, its own strategy and policy, as well as with the best banking practice, the Bank reduces the impact of credit risk to which it is exposed in its operations.

Prior to approving any investment, the Bank carries out a thorough verification of a customer and classifies each customer into credit risk categories A to E based on internally adopted methodology for classifying customers into categories. For each customer, the Bank also determines the upper lending limit. During the business relationship with a customer, the Bank verifies, at least once a year, the adequacy of the rating assigned to the customer, taking into consideration objective (balance sheet data) and subjective criteria (non-measurable factors). The adequacy of classification is assessed on a daily as well as a monthly basis by taking into account payment delays, any possible blocking of the current account, and other critical events. Impairment losses are recognised based on risk associated with a customer or investment.

Credit risk management in Nova KBM comprises:

- determining the target groups of customers
- continuous monitoring and analysis of debtors' performance
- recognising impairment losses for loans and advances and complying with capital requirements for credit risk
- monitoring the adequacy of collateral provided for securing individual financial assets and commitments
- measuring the concentration of the loan portfolio by industry sectors, market segments and collateral taken
- measuring the risk of the loan portfolio according to the average credit rating and the amount of impairment losses
- monitoring non-performing loans and assessing losses
- limiting exposure by setting up limits for individual customers
- conducting stress testing.

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

If it is expected that a borrower will not be capable of repaying all of its obligations from its cash flow, and that the procedure for the realisation of collateral is to be initiated, the impairment of a financial asset is calculated on the basis of the recoverable amount of the financial asset arising from the realisation of collateral.

At the end of 2012, a detailed review of real estate obtained as collateral for loans, and of the Group's own real estate was started in accordance with international standards. With the aim of reducing its exposure to credit risk, in 2012 the Group adopted rules to determine upper lending limits for individual customers and groups of related persons.

The document Methodology for Determining the Upper Lending Limits for Customers of the Nova KBM Group sets out the principal methods for setting lending limits. Since 31 December 2012, all Group companies have been required to take into consideration the upper lending limits, set at the Group level, when deciding on giving loans to a customer or a group of related persons.

A credit scoring model for sole proprietors was set up in 2012. It will be fully implemented in 2013, after the necessary testing is completed.

Liquidity risk

Liquidity risk is the risk of loss resulting from the Bank's inability to meet all of its payment obligations, or the risk that it has to provide necessary funding at significantly higher than usual costs. It arises from maturity mismatches between assets and liabilities.

Liquidity risk management is an integral part of the Bank's prudent and secure operations. Liquidity risk management in the Bank is applied separately to both operational liquidity and structural liquidity. The Bank manages its operational liquidity in such a way that it ensures the daily settlement of all liabilities that are due, and compliance with regulations relating to the provision of liquidity and obligatory reserves. Structural liquidity risk is measured by calculating and analysing the net liquidity gap, the liquidity ratios, net liquid assets, and the average residual maturity of assets and liabilities.

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

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

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

Nova KBM has sufficient liquidity reserves in place to meet its financial obligations in the periods of most difficult and emergency liquidity situations.

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

During 2012, the Bank managed liquidity risk in accordance with the adopted policy and methodologies approved by the ALCO. It fully complied with the regulations on minimum requirements concerning liquidity position, which prescribe as obligatory the category one liquidity ratio (up to 30 days). The prescribed liquidity ratio is set at 1.0. The ALCO reviews regular reports on the diversification of funding and on the results of the dynamic liquidity gap analysis. The latter takes into consideration the time component of cash flows and is used for the early detection of negative moments in the anticipated liquidity position. The main cash flows are assessed on the basis of a statistical analysis of time series data on liquidity items. Negative liquidity position may arise very quickly and unexpectedly. In order to be prepared to deal with such situations, the Bank has drawn up three different stress scenarios, at two difficulty levels, the aim of which is to support the management of the Bank to adopt adequate measures for reducing liquidity risk. Stress tests are carried out on a monthly basis. The main goal of carrying out stress tests is to provide a sufficient level of liquidity reserves in strictly defined future periods, taking into account the limit on the cumulative net liquidity gap depending on the type of stress scenario. The results of stress tests are reviewed by the ALCO.

Market risks

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

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

Position risk is a risk of loss arising due to a change in the price of a financial instrument that the Bank holds in its portfolio for the purpose of trading on its proprietary account. The Bank manages three trading portfolios: the portfolio of debt securities, the portfolio of equity instruments and the currency portfolio. Position risk is controlled by trading limits. Trading in securities is limited by the highest risk value of the portfolio and stop-loss limit. In addition, stop-loss limit is defined for each transaction. Limits for foreign currency trading for the Bank's proprietary account are defined as the maximum allowable open position for the Trading Department. The limits are revised at least once a year and adopted by the ALCO. Compliance with limits is controlled on a daily basis by the Risk Management Department, which also publishes the limits on the Bank's intranet site and, in accordance with internal regulations, reports any violation of limits to the responsible authorities.

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

Interest rate risk is a risk of loss arising due to unexpected changes in market interest rates, and derives from maturity mismatches of interest-sensitive assets and liabilities. To manage interest rate risk, the Bank calculates monthly the impact on its net interest income of interest rate changes in the next three months, as well as of the parallel shift of the yield curve by 200 basis points. The impact of changes in interest rates on the Bank's profit or loss is measured for a one-year period. In addition, the Bank regularly calculates the net present value of interest-sensitive items to determine whether, under the stress test scenario which takes into account a +/- 200 basis points change in interest rates, this value accounts for more than 20% of the Bank's equity.

The exposure to interest rate risk of the loan portfolio and deposit portfolio, other than current deposits and securities, is controlled by the system of limits, which is approved by the ALCO and reviewed at least on an annual basis.

Operational risk

Operational risk is the risk of loss arising from inappropriate or failed implementation of internal processes, the actions of people, the functioning of systems or due to external factors. Legal risk and risk of outsourcing are also included in operational risk, while strategic risk and reputational risk do not fall into this risk category.

Both the Group and the Bank calculate capital requirements for operational risk in accordance with the basic indicator approach. In the second half of each year, an interim monthly assessment is made of the capital requirement for operational risk. These monthly assessments depend on the dynamics of income during the first half of the year.

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

The Bank classifies operational risk loss events by operating segment and by type of loss events, in accordance with the Basel directives. The majority of loss events in 2012 related to the category *'Payment and Settlement'*, while in terms of type, the majority of loss events occurred in the category *'External Fraud'*.

External fraud cases increased as a result of a growing number of payment card abuses. Losses suffered by payment card holders are not covered by the insurance company, but the Bank may refund the loss to customers in justified cases.

Since not all operational risk losses can be reliably measured, the assessment of losses is also made when evaluating the risk profile of the Bank. Typical losses that the Bank assesses are indirect losses incurred in case of operational failures or delays. Collateral damage, opportunity costs, and missed or lost opportunities are examples of indirect losses.

Capital risk and ICAAP

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

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

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

Available economic capital and adequate economic capital are calculated monthly for the Bank, and quarterly for the Group.

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

- credit risk: in accordance with Pillar I
- market risks (other than currency risk): in accordance with Pillar I
- operational risk: in accordance with Pillar I
- interest rate risk of the banking book: an internal methodology based on stress testing
- currency 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 based on deposit interest rates.

The risk profile of the Bank is the result of self-assessment conducted by both the Bank and the Group. The purposes of creating the risk profile on a regular basis are to monitor the management of individual types of risk at the level of both the Bank and the Group, to define the key areas of risk, and to identify priorities in respect of risk management.

Protection of information

The Strategy of Using Information Technology Support includes the guidelines regarding the protection of information. These guidelines have been developed based on starting-points laid down in the Bank's business strategy, taking into account the applicable legislation and requirements of the Bank of Slovenia and other regulators.

The Bank puts a great deal of effort into the protection of information.

The purpose of the overall information protection system is to protect sensitive business information from unauthorised access and interception, to protect the accuracy and entirety of business information and computer business equipment, and to ensure that business information and computer services are available to users whenever and wherever they need them to perform day-to-day business processes.

As the basis of the information security policy, the Bank has adopted the standards ISO/IEC 27001:2005 and ISO/IEC 17799:2005 (renamed to ISO/IEC 27002:2005), based on which the Bank, in pursuing its strategic objectives, uses a documented system for managing the protection of information.

Through the Information Protection Forum, in 2012 the Bank upgraded its information security system, and took care that its information security policy was kept up to date. The Information Protection Forum met three times last year, as planned, and amended or redrafted 18 different information protection policies. It also amended the rules governing the work of the Forum and other related documents.

An examination of the external network of the Bank was carried out last year in partnership with external contractors. Based on the results of this examination, appropriate measures were taken to remedy any deficiencies detected, after which an in-depth verification review was conducted to check whether all deficiencies had been removed.

Prevention of money laundering

The internal policy for detection and prevention of money laundering and the financing of terrorism is an integral part of the Bank's and the Group's implementation of strategic objectives. It is based on the Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT) and on guidelines published by the Bank of Slovenia. Exposure of Group companies to risks related to money laundering and the financing of terrorism is supervised on a consolidated basis.

In 2012, a great deal of effort was invested in further development of the system used to monitor suspicious transactions, and in the upgrade of preventive and control measures employed to limit the possibility of abusing the Bank for the purpose of money laundering and terrorism financing.

Day-to-day activities for the detection and prevention of any abuse are carried out in compliance with ZPPDFT, which ensures proper control of all types of risks, particularly operational risk, with the efficient use of information technology resources in support of these activities.

The guiding principle of the Bank and all companies of the Group in conducting their business is a good knowledge of customers and of the legal activity customers are engaged in.

The Bank and individual Group companies report daily to the competent authorities on all cash transactions exceeding the prescribed amount and on all payments exceeding this amount which are, on customer request, made to the accounts of legal entities or individuals residing in countries that do not comply with the standards applicable to the prevention of money laundering and terrorism financing, or that do not implement these standards effectively. A report on payments made to the accounts of legal entities and individuals with their registered office or permanent or temporary residence in these countries is also submitted to the competent authorities. In addition, the Bank and individual Group companies report on all transactions and/or persons with the suspicion of money laundering or terrorism financing. In order to easily identify potentially suspicious transactions, the Bank has set up a system for account monitoring for both legal and private entities.

Based on the guidelines published by the relevant supervising authorities, the Group companies have developed their own methodologies for assessing risk of each group or type of customer, business relationship, product or transaction to identify possible money laundering and terrorism financing. Such segmentation of customers is used to decide on the scope of customer verification to be carried out, i.e. a regular or an in-depth verification.

Neither the Bank nor any company in the Group conducts any business with shell banks. When doing business with a politically exposed person, an in-depth review of such person is carried out prior to entering into a business relationship. The customer relationship officer must obtain a written approval from his/her superior to enter into business relationship with a politically exposed person. The Bank does not open or maintain anonymous accounts or other products, and does not enter into any business relationship that could, directly or indirectly, enable the concealment of a person's identity.

To identify persons with whom conducting business is prohibited due to restrictive measures, a consolidated list of the EU Banking Association is used. If any individual or legal entity from this list attempts to conduct business with the Bank or any company in the Group, they are restricted from doing so and the relevant information is forwarded to the competent supervising authorities.

The Bank and all companies in the Group encourage the employees engaged in the prevention of money laundering and financing of terrorism activities to attend relevant training on a regular basis. These training sessions are mainly carried out internally for all employees, who are, directly or indirectly, engaged in operations with customers. An up-to-date internal manual for the prevention of money laundering and terrorism financing, together with ZPPDFT and the related executive regulations, is available to all employees of the Group.

Strategy

A good strategy is not just about business plans, and its goal is not just to accumulate data. Instead, it focuses on the people and the environment in which we live. Success stories need to be written by all of us. This is the only way we can ensure that our strategy for tomorrow will become reality the day after tomorrow.

7 STRATEGY

7.1 MISSION, VISION, VALUES AND STRATEGIC DIRECTIONS

Considering the current business environment, the ongoing economic and financial crises, and forecasts of slow economic recovery, and taking into account the requirements and expectations of its stakeholders, the development of a new strategy of both the Bank and the Group was started in the second half of 2012, with focus on the formulation of the key strategic directions and financial performance targets.

Key strategic directions

The Nova KBM Group conducts its business in the territories of Slovenia, Austria, Croatia, and Serbia. The key criteria according to which it will assess the importance of being present in each of these countries are as follows: return and cost-efficiency achieved; ability to attract and collect customer deposits; and the presence of Slovene companies in the respective market (the latter being applied to Serbia and Austria).

The Group pursues the strategic objective of retaining its market share in the area of universal banking products, while an increased market share is targeted in segments in which synergy effects could be created through partnership between the Bank and other Group companies (e.g. PBS, KBM Infond) in the development of new products. Nova KBM will discontinue providing non-strategic services, allowing it to focus even more strongly on universal banking products and services.

The basic guidelines which are taken into consideration in developing the new strategy are as follows:

- focus on customers
- European orientation and consistent compliance with banking industry commitments
- safety and stability of operations and deposits
- process organisation
- continuous development and introduction of new and upgraded banking and other financial services
- application of advanced business models
- modern and uniform information technology architecture
- efficiency and profitability of operations
- development of the Group
- social responsibility.

Key financial performance targets

At the first strategic consultation held in October 2012, the following strategic objectives were presented and confirmed as being the most important ones:

- Active management of the loan portfolio in order to promptly identify and address any increase in risk and adopt measures to reduce the volume of bad loans.
- Maintenance of adequate capital levels and compliance with capital requirements.
- Cost reduction and improvement of cost efficiency by operational streamlining to start in 2013, with the aim of eventually attaining a cost-to-income ratio not exceeding 60%.
- Active management of funding and loans to bring the loan-to-deposit ratio to 110%.
- Return on average equity after tax to reach at least 12% by 2016.

Complete strategy overhaul

The Bank plans to completely overhaul its strategy and the strategy of the Nova KBM Group, which will include a redefinition of their vision, mission and values. The requirements set out in the restructuring programme will be taken into consideration in drafting the new strategy for the period 2013 to 2016. The principal guidelines that the Bank pursues in redefining the strategy are to improve its performance and strengthen its reputation.

Strategy management

Nova KBM drew up the Strategy Management Policy of the Nova KBM Group which is part of its structured corporate governance. The Policy includes concepts for defining the vision and mission of the Group, and sets out the method for drafting, amending and regularly revising the strategy, as well as the method for planning, implementing and controlling strategic programmes, projects and other activities arising from the strategy.

Strategy management will be a continuing process that will allow the Group to monitor the accomplishment of strategic objectives and the management of strategic risks. It will improve the responsiveness of the Group to changes in the environment, making it easier for the Group to incorporate new initiatives into its operations if fresh business opportunities are identified.

Implementation of the new strategy will be controlled by Nova KBM through financial performance indicators and by measuring the accomplishment of strategic objectives.

7.2 IMPLEMENTATION OF STRATEGY AND STRATEGIC DIRECTIONS

Active management of the loan portfolio in order to promptly identify and address any increase in risk and adopt measures to reduce the volume of bad loans

The Bank manages credit risk by: continuous monitoring and analysis of debtors' performance; monitoring the repayments made by debtors; monitoring approved loans; monitoring the adequacy of collateral provided for securing loans; measuring the concentration of the loan portfolio by industry sectors, regions, market segments and the size of debtors. In addition to individual treatment of each debtor, the Bank analyses the impact of each approved loan on the Bank's total loan portfolio, i.e. on the concentration or diversification of the portfolio. As long as the overdue period does not exceed 180 days, the collection of debts is managed within the commercial departments with the professional support provided by the Loan Recovery Department. Where an obligation is overdue for more than 180 days, or if the debtor declares the implementation of an insolvency procedure, the collection of the debt is transferred to the Loan Recovery Department or Legal Office.

In 2012, the Bank intensified the process of debt recovery, took an active part in creditors' committees, and participated in the sale of assets of bankrupt debtors, all with the aim of reducing losses incurred as a result of customers not paying their obligations when due.

The Bank made a number of efforts to reduce losses in cases where the borrowers failed to meet their payment obligations. To that end, it strengthened the staffing of the Loan Recovery Department and intensified the process of debt recovery. In addition, it took an active part in creditors' committees and participated in the sale of assets of bankrupt debtors. By remedying, at its own expense, deficiencies covered by the warranties it had provided on requests of companies that stopped operations, the Bank managed to avoid greater losses that would have been incurred had the warranties been called upon. In order to prevent the prices of residential real estate from falling, it transferred larger real estate projects to its subsidiary, thus avoiding further losses.

A total of €34.8 million was recovered by the Bank from corporate customers that were more than 180 days late in repaying their debt or that filed for insolvency proceedings. The bulk of the aforementioned amount was recovered from companies that filed for receivership or bankruptcy, with the majority of recovered loans being secured by the pledge of moveable or immoveable property that the Bank sold through court execution proceedings. The efficiency of loan recovery was to a large extent dependent on the conduct of insolvency and execution proceedings and on the purchasing power of markets for real estate and moveable assets.

In 2012, the Bank managed to reduce its exposure to sectors that accounted for the largest proportion of NPLs, such as construction, manufacturing, trade and financial intermediation. The reduction of exposure to sectors that were considered most at risk was the result of active management of bad loans, which included intensive monitoring of customers' activities and of their repayment capabilities. Realisation of collateral provided as security for loans was also part of the Bank's efforts to recover the amounts due to it.

The Bank cooperated actively with the Bank Association of Slovenia, the Ministry of Finance and the Ministry of Justice in the drafting of proposals for changes to the regulations governing insolvency and execution proceedings. The aim of these changes is to give creditors enhanced influence and better protection in these proceedings, as well as to ensure faster and more effective recovery of claims.

Further details regarding credit risk and the recovery of outstanding loans are set out in the financial part of the Annual Report.

Maintenance of adequate capital levels and compliance with capital requirements

In 2012, the Bank took three core measures that helped it increase the Group's Core Tier I capital by €183 million.

By the end of 2012, the Bank had taken three core measures to increase its Core Tier I capital in order to meet the recommendation of the European Banking Authority (EBA) that the systemically important banks should, at the group level, keep the Core Tier I capital ratio above 9%. These three measures were as follows:

1. Partial redemption, at a discount, of hybrid instruments which formed part of the Bank's additional own funds I.
2. Sale of Zavarovalnica Maribor.
3. Raising of a hybrid loan facility.

1. Partial redemption, at a discount, of hybrid instruments which formed part of the Bank's additional own funds I

The Bank had previously issued two instruments which formed part of its additional own funds I, in the total amount of €150 million. Partial redemption, at a discount, of these instruments had a positive effect in the amount of €38 million on the Group's Tier I capital. Hybrid instruments worth €30 million continue to form part of the Bank's additional own funds I.

2. Sale of Zavarovalnica Maribor

The Bank sold its 51% shareholding in Zavarovalnica Maribor to Pozavarovalnica Sava and SOD. This transaction generated a gain of €18 million and led to a €27 million decrease in items that are deducted from Tier I capital, providing a total positive effect of €45 million on the Group's Core Tier I capital.

3. Raising of a hybrid loan facility

A hybrid loan facility of €100 million was provided to the Bank. In accordance with the EBA methodology, this hybrid loan facility is included in the Bank's Core Tier I capital, while according to the Bank of Slovenia methodology, it is included in Tier I capital.

Cost reduction and improvement of cost efficiency by operational streamlining to start in 2103, with the aim of eventually attaining a cost-to-income ratio not exceeding 60%, also through the implementation of the RAST project

The Bank managed to reduce its administration costs by 7.2% year-on-year.

Implementing the RAST project is one of the strategic priorities of the Bank. This project comprises a set of cost-cutting measures adopted by the Bank with the aim of helping and supporting its employees change their work habits and attitudes towards costs in a responsible way. Constructive cooperation between employees encourages cost savings and fosters cost-efficient thinking, which will assist the Bank in its efforts to become more effective, successful and competitive. The RAST project is being implemented by the Bank and all other members of the Nova KBM Group.

The targeted cost savings will be achieved by reducing all categories of operating costs incurred by the Bank – from staff costs to costs of materials and services, depreciation and amortisation costs.

The purpose of the RAST project is to identify and implement all necessary rationalisation measures, and to set up a system of continuous cost efficiency improvement that will help the Bank boost its performance and cut down on operating costs.

The most important cost-cutting measures being implemented by the Group are as follows:

1. Reduction of operating costs incurred by the Bank for the purchase of materials and services.
2. Reduction of office material used and selective introduction of internal standards regarding the use of material required for the operations of the Group.
3. Cessation or outsourcing of some non-core business activities, mainly in the back office operations, on the basis of economically justified criteria.
4. Downsizing of the Bank's branch network based on the profitability of individual branch offices.
5. Reduction in the range of services provided by the Group.
6. Consolidation of operational processes through the introduction of technological standards and the related disposal of unnecessary assets of the Group.
7. Renewal of operational processes and strengthening of cooperation between the Group companies to achieve synergy.
8. Organizational restructuring of the Bank.

8 BUSINESS ANALYSIS

8.1 MACROECONOMIC ENVIRONMENT

Economic growth

Slovenia's economic crisis continued throughout 2012. Economic activity, as measured by gross domestic product (GDP), declined by 2.3% year-on-year (according to the first estimate released by the Statistical Office of the Republic of Slovenia at the end of February 2013). In nominal terms, GDP amounted to €35,466 million, down 2.0% on 2011, with GDP per capita standing at €17,244.

The 2012 drop in GDP was due to the stagnation of exports and a drop in domestic consumption. Exports increased by a moderate 0.3%, while imports registered a decrease of 4.3%. The year 2012 was marked by weak domestic consumption. In real terms, domestic consumption once again recorded a sharp drop in the fourth quarter of 2012, decreasing by 7.8% relative to the same period of 2011, while the year-on-year decrease in domestic consumption stood at 5.7%. The construction and service industries saw the largest decrease in economic activity in 2012. Due to the real estate market facing a standstill, investments continued to decline, causing the construction industry to remain deep in recession. Investments in construction decreased year-on-year by 18.5% on the back of a lack of confidence and aggravated access to funding. Consequently, the economic gap between Slovenia and the euro area average widened further in 2012, reflecting the structural weaknesses of the Slovene economy and the lack of effective measures to enhance its competitiveness in the last few years.

Slovenia's GDP quarterly growth rates (from Q3 2010 to Q4 2012)

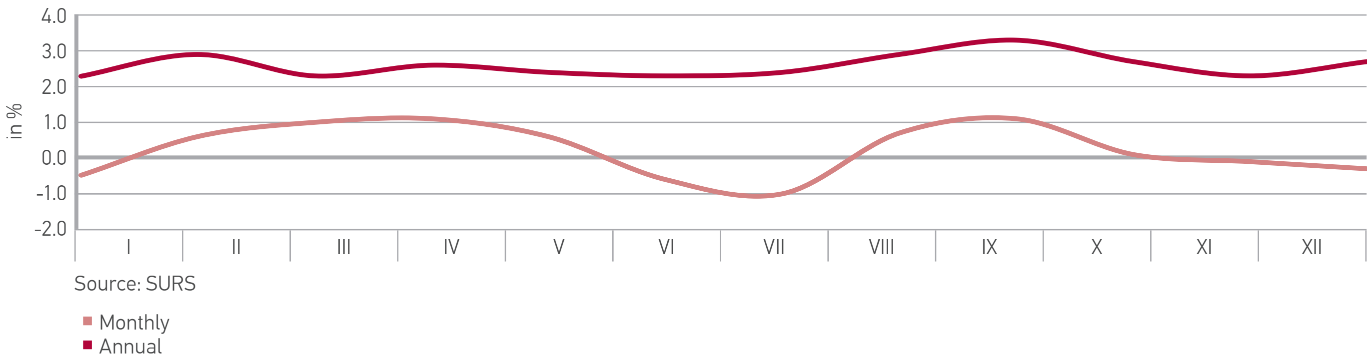
Source: SURS

Year	2010				2011				2012			
Quarter	1	2	3	4	1	2	3	4	1	2	3	4
GDP growth: Q/(Q-4)	(1.0)	1.7	1.9	2.3	2.5	1.6	0.8	(2.4)	0.0	(3.2)	(3.1)	(3.0)
Quarterly GDP growth (deseas.): Q/(Q-1)	0.1	1.0	0.4	1.0	(0.3)	0.4	(0.1)	(0.9)	(0.2)	(1.1)	(0.6)	(1.0)

Inflation

In 2012, movements in consumption goods prices were driven mainly by weak economic activity in both local and international environments, which was reflected in a modest change in the rate of basic inflation. One-off factors, such as the increase in the prices of food, services and energy products, as well as an increase in excise duty on several products, had the greatest impact on price growth. The annual rate of inflation reached 2.7% in 2012 (2011: 2.0%), while the average rate of inflation last year was 2.6% (2011: 1.8%).

Inflation in Slovenia in 2012, by month



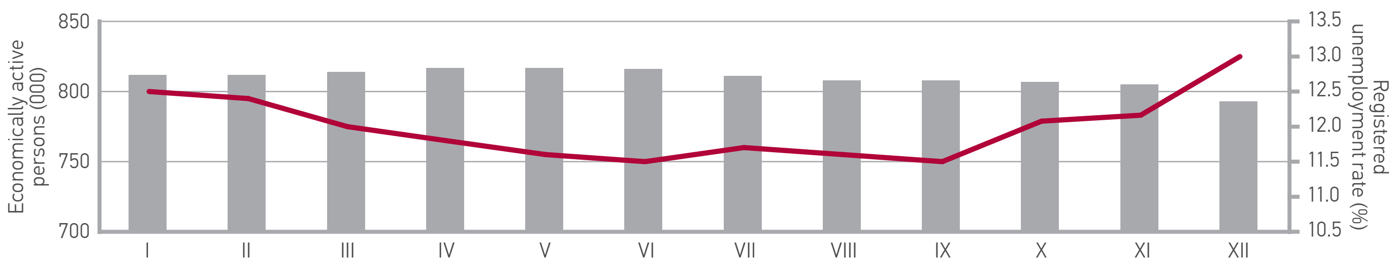
Source: SURS

The following categories registered the largest increase in prices in 2012: alcoholic beverages and tobacco (by 9.4%), catering and accommodation services (by 9.3%), food and non-alcoholic beverages, and education (each registering a 4.7% increase), transport (by 3.4%), miscellaneous goods and services (by 2.4%), housing (by 1.3%), clothing and footwear (by 0.8%), and health service, and recreation and cultural activities (each registering a 0.2% increase). On the other hand, the prices of communications and household equipment registered a drop of 1.1% and 0.7%, respectively.

Employment

The end of 2012 was marked by an increase in the rate of registered unemployment and a decline in the number of economically active persons in Slovenia. In December 2012, for the first time since March 2003, we saw the number of economically active persons dropping to below 800,000. A total of 118,061 unemployed persons were registered with the Employment Service of Slovenia at the end of last year, this being the highest figure reported since the outbreak of the crisis, with the registered unemployment rate standing at 13.0%. The registered unemployment rate took off in the last quarter of the year: the first sharp increase occurred in October when it reached 12.1% after having been 11.5% in September, while the second sharp rise was seen in December, when the registered unemployment rate hit 13.0% after having been 12.2% in November.

Active population and the registered unemployment rate in Slovenia in 2012, by month



Source: SURS

Foreign trade

Exports and imports of goods in 2012

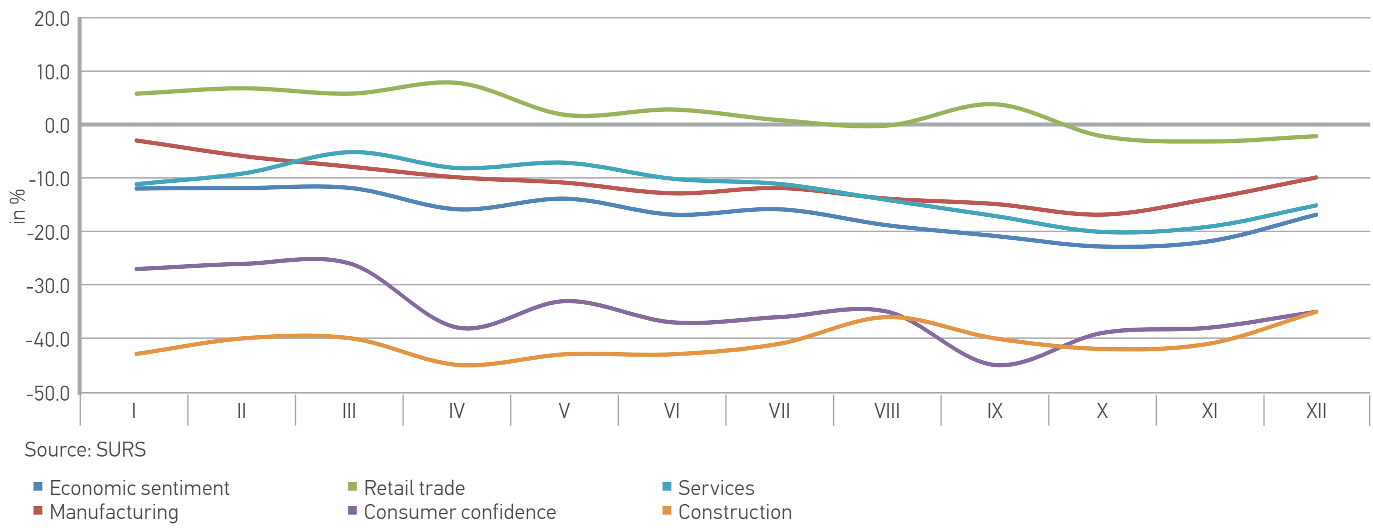
Source: SURS	I-XII 12 (€000)	XII 12 / XII 11 (Indices)	I-XII 12 / I-XII 11 (Indices)
Exports	**20,870,709**	**92.4**	**100.3**
EU-27	14,428,687	88.8	97.9
Non-EU countries	6,442,022	99.9	106.1
Imports	**21,920,867**	**87.3**	**97.6**
EU-27	16,616,262	82.9	96.7
Non-EU countries	5,304,605	102.3	100.7
External balance	(1,050,158)	n.a.	n.a.
Import-export coverage (%)	95.2	n.a.	n.a.

According to the preliminary data released by the Statistical Office of the Republic of Slovenia (SURS), the Slovene exports of goods in 2012 amounted to €20,871 million (up 0.3% on 2011), while the imports of goods were €21,921 million (down 2.4% on 2011). The deficit in the trade of goods was €1,050 million and the import-export coverage reached 95.2%.

Business tendencies and confidence indicators

The economic sentiment indicator stood at minus 17 percentage points at the end of December 2012, down 6 percentage points from December 2011, and 16 percentage points below the long-term average. The value of the confidence indicator in the manufacturing industry stood at minus 9 percentage points, down 4 percentage points from December 2011, and 6 percentage points below the long-term average. The value of the confidence indicator in retail trade stood at minus 2 percentage points, down 12 percentage points from December 2011, and 11 percentage points below the long-term average. The value of the confidence indicator in the construction industry was minus 36 percentage points, up 6 percentage points from December 2011, and 20 percentage points below the long-term average. The value of the services confidence indicator was minus 15 percentage points, a decline of 6 percentage points from December 2011, and 32 percentage points below the long-term average.

Confidence indicators in Slovenia in 2012, by month



Basic macroeconomic aggregates

Slovenia's fiscal deficit saw a considerable recovery in the first three quarters of 2012, improving from €1,976 million, or 7.3% of GDP, to €1,200 million, or 4.5% of GDP. Without taking account of one-off transactions carried out by the state, such as capital injections and assumption of debts incurred by public entities, the fiscal deficit would have stood at 5.7% and 4.2% of GDP at the end of September 2011 and 2012, respectively. The public finance situation of Slovenia has deteriorated considerably, reflecting the deepening of the economic crisis. Public revenues have been declining for the fifth consecutive quarter. In 2012, the contraction of government spending was more severe than in previous years, and for the first time since the outbreak of the crisis, we saw government expenditures being reduced in nominal terms (in the first quarter of 2012). The general government debt of Slovenia increased from €16,954 million, or 46.9% of GDP, in 2011 to €17,217 million, or 48.2% of GDP, by the end of September 2012.

Banking sector

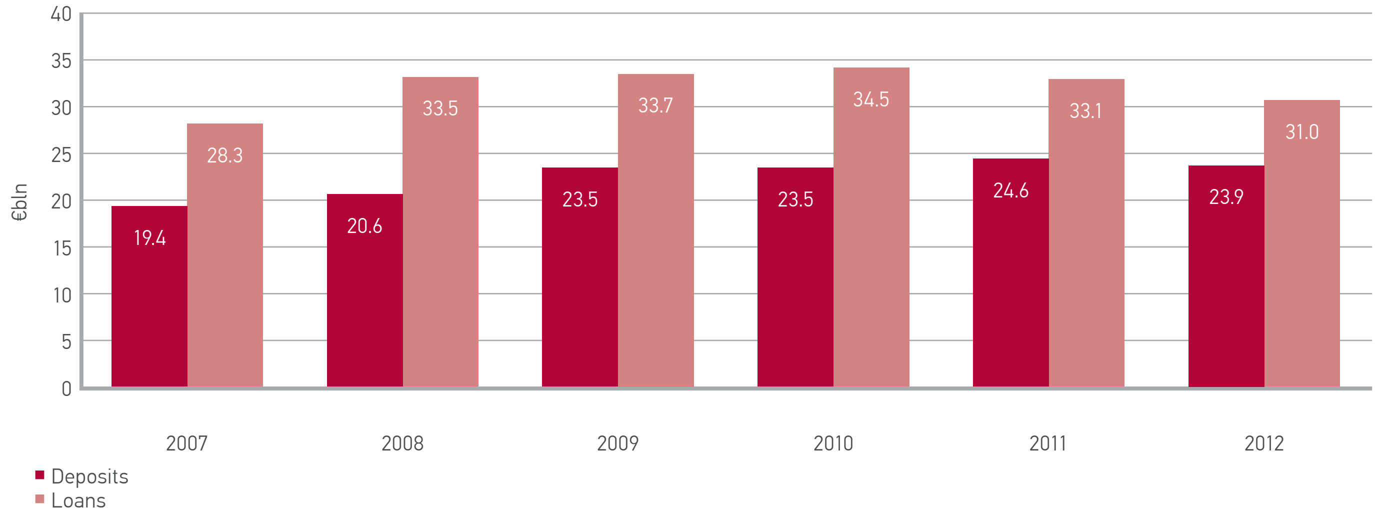
At the end of 2012, there were 19 commercial banks, three branches of foreign banks from EEA countries and three savings banks operating in Slovenia. The number of credit institutions did not change compared to the previous year. In addition to the three branches of foreign banks, eight banks were majority foreign-owned, one bank was fully owned by private local capital and, taking into consideration state ownership, three banks were fully owned by local capital. Taking into account majority local ownership – both private and state – there were 11 majority local-owned banks operating in Slovenia at the end of 2012.

High income risk faced by banks due to the deteriorating quality of their loan portfolios and reduced lending volumes resulted last year in lower net interest income and rising impairment losses and provisions. According to unaudited data, a total of more than €1.6 billion in provisioning expenses was set aside by Slovene banks last year, up 31.9% on 2011. For 2012, the banking system as a whole reported a **pre-tax loss** of €769 million (up 43.3% on 2011), according to unaudited and non-consolidated accounts. To reduce the level of non-performing loans, which had put a burden on banks' loan portfolios for several years, the banks accelerated the writing-off of these loans, especially in the last months of the year.

The **total assets** of the Slovene banking system shrank considerably in 2012, registering a drop of €3.1 billion, more than double the figure of a year earlier. The main reason for this fall in total assets was that the banks repaid their debts to the international wholesale financial market participants, with a total of €3.6 billion, or 10% of Slovenia's GDP, being discharged by the banks last year. The refinancing of banks' liabilities saw a substantial reduction, which was due to the uncertain local economic and political environment, causing the international financial markets to start losing confidence in Slovenia's long-term sovereign debt and, consequently, in the financing of Slovene banks.

Deposits from the non-banking sector declined year-on-year by 2.9%, or €0.7 billion, with government deposits, which acted as an important buffer against the loss of foreign funding, registering the largest drop. In the first quarter of the year, the banks were able to substitute the lack of other funding with low-cost three-year financing provided by the Eurosystem, while in the second half of the year, due to the long-term sovereign rating downgrade, the banks were not able to refinance their existing debt to foreign investors and therefore had to reduce their lending activities and investments in securities. A total of 60.7% of the decrease in deposits from the non-banking sector was attributable to government deposits, followed by deposits from non-financial companies, which accounted for 24.4% of the year-to-year decrease. Household deposits went down by €33.7 million, or 0.2%, relative to 2011.

Movement in loans to/deposits from the non-banking sector (from end-2007 to end-2012)



Net loans given to the non-banking sector saw a notable contraction, falling by over €2.2 billion, or 6.6%, relative to 2011, due to additional impairment losses recorded by the banks. Net loans given to households declined by 2.4% (€0.2 billion), while net loans given to non-financial companies saw a decrease of 10.3% (€1.9 billion). The persistence of the economic crisis was reflected in weaker local and foreign demand, with the result that creditworthy companies became reluctant to take new loans to finance their business. Also, the rising unemployment, combined with shaky conditions in the real estate market, has limited the possibilities of households to raise loans. Both reduced demand for loans and increased risk aversion of banks were reflected in a sharp decline in the volume of loans given to non-financial companies. This volume decreased by slightly over one-tenth last year, with loans to households also registering a negative dynamic since the middle of 2012.

8.2 IMPACT OF THE CRISIS ON THE NOVA KBM GROUP'S PERFORMANCE

The national economic environment deteriorated further in 2012. Weak demand caused the activities of the manufacturing, construction and retail trade sectors to contract.

Due to poor economic activity, the conditions in the labour market remained difficult, with the number of unemployed increasing throughout the year. Companies continued repaying their debts to local banks, adding to a decrease in the lending volume.

The deepening of the economic crisis was reflected in the quality of the Group's assets, which declined further as a result of an increasing volume of past due liabilities to the Group, but also due to Group companies clearing their balance sheets by setting aside additional provisioning expenses and writing-off irrecoverable claims.

The construction and the real estate sector were affected most by the contraction in economic activities.

Unfavourable conditions in the real estate market, the collapse of a number of large construction companies over the past few years, and a drop in investments also affected small- and micro-companies acting as subcontractors and that mainly performed final construction work for large companies, resulting in an increase in their past due liabilities to the Group.

The Group classified as non-performing some loans given to companies involved in financial intermediation. High financial leverage leading to over-indebtedness caused a number of companies in this sector to encounter operational difficulties and to file for bankruptcy.

In 2012, the Group continued to collect the unpaid obligations of customers in an accelerated manner by liquidating instruments of collateral. This was reflected in a decrease in the proportion of NPLs to the total loans given to customers involved in the provision of information and communication services.

The Group has set aside adequate impairment losses for NPLs on the basis of anticipated cash flows generated from the liquidation of collateral.

Further details about the exposure of Nova KBM and the Nova KBM Group to credit risk are given in the section headed 'Risk exposure' in the financial part of the Annual Report.

The Group is aware that, for its performance to be stable, sound and successful, it needs to implement an active, rapid and comprehensive approach to managing the consequences of the crisis.

To that effect, a number of well thought-out activities and measures are being undertaken by the Group, which are presented in the section headed 'Implementation of strategy and strategic directions'.

8.3 PERFORMANCE OF THE NOVA KBM GROUP AND NOVA KBM

8.3.1 NOVA KBM GROUP

Statement of income

The Group's 2012 pre-tax, pre-provision profit from continuing operations totalled €69,829,000, down 4.1% on 2011. Throughout 2012, the operations of the Group were affected by adverse market conditions, which deteriorated even further in the second half of the year when the national economic activity once again came to halt. This resulted in a deterioration of the quality and in the clearing of the Group's loan portfolio. Consequently, record-high provisioning expenses were set aside by the Group. Net provisions and impairment losses amounted to €309,466,000 last year (up 76.4% on 2011). An active approach to cost reduction was reflected in a year-to-year decrease in administration costs incurred by the Group and the Bank of 4.1% and 7.2%, respectively.

Loss from continuing and discontinued operations, and net loss

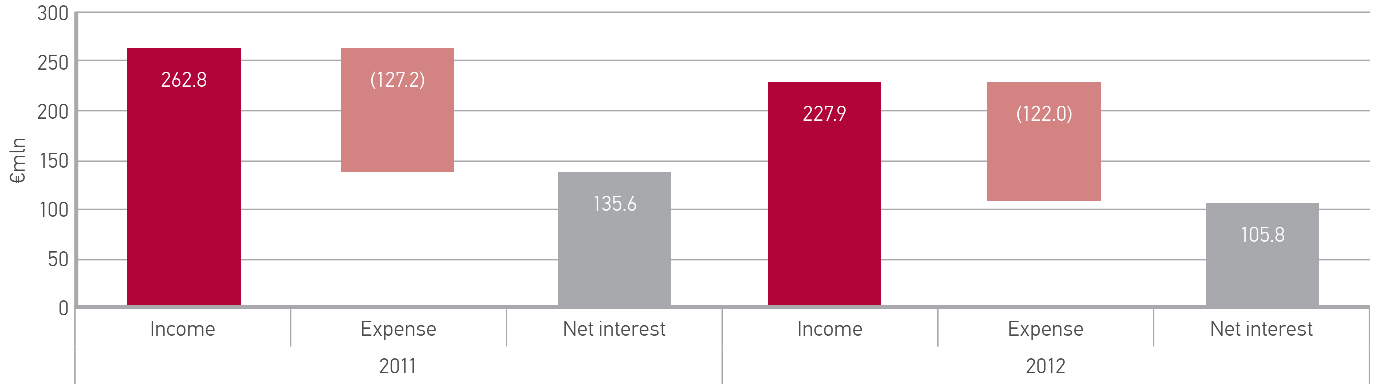
For 2012, the **pre-tax loss from continuing operations applicable to the Group** was €239,637,000. A €134.1 million year-on-year increase in provisioning expenses and a drop of €29.7 million in net interest contributed the most to the 2012 pre-tax loss of the Group being higher than in 2011.

The **net loss of the Group from continuing operations** was €227,147,000 (2011: €86,452,000). The **total profit of the Group, after tax, from discontinued operations** amounted to €21,450,000, and was attributable to the gain from divestment of Zavarovalnica Maribor. The **net loss of the Group for the financial year 2012** was €205,697,000. The following Group companies reported a net profit for 2012: KBM Infond (€1.2 million), KBM Fineko (€0.6 million), PBS (€0.3 million), and Credy banka (€0.1 million). On the other hand, a net loss was posted by the following Group companies: Adria Bank (€2.7 million), KBM Leasing Hrvatska (€4.0 million), Gorica Leasing (€20.9 million), KBM Invest (€21.8 million), KBM Leasing (€22.3 million), and Nova KBM (€203.3 million).

Net interest income

Interest income amounted to €227,856,000 (down €34.9 million, or 13.3%, on 2011), while interest expenses totalled €122,012,000 (down €5.2 million, or 4.1%, on 2011), providing **net interest income** of €105,844,000 (down €29.7 million, or 21.9%, on 2011). Nova KBM saw the largest decrease in net interest income (by 27.7%), followed by PBS (by 9.7%).

Interest income and expense in 2011 and 2012



Non-interest income

Fee and commission income totalled €94,185,000 (down 4.3% on 2011), while fee and commission expenses reached €35,385,000 (down 15.8% on 2011), providing **net fee and commission income** of €58,800,000 (up 4.2%, or €2.4 million, on 2011). The largest year-on-year increase in net fees and commissions was registered by KBM Infond (by 45.1%, or €1.4 million, due to the company earning additional fees on mutual funds it took over) and by Nova KBM (by 3.2%, or €1.3 million, primarily due to a higher fee expense in 2011 as a result of the Bank prepaying a syndicated term loan facility).

Dividend income totalled €2,572,000 in 2012, a decrease of 13.0% relative to 2011.

Realised gains on financial assets and liabilities not measured at fair value through profit or loss amounted to €25,972,000. The largest proportion of this amount, €24,550,000, was earned from the early redemption of hybrid instruments by the Bank.

The **net loss on financial assets and liabilities held for trading** totalled €5,306,000 and was mainly related to a decrease in the value of securities for which the Bank decided not to revalue forward contracts to fair value due to counterparty default risk, and to the loss on derivatives in respect of the impairment of the option on the purchase of an additional equity stake in Credy banka.

Operating costs

Administration costs were €104,059,000 (down 4.1%, or €4.4 million, on 2011), while depreciation and amortisation costs were €16,443,000 (down 1.2% on 2011), totalling €120,502,000 (a decrease of 3.7%, or €4.6 million, from 2011). Administration costs incurred by the Bank decreased year-on-year by 7.4%, or €6.6 million. A decrease in administration costs was also registered by Adria Bank and KBM Fineko, while the administration costs of other companies remained approximately flat at the 2011 level, or registered an increase, the largest being seen by KBM Infond, due to the rights, obligations and employees the company took over along with mutual funds, and in the leasing division, due to higher costs of inventory and legal services.

Net provisions and impairment losses

Net provisions and impairment losses totalled €309,466,000 (an increase of 76.4%, or €134.1 million, from 2011), of which €9,072,000 was in net provisions (2011: €16,939,000). Impairment losses for loans made up the largest proportion of the total impairment losses set aside by the Group, reflecting the difficult economic conditions and an increase in the number of customers filing for bankruptcy. Impairment losses and provisions set aside by the banking division accounted for 81.3% of the total figure recorded by the Group, followed by the leasing division, which had a 13.4% share in the total provisioning expenses. Impairment losses recorded by other Group companies accounted for 6.5% of the total provisioning expenses.

Comprehensive loss

The 2012 **comprehensive loss of the Group** totalled €183,463,000, mainly as a result of the net loss reported for the year. The loss was partially offset by gains recognised in a revaluation surplus in respect of the recovery in the value of bonds, equities and investment coupons held in the portfolio of available-for-sale financial instruments.

Statement of financial position

Total assets

The Group's **total assets** were €5,321,810,000 at the end of 2012, a decrease of €491,261,000, or 8.5%, relative to 2011.

Deposits and loans from customers

Deposits from customers totalled €3,618,678,000 at the end of 2012, down 3.8% on 2011.

Of the Group companies, Nova KBM saw the largest drop in customer deposits, with deposits from households and the government registering the most significant decrease. The decrease in customer deposits recorded by Credy banka was due to a book transfer of deposits from failed banks from the item 'Deposits from customers' to the item 'Deposits from banks'. PBS managed to increase the level of customer deposits.

Deposits and loans from banks

At the end of 2012, **deposits and loans from banks** amounted to €576,004,000. The year-on-year decrease in deposits and loans from banks was mainly due to Nova KBM prepaying the remaining portion of a syndicated term loan facility it had raised in the past, but also due to PBS, KBM Infond and the leasing division reducing their borrowings.

Debt securities

Debt securities in issue increased by €39,619,000 to €88,592,000, primarily due to Nova KBM issuing certificates of deposit in March and KBM10 bonds in December. This increase was partially offset by a decrease registered by PBS as a result of its certificates of deposit and the seventh series of its bonds falling due.

Subordinated liabilities

Subordinated liabilities totalled €98,069,000 at the end of 2012. The year-on-year decrease in subordinated liabilities derived mainly from the early redemption of hybrid instruments by Nova KBM.

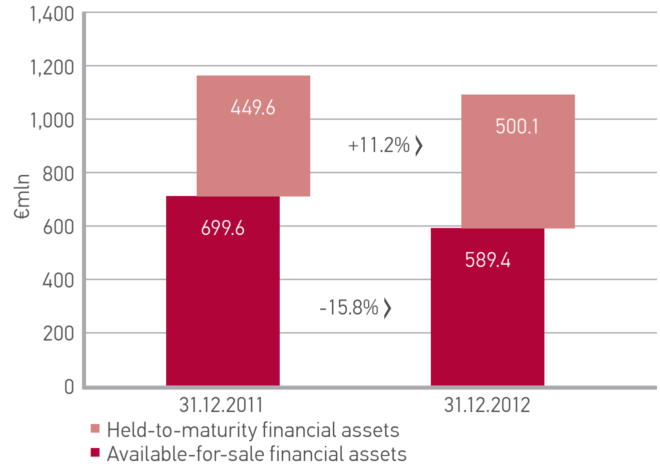
Loans and advances to customers

Loans and advances to customers were €3,397,900,000 at the end of 2012, a decrease of 11.6% relative to 2011. A year-on-year decrease in loans and advances to customers was registered by Nova KBM, PBS, Adria Bank and the leasing division. The largest decline was recorded by Nova KBM, as a result of a drop in gross loans given to customers, but also due to a fairly high amount of impairment losses set aside. The reasons for the decrease in loans given to households were the weak demand due to the difficult economic conditions, and the tighter lending conditions adopted by the Bank. Of the leasing companies, the largest drop in loans was recorded by KBM Leasing, due to the company not being able to finance new transactions after it had failed to sell the majority of its inventory during the year. The decrease in loans given by KBM Leasing was also due to lessees repaying their obligations to the company, and due to additional impairment losses made by the company in 2012.

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

Available-for-sale financial assets decreased during the year and amounted to €589,413,000 at the end of 2012. The largest year-on-year decrease was registered by Nova KBM, PBS and Adria Bank, mainly due to the maturing of several instruments that these banks held in their portfolios. Credy banka increased its portfolio of available-for-sale financial assets as a result of shifting its excess liquidity from deposits placed with banks to the government's treasury notes. **Held-to-maturity financial assets** totalled €500,108,000, up 11.2% on 2011, primarily due to Nova KBM purchasing additional debt securities.

Held-to-maturity and available-for-sale financial assets of the Nova KBM Group



Investments in the equity of associates and joint ventures accounted for using the equity method

Investments in the equity of associates and joint ventures declined by €44,449,000 to €3,090,000 at the end of 2012, mainly due to the sale of a 51% shareholding in Zavarovalnica Maribor.

8.3.2 NOVA KBM

Statement of income

The **Bank's pre-tax, pre-provision profit from continuing operations** totalled €53,265,000, up 7.3% on 2011, due to exceptional gains earned from redemption of hybrid instruments. Net provisions and impairment losses increased by 92.8% year-on-year, while the pre-tax loss from continuing operations reported by the Bank for 2012 was 2.3 times the figure for 2011.

The **total profit, after tax, from discontinued operations** amounted to €37,385,000, and was attributable to the sale of the Bank's equity stake in Zavarovalnica Maribor (€35,353,000) and to income from dividends from this ex-associated company (€2,032,000). The **net loss of the Bank for the financial year** 2012 was €203,255,000.

Net interest income

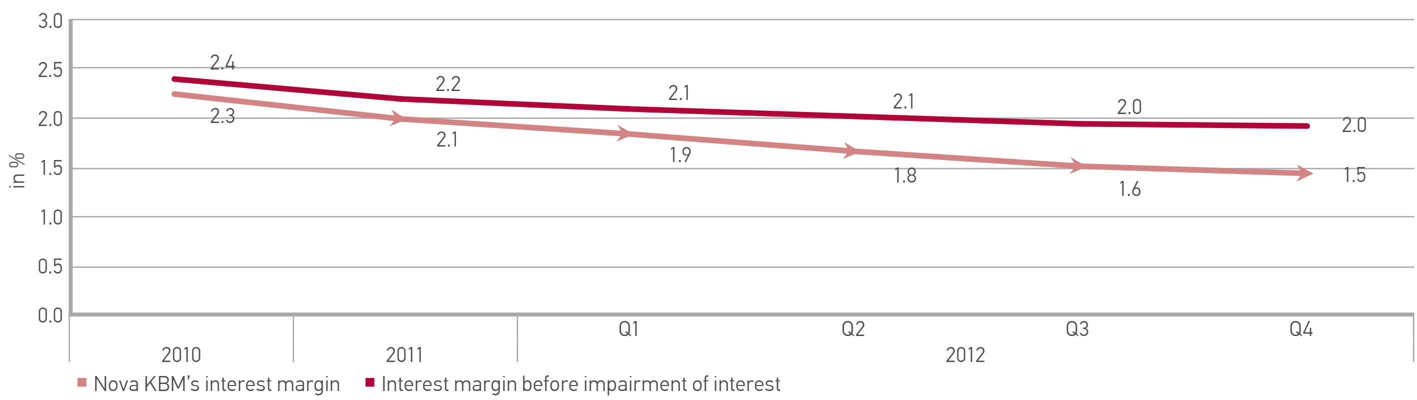
Net interest income amounted to €71,736,000, a decrease of 27.7%, or €27,521,000, from 2011. The decrease in net interest income was mainly attributable to a 14.5% lower interest income relative to 2011.

A year-to-year drop in **interest earned on loans** was the result of a decrease in interest-bearing assets (of 10.55%, or €441.5 million), a change in the structure of interest bearing-assets (shifting away from assets with higher returns to assets with lower returns), a decrease in net loans (of 11.5%, or €406.0 million), lower default interest, and a reduction in 6M EURIBOR (from 1.6% at the beginning of the year to 0.3% at the end of the year[25]). The largest decline in interest income was registered in loans given to non-financial companies (a decrease of €16.6 million) and foreign persons (a decrease of €7.0 million).

A year-to-year increase of €4,040,000 in **interest earned on securities** was attributable mainly to the increase in the average balance of available-for-sale and held-to-maturity financial assets.

Interest expenses decreased by €2,538,000 relative to 2011, principally due to the Bank refinancing a syndicated term loan facility with cheaper funding from the ECB. This was also the main reason that the **average interest rate on deposits** dropped by 0.22 percentage points year-on-year.

Movement in Nova KBM's interest margin



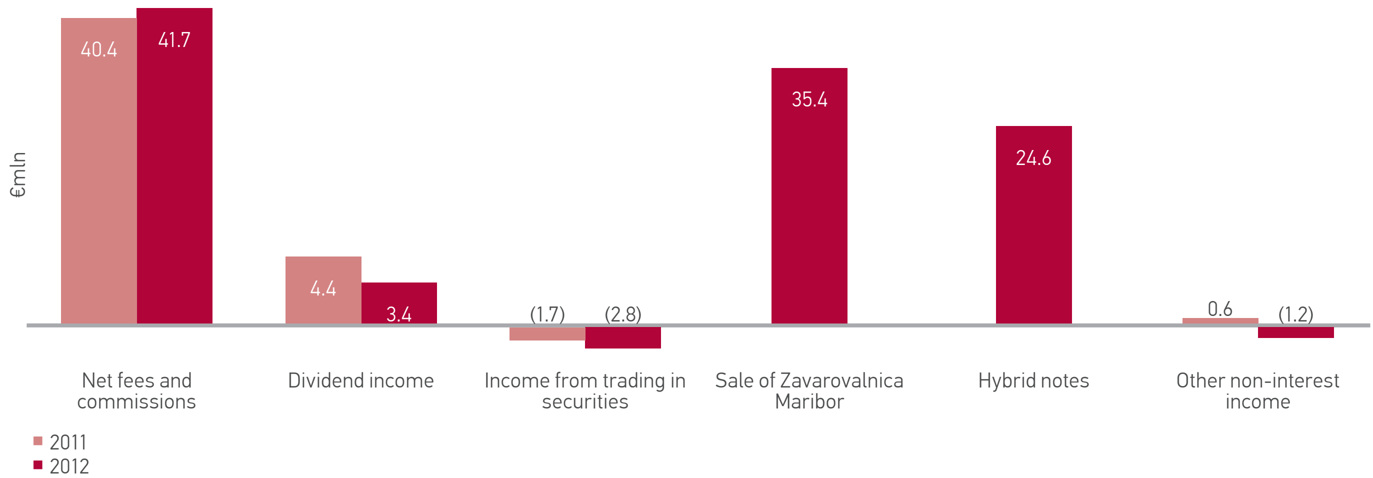
25 Source: http://www.euribor-ebf.eu/.

The **average interest rate on assets** declined much more, by 0.61 percentage points. The Bank adjusted its interest rate policy to the prevailing market conditions in order to retain its competitive position and attract customer deposits.

The **interest margin** fell by 0.51 percentage points year-on-year, as a result of the drop in net interest income (a decrease of 27.7%) being significantly larger that the drop in the average total assets (a decrease of 3.6%). Without taking account of impairment of interest, the interest margin would have reached 1.98% in 2012.

Non-interest income

Non-interest income in 2011 and 2012



Net non-interest income increased by €57.4 million, from €43.7 million in 2011 to €101.1 million in 2012. The following items contributed to the increase in this income category: the sale of a 51% equity stake in Zavarovalnica Maribor (€35.4 million); gains in respect of the redemption of hybrid instruments (€24.6 million); and an increase of €1.3 million in net fees and commissions. Dividend income fell by €1.0 million, while the loss from the trading in securities and foreign exchange increased by €1.1 million (mainly due to the valuation of futures contracts and currency forwards).

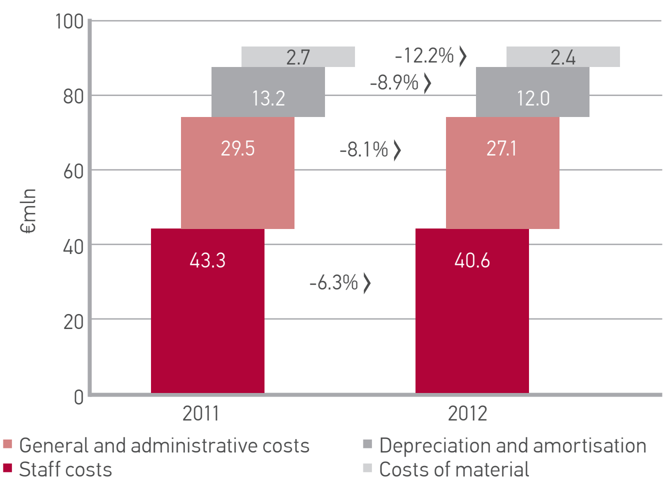
The increase in **net fee and commission income** was mainly attributable to a year-on-year decrease in fee and commission expenses. In 2011, the Bank accrued fees of €4.5 million in respect of a syndicated term loan facility that it prepaid at the beginning of 2012. Fee and commission income dropped as well, principally due to a lower volume of new transactions.

Income from dividends from the Group companies accounted for 24.5% of the total dividend income.

Operating costs

Operating costs (administration costs, including depreciation and amortisation) totalled €82,143,000, down 7.4% on 2011.

Operating costs



Staff costs decreased by 6.3%, or €2.7 million, and accounted for 49.5% of the total operating costs. The number of staff decreased by 66 year-on-year.

The costs of services fell by 8.1%, with the largest decline being registered in marketing costs, which fell by 37.1%, or €1.7 million. The costs of consulting, auditing, accounting and other services increased the most, by 36.7% or €1.3 million, mainly due to the costs of advisory services related to the redemption of subordinated instruments.

The **cost-to-income ratio** improved from 62.10% in 2011 to 47.54% in 2012, as a result of higher income earned in 2012 (the sale of Zavarovalnica Maribor and redemption of subordinated instruments).

Net provisions and impairment losses

Net provisions and impairment losses totalled €305.0 million, an increase of 92.8%, or €146.8 million, from 2011.

Net provisions were €9.9 million, of which the largest proportion was set aside for off-balance sheet liabilities. Net **impairment losses** were €295.0 million, of which €255.0 million was in loan loss provisions, €11.5 million related to the impairment of available-for-sale financial assets, €15.3 million related to the impairment of investments in the equity of subsidiaries, while the remaining amount was set aside mainly for the impairment of land.

Income tax related to profit or loss from continuing operations

For 2012, the Bank posted a tax income of €11.1 million. This figure represents the difference between income and expenses in respect of deferred taxes. The largest proportion of income from deferred taxes, totalling €16.7 million, relates to the 2012 tax loss. Expenses for deferred taxes relate mainly to the adjustments made to deferred tax assets as a result of a reduction in the tax rate from 20% to 15% arising from amendment of the tax legislation. The adjustment of €3.0 million in respect of the tax loss accounted for the largest single change made in this regard. Due to a tax loss of €111.3 million, no tax liability in respect of income from continuing operations has been incurred by the Bank.

Comprehensive loss

Comprehensive loss after tax totalled €181.2 million, as a result of net loss reported for the year (€203.3 million), partially offset by gains in respect of available-for-sale financial assets (€27.8 million), 61.4% of which were gains on revaluation (mainly as a result of recovery in the value of Republic of Slovenia bonds), while 38.6% related to the transfer of loss to the statement of income. Income tax relating to components of other comprehensive income amounted to €5.7 million.

Statement of financial position

Total assets

The Bank's **total assets** were €4,338,568,000 at the end of 2012, a decrease of 9.8% from 2011.

Loans and advances to customers

Net **loans and advances to customers** totalled €2,891,136,000 at the end of 2012, a decrease of 13.5% from 2011. The year-on-year decrease was due to a 5.8% drop in gross loans given to customers (with loans given to non-financial companies, households and other financial organisations registering the most significant decline), but also due to additional impairment losses of €238.2 million set aside by the Bank (mainly for loans given to non-financial companies).

The main reason for the drop in gross loans given to households was weak demand as a result of the economic downturn and tighter lending conditions.

Gross loans of €30.7 million were written off in 2012, with two-thirds of write-offs being made following an amendment to the Bank of Slovenia's Regulation on the Assessment of Credit Risk Losses.

The Bank's market share in loans to the non-banking sector fell from 10.1% to 9.3%, with its market share in loans to households decreasing by 0.4 percentage points to 10.8% and its market share in loans to non-financial companies decreasing by 0.3 percentage points to 9.5%.

A decline of 5.8% in gross loans to customers and a 4.7% decline in customer deposits resulted in a 1.35 percentage points reduction in the gross **loan-to-deposit ratio** (LTD). High impairment losses contributed to a fairly large discrepancy between gross and net LTD. **Net LTD** decreased by 10.05 percentage points year-on-year.

Deposits and loans from customers

Deposits from customers decreased year-on-year by 4.7% to €2,917,317,000 at the end of 2012, with **deposits from the state** decreasing the most, by €72.1 million (of which €40 million was related to a decrease in deposits from the Ministry of Finance, while the remaining amount was related to a withdrawal of deposits by KAD and SOD), followed by **household deposits** (a decrease of €62.4 million). The reason for the decrease in household deposits was deteriorating social conditions, which forced people to start using their financial reserves to fund their consumption, but a transfer of deposits to other banks also contributed to the drop.

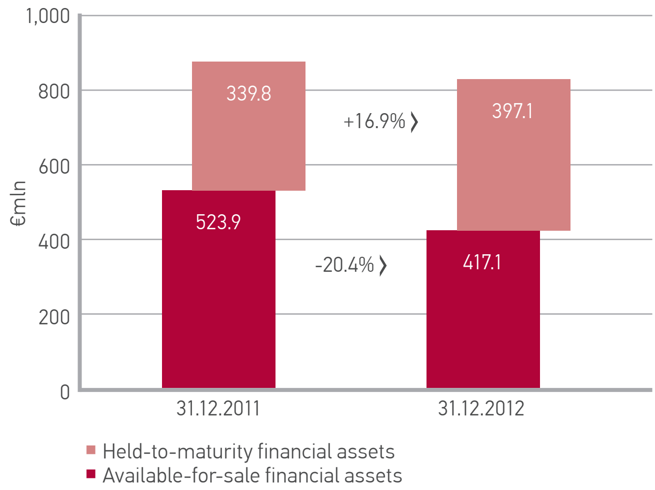
This trend was reflected in the Bank's market share in household deposits falling from 13.8% at the end of 2011 to 13.4% at the end of 2012.

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

The portfolio of **available-for-sale financial assets** decreased by €106,830,000, with debt securities and equity instruments accounting for 88.0% and 12.0% of this figure, respectively. The portfolio of **held-to-maturity financial assets** increased year-on-year by €57,311,000, mainly due to the Bank purchasing additional debt securities.

These two portfolios consist of instruments that make up the secondary liquidity reserve. The Bank maintains an adequate level of debt securities that are eligible as collateral for transactions with the ECB.

Held-to-maturity and available-for-sale financial assets of Nova KBM



Investments in the equity of subsidiaries, associates and joint ventures

Investments in the equity of subsidiaries, associates and joint ventures decreased year-on-year by €45,987,000 to €55,980,000, mainly due to the sale of a 51% shareholding in Zavarovalnica Maribor (a decrease of €29,681,000) and the impairment of equity investments, totalling €15,307,000 (impairment of equity investments in Credy banka, Gorica Leasing, KBM Invest, KBM Leasing Hrvatska and KBM Leasing).

Deposits and loans from banks

The 2012 decrease of €124,815,000 in liabilities to banks was mainly due to a €67.5 million decrease in **deposits from banks** and a €102.5 million decrease in **loans from banks**, with the latter being chiefly the result of the prepayment of the remaining portion of a syndicated term loan facility, in the amount of €94.5 million.

Debt securities in issue and subordinated liabilities

Debt securities in issue increased year-on-year by €60,706,000 to €88,591,000 at the end of 2012, primarily due to the Bank issuing certificates of deposit in March and KBM10 bonds in December.

The decrease in **subordinated liabilities** from €178,035,000 at the end of 2011 to €88,190,000 at the end of 2012 derived mainly from the early redemption of subordinated instruments.

8.4 PROFILE OF THE NOVA KBM GROUP COMPANIES[26]

The composition of the Group saw some changes in 2012.

The company KBM Projekt is no longer a member of the Group. On 30 October 2012, the company filed for liquidation, with the result that the Group lost control of it. Zavarovalnica Maribor was, as of 31 December 2012, no longer an associated company within the Group because the Bank sold its shareholding in it at the end of last year.

The following table[27] sets out the key performance indicators of individual Group business segments for 2012. The banking, leasing and real estate segments reported a net loss for last year, while the fund management segment and the segment that includes the provision of other Group services had a positive effect on the Group's results.

	Company	Number of employees	Net profit or (loss) (€000)	Total assets (€000)	Total equity (€000)	ROAE before tax	ROAA before tax
Banking segment	Nova KBM	1,280	(203,255)	4,338,568	192,569	(65.54)	(4.60)
	PBS	236	332	799,519	47,441	0.84	0.05
	Adria Bank	31	(5,444)	180,693	29,989	(20.32)	(3.35)
	Credy banka	380	100	139,253	23,893	(0.05)	(0.01)
Fund management segment	KBM Infond	37	1,241	16,781	13,260	8.97	7.16
	Moja naložba[28]	14	320	136,496	6,867	4.72	0.23
Leasing segment	KBM Leasing	10	(22,310)	111,515	(22,041)	*	(15.80)
	Gorica Leasing	12	(20,905)	65,767	(18,091)	*	(23.17)
	KBM Leasing Hrvatska	8	(3,962)	39,210	(3,462)	*	(8.95)
Real estate segment	KBM Fineko	11	634	30,041	2,985	30.56	12.62
	KBM Invest	9	(21,806)	36,249	(17,863)	*	(43.24)
Other	M-PAY	0	13	198	197	8.42	8.39

* Not calculated due to negative average capital or negative capital in the last financial year.

The net loss generated by the banking division was mainly due to high impairment losses as a result of deteriorating loan portfolios. Further details in respect of the quality of the Group's loan portfolio are given in the financial part of the Annual Report.

The difficult economic conditions also had a negative effect on the performance of the leasing and real estate segments. The companies in these segments were forced to deal with increasing inventories, which could not be sold due to the strained conditions in the real estate market.

26 The data in this section are taken from the stand-alone financial statements of Group companies.
27 Included in the table above are companies in which Nova KBM has a shareholding of over 20%.
28 Associated company.

Poštna banka Slovenije d.d.

Year of establishment: 1991

Website: www.pbs.si

E-mail: info@pbs.si

Nova KBM's shareholding as of 31 December 2012 (%): 55.00

Management as of 31 December 2012:

President of the Management Board: Drago Pišek (until 30 December 2012)

Management Board Member: Viktor Lenče

Activity

Poštna banka Slovenije provides financial services, including banking services, mutually recognised financial services, additional financial services and other ancillary financial services pursuant to the Banking Act.

Business performance in 2012

The total assets of PBS decreased year-on-year by 3% to €799,519,000 at the end of 2012. In spite of this decline in business volume, PBS's market share in total assets increased from 1.68% at the end of 2011 to 1.73% at the end of 2012.

Financial liabilities totalled €701,972,000, of which €48,253,000 was in deposits from banks, €20,485,000 was in subordinated liabilities, and €626,251,000 was in customer deposits, which registered an increase of €3,215,000, or 1%, from 2011. Household deposits registered the largest increase within customer deposits and rose by €7,785,000, with their proportion in total customer deposits growing to 84.6%. PBS's funds borrowed through longer-term refinancing operations with the central bank remained flat at €45,416,000. In December, PBS redeemed its PBS7 bonds and certificates of deposit, totalling €22,111,000.

On the assets side of the statement of financial position, we saw an increase of €13,491,000 in cash and balances with the central bank, with balances in the accounts at the central bank increasing by €19,276,000, offset by a decrease of €5,785,000 in cash in hand, to give a figure of €43,686,000 at the end of the year. Deposits placed with banks went down by €20,736,000, or 22%, while loans and advances given to customers decreased by €5,881,000, with loans to corporate customers and loans to households both registering a 1% decrease.

Net interest income was €22,518,000, with net interest margin, calculated on the average total assets, standing at 2.74%. Net fee and commission income totalled €8,639,000, a figure sufficient to cover 48.2% of PBS's operating costs. Due to the deteriorating financial position of companies and, in some cases, a reduction in the assessed value of collateral provided as security for loans, PBS saw additional impairment losses and provisions of €12,735,000 in 2012. The net profit of PBS was €332,000, providing ROAE and ROAA after tax of 0.71% and 0.04%, respectively. The total capital adequacy ratio of PBS stood at 11.43% at the end of 2012.

Projections for 2013

Also in 2013, PBS will focus on the implementation of its development strategy, on enhanced marketing activities in cooperation with Pošta Slovenije, and on the accomplishment of the Group's strategic development objectives. In partnership with Pošta Slovenije, PBS will continue its efforts to motivate and train staff of Pošta Slovenije to sell the personal and savings accounts offered by PBS, thereby achieving growth in the volume in this segment. For 2013, PBS projects an increase of 4%, or €18,885,000, in net customer loans, with loans to corporate customers and loans to households increasing by €14,884,000 and €4,001,000, respectively. Deposits from households are projected to increase by €1,890,000, while the growth in deposits from corporate customers and banks will depend on PBS's funding needs, and on the costs of funding. The 2013 operating net income is to remain flat at the 2012 level, while administration costs and impairment losses are projected to be below the figures reported for 2012. The net profit is projected to be €2,501,000, providing ROAE after tax of 5.2%.

Adria Bank AG

Year of establishment: 1980

Website: www.adriabank.at

E-mail: headoffice@adriabank.at

Nova KBM's shareholding as of 31 December 2012 (%): 50.54[29]

Management as of 31 December 2012:

President of the Management Board: Gregor Kaiser;
Management Board Member: Martin Czurda

Activity

The principal business activities of Adria Bank, a fully licensed Austrian bank, are corporate banking, documentary and guarantee operations, currency trading and money market operations.

Adria Bank focuses its operations mainly on the markets of SE Europe, especially Slovenia and Croatia, but also Russia.

Business performance in 2012

Adria Bank reported a net loss of €5,444,000 for 2012. Net interest income totalled €8,427,000, while net fee and commission income reached €1,212,000. A total of 29.31% of its administration costs, including depreciation and amortisation, were covered by net fees and commissions.

Total administration costs decreased by €59,000 year-on-year. Slower than anticipated economic recovery was reflected in further deterioration of Adria Bank's loan portfolio, forcing the bank to recognise additional impairment losses of €12,755,000.

The bank's total assets were €180,693,000 at the end of 2012. Net loans to banks totalled €20,621,000, while net loans to customers amounted to €127,325,000. Deposits from banks stood at €125,153,000, and the bank's total equity was €29,989,000 as of 31 December 2012.

Projections for 2013

In the markets of SE Europe, particularly in Slovenia and Croatia where Adria Bank generates the largest proportion of its business, a decline in macroeconomic activity is expected again in 2013 due to outstanding structural reforms, high sovereign debt, and weak demand, all of which will again put pressure on various industry sectors.

Credy banka a.d.

Year of establishment: 1955

Website: www.credybanka.com

E-mail: office@credybanka.com

Nova KBM's shareholding as of 31 December 2012 (%): 76.64[30]

Management as of 31 December 2012:

President of the Executive Board: Predrag Mihajlović;
Deputy President of the Executive Board: Alojz Kovše

Activity

The principal activity of Credy banka is the provision of corporate and retail banking services.

Business performance in 2012

At the end of 2012, Credy banka's total assets were €139,253,000, up 8.3% on 2011, while its total equity was €23,893,000.

Financial liabilities amounted to €113,522,000, of which €5,015,000 was in subordinated liabilities and €75,435,000 was in customer deposits. The latter registered a year-on-year decrease, due to Credy banka making a book transfer of deposits from failed banks from the item 'Deposits from customers' to the item 'Deposits from banks'.

The year-on-year decrease in loans and the related increase in available-for-sale financial assets were the

29 The Group's stake in the share capital of and voting rights in Adria Bank accounts for 50.54%, while its stake in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.

30 The shareholders' agreement entered into between the Bank and the Republic of Serbia includes a provision under which a 12.89% stake of the Republic of Serbia in Credy banka is subject to a call option available to the Bank and a put option available to the Republic of Serbia. Following the exercise of the option, the shareholding of the Bank in Credy banka will increase to 89.53%, while the shareholding of the Republic of Serbia will fall to nil.

result of the National Bank of Serbia requesting Credy banka to shift its excess liquidity from deposits placed with banks to treasury bills of the Republic of Serbia.

For 2012, Credy banka reported a net profit of €100,000. Net interest totalled €5,112,000, while net fees and commissions reached €2,889,000. Administration costs were up from 2011 and totalled €7,174,000, of which €3,882,000 was attributable to staff costs. The year-on-year increase in administration costs was principally the result of an increase in fees paid for the use of non-owned software, but also due to higher costs of services. In addition, the depreciation of Serbian dinar against the euro resulted in expenses related to foreign exchange-linked agreements contracted by the bank being higher than in 2011.

Impairment losses set aside last year totalled €909,000, of which €791,000 was attributable to the impairment of risk-bearing assets, and €117,000 was attributable to the impairment of fixed assets made on the basis of the appraisal of their value as of 31 December 2012.

A reduction in provisions of €104,000 was due to a reversal of provisions for off-balance sheet items, totalling €275,000, which was offset by €75,000 in additional long-term provisions for termination benefits and other expenses, made in accordance with IAS 19, and provisions of €96,000 set aside for pending legal issues.

Projections for 2013

The main objectives of Credy banka for 2013 are as follows: to further grow and diversify the loan portfolio; to increase its market share; and to increase the number of customers and users of services provided by the bank.

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

Year of establishment: 1993

Website: www.infond.si

E-mail: info@infond.si

Nova KBM's shareholding as of 31 December 2012 (%): 72.73[31]

Management as of 31 December 2012:

President of the Management Board: Matjaž Lorenčič; Management Board Member: Samo Stonič

Activity

At the end of 2012, the company managed the Infond PBGS Mixed Mutual Fund, and the Infond Umbrella Fund with sixteen sub-funds, of which thirteen were equity sub-funds, one was a bond sub-fund, and three were mixed sub-funds. Following the takeover of the management of Probanka Upravljanje Mutual Funds during 2012, in December the company merged sub-funds with similar investment policies in addition to merging three umbrella funds into one umbrella fund.

According to the available data, the total market capitalisation of all mutual funds managed by companies headquartered in Slovenia was €1,817,272,000 at the end of 2012. Net asset value of all mutual funds managed by KBM Infond totalled €258,243,000, giving the company a market share of 14.21%.

Business performance in 2012

For 2012, the company reported a net profit of €1,241,000, up 71% on 2011.

The company's total equity amounted to €13,260,000 as of 31 December 2012, down 2% on the previous year, while its total assets stood at €16,781,000, a decrease of 5% from 2011.

31 The Group's stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain percentage of its own shares, the Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.

Projections for 2013

In 2013, the company plans to remove the Infond PBGS Mixed Mutual Fund from the regulated market of the Ljubljana Stock Exchange, and to harmonise its operations with the Investment Trusts and Management Companies Act (ZISDU-2) and with implementing regulations issued on the basis of this act. It also plans to launch new products, to communicate actively with the existing and potential investors, to add new funds to the range of Infond funds that are traded in Slovakia, and to enter the Czech market.

KBM Fineko d.o.o.

Year of establishment: 1991

E-mail: info@kbm-fineko.si

Nova KBM's shareholding as of 31 December 2012 (%): 100.00

Management as of 31 December 2012:

Manager: Zdravka Kašan

Activity

In 2012, the company offered the following services:

- recovery of claims against retail customers arising from outstanding loans that the company took over, in return for payment, from the Bank
- real estate services, including purchase and sale of real estate and management of real estate owned by Nova KBM
- other business services and advisory activities, including capital investment management, financial and economic advice, and financial control over large investment projects financed by Nova KBM.

Business performance in 2012

In spite of unfavourable and unpredictable operating conditions, the company reported good results for 2012. Total income amounted to €2,345,000, an increase of 4% from 2011. The most promising financial results were achieved by the debt recovery segment, which reported a 14% year-on-year increase in income. Total expenses were €1,491,000, down 28% on 2011. The company ended the financial year with a net profit of €634,000, an increase of 124% over the 2011 figure, providing ROAE after tax of 23.78%, ROAA after tax of 3.73%, and a 27.05% return on total income.

As of 31 December 2012, the total assets of the company amounted to €30,041,000, up 652% on 2011. The current financial assets and claims registered the most significant increase as a result of the company taking over a loan that KBM Leasing had granted for the construction of the Mercator Shopping Centre, in order for the credit exposure of Nova KBM to KBM Leasing to be reduced. Another reason for the increase in current financial assets was a short-term loan that the company granted to KBM Leasing to partially repay a loan to Nova Ljubljanska banka.

Projections for 2013

In 2013, the company will transfer its real estate business to KBM Invest and will downsize its debt recovery business as part of restructuring of the Group. Starting from 1 April 2013, Nova KBM will itself manage the recovery of claims against households, so from that date the company will no longer purchase claims against debtors. The company will focus mainly on the optimisation of debt collection and realisation of collateral, and will take measures to reduce costs in response to lower business volumes.

KBM Invest d.o.o.

Year of establishment: 1998

Website: www.kbminvest.si

E-mail: kbm-invest@kbminvest.si

Nova KBM's shareholding as of 31 December 2012 (%): 100.00

Management as of 31 December 2012:

Manager: Damjan Kozjak

Activity

In 2012, the company carried out the following activities:

- investment engineering, and maintenance services and management of Nova KBM's large real estate

investments, as set out in the adopted annual plan, focusing on investment-maintenance works and refurbishment of the Bank's business premises
- completion of projects intended for sale.

Business performance in 2012

A decline in the demand for real estate, which led to weaker sales and to price falls, was one of the consequences of the current economic conditions that affected the operations of the company and caused its 2012 results to be worse than in 2011. For 2012, the company reported a net loss of €21,806,000. Sales revenue earned by the company was not sufficient to cover its costs of inventory of real estate units built for the market.

The current economic situation has also raised some concern in the area of construction investments, causing certain real estate projects to be put on hold. In accordance with the provisions of IFRSs, certain costs incurred by the company on these projects had to be transferred directly to expenses, which had a negative effect on the company's results. Based on appraisals made for the financial reporting as of 31 December 2012, the company recognised impairment losses of €18,518,000 for its inventory, and impairment losses of €400,000 in respect of its investment property.

Total revenue generated by the company last year reached €5,110,000. Net sales amounted to €4,975,000 and were related to the sale of finished goods, as well as to investment engineering services carried out for Nova KBM.

Total expenses of €27,186,000 related to the projects of constructing real estate for the market. Financial expenses of €2,132,000, partially disclosed in operating costs and partially in financing expenses, related to interest on loans raised for the financing of projects and inventory.

The company's total assets were €36,249,000 as of 31 December 2012, down 25.6% on 2011, mainly due to the impairment of inventory, investment property, and the claims that have been filed with the court. Inventories accounted for 90.3% of the company's total assets.

Projections for 2013

In 2013, the company will carry on the work to adapt its operations to its changed role within the Group. It will take an active part in solving problems related to real estate projects financed by loans that the Bank gave to construction companies that later filed for receivership or bankruptcy. By using a more aggressive marketing strategy and taking advantage of favourable financing provided by Nova KBM for purchases of real estate, the company will try to accelerate its sales efforts. Over the coming years, the company will continue to carry out all the activities necessary to maintain a prominent position in the regional real estate market, and will undertake investment engineering services for Nova KBM.

All planned activities are focused on a further increase in business volumes, on well thought-out governance and management of the company, on providing enhanced service, on profitability and financial efficiency, and on risk management.

KBM Leasing d.o.o.

Year of establishment: 1989

Website: www.kbm-leasing.si

E-mail: leasing@nkbm.si

Nova KBM's shareholding as of 31 December 2012 (%): 100.00

Management as of 31 December 2012:

Manager: Irena Brumen

Activity

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

Business performance in 2012

The company ended the year 2012 with a net loss of €22,310,000 and negative capital of €22,041,000. The company's total assets decreased year-on-year by €36,766,000, or 25%. Inventories and non-current assets held for sale totalled €57,034,000, which made up 25% of the company's total assets at the end of 2012, after accounting for impairment losses of €29,694,000.

Claims arising from outstanding leasing agreements totalled €43,584,000 at the 2012 year-end, of which €5,304,000, or 12%, was in past due and unpaid claims. This indicates that the company had a liquidity deficit and was exposed to potential loss under outstanding leasing agreements.

Investment property amounted to €39,752,000 (items of investment property are provided under operating leases, and the lessees of these items meet their payment obligations on time).

The high level of inventory of equipment seized under leasing agreements, of which real estate accounts for the largest proportion, is the main burden on the company's operations. Inventory is difficult to sell and requires financing, which causes the company to incur additional costs.

Projections for 2013

In 2013, the company plans to sell as much inventory as possible. Proceeds received from the sale will be used to pay off the loans falling due, by which the company will reduce the interest costs.

Gorica Leasing d.o.o.

Year of establishment: 1998

Website: www.gorica-leasing.si

E-mail: info@gorica-leasing.si

Nova KBM's shareholding as of 31 December 2012 (%): 100.00

Management as of 31 December 2012:

Manager: Marko Černe

Activity

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

Business performance in 2012

The performance of the company deteriorated throughout the year, which was reflected in lower income and higher expenses relative to 2011. The 2012 income of the company was 75% of the figure reported for 2011, while its expenses reached 237% of the previous year's figure. Impairment losses and write-offs totalled €18,785,000, which was 837% above the figure reported for 2011. Depreciation and amortisation increased by 32% year-on-year because, at the end of 2011, the company transferred to fixed assets three projects for the provision of electrical energy.

The discrepancy between operating income and operating expenses provided a net income of €94,000, or a loss of €12,394,000, after accounting for impairment losses. The loss from financing (including impairment losses) was €7,179,000. Without taking account of impairment losses, the loss from financing stood at €882,000.

For 2012, the company delivered a pre-tax loss of €19,573,000 and a net loss of €20,905,000, compared to a pre-tax profit of €58,000 and a net profit of €44,000 reported a year earlier.

The number of staff decreased year-on-year by two. The company's total assets declined by €25,693,000, or 28%, with total assets per average number of employees decreasing by €1,882,000, or 25.64%. As of 31 December 2012, the company had a total of €38,689,000 in outstanding leasing and loan agreements, of which €16,249,000 was in past due and unpaid claims. Impairment losses set aside for these claims totalled €3,652,000.

Projections for 2013

in 2013, the company will accelerate the implementation of its action plan to sell the inventory and dispose of unnecessary assets. As regards the construction projects, if these are not sold, the company will once again consider the possibility of continuing the project activities in order to minimise the loss.

The company will in 2013 focus even more on the financing of investment projects for the efficient use of energy, the repayment of which is based on operational subsidies provided by the state-controlled ECO fund.

KBM Leasing Hrvatska d.o.o.

Year of establishment: 2006

Website: www.kbm-leasing.hr

E-mail: info@kbm-leasing.hr

Nova KBM's shareholding as of 31 December 2012 (%): 94.38

Management as of 31 December 2012:

President of the Management Board: Jure Hartman; Management Board Member: Koraljka Kociančić

Activity

KBM Leasing Hrvatska offers finance and operating leasing in the territory of the Republic of Croatia. The operations of the company are constantly monitored by the Croatian Financial Services Supervisory Agency.

The core focus of the company is on finance leasing, which accounts for about 95% of the company's business, with operating leasing making up the remaining 5%. The company will continue pursuing its adopted business model.

Business performance in 2012

Due to the ongoing economic crisis, and as a result of the company terminating several significant leasing arrangements, the total assets of the company saw a year-on-year decrease of €7,022,000 and amounted to €40,482,000 at the end of 2012, which accounted for 73.65% of the projection. The company concluded new business arrangements worth €14,060,000 last year. To adjust its business to lower volumes, the company repaid to banks loan principals due, totalling €1,119,000, and partially prepaid a current loan of €3 million to Nova KBM.

Projections for 2013

The company's objectives for 2013 are as follows:

- to reduce the inventory of moveable and immoveable property
- to increase borrowing and total assets
- to reduce operating costs
- to match financial liabilities and financial assets.

M-PAY d.o.o.

Year of establishment: 2004

Website: www.moneta.si

E-mail: dkorosec@nkbm.si

Nova KBM's shareholding as of 31 December 2012 (%): 50.00

Management as of 31 December 2012:

Manager: Dean Korošec

Activity

M-Pay was set up as a joint venture between Nova KBM and Mobitel (Telekom) with the aim of processing payments sent through the mobile payment system which the partners have been developing since the start of their cooperation.

Business performance in 2012

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

In 2012, total income of the company amounted to €21,000, while total expenses reached €5,000. The net profit of the company was €13,000 last year.

At the end of 2012, the company's total assets were €198,000, up 6% on 2011.

Projections for 2013

The volume of the company's business was kept at a minimum level in 2012. For 2013, the company plans to change its name and to acquire new partners.

Moja naložba, pokojninska družba, d.d.

Year of establishment: 2000

Website: www.moja-nalozba.si

E-mail: info@moja-nalozba.si

Nova KBM's shareholding as of 31 December 2012 (%): 45.00

Management as of 31 December 2012:

President of the Management Board: Lojze Grobelnik; Management Board Member: Igor Pšunder

Activity

Moja naložba is a joint-stock company incorporated under the Pension and Disability Insurance Act and the Insurance Act. It is a specialised insurance company which may provide only voluntary supplementary pension insurance. The principal activities of the company are as follows:

- collection of voluntary supplementary pension insurance premiums and administration of personal accounts
- management of assets of the pension company
- payment of annuities
- management of closed and open mutual pension funds.

Business performance in 2012

The company's total assets increased by 1% year-on-year. Due to an amendment to the Pension and Disability Insurance Act (policy holders whose insurance premiums were paid by the employer were offered the option to terminate their insurance after a 10-year insurance period and to withdraw their funds in a lump sum, after paying costs and taxes), the company expected to see a considerable decrease in assets under financial agreements at the beginning of 2012, but this did not happen, and these assets remained flat at the 2011 level. The company's equity increased by 7% to €6,867,000 at the end of 2012. The net insurance premium income was €985,000, compared to €332,000 a year earlier. This income category exceeded the projection by 411% and was 196% above the figure reported for 2011 as a result of a larger than expected demand for supplementary annuity insurance. Other income registered a year-on-year increase of 3%. Expenses exceeded the projection by 35%, mainly due to a 200% year-on-year increase in technical provisions. This increase was driven by a substantial number of new holders of supplementary annuity insurance that the company managed to acquire last year and the related increase in the net insurance premium, a proportional amount of which, after deducting costs, must be charged to technical provisions. Operating costs remained flat at the 2011 level. Expenses for investments were projected to be €70,000, but reached €726,000, an increase of 1,265% from 2011. The reason for this discrepancy was that Nova KBM decided not to redeem the NOVAKR bonds that the company held in its portfolio, and to exchange them for certificates of deposit, which resulted in the company incurring a loss of €599,000 on this transaction. The net profit of the company was €320,000, down 22% on 2011.

Projections for 2013

The key competitive advantage of Moja naložba is providing an efficient balance between safety (sound shareholding structure, above-average guaranteed return) and the return of assets managed (active asset management, above-average return under any market conditions). The company will build the efficiency of its business and commercial activities on its long-term ranking among the most successful comparable providers of voluntary supplementary pension insurance in terms of return. The accomplishment of this objective will improve the reputation of the company and the confidence of customers in its operations, which will ensure the company attains a more favourable position in the area of selling voluntary supplementary pension insurance. Taking into account the adverse market conditions and the implementation of the new pension reform (ZPIZ-2), the Management Board believes that using more aggressive marketing techniques aimed at retaining existing insurance holders and acquiring new ones is crucial for the company's success. The company has the potential to achieve above average results by taking advantage of synergy effects arising from its shareholder structure and from its relationship with companies in the Group.

8.5 MARKETING STRATEGY AND MARKETING ACTIVITIES

Throughout 2012, both the Group and the Bank continued strengthening their market positions.

By putting customers and the variety of their needs and wishes at the core of its business, the Bank managed to retain a high level of customer satisfaction. In 2012, a great deal of attention was devoted to the financial needs of young people.

In cooperation with other Group companies, the Bank provided a broad spectrum of financial services to all target customer groups.

According to the 2012 Bank Tracking Survey, the Bank managed to retain customer satisfaction close to level four on a one to five scale (a public face-to-face survey conducted by RM Plus in May 2012 based on a sample of 1,000 respondents). The results of this survey showed that 13% of the respondents selected Nova KBM as the best bank in Slovenia. Its friendly, professional and qualified personnel, the Bank's tradition, and well thought-out and diverse services were cited as the main reasons for awarding the Bank the highest ranking.

The Bank enhanced access to, and simplified the provision of, its services by developing and upgrading its modern distribution channels.

To retain customer satisfaction at an elevated level, and to enhance the access to, and simplify the provision of, its services, as well as to reduce the time needed to carry out a transaction, the Bank developed several new services and upgraded existing ones, especially in the area of modern distribution channels. A description of new or upgraded services and distribution channels is given in the section headed 'New and upgraded services and distribution channels'.

The public reputation of the Bank was monitored on a regular basis. In spite of unfavourable market conditions, the Bank managed to retain its reputation close to level three on a one to five scale (Interstat; the survey was conducted using the CATI method on a monthly basis from January to December 2012 on a sample of 400 respondents), according to the IRIS Survey.

Since it is aware of the importance of internal communication, in 2012 the Bank devoted a great deal of attention to the accomplishment of goals it had set in this regard, such as ensuring the employees were better informed, facilitating the hierarchical flow of information, increasing the loyalty of employees, and creating an open and more productive working environment. To that effect, it carried out a number of internal actions in the area of charity, health, responsibility towards social environment, good relations at work, and promotion of the use of contemporary services provided by the Bank.

In 2012, the Bank received several awards for its achievements in marketing and communications, and for its innovative service, the details of which are given in the section headed 'Important events and achievements during 2012'.

8.6 NEW AND UPGRADED SERVICES AND DISTRIBUTION CHANNELS

In 2012, the Bank successfully pursued its strategic direction of getting closer to its customers by developing new services and distribution channels.

During 2012, the Bank worked intensively with other companies in the Group and some other business partners to design and launch several new products and services, the development of which was carried out both in-house and in partnership with external service providers. New and upgraded products and services provided by the Bank are presented in the table below.

New and upgraded products and services provided by Nova KBM

Business segment	New products and services or upgrade of existing ones
Savings and investments	- Expanded offering of mutual funds (takeover of mutual funds from Probanka and restructuring of KBM Infond mutual funds)
Loans	- Special package offerings for individual regions
Advisory services	- Entrepreneur Centre – regional approach
Moneta	- Moneta mTerminal (application for Android) - Cooperation with the Petrol Club (*Moneta Loyalty*) - Moneta mobile application for Nokia users - Website 'Moneta.si'
Transactions at ATMs	- Mini account statement available at an increased number of ATMs (new providers were included)
Online and mobile banking services	- Online banking service Bank@Net (new products were added) - mBank@Net for Android and iOS
Web services	- Corporate website - Website for young people 'Sveta vladar' (*Ruler of the world*) - Social networks Facebook and YouTube - Website 'pripravi.se' - Mobile application 'Varčevalnik' (*Saver*) for Android and iOS
Mobile banking services	- Mobile application 'Razgibaj svoj lajf' (*Move your life*) for Android and iOS - Kinect game 'Razgibaj svoj lajf' (*Move your life*)
Other distribution channels	- New branch office in Lucija - Relocation of the Celje Branch - Total number of ATMs increased by five

Most new features and changes were implemented in the area of modern distribution channels, especially in the Bank's online banking service, Bank@Net, where the following changes were made: secure login upgrade, authorization upgrades, customization, and upgrades to allow universal use of the service across all modern distribution channels.

Nova KBM was the first bank in Slovenia to offer its customers a cutting-edge mobile banking solution that enables the scanning of payment orders, thereby making payments via mobile devices even simpler.

A new generation of the Bank's mobile banking service, mBank@Net, for the Android and iOS platforms was put into use, and Nova KBM was the first bank in Slovenia to enable its customers to prepare and automatically fill out the universal payment order form by scanning the printed payment receipt form.

The Bank's online banking service, Bank@Net, was upgraded to include a facility to check the balance of, and the payments made into, the voluntary supplementary pension scheme managed by Moja naložba, along with a facility to enable customization of the Bank@Net entry page.

In addition to complying with the existing TKDIS and ZBSxml standards, both Bank@Net and Poslovni Bank@Net were upgraded to conform with the future compulsory UNIFI 20022 SEPA xml standard for credit transfers, thus delivering additional value to their users.

To enable the users of its online banking service to import batches consisting of individual SEPA payments, the Bank made an upgrade to its module for the processing of SEPA mass payments.

The Bank's electronic channels (Bank@Net, Poslovni Bank@Net) have been regularly upgraded to meet the requirements of the environment and to introduce new features designed to make the use of online banking tools simpler and more transparent. The Bank@Net electronic inbox, which was introduced in 2011, was further upgraded last year, enabling online banking users to receive account statements and a wide range of different notices and newsletters from the Bank through this channel instead of receiving them in paper form by post. By using this tool, online banking users benefit from having simple access to their account statements and recent information about the Bank's products and services, while the Bank cuts down on expenses related to paper account statements and notices. Another tool introduced by the Bank last year was the location service that enables customers to easily find the nearest branch office or ATM of the Bank, or a post office, and check the working hours and the services of each branch or post office.

As for the Moneta Payment System, the contractual arrangement between the Bank and Telekom Slovenije, as the owners of this system, was extended and an upgrade of the system was made to allow for automatic settlement of receivables and payables between Moneta Payment System participants, and to generate statistical reports for the Bank of Slovenia. In addition, the following new facilities were added: a mobile application for Nokia smartphone users; a new payment portal 'Moneta mTerminal'; and a new service called 'Moneta Zvestoba' (*Moneta Loyalty*) which enables the holders of the Petrol Club card to connect to Moneta – the service was developed in partnership with Petrol.

The Bank successfully attracted young people by launching an innovative, in-house developed XBox Kinect game called 'Razgibaj svoj lajf' (*Move your life*) that may also be played on smartphones and via Facebook.

8.7 MODERN DISTRIBUTION CHANNELS

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

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

The use of modern distribution channels is indirectly linked to the functioning of payment systems. As in previous years, in 2012 a number of changes were implemented in the area of payment systems:

- Amendment of rules applicable to the processing of SEPA credit transfers and SEPA direct debits, and introduction of an additional cut-off time for the SEPA IKP payment system for the processing of pension benefits.
- In accordance with the Payment Services and Systems Act, the last remaining NON-SEPA national payment scheme, i.e. the payment scheme for direct debits, was suspended as of the end of the year, resulting in the closing of the Bankart's Collection Centre.
- In May, several amendments were published to the Payment Services and Systems Act, concerned mainly with the issue of electronic money.
- Application support of the Moneta Payment System was successfully upgraded (see above for further details).

Branch offices

At the end of 2012, Nova KBM had 14 main branches and 73 branch offices. Certain banking services for households may also be provided at 525 locations of Pošta Slovenije and branch offices of PBS.

ATMs

The total number of Nova KBM's ATMs at the end of 2012 was 265, which gives a market share of slightly over 14%. All of the ATMs have been upgraded to comply with the EMV standard required by EuroCard, MasterCard™ and VISA™.

POS terminals

A POS terminal is a computer substitute for a cash register. As of 31 December 2012, Nova KBM had 3,478 static and mobile POS terminals in operation. Nova KBM's market share in POS terminals was 9.7% at the end of 2012. The Bank registered a 0.4% decrease in the number of transactions at POS terminals, from 5.09 million in 2011 to 5.07 million in 2012. A growth in the number of POS contracts continued last year. As of 31 December 2012, Nova KBM had 19,302 POS contracts (Activa, Maestro™, MasterCard™, VISA™ and Karanta™) in place.

Payment cards

As of 31 December 2012, the Bank had 399,136 active payment cards outstanding to retail and corporate customers, a decrease of 0.47% from 2011. Nova KBM's market share in Slovenia with respect to payment cards issued is slightly over 12%. The total number of transactions with payment cards increased year-on-year by 1.81% and reached 14,080,391.

Moneta

In 2012, the volume of payments made through Moneta once again registered high growth. Total payments were worth €25 million, up 38% on 2011. Since December 2012, it has been possible to make payments over Moneta at all locations of Pošta Slovenije. For the first time since the launch of Moneta, the monthly turnover processed through this payment system exceeded €2 million, and the total number of Moneta users is now over 90,000.

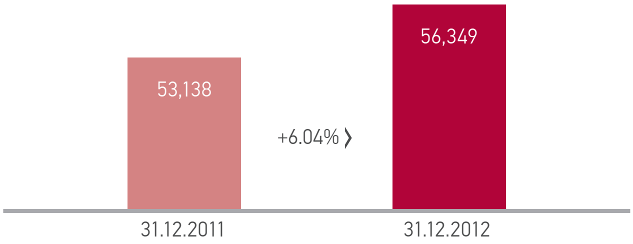
Online banking service: Bank@Net and Poslovni Bank@Net

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

Bank@Net

The number of retail customers using Bank@Net has been steadily increasing. At the end of 2012, there were 56,349 Bank@Net users, an increase of 6.04% from 2011. The total number of transactions made through Bank@Net in 2012 was 4,811,646, an increase of just over 271,000, or 5.98%, from 2011.

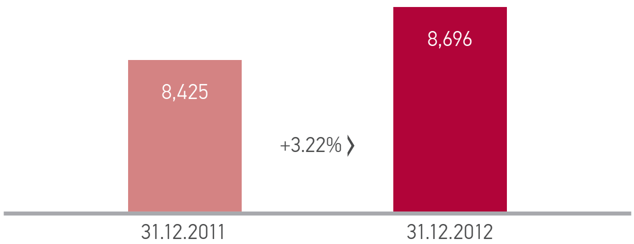
Number of Bank@Net users



Poslovni Bank@Net

The number of Poslovni Bank@Net users at the end of 2012 was 8,696, up 3.22% on 2011. Compared to 2011, the number of domestic payment transactions sent over Poslovni Bank@Net decreased by 6.8%, while the number of international payment transactions rose by 4.74%.

Number of Poslovni Bank@Net users



Telephone banking and Western Union

The number of Western Union Money Transfer transactions executed through the telephone banking service of Nova KBM, TeleBanka, decreased by 11.4% year-on-year, while the total amount of these transactions decreased by 13.4% relative to 2011.

Night safes and collecting money at agreed upon places

As of 31 December 2012, Nova KBM had in place 1,476 contracts with corporate customers and sole proprietors for the use of a total of 2,058 cash collection points (night safes and agreed-upon sales points). The total volume of daily proceeds accepted through these two channels in 2012 exceeded €14.9 million.

8.8 CORPORATE BANKING

Lending operations

Adverse economic conditions, but also the relatively high indebtedness of companies, and their rating downgrades resulted in companies being more reluctant to raise funding and in a reduction of credit activity.

In spite of the difficult economic conditions and a considerable lack of funding, in 2012 the Bank provided normal support to corporate customers in all business segments.

In 2102, the Bank approved loans to corporate customers worth €684 million in total, of which €274 million was in new loans, while €395 million was granted for the repayment of loans borrowed earlier.

Throughout 2012, the Bank continued strengthening its advisory role in the area of corporate banking. In partnership with some other institutions (the Slovene Enterprise Fund, the Institute for Entrepreneurship Research), it helped existing and new customers get access to information relevant to their operations, and offered them support in obtaining EU grants or other types of funding to finance their projects.

Current loans were given mainly to finance current operations, since companies were faced with a requirement by their suppliers to comply with shorter payment terms, while, on the other hand, they were forced to extend the payment terms they provided to their buyers. Non-current loans were given mainly for investments and other long-term projects.

Companies that were more competitive and oriented towards foreign markets, and whose operations were not hampered by the burden of debts started to recover from the crisis. To improve the quality of its loan portfolio under the current market conditions, the Bank undertook a number of measures, such as requiring additional collateral and reducing exposure to companies that were considered to be at great risk.

For financing corporate customers, in 2012 the Bank obtained long-term funds from SID Banka. Most of these funds were used to finance projects aimed at developing an eco-friendly society and encouraging competitiveness of companies. Funds were also given to provide fixed and working capital and to help companies penetrate international markets. Most funds were granted to SMEs.

Another product the Bank made available in 2012 for projects undertaken by SMEs was low interest rate loans, guaranteed by the Slovene Enterprise Fund. The cooperation with the Slovene Enterprise Fund has been going on since 1998, during which time the Bank has approved a total of 365 loans worth €69.4 million according to the conditions stipulated by the Slovene Enterprise Fund.

Despite its somewhat limited lending activity in the corporate banking segment, the Bank made every effort to adequately support its customers financially, including rescheduling their debts in such a way as to adjust their obligations to their future repayment ability. To consolidate the Bank's lending business, the main focus in 2012 was given on active management of the loan portfolio, a principle which continues into the current year.

Deposit operations

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

At the end of 2012, total deposits from corporate customers amounted to €936 million, down 8% on 2011. Deposits from non-financial companies totalled €256 million, a decrease of 2% from the end of 2011. Deposits from the state decreased by 13% to €465 million at the end of 2012.

Other banking products

In the factoring segment, in 2012 the Bank purchased receivables worth €38 million and received an income of €0.3 million on these transactions. The volume of this business registered an increase of €8 million relative to the previous year. The Bank continued purchasing receivables only of A- and B-rated borrowers, and with a right of recourse.

Notwithstanding the fact that the financial crisis, which started in 2008 and deepened further during 2012, had a significant impact on its operations, the Bank continued to provide a comprehensive range of products and services to its corporate customers, thus having a direct or indirect impact on solving problems that occur in day-to-day operations of the economy.

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

Compared to 2011, the volume of international payments processed by the Bank rose by 4.7%, with incoming and outgoing payments increasing by 7.1% and 2.3%, respectively.

The number of corporate current accounts held at the Bank decreased only marginally, by 0.8%, from 11,699 at the end of 2011 to 11,605 at the end of 2012.

The aggregate credit balance in all corporate current accounts held by the Bank was €132.5 million at the end of 2012, down 3.6% on 2011. Total debit and credit items across all corporate customer accounts amounted to €25,624 million and €25,818 million, respectively, a year-on-year decrease of 4.1% in aggregate.

8.9 RETAIL BANKING

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

In 2012, the Bank further modernized its branch network and continued refurbishing its branch offices, thereby ensuring that they are equipped to the highest standards, while at the same time it managed to create an environment in which customers feel valued. The Bank wants to be perceived as a partner by its customers throughout their lives. This is why it devoted special attention in 2012 to young people, to whom it continued providing services specifically adapted to their needs and wishes through modern distribution channels. The products and services of the Bank have always been developed to suit the needs of all segments of customers – from the youngest primary school children, pupils and students to adults and pensioners.

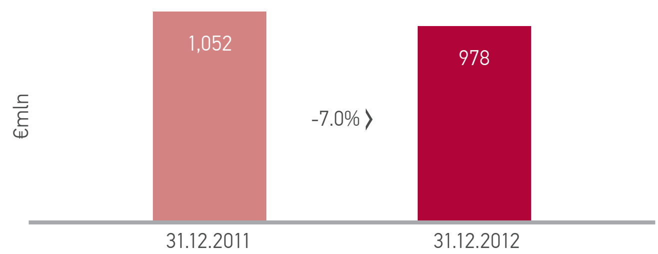
In spite of restricted access to funding, in 2012 the Bank provided normal support to households. In doing business with sole proprietors, the segment in which the Bank maintains a high market share, it strengthened its partner role and responded to the requests of entrepreneurs.

At the end of 2012, Nova KBM had 12,300 sole proprietors and over 296,000 households who maintained a current account with the Bank. The Bank is present in all Slovene regions through its extensive branch network. Taking into account its own branch network in addition to the PBS's network of over 500 post office outlets where the customers of Nova KBM may use certain banking services, the Bank has the widest branch network in Slovenia. The Bank provides the following banking products to its customers at all post offices: cash and non-cash transactions; approval of loans; and opening of personal and deposit accounts. By being able to use post offices for its retail banking services, it has enhanced its presence in locations where there are no Bank branch offices and has approached new customers, thus ensuring first-class banking services can be provided anywhere in Slovenia.

Lending operations

Demand for loans in 2012 was weak due to the difficult economic conditions and an increasing number of unemployed. Despite relatively favourable prices of real estate, the economic downturn caused citizens to become more reluctant to take out housing loans. For the similar reason, sole proprietors decided not to undertake new projects for which funding would be required. The total amount of loans outstanding to retail customers at the end of 2012 was €978.0 million, a slight decrease from the previous year.

Net loans to households



An increased demand was registered for the financing of environmentally-friendly investments, as a result of which the Bank expanded its loan offering to include eco-loans that are to be used, among other things, for the co-financing of energy-saving appliances and devices, construction of energy saving and environmentally-friendly houses, and wind and solar power plants.

The total number of consumer loans at the end of 2012 was 46,000 totalling €206 million, with a maximum maturity of up to 8 years. In addition, 88,000 household customers have authorised overdrafts totalling €76 million. The total number of housing loans outstanding at the end of 2012 was 22,800 totalling €587 million, with a maximum maturity of up to 25 years.

The Bank's market share in loans to households accounts for 10.8%, while its market share in loans to sole proprietors stands at 14.1%.

Deposit operations

In response to the strained market conditions, in 2012 the Bank devoted a great deal of effort to attract customer deposits. Public mistrust in the Slovene banking system prompted customers to start reducing the amount of funds they hold at the Bank. This negative trend, which began in the autumn months, slowed down at the end of the year after the Bank managed to consolidate its capital position, thereby regaining public confidence.

The Bank adjusted its interest rate policy to the prevailing market conditions and carried out several marketing campaigns to attract longer-term deposits. These campaigns proved to be successful and helped the Bank maintain its high market share of 13.4% in deposits from households, with its market share in non-current deposits accounting for 16.2% of the Slovene banking system. Total sight deposits from households amounted to €739 million at the end of 2012. Non-current deposits totalled €735 million, while current deposits totalled €458 million, a moderate decrease from 2011.

At the end of 2012, the total number of current and non-current deposits stood at 66,000. In addition, the Bank had 78,000 savings accounts with a notice period and 19,000 pension savings accounts.

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

The Bank's market share in non-current household deposits stands at 16.2%.

Marketing of other Group products and services

The selling of Nova KBM Group products and services forms a part of the permanent offering at all branch offices of the Bank. The Bank seeks to provide all products at one location, thus saving the customers their time and, with the support of sales promotion activities, achieving high level of customer satisfaction and loyalty.

It has been very successful in selling the products of Zavarovalnica Maribor. At branch offices of the Bank, customers may take out life insurance policies upon taking a loan, arrange travel insurance for themselves and their family, take out different types of investment life insurance, accident insurance, payment card loss insurance, and similar. Selling and collecting payments for KBM Infond mutual funds is also part of the offering at branch offices.

Over 7,200 different insurance policies were taken out at branch offices of Nova KBM in 2012.

Products and services of other Group companies are also offered by the Bank. In addition, it provides information on leasing services, and markets the products of the pension company Moja naložba.

8.10 INTERNATIONAL OPERATIONS

Nova KBM did not contract any new loans in international markets in 2012, but borrowed funds totalling €75,000,000 only from SID Banka for the financing of corporate customers. In February 2012, the Bank prepaid the remaining €94,500,000 of a syndicated term loan facility it raised in 2010. A number of actions were taken at end of the year to improve the Bank's capital position, including a redemption/conversion of outstanding hybrid instruments that had been issued by the Bank in the past.

Ratings assigned to Nova KBM

The credit rating downgrade trend continued throughout 2012. The deteriorating economic position of the Eurozone was reflected in credit rating downgrades of some European countries, including Slovenia. The Slovenia's sovereign downgrade, in turn, led to Slovene banks being downgraded.

The ratings of Nova KBM as of 31 December 2012 were as follows:
Fitch Ratings: BBB-/F3 (negative outlook)
Moody's Investors Service: B3/Non-Prime/E (negative outlook).

8.11 TREASURY

The Bank managed its liquidity in 2012 in such a way as to ensure the settlement of all obligations that became due. By applying a conservative approach, the Bank created an adequate secondary liquidity reserve, consisting of ECB-eligible securities and interbank loans that the Bank may use for securing claims in borrowings through the instruments of the European Central Bank, while the ECB-eligible securities may also be used for entering into repos in the interbank market.

During the year ended 31 December 2012, the Bank fully complied with the regulations on minimum liquidity which require the banks to maintain the category one liquidity ratio (up to 30 days). The prescribed liquidity ratio is 1.0. The Bank also complied with the Bank of Slovenia regulations on obligatory deposits.

The Bank manages its liquidity at both the operational and structural level. At the operational level, the Bank manages its daily liquidity in the domestic and international interbank money markets, and by participating in auctions of the Ministry of Finance and the Eurosystem monetary policy operations. The Bank placed daily surpluses of liquidity in the interbank money market and in the margin deposit of the central bank. In 2012, the Bank participated in long-term refinancing auctions, and did not utilise main refinancing auctions for managing its liquidity.

In order to help strengthen the stability and liquidity of the European banking system, in 2012 the European Central Bank continued implementing non-standard monetary policy measures. In January, the obligatory reserve ratio was reduced from 2.00% to 1.00%. The main refinancing and long-term refinancing operations were carried out throughout the year through a fixed-rate tender procedure with full allotment. Also carried out were additional longer-term refinancing operations (LTROs) with a maturity of 36 months and the option of early repayment after one year. Furthermore, the European Central Bank decided to broaden the range of assets eligible for securing monetary policy operations (it suspended the application of the minimum credit rating threshold for debt securities issued or guaranteed by governments and eligible for Outright Monetary

Transactions – OMT) and to accept marketable debt instruments denominated in US dollar, pound sterling or Japanese yen as collateral. Buying asset-backed securities issued by banks was another project implemented by the European Central Bank with the aim of easing the debt crisis.

In July 2012, the European Central Bank cut the key interest rate from 1.00% to 0.75%, by which the interest rates for the main refinancing and long-term refinancing operations were also changed.

The Bank fully complied with the limits set for currency trading and managed its foreign currency positions using currency exchange transactions and derivatives.

Banking book portfolio of debt securities

The banking book securities are mainly used for the provision of an adequate liquidity reserve and for managing interest rate risk. The Bank created the portfolio of debt securities in accordance with the Policy of Managing Nova KBM's Banking Book Debt Securities Portfolio. As of 31 December 2012, the total value of the banking book debt securities portfolio was €759,353,000, down 3.3% on 2011. Government securities and securities with state guarantee accounted for 80.7% of the total banking book portfolio, followed by securities issued by prime banks, which accounted for 11.7% of the portfolio, and securities issued by other issuers, which had a 7.6% share of the portfolio.

Certificates of deposit

In line with its financial plan, in 2012 the Bank also issued certificates of deposit. The total amount of certificates of deposit issued by the Bank and outstanding at the end of 2012 was €52,083,000.

Interest rate policy

The interest rate policy of the Bank was carried out in accordance with the adopted guidelines and on the basis of its business policy and financial plan for 2012. The policy was adjusted by the Bank to reflect current conditions in the local and international financial markets, and developments in the economic environment. Any decisions regarding the changes in interest rates for products offered by the Bank were based on guidelines given by the Treasury Department.

Trading

A total of 155 currency trading transactions were concluded by the Bank in 2012. The bulk of trading in foreign exchange markets was in the most important currencies such as the euro, US dollar, pound sterling and Swiss franc. The number of foreign currency cash transactions reached 1,184 last year.

The average daily position of short-term funds placed or borrowed in respect of currency trading in 2012 was €45,884,000.

In 2012, the Bank entered into a total of 13 reverse repo transactions in debt securities and 232 transactions in derivatives.

8.12 BROKERAGE SERVICES

A total of 5,615 transactions were concluded by the Bank last year in domestic and foreign markets. In terms of value, transactions concluded in foreign markets were on the increase.

On the Ljubljana Stock Exchange, Nova KBM concluded transactions worth €37,841,000 in total, while the total amount of transactions concluded in 2012 in the international capital markets was €79,583,000.

The average daily value of trading portfolios of equity instruments was €305,000 in 2012. The return on average value of trading portfolios of equity instruments generated by the Bank in 2012 was 32.20%, which was 18.41% above the return reported for the EUROSTOXX 50 index.

The volume of trading in securities went up by as much as 54% in 2012, mainly as a result of increased trading in local government bonds in foreign markets.

8.13 HUMAN RESOURCE MANAGEMENT

The staff policy is formulated in such a way as to support the accomplishment of the operational and strategic objectives of Nova KBM. Being aware that competent, committed and motivated employees are crucial for successful business performance, the Bank has aligned its adopted development objectives with its staff policy and all the tools it uses in the area of recruiting, training, staff development, management of staff performance, and other key staff functions.

As of 31 December 2012, Nova KBM had 1,280 employees, a decrease of 5% from the 2011 year-end headcount.

The average number of Bank employees during 2012 was 1,322.6.

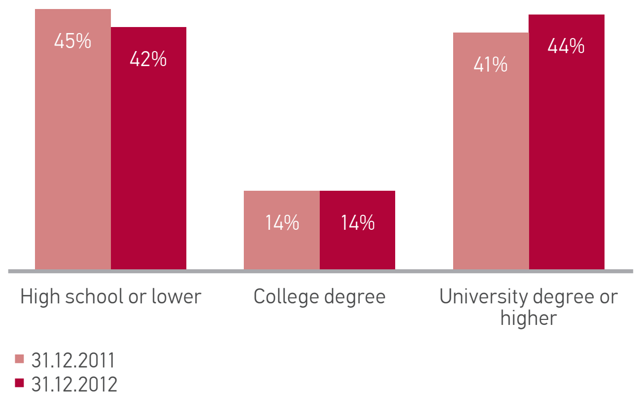
The Bank considers itself a socially responsible company and devotes a great deal of attention to the most vulnerable groups of employees – parents of small children and employees with disabilities or health problems. Further details with respect to the Bank's responsible conduct towards its employees are set out in the section headed 'Social responsibility'.

To justify its status as a family-friendly company, it has adopted a number of measures to help employees balance their professional and family lives.

As far as is possible, the Bank ensures that all employees with a disability have an adequate working environment and working tools (e.g. ergonomic furniture, adequate monitors, illuminants, etc). With the purpose of supporting preventive health care, the Bank organised for all employees free assessment of key risk factors for cardiovascular diseases. Almost half of the employees had this medical examination.

Through annual interviews, the Bank monitors the satisfaction of employees. In 2012, this satisfaction remained high and practically at the same level as that established in the annual interviews in previous years, in spite of economic conditions that affected the operations of the Bank.

Educational level of Nova KBM employees



The educational level of employees is constantly increasing since the number of less demanding positions is diminishing, while the Bank's need for highly educated staff with specific knowledge has been on the rise.

The Bank responds instantly to any changes in the environment, and this response is ultimately reflected in changes in work procedures. Any requirements for specific know-how are covered by internal experts or through internal training programmes. Staff management in Nova KBM focuses on their constant training and development, which is achieved through in-house and external training programmes, both at home and abroad. Goal-oriented training programmes contribute to the effectiveness of each individual and have a direct impact on the performance of the Bank, its competitive advantage, and eventually on its business results.

Continuous training programmes are carried out separately for each of the following areas: banking operations (professional skills), management, marketing, and common training programmes (how to act during a robbery, computer skills training, etc). Last year, special emphasis was placed on the introduction of better risk management standards and on acquainting the employees with the amended work instructions. Preference is given to in-house training programmes which, in terms of time and content, are adapted to the specific needs of the Bank.

The Bank endeavours to provide training to as many employees as possible. To that effect, 70% of the staff participated in training programmes in 2012. Apart from carrying out training programmes on banking topics, the Bank devoted a great deal of effort to developing the sales skills of employees working in commercial departments. For this purpose, it carried out a pilot sales training programme with mobile trainers, which proved to have a positive effect on the internal transfer of good practice, skills and information. Besides in-house training, the Bank employees acquire new skills by attending training programmes at the Group level, but also by participating in external training and through formal education programmes.

In 2012, the Bank earmarked €154,000, or on average €121 per employee, for education and training. Thirty-one different internal training programmes adapted to the needs of the Bank were carried out more than 111 times, involving a total of almost 2,700 participants. On average, 11 employees were in training each day, meaning that each employee spent on average 10 hours in training.

Also in 2012, the Bank used a variety of tools designed to enable and encourage the self-education of employees, such as participation in international competitions, access to an internal library with a collection of all the materials distributed in training programmes carried out so far, and motivational and informative notices published in the internal newspaper or distributed via e-mail.

The Bank created profiles of competencies for management and several other key positions, which will be used as a basis for defining other staffing procedures, including recruitment, staff development, motivation, monitoring of work performance, remuneration, promotions, and internal transfers.

8.14 INTERNAL DEVELOPMENT OF NOVA KBM

8.14.1 QUALITY MANAGEMENT SYSTEM

The Bank is aware of the importance of quality management. This is not only demonstrated through the regular annual maintenance of the ISO 9001:2008 certificate for retail operations, but also by the fact that the Bank has set up its own quality management standards.

Nova KBM has been maintaining the ISO 9001 certificate for its retail operations since 1996.

Also in 2012, the Bank carried out an internal assessment of its quality management system, in addition to a similar assessment being made by the relevant external authority. The internal assessment of the Bank's retail banking segment, carried out in May, involved more than one-third of its branch offices and other organisational units. A total of 48 separate assessments were made of the quality management system.

An external assessment of a sample of 20 randomly selected branch offices of the Bank was made by the Slovene Institute for Quality and Metrology in September. No incompliance with the requirements of the ISO 9001:2008 standard was detected during this external assessment.

Constant quality improvement is one of the strategic priorities of the Bank. Throughout the year, the Bank monitored the quality and timeliness of solving customer complaints. In addition, through a group appointed for continuous implementation of improvements, it upgraded operational procedures, services and other areas of its business.

8.14.2 TECHNOLOGICAL DEVELOPMENT OF NOVA KBM

In 2012, the Bank continued implementing the Strategy of Using Information Technology Support of the Bank for the period 2010 – 2013, which it adopted in 2010. This strategy sets out the Bank's vision, mission and directives in respect of information technology support, and includes the following:

- guidelines for the development of information technology support of the Bank
- current condition of information technology support
- the strategy of developing information technology support for the period 2010 – 2013.

Research and development of information technology support

Nova KBM develops technological support for its business processes independently and then, in cooperation with outsourcers, upgrades its decision support systems and applications. Development process is to a large extent carried out by the Bank's own resources, while outsourcers are mainly involved in the programming of solutions.

In-house technological development provides efficient upgrades of operational processes and information technology facilities.

In-house development enables the Bank to take a focused approach to the design of the entire infrastructure at different levels: from processes and business software to system infrastructure. This development is carried out in such a way that the Bank prepares as many common solutions as possible, which are applicable to various segments.

In 2012, the Bank devoted its development activities mainly to tasks and projects described in the section headed 'New and upgraded services and distribution channels'.

In the area of computer infrastructure, a considerable focus was given last year to cost optimization and efforts aimed at enhancing the efficiency of equipment.

The Bank continually upgrades and modernizes its computer infrastructure to ensure its information system evolves successfully.

In accordance with the adopted information technology support strategy, certain hardware upgrades were completed last year, of which the replacement of disk storage systems was the most important.

To further improve the control of the application software performance, and to provide a better response in the event of failures or system performance problems, the Bank implemented the first phase of the upgrade to its decision support system for asset management and business processes. In addition, as one of the upgrades in this area, the Bank started setting up a system of meters to be used to measure the quantity and quality of information services.

Due to the communication equipment being worn out, the Bank made an upgrade to the communication kernel (core LAN switch) in the secondary computer centre, thereby reducing the likelihood of failures or shutdowns of this equipment.

Workstations and other hardware equipment used in branch offices and other organisational units of the Bank were also upgraded or, in some cases, replaced to meet the requirements of the work process. In an effort to improve the security of workstations, the Bank began monitoring the use of external storage media.

In order to cut costs, the Bank set up a system for the reduction of electricity consumption and renegotiated agreements with several outsourcers.

8.14.3 INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The total value of tangible fixed assets, which comprise buildings, mechanographic and other office equipment as well as information technology equipment, decreased by 4.2% year-on-year, mainly as a result of a reduction of investment in buildings caused by some unexpected circumstances that required the Bank to postpone the refurbishment of two office premises until 2013. Also, the decision to cut down on investment costs needed for a complete renovation of one office premises and a partial renovation of several others contributed to a fall in the value of the Bank's tangible fixed assets.

Intangible fixed assets, which include some of the investments in information technology support, went down by 13.7% year-on-year, mainly because of cost-cutting measures implemented by the Bank.

Investments in information technology support

Investments were made in computer hardware, mainly server and hard disk capacities, and in communications equipment as well as equipment for workplaces and branch offices. Equipment for workplaces and branch offices includes workstations (stationary and portable), computer monitors, printers, scanners, multi-functional devices and other computer equipment of workplaces and branch offices.

The Bank also invested in business software and other licensed software. Of the amount spent on business software (upgrades, changes in the Bank's application support), the largest proportion related to the upgrade of the payments processing software, the software used for administering corporate current accounts, and the NOBIS information system that provides support to retail customer transactions initiated at branch offices.

In 2012, the Bank continued replacing and upgrading ATMs and POS terminals according to the plan, but also as part of the implementation of PCI standards in the card operations segment.

Investments in buildings

In spite of adverse economic conditions, in 2012 the Bank continued to refurbish its branch offices with the aim of arranging them in such a way as to create an optimum working environment and a place where customers can be served effectively.

During 2012, the Bank opened new branch offices in Lucija and Celje, and completed the refurbishment of its branch office in Rožna dolina. A partial renovation was made of the branch offices in Podbrdo and Kobarid, and of a branch office at a location in Nova Gorica where services are provided to small businesses. In addition, refurbishment has started of new premises for the Dolenjska-Posavje Branch.

Investments in mechanographic and other equipment

Purchases of mechanographic equipment are being made in line with the plan, taking into account the actual need or the wear and tear of equipment. The amount of funds spent in 2012 on this equipment was slightly lower than projected, reflecting overall reductions in investment spending.

9 PLANS FOR 2013

The Bank's Supervisory Board consented to the 2013 plan of the Bank and the Group at its 19th regular meeting in December 2012. The planning of the business policy and financial plan of the Group and the Bank for the year 2013 was carried out from September to November 2012 on the basis of macroeconomic projections that were supported mainly by the autumn forecasts of the IMAD[32]. The following macroeconomic projections were taken into consideration in the drafting of the 2013 financial plan:

Macroeconomic projections used in the plan	2013 (%)
GDP growth	(1.4)
ILO unemployment rate	9.1
Exports (real growth)	1.9
Imports (real growth)	(1.0)
Domestic consumption (real growth), of which	(3.7)
- fixed capital formation	1.3
- private consumption	(3.6)
- government consumption	(6.9)
Inflation rate (annual average)	2.2

Source: IMAD; Autumn Forecast; September 2012.

The Slovene economy showed some signs of gradual recovery in the first months of 2012, while in the middle of the year we saw negative macroeconomic trends emerging once again. At the end of 2012, when the planning for 2013 was carried out, a number of institutions involved in forecasting macroeconomic movements revised their economic growth predictions for the end of 2012 and for 2013 considerably downwards. The 2012 year-end projections made at the time of planning were much better than the results actually reported for last year.

In the second half of 2012, the Bank started amending its strategic directions, which had an impact on the planning for the year 2013. Also in 2013, the Bank will favour stability (i.e. improving the quality of its portfolios and actively managing of all types of risk) over business growth. The vision of the Bank is provide sound performance and reliable operations in the local environment, while continuing to build its presence in the international arena (further details in this regard are set out in the section headed 'Strategy').

Nova KBM Group

The Nova KBM Group consists of complementary companies that are active in the financial intermediation industry. The **total assets** of the Group are projected to reach approximately €5,345.7 million by the end of 2013, up 0.4% on 2012.

Interest income is forecast to be €227.0 million, while interest expenses are projected to be €113.3 million, providing **net interest income** of €113.7 million, an increase of 7.4% relative to 2012. The **interest margin**, calculated as the ratio between net interest income and the average total assets, is projected to be 2.11%. **Net fee and commission income** is projected to amount to €58.3 million, down 0.9% on 2012.

32 Institute for Macroeconomic Analysis and Development.

Administration costs, including depreciation and amortisation, are projected to be €116.9 million, a decrease of 3.0% relative to 2012. Due to forecasts of a continuing economic crisis and a GDP decline in Slovenia and several other countries in the region, **provisions and impairment losses** will remain at relatively high levels, but are projected to be 44.7% below the figure reported for 2012. Considering this, the Group plans to report a **loss from continuing operations** also in 2013.

Nova KBM

The management forecasts that the **total assets** of the Bank will reach €4,347.5 million by the end of 2013, an increase of 0.2% relative to the 2012 year-end.

Interest income is forecast to be €173.1 million, while interest expenses are projected to be €95.0 million, providing **net interest income** of €78.1 million, an increase of 8.9% relative to 2012. The **interest margin**, calculated as the ratio between net interest income and the average total assets, is projected to be 1.78%. **Net fee and commission income** is projected to amount to €40.9 million, down 2.1% on 2012.

Administration costs, including depreciation and amortisation, are projected to be €77.7 million, a decrease of 5.4% relative to 2012. The number of staff is projected to fall following the anticipated reorganisation and optimization of operating processes. Due to forecasts of a continuing economic crisis and a GDP decline in Slovenia, **provisions and impairment losses** will remain at an elevated level, but are projected to be about 50% below the figure reported for 2012. Considering this, the Bank plans to report a **loss from continuing operations** in 2013.

Social Responsibility

We are convinced that business success is not possible without social responsibility. We believe this even when responsible actions may not immediately result in positive effects. What counts are the results we see tomorrow.

10 SOCIAL RESPONSIBILITY

10.1 MAIN ACTIVITIES IN THE AREA OF SOCIAL RESPONSIBILITY IN 2012

By having the **Social Responsibility and Sustainable Development Programme** as an integral part of their strategy, both the Bank and the Group have demonstrated their awareness of the important role of the banking industry in the business world, and their understanding of the responsibilities and opportunities associated with their operations.

Within the scope of its Social Responsibility and Sustainable Development Programme, in 2012 the Bank continued carrying out the following projects: a project encouraging employees to cooperate with each other; a project to adapt the operations of the Bank to people with special needs; and a project to further develop the separate collection of waste. Apart from these projects, a proposal with respect to the upgrade of the Bank's website to adapt it to the needs of visually impaired persons is being analysed.

10.2 PAST EXPERIENCE OF THE NOVA KBM GROUP AND NOVA KBM

The operations of both the Group and the Bank have always taken account of social responsibility and sustainable development. As a holder of the 'Family-friendly Company Certificate', during 2012 the Bank acted as an active member of the Institute for the Development of Social Responsibility. On the basis of its previous experiences, the maturity attained, and the understanding of this area, an assessment was made last year by the Bank that the concept of social responsibility and sustainable development should be systematically implemented, upgraded and managed.

10.3 BRIEF OVERVIEW OF THE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT PROGRAMME

Also in 2012, the Bank's Social Responsibility and Sustainable Development Programme took into consideration all key stakeholders: owners, customers, business partners, employees, regulators, media, public (together with the social, health and cultural environment), the natural environment, competitors, and others. The segmentation of its stakeholders made it easier for the Bank to manage its work related to social responsibility and sustainable development.

Besides carrying on the existing projects, the Bank invested a great deal of effort in helping elderly people, it acted as a donor (to several foundations providing support to deprived children), and organized the collection of basic goods for underprivileged children (toys, books, clothes, school supplies). It encouraged the employees to get involved in running, biking, and walking, and arranged free blood tests for them.

Owners

During the year ended 31 December 2012, the Bank made 126 public announcements (in Slovene and English) through the SEOnet system, and promptly responded to the enquiries of shareholders, investors and other interested members of the public. Forty-eight individual meetings, at which investors were informed of the Bank's operations, were conducted last year.

The Bank communicated regularly with the analysts who assess the performance of Nova KBM, publish analyst reports with recommendations for investors, and issue opinions with respect to the target price of a Nova KBM share. The performance of the Bank was in 2012 analysed by the following institutions: Citigroup Global Markets Inc., Raiffeisen Centro Bank, ING Group, KD Banka, Nova Ljubljanska banka and Alta. Recommendations and target prices are available also on Nova KBM's website.

Several meetings were held last year with representatives of various international institutions (the International Monetary Fund, the European Central Bank, the European Commission), the purpose of which was to present the Bank's Management Board's views on the development of the Group's banking division and to discuss the development prospects for Slovenia.

Representatives of the Bank and the Group participated last year at several investor events and in interactive presentations. The Bank played an active role in the work of the IR Club, members of which are investor relationship officers of the majority of Slovene companies listed in the prime market of the Ljubljana Stock Exchange.

Natural environment

In 2012, separate collection of waste paper and mixed packaging was introduced in the main office buildings of the Bank, and separate collection of organic waste also started at some locations.

Separate collection of waste was later in the year gradually introduced also in branch offices of the Bank, resulting in a reduction of 30% in their waste disposal costs.

As far as is possible, the Bank purchases equipment that is the most energy-efficient and the operation of which has minimum negative effects on the environment. In 2012, the Bank employees joined a Slovenia-wide environmental action 'Očistimo Slovenijo!' (*Let's clean up Slovenia!*), in which the Bank took an active part. Another initiative aimed at reducing office waste is a paper-free work environment, which the Bank is introducing simultaneously in several areas of its operations.

Customers

Customers, and coping with the variety of their needs and wishes, were again at the centre of the Bank's activities in 2012. The Bank performed regular analysis of its competition and of the behaviour and expectations of customers. On the basis of this analysis, it adjusted its offerings, and adapted its customer communication policy and other elements of the marketing mix. In accordance with the guidelines and objectives of its CRM Project, the Bank continued implementing measures to serve its customers in a more efficient way. In 2012, the Bank set up a pilot training programme with mobile trainers, aimed primarily at improving the sales approach employed by its customer relationship officers.

In 2012, the Bank continued implementing the project of adapting its operations to people with special needs.

It also carried out analyses with respect to two projects focused on its social environment: a project to set up a special fund for students with insufficient financial resources for study (for gifted students); and the upgrade of its website to adapt it to the needs of visually impaired persons. Both projects are in the initial implementation phase.

Together with other Group companies, the Bank hosted different professional and social gatherings of its customers and business partners at which it strengthened relations with customers of the entire Group.

a) Promoting financial readiness

As part of the communication campaign called 'Pripravljeni na jutri' (*Ready for tomorrow*), the activities of the Bank that were aimed at improving the financial condition of the general public continued throughout 2012. This campaign, which began in 2011, was built on a nationwide study on financial readiness, conducted by the Bank in collaboration with an external research institution, the results of which showed that the Slovenes' readiness for challenges of the future stands at only about 48%.

The Bank carried out several free workshops at which advice was given to businesses on how to apply for EU funds. In addition, it introduced a regional banking event and raised awareness of young people about financial issues.

b) Providing advice to corporate customers – Entrepreneur Centre

In line with its strategic policies, the Bank devotes a great deal of attention to small- and medium-sized companies, and encourages entrepreneurship and innovative thinking. As part of its efforts to strengthen its advisory role and establish a regional approach to key target customer groups, in 2012 the Bank continued developing marketing actions within the campaign 'Pripravljeni na jutri' (*Ready for tomorrow*) aimed at attracting customers in the corporate and sole proprietor segments. The advisory role of the Bank was also strengthened through the work of its Entrepreneur Centre (in partnership with the Institute for Entrepreneurship Research) and the organisation of regional banking events. The Bank pursued its key communication objective of being recognised as a modern and innovative bank and perceived as a good financial partner to small businesses. Several free workshops were carried out by the Bank's Entrepreneur Centre at which advice was given to businesses on how to apply for EU funds and prepare project documentation or advice with respect to general business issues. To bolster cooperation with corporate customers, the Bank introduced a regional banking event called 'Podjetniški popoldan z Novo KBM' (*Afternoon session with Nova KBM*), participated actively in the PODIM international conference, and was the main sponsor of the event called 'Dravsko-pomurske Gazele 2012' at which the most rapidly growing businesses in the north-eastern part of Slovenia in 2012 were given awards.

c) Raising financial awareness of young people

The Bank devotes a great deal of energy to making children and young people aware of the proper and prudent handling of money. In 2102, the Bank continued organising special money awareness events under the concept 'Evenings in the Bank', and during the Savings Month of October, it prepared an educational puppet show for primary school children in all larger cities across Slovenia. It published a variety of educational articles in youth-focused magazines, used its website 'Sveta vladar' (*Ruler of the world*) to provide information for young people on money handling, and supported the educational and social activities of the Slovene Friends of Youth Association.

d) Environmentally-friendly products

As part of its concern for the natural environment, the Bank is focused on introducing products and customer relations procedures that are environmentally-friendly.

In 2012, the Bank started gradually reducing the amount of paper correspondence sent to customers, replacing it with electronically delivered forms, thus proving its socially responsible attitude.

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

Employees

As an employer that is aware of the importance of the well-being of employees, the Bank offers its employees a level of rights and benefits above those stipulated by the law. It places great emphasis on providing good and ergonomically designed working environment and caring for the health of employees, and tries to maintain an appropriate balance between professional and family lives. To ensure that the employees are well informed about the issues relevant to its operations, the Bank distributes e-circulars, publishes articles on the latest banking developments in the internal newspaper Med Nami, and provides information deemed important for employees through its intranet facility and website.

As part of its health promotion activities, the Bank, in cooperation with the association 'Za Srce' (*For the Heart*), has organised for its employees a medical check of the key five risk factors for cardiovascular diseases. Almost half of the employees have taken the opportunity to have their blood measured for cholesterol, triglyceride and sugar levels, and have undergone an ECG examination and blood pressure measurement.

Annual interviews, which have been going on for a number of years, are used to evaluate the satisfaction of employees, and to set realistic and measurable objectives. The interviews also provide information about the career wishes and plans of employees and about their desire to acquire additional skills. Last but not least, possibilities and proposals are discussed at interviews regarding how to properly balance professional and family lives.

Being a holder of the Family-Friendly Company Certificate, the Bank has already adopted several measures to help employees balance their professional and family lives, thus also contributing to a good working atmosphere. Parents of children starting primary school get an additional day off on the first school day, while parents of children enrolling in kindergarten may benefit from shorter working hours work during their children's first days in kindergarten. Fifty-seven parents took advantage of this so-called child time bonus.

In collaboration with the trade union, the Bank provides Christmas gifts to children each year, which, from the point of view of both children and parents, is considered to be a nice, positive, and connecting experience.

In 2012, a total of 2,926 participants took part in predominantly in-house organised training programmes.

Considering the current pension legislation and anticipated changes to it, the Bank takes care of its employees by paying premiums for collective voluntary supplementary pension insurance on behalf of its employees. A total of 61% of all the employees are included in this insurance plan.

The Bank employs 47 disabled persons (3.7% of the total staff) and endeavours to provide them with adequate working conditions.

Internal communication

In the area of internal communication, in 2012 the Bank continued implementing measures necessary to ensure the employees were better informed about issues relevant to the operations of the Bank, with an improved hierarchical flow of information being one of the most important innovations. Several steps were taken aimed at nurturing a pleasant and productive working atmosphere, resulting in the employees feeling more committed and cared for by the management. As part of an internal programme for employees operated under the umbrella name 'Pripravljeni na' (*Ready for*), nine different initiatives were carried out in the areas of charity, health, responsibility towards the environment, good relations in the workplace, and promotion of the use of modern services provided by the Bank, with a total of 1,569 participants, or 174 per initiative on average, taking part. The average responsiveness of employees to this programme increased by 93% relative to 2011.

Three issues of the internal newspaper Med Nami were released last year. The Bank pursued its policy of distributing all information relevant to the operations of the Bank via e-circulars, while at the same time introducing new communication channels and improving the flow of information through face-to-face communication. A total of 162 circulars were received by the Bank employees last year, approximately the same number as in 2011, with an additional 11 circulars being distributed to all the employees of the Group.

In order to achieve synergy effects, the Bank worked actively with other Group companies throughout 2012 to develop common marketing activities across a variety of communication channels.

Media relations

The Bank recognises the importance of the media, and supports it in its role as a provider of objective information, just as it supports the public's right to information. Its relations with the media continued to be well maintained. By responding quickly to journalists' enquiries, and through proactive communication of topics most relevant to its operations, the Bank generates positive publicity for itself. The efficiency of the Bank's media relations was assessed on the basis of its press coverage, and by conducting daily analyses and regular in-depth analyses of news published about the Bank. During 2012, the Bank held seven press conferences, issued 40 press releases, responded to about 3,000 requests from journalists, and was mentioned more than 8,100 times in the media, an increase of 28% relative to 2011.

Sponsorships and grants

The Bank is aware of its role as a supporter and promoter of important events and activities taking place in its broader social environment. In 2012, the Bank supported over 250 individuals and organisations in the area of sports, culture and education. It also supported numerous humanitarian initiatives and actions as a donor.

The Bank continued its practice of providing a grant to selected organisations or for certain activities in local communities in which it opened new branch offices, instead of giving gifts to its business partners. Together with Zavarovalnica Maribor, it dedicated a portion of its funds to residential safe houses in Maribor and Nova Gorica. This money would otherwise have been spent on business gifts and greeting cards. As one of the main sponsors, it supported the Golden Fox Women Ski Competition, the Nova KBM Branik Volleyball Club, the NK Maribor Football Club, the World Youth Chess Competition, and many other sports clubs. The Bank also provided support to smaller sports events and to prospective athletes across Slovenia. The Bank remained also in 2012 one of the most important supporters of culture in Slovenia. It was a sponsor of the Lent Festival and the Ljubljana Festival, the Slovene National Theatre in Maribor, the Slovene National Theatre in Nova Gorica, the Maribor Art Gallery, and of some other institutions. Furthermore, it financially supported the Portorož Business Conference, the PODIM Conference, and the Eurobanking 40th jubilee conference. It continued its cooperation with the Slovene Friends of Youth Association, and supported several events for young people. Sponsorship was also given to the Nova KBM choir which the Bank has been supporting since its start.

Many of Nova KBM's employees act as lecturers at different educational institutions, and are mentors to students working on their seminar papers as well as diplomas and master's theses. They also participate in committees and the management of various professional organisations and collaborate in expert groups.

Suppliers and outsourcers

In setting up its information technology support, the Bank cooperates with several outsourcers.

Mutual cooperation between the Bank employees and outsourcers forms a good basis for a more efficient work and successful development of the Bank's information technology support system.

The selection of an outsourcer represents only the initial form of cooperation between the Bank and outsourcers. Although the terms and conditions of delivery, prices, quality of products and services, as well as penalties for late delivery, are set out in agreements made with outsourcers, the Bank aims as far as practicable to build its relations with outsourcers on good collaboration between its employees and outsourcers, and on mutual responsibility for timely accomplishment of agreed services. The Bank continuously monitors market trends and, together with outsourcers, checks the quality and prices of services on a regular basis.


INVESTITORJI
POSLOVNI
OSEBNI
Vnesite iskalni pojem
Nova KBM
Finančne informacije
Delnice in obveznice
Skupščina
INVESTITORJI
VEČ O TEM

Regulatory Section

We take care of tomorrow but stay true to our past. We have the reputation of being a stable and trustworthy bank that complies with the strictest standards in its operations. We want to stay that way in the future.

11 CORPORATE GOVERNANCE STATEMENT OF NOVA KBM

1 CORPORATE GOVERNANCE CODE

The Corporate Governance Code comprises:

- **Corporate Governance Code for Public Limited Companies (application and deviation)**
- **Code of Best Practice for WSE Listed Companies (application and deviation)**
- **Corporate Governance Code for Companies with State Capital Investments (application and deviation):**
  - **Guidelines for Reporting of Companies with State Capital Investments (application and deviation)**
  - **Recommendations of the Capital Assets Management Agency of the Republic of Slovenia.**

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

The Bank has set out the reasons for deviations from the provisions of the Code applied during 2012 in the section headed 'Corporate governance statement of Nova KBM', which is an integral part of the Bank's 2012 Annual Report.

In setting up and developing a transparent, clear and successful governance and management system, during 2012 the Bank endeavoured, as far as practicable, to comply with regulatory provisions and the highest standards of responsible and well thought-out governance of the Bank, as laid down in the Code, thus further increasing the confidence of domestic and foreign investors, employees, and the wider public in the governance of the Bank.

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

The Bank and its bodies endeavoured to fully observe the provisions of the Code that was in effect and used in 2012. However, in certain instances the Bank's operations deviated from individual provisions of the Code. In compliance with the Preamble of the Code (and the principle of 'comply or explain'), the Bank sets out below the reasons for such deviations. The reasons were mainly related to the specific circumstances under which the Bank operated due to changed conditions in the Bank and in its environment (market); to payment characteristics of the banking sector; to the specific ownership structure of the Bank; and to other circumstances which had an impact on the governance and management of the Bank.

As a result of being listed on the Warsaw Stock Exchange (WSE), Nova KBM also complies with the Code of Best Practice for WSE Listed Companies. In its Statement of Compliance with the Code of Best Practice for WSE Listed Companies, which is an integral part of the Bank's Corporate Governance Statement, Nova KBM has provided justification and explanation of code items for which recommendations have not been complied with in 2012.

In addition, Nova KBM, as a company in which the Republic of Slovenia holds an equity investment, complied in 2012 with the Corporate Governance Code for Companies with State Capital Investments, which was adopted by the Council of the Capital Assets Management Agency of the Republic of Slovenia on 13 January 2011. The purpose of this Code is to make members of the management and supervisory bodies of companies with a state shareholding aware of, and compliant with, the best corporate governance practice. Based on the provisions of the Management of Capital Investments of the Republic of Slovenia Act, in 2011 the Capital Assets Management Agency of the Republic of Slovenia issued a number of recommendations as well as the Guidelines for Reporting of Companies with State Capital Investments, the aim of which was to set up a better system of capital investment management. Within its Corporate Governance Statement, Nova KBM states the extent to which it complies with the Corporate Governance Code for Companies with State Capital Investments, the Guidelines for Reporting of Companies with State Capital Investments, and individual recommendations of the Capital Assets Management Agency of the Republic of Slovenia.

Corporate Governance Code for Public Limited Companies

Point 1

Code provision

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

Reason for deviation

The objectives of the Bank are set out in each year's business policy and financial plan, and in the Bank's strategy. They are also laid down in the Corporate Governance Policy of Nova KBM.

Point 5.7

Code provision

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

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

Reason for deviation

In 2012, remuneration of the Management Board complied with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and

Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors.

Point 22.7

Code provision

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

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

Reason for deviation

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

In 2012, the Supervisory Board of Nova KBM adopted the currently applicable remuneration policy. The disclosure of remuneration provided to Management Board members in 2012 also includes information on the remuneration policy and follows the recommendations of the Code.

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

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

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

   Nova KBM already maintains on its website information for investors that conforms to the Slovene market standards. Nova KBM has neither the intention to enable on-line broadcasts of its Shareholders' Meetings over the internet, nor the intention to record Shareholders' Meetings or publish the recordings on its website.
2. **Rules II. 1.7 with respect to the publication on a company's website of shareholders' questions on issues on the agenda of a Shareholders' Meeting**

   Nova KBM will not publish shareholders' questions on its website because, according to Slovene legislation, shareholders do not have the right to submit questions concerning the agenda of a Shareholders' Meeting.
3. **Rules II. 1.9 (a) with respect to the publication, in audio and video form, on a company's website of the minutes of a Shareholders' Meeting**

   The minutes of Shareholders' Meetings are prepared in the form of a notarial record, and published as such on the Bank's website.
4. **Rules IV. 2 with respect to the amendment of the rules of Shareholders' Meetings**

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

5. **Rules IV. 6 with respect to the date of setting the right to dividend and the date of dividend payment**
   Nova KBM has usually paid dividends after the date of setting the right to dividend, within a period longer than 15 business days, as laid down in the Code of Best Practice for WSE Listed Companies.
6. **Rules IV. 7 with respect to a conditional dividend payment**
   Conditional dividend payments are not allowed under Slovene legislation.
7. **Rules IV. 10 with respect to a company's duty to broadcast on-line its Shareholders' Meetings and to enable its shareholders to exercise their right to vote at Shareholders' Meetings using electronic communication means**
   In the foreseeable future, Nova KBM has neither the intention to enable on-line broadcasts of Shareholders' Meetings, nor the intention to enable its shareholders to exercise their right to vote at Shareholders' Meetings using electronic communication means.

The Corporate Governance Code for Companies with State Capital Investments (application and deviation from provisions)

Point 88

Code provision

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

In a limited liability company the director presents the rewarding system at a shareholders' meeting.

Reason for deviation

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

Remuneration of Management Board members complies with the currently applicable remuneration policy, which was adopted by the Bank's Supervisory Board in 2012. In accordance with the provisions of the Companies Act, the supervisory board of a company must adopt the remuneration policy in cases where the shareholders' meeting fails to do so.

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

Guidelines for Reporting of Companies with State Capital Investments

In accordance with Point 5.1 of the Guidelines, Nova KBM, as a public limited company, fully complies in its reporting and transparency with the Corporate Governance Code for Public Limited Companies.

Individual recommendations by the Capital Assets Management Agency of the Republic of Slovenia

Recommendation: Attendance fees and remuneration of Supervisory Board members

Reason for deviation

Nova KBM does not deviate from the provisions of this recommendation.

Recommendation: Pay for annual leave for 2012

Reason for deviation

Pay for annual leave provided by Nova KBM in 2012 equalled the amount of the legal minimum salary.

Recommendation: Risk management, internal control and internal auditing

Risk management, internal control

Reason for deviation

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

Internal auditing

Reason for deviation

The Bank deviates from the recommendation stipulating that the Supervisory Board shall appoint, remunerate and remove the chief audit executive of the internal audit activity. In accordance with the Bank's organisational structure, the Internal Audit Centre is subordinated directly to the Management Board; therefore, the appointment, remuneration and removal of the chief audit executive is completely at the discretion of the Management Board. In accordance with its Charter, the Supervisory Board Audit Committee is responsible only for assessing the proposal of the Bank's Management Board concerning the appointment, remuneration and removal of the chief audit executive, and reports thereon to the Supervisory Board.

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

Recommendation: Quarterly reporting of the performance of a company/group

Reason for deviation

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

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

Recommendation: Three-year business planning by a company/group

Reason for deviation

The explanation of deviation given under the previous recommendation (Quarterly reporting of the performance of a company/group) can, mutatis mutandis, also be applied to this recommendation. The Bank does not prepare three-year business plans, but prepares a standard document for each year – a Business Policy and Financial Plan of the Bank and the Group. This document is formulated by the Management Board and agreed by the Supervisory Board. The summary of this document is published on the Bank's website. The planning is based on the adopted strategy.

Recommendation: Transparency of procedures of making business deals involving company expenditure (ordering goods and services, grants, sponsorships)

Reason for deviation

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

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

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

Recommendation: Optimisation of labour costs in 2012

Reason for deviation

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

Information about pay-outs relating to other types of remuneration (pay for annual leave, Christmas allowance, 13th salary, etc.) is disclosed in the Bank's annual report and is publicly available.

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

Recommendation: Work of the audit committee, evaluation of efficiency of work of supervisory boards and reporting to supervisory boards

Reason for deviation

The Bank fully complies with this recommendation.

Recommendation: Audits

Reason for deviation

The Bank substantially complies with this recommendation, except for certain provisions regarding the importance and role of internal auditing. It deviates from the recommendation with respect to ensuring the independence of internal audit function, according to which the Supervisory Board must appoint, recall, and approve the remuneration of the chief audit executive. The explanation of deviation given under item *Internal auditing* above can, mutatis mutandis, also be applied to this recommendation.

Recommendation: Remuneration of external members of supervisory board committees and other external experts with whom the supervisory board cooperates in its work

Reason for deviation

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

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

Recommendation: Company Code of Ethics

Reason for deviation

The Bank has adopted the Code of Ethics of Nova KBM Employees. This code applies only to the Bank employees, and the Management Board has informed the Supervisory Board of its content.

Recommendation: Shareholders' Meetings

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

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

Recommendation: Attaining quality and excellence in the operations of a company/ group

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

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

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

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

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

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

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

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

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

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

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

As of 31 December 2012, the Bank had three direct holders of shares with a qualified ownership stake (over 5%): the Republic of Slovenia, which held 10,822,805 shares, or a 27.66% equity stake; Pošta Slovenije d.o.o., which held 2,599,192 shares, or a 6.64% equity stake; and GEN d.o.o., which held 2,500,000 shares, or a 6.39% equity stake.

KDPW (the Polish National Depositary for Securities) is also entered in the share registry at the Central Securities Clearing Corporation. KDPW maintains a trust account on behalf of third parties – depository banks, which maintain for their customers a register of the ultimate owners of KBMR shares.

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

Nova KBM has issued 39,122,968 ordinary registered no-par value shares. All shares are of the same class and have the same rights, meaning that holders have no special rights arising from the ownership of Nova KBM shares.

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

The voting rights are in accordance with the Bank's Articles of Association not restricted.

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

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

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

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

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

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

The function of a Supervisory Board member may terminate before the expiry of his/her term of office referred to in the previous paragraph in the following cases:
1. if he/she gives a written notice, or
2. if he/she is recalled by the Shareholders' Meeting.

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

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

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

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

Competences of the Shareholders' Meeting

The Shareholders' Meeting shall decide about:

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

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

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

Call of the Shareholders' Meeting

The Shareholders' Meeting is called by the Management Board.

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

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

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

Call of the Shareholders' Meeting on request of a minority

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

Participation in the Shareholders' Meeting

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

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

Amendment of the agenda and proposals of shareholders

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

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

Chairing the Shareholders' Meeting

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

Adoption of resolutions

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

Shareholders' right to vote

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

Exercising the right to vote by proxy

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

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

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

The power of attorney remains deposited with the Bank.

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

Information on the functioning of the Shareholders' Meeting is set out also in the section headed 'Governing bodies of Nova KBM'.

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

Management Board

On 7 December 2011, the Supervisory Board reached a decision to recall Matjaž Kovačič from the position of the President of Nova KBM's Management Board with effect from 31 December 2011. On the same day, the Supervisory

Board elected Andrej Plos as the President of Nova KBM's Management Board, with a term of office starting on 1 January 2012.

Also on 7 December 2011, the Supervisory Board reached a decision to recall Manja Skernišak from the position of a member of Nova KBM's Management Board. The Supervisory Board decided that her term of office and her employment at the Bank should end on the day that newly appointed Management Board members obtain a licence from the Bank of Slovenia confirming them as members of the Bank's Management Board.

On 9 March 2012, the Supervisory Board appointed Aleš Hauc as the President of the Bank's Management Board, with a term of office starting on 24 April 2012. Andrej Plos, who was until then acting as the President, was appointed as a member of the Management Board on 17 April 2012, with a term of office starting on the day Aleš Hauc was appointed as the President, i.e. 24 April 2012, and ending on 14 July 2012.

Manja Skernišak ended her term of office as a Management Board member on the day that Aleš Hauc began as President of the Management Board.

On 6 June 2012, the Supervisory Board appointed Igor Žibrik as a new member of the Bank's Management Board, with a term of office starting on 18 August 2012.

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

Duties of the Management Board

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

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

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

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

Decision-making by the Management Board

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

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

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

Representation of the Bank

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

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

Further details with respect to the composition and competences of the Management Board are set out in the section headed 'Governing bodies of Nova KBM'.

Supervisory Board

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

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

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

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

The composition of the Supervisory Board until the Bank's Shareholders' Meeting on 8 June 2012 was as follows: Dušan Jovanovič, Chairman, Franc Škufca, Deputy Chairman, and members Janez Košak, Anton Guzej, Andrej Svetina, Aleš Krisper, Darjan Petrič and Vida Lebar. Ivan Simič resigned as a Supervisory Board member on 27 January 2012.

On 8 June 2012, the Shareholders' Meeting recalled the then members of the Supervisory Board and appointed instead Peter Kukovica, Niko Samec, Egon Žižmond, Andrej Fatur, Keith Charles Miles, Miha Glavič, Karmen Dvorjak, Peter Kavčič and Dušanka Jurenec. The term of office of the newly appointed Supervisory Board members started on 15 July 2012. At the constituent meeting of the new Supervisory Board on 24 July 2012, Peter Kukovica was appointed as its Chairman, and Niko Samec as his Deputy. Dušanka Jurenec resigned as a Supervisory Board member on 21 November 2012.

Conditions for the Supervisory Board membership

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

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

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

Competences and duties of the Supervisory Board

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

- Bank's business policy
- Bank's financial plan
- organisation of the system of internal controls
- draft annual plan of work of the Internal Audit Centre
- new issues of own securities exceeding €30 million
- all transactions regarding the acquisition and disposal of equity holdings in companies and other legal entities whose book value exceeds €550,000
- acquisition and disposal of investments in equity instruments with the purpose of portfolio investments, if such investment in any one issuer exceeds 5% of the Bank's equity

- any decisions in respect of actions resulting in status changes in companies and other legal entities in which the Bank holds a majority stake
- formation of a banking and/or financial group or groups
- writing off claims over €1 million
- raising funds and contracting other liabilities for the Bank which in one financial year, individually or in total, exceed 25% of the Bank's equity
- concluding legal deals which, considering the Bank's total exposure, would result in the Bank's large exposure to a customer or a group of related persons, and concluding legal deals as a result of which the Bank's large exposure to a customer or a group of related persons would be increased by so much as to reach or exceed 15% of the Bank's equity, and each subsequent 5% of its equity
- concluding a transaction that results in the Bank becoming exposed to a person having a special relationship with the Bank within the meaning of provisions of Article 167 of the Banking Act
- other matters in accordance with the regulations.

Members of the Supervisory Board are required to:

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

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

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

The Supervisory Board is required to:

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

The Supervisory Board adopts the annual report.

Decision-making by the Supervisory Board

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

The Supervisory Board adopts its decisions with a simple majority of votes cast by the members present at the vote. In case of an equal number of votes, the Chairman of the Supervisory Board has the casting vote.

Remuneration and reimbursement of costs to the members of Supervisory Board and members of Supervisory Board committees

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

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

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

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

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

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

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

Information about the activities of the Bank's Supervisory Board is set out also in the section headed 'Report of the Supervisory Board'.

Supervisory Board committees

The following committees carried out their work during 2012 in accordance with the Companies Act and the Banking Act: the Audit Committee, the Remuneration and Nomination Committee, and the Appointment Board.

Audit Committee

Until the expiry of the term of office of Nova KBM's Supervisory Board members on 14 July 2012, the Audit Committee had consisted of the following members: Andrej Svetina and Janez Košak, as independent members of Nova KBM's Supervisory Board, and Franc Koletnik, professor at the Faculty of Economics and Business in Maribor, and Kosta Bizjak, as external experts.

On 30 August 2012, the newly appointed Supervisory Board elected the following members to the Audit Committee: Keith Charles Miles and Andrej Fatur, as representatives of Nova KBM's Supervisory Board, and Aleksander Igličar, as an external expert. On 25 October 2012, the Supervisory Board appointed John Harris, an external expert, as the fourth member of the Audit Committee.

The Audit Committee supports the Supervisory Board in overseeing the management of the Bank and the Group companies, in particular with regard to legitimacy of operations, the risk management system, internal audit and the internal control system, and undertakes duties laid down in the Articles of Association, documents of the Audit Committee and Supervisory Board resolutions.

The Audit Committee carries out its activities in accordance with the law, the Bank's Articles of Association, and the Charter which regulates the purpose and the composition of the Audit Committee, methods and conditions of its work as well as competences and responsibilities of its members. The area and the method of work of the Audit Committee, its decision-making process and all other issues deemed important for its work are regulated by the Rules of Procedure of the Audit Committee.

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

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

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

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

Remuneration and Nomination Committee

Until the expiry of the term of office of Nova KBM's Supervisory Board members on 14 July 2012, the Remuneration and Nomination Committee had consisted of the following members: Dušan Jovanovič, President of the Remuneration and Nomination Committee and a Supervisory Board member, Franc Škufca, member of the Supervisory Board, and Marko Vresk, as an external member. Ivan Simič resigned as a member of Nova KBM's Supervisory Board on 27 January 2012, by which his function as a member of the Remuneration and Nomination Committee also ended.

On 30 August 2012, the newly appointed Supervisory Board elected the following members to the Remuneration and Nomination Committee: Peter Kukovica, Peter Kavčič and Niko Samec, as representatives of Nova KBM's Supervisory Board, and Romana Košorok and Jure Srhoij, as external members. Jure Srhoij resigned as an external member of the Remuneration and Nomination Committee on 6 December 2012.

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

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

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

Appointment Board

On 29 March 2012, the Supervisory Board recalled the then members of the Appointment Board and elected instead Slava Horvat, a member of the Accreditation Committee of the Capital Assets Management Agency of the Republic of Slovenia, Anja Strojin Štampar, a representative of KAD d.d., and Marko Garbajs and Vanessa Grmek, as representatives of the Republic of Slovenia and its related entities.

The Appointment Board was dissolved on 14 July 2012, i.e. on the day the term of office of the previous Supervisory Board ended.

Duties of the Appointment Board were as follows:

- selecting candidates for the Supervisory Board and proposing to the Supervisory Board the names of candidates to be nominated at the Shareholders' Meeting
- controlling the composition of the Supervisory Board in the light of best practice recommendations and adopted codes, and the reporting thereof to the Supervisory Board
- supporting the Supervisory Board in the preparation of the Supervisory Board's remuneration system, and in submitting the remuneration system proposals to the Shareholders' Meeting for decision.

The area and the method of work of the Appointment Board, its decision-making process and all other issues important for its work were regulated by the Rules of Procedure of the Appointment Board. Provisions with respect to remuneration of, and reimbursement of costs incurred by, members of the Audit Committee were, mutatis mutandis, applied also to the Appointment Board. The Appointment Board held one meeting during 2012. In accordance with the ruling made by the Supervisory Board, the Appointment Board passed a resolution with respect to the procedures and time schedule for registering new candidates for Nova KBM's Supervisory Board.

This Corporate Governance Statement is an integral part of the Bank's 2012 Annual Report and will be available in the Ljubljana Stock Exchange electronic information dissemination system, SEOnet, and published on the Bank's website.

Maribor, 23 April 2013

Management Board of Nova KBM d.d.

Igor Žibrik
Member

Aleš Hauc
President

Supervisory Board of Nova KBM d.d.

Peter Kukovica
Chairman

12 STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

(PURSUANT TO ARTICLE 110 OF THE FINANCIAL INSTRUMENTS MARKET ACT)

By signing this statement, the members of the Management Board of Nova KBM, i.e. **Aleš Hauc, President, and Igor Žibrik, Member**, **confirm** to the best of their knowledge, that:

- the financial statements have been drawn up in accordance with the appropriate accounting framework of reporting and that they provide a true and fair view of the assets, liabilities, the financial position and the profit and loss of the Bank and other companies included in the consolidation as a whole, and
- the business report gives a fair view of the development and results of the Bank's operations and its financial position, including the description of principal risks the Bank and other companies included in the consolidation are exposed to.

Maribor, 23 April 2013

Management Board of Nova KBM d.d.

Igor Žibrik
Member

Aleš Hauc
President

13 TYPE OF SERVICES FOR WHICH NOVA KBM HAS THE AUTHORISATION OF THE BANK OF SLOVENIA

Nova KBM has the authorisation to perform banking services pursuant to Article 7 of the Banking Act (Official Gazette of the Republic of Slovenia, No. 99/10 – official consolidated text (No. 52/11 – amendment), No. 9/11 – Act Amending Payment Services and Systems Act, Nos. 35/11, 59/11, 85/11 and 48/12); hereafter: ZBan-1. Banking services are the acceptance of deposits from the public and the granting of loans for its own account.

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

Pursuant to Article 10 of ZBan-1, the Bank may perform the following mutually recognised financial services:

- acceptance of deposits
- granting of loans, including:
  - consumer loans
  - mortgage loans
  - factoring (with our without recourse)
  - financing of commercial transactions, including forfeiting
- payment services
- issuance and management of other payment instruments (i.e. travellers' cheques and bankers' drafts) in the part in which this service is not included in service of point 4 of this Article
- issuance of guarantees and other commitments
- trading for own account and for account of customers in:
  - money market instruments
  - foreign exchange, including currency exchange transactions
  - financial futures and options
  - exchange and interest-rate instruments
  - transferable securities
- participation in the issuance of securities and services related to such issues
- advice to undertakings on capital structure, business strategy and related matters
- advice and services related to mergers and the purchase of undertakings
- portfolio management and advice
- safekeeping of securities and other services related to safekeeping of securities
- renting of safe deposit boxes
- investment services and operations and ancillary investment services from the first paragraph of Article 10 of the Financial Instruments Market Act.

The Bank may perform the following additional financial services in accordance with Article 11 of ZBan-1:

- insurance brokerage in accordance with the law governing the insurance business

- administration of payment systems
- marketing of investment funds and the sale of investment coupons or shares in investment funds.

Furthermore, within additional financial services provided in accordance with point 6 of the first paragraph of Article 11 of ZBan-1, the Bank may be engaged in the brokerage of voluntary supplementary pension insurance.

14 NOVA KBM BRANCH NETWORK

SLOVENIA-EAST DIVISION

MARIBOR BRANCH
Tyrševa ulica 2
2505 MARIBOR
Telephone: +386 2 229 28 39
Telefax: +386 2 252 64 08

Department for Small Businesses
Razlagova ulica 4
2505 MARIBOR
Telephone: +386 2 229 16 10
Telefax: +386 2 238 01 54

Centrala Branch Office
Ulica Vita Kraigherja 4
2505 MARIBOR
Telephone: +386 2 229 20 60
Telefax: +386 2 252 64 58

Mestna hranilnica Branch Office
Trg svobode 6
2505 MARIBOR
Telephone: +386 2 229 20 77
Telefax: +386 2 229 26 13

Tyrševa Branch Office
Tyrševa ulica 2
2505 MARIBOR
Telephone: +386 2 229 20 73
Telefax: +386 2 229 28 09

Melje Branch Office
Partizanska cesta 42
2505 MARIBOR
Telephone: +386 2 229 15 70
Telefax: +386 2 252 64 88

Tabor Branch Office
Dvořakova 7
2505 MARIBOR
Telephone: +386 2 229 16 70
Telefax: +386 2 238 01 02

Cesta zmage Branch Office
Cesta zmage 98
2505 MARIBOR
Telephone: +386 2 229 17 20
Telefax: +386 2 332 33 33

Tezno Branch Office
Ptujska cesta 105
2505 MARIBOR
Telephone: +386 2 229 16 90
Telefax: +386 2 333 83 24

Pobrežje Branch Office
Cesta XIV. divizije 34
2505 MARIBOR
Telephone: +386 2 229 15 30
Telefax: +386 2 471 24 85

Europark Branch Office
Pobreška cesta 18
2505 MARIBOR
Telephone: +386 2 229 15 10
Telefax: +386 2 331 71 42

Ljubljanska Branch Office
Ljubljanska ulica 1-3
2505 MARIBOR
Telephone: +386 2 229 15 20
Telefax: +386 2 333 83 03

Koroška vrata Branch Office
Turnerjeva ulica 17a
2505 MARIBOR
Telephone: +386 2 229 16 60
Telefax: +386 2 252 36 08

Hoče Branch Office
Miklavška cesta 63
2311 HOČE
Telephone: +386 2 229 17 40
Telefax: +386 2 618 14 60

Lenart Branch Office
Partizanska cesta 1
2230 LENART V SLOVENSKIH GORICAH
Telephone: +386 2 229 15 80
Telefax: +386 2 729 55 08

Ruše Branch Office
Jamnikova 2
2342 RUŠE
Telephone: +386 2 229 17 50
Telefax: +386 2 662 42 91

Lovrenc na Pohorju Branch Office
Gornji trg 20
2344 LOVRENC NA POHORJU
Telephone: +386 2 229 18 40
Telefax: +386 2 671 97 05

Šentilj Branch Office
Maistrova ulica 2
2212 ŠENTILJ V SLOVENSKIH GORICAH
Telephone: +386 2 229 15 50
Telefax: +386 2 651 01 36

PTUJ BRANCH
Novi trg 1
2250 PTUJ
Telephone: +386 2 229 19 00
Telefax: +386 2 229 19 61

Department for Corporate Customers and Small Businesses
Novi trg 1
2250 PTUJ
Telephone: +386 2 229 19 04
Telefax: +386 2 771 34 71

Ormož Branch Office
Ptujska cesta 2
2270 ORMOŽ
Telephone: +386 2 229 18 70
Telefax: +386 2 741 07 50

Novi trg Branch Office
Novi trg 1
2250 PTUJ
Telephone: +386 2 229 19 17
Telefax: +386 2 229 19 65

Breg Branch Office
Zagrebška cesta 4a
2250 PTUJ
Telephone: +386 2 229 18 90
Telefax: +386 2 783 78 01

Kidričevo Branch Office
Mladinska cesta 10
2325 KIDRIČEVO
Telephone: +386 2 229 18 65
Telefax: +386 2 787 22 22

Majšperk Branch Office
Breg 12
2322 MAJŠPERK
Telephone: +386 2 229 18 55
Telefax: +386 2 795 09 01

Videm Branch Office
Videm pri Ptuju 43
2284 VIDEM PRI PTUJU
Telephone: +386 2 229 19 75
Telefax: +386 2 761 95 14

Gorišnica Branch Office
Gorišnica 61
2272 GORIŠNICA
Telephone: +386 2 229 17 85
Telefax: +386 2 740 80 54

Rogoznica Branch Office
Špindlerjeva ulica 3
2250 PTUJ
Telephone: +386 2 229 17 35
Telefax: +386 2 746 89 05

Rabelčja vas Branch Office
Ul. 25. maja 13
2250 PTUJ
Telephone: +386 2 229 17 10
Telefax: +386 2 771 95 71

SLOVENSKA BISTRICA BRANCH
Ljubljanska cesta 11
2310 SLOVENSKA BISTRICA
Telephone: +386 2 229 18 00
Telefax: +386 2 818 30 35

Department for Corporate Customers and Small Businesses
Ljubljanska cesta 11
2310 SLOVENSKA BISTRICA
Telephone: +386 2 229 17 94
Telefax: +386 2 818 30 35

Poljčane Branch Office
Bistriška cesta 60
2319 POLJČANE
Telephone: +386 2 229 18 30
Telefax: +386 2 802 52 71

Pragersko Branch Office
Kolodvorska ulica 7
2331 PRAGERSKO
Telephone: +386 2 229 18 50
Telefax: +386 2 803 72 36

Oplotnica Branch Office
Ul. Pohorskega bataljona 7
2317 OPLOTNICA
Telephone: +386 2 229 18 60
Telefax: +386 2 801 98 36

Zgornja Bistrica Branch Office
Partizanska cesta 61
2310 SLOVENSKA BISTRICA
Telephone: +386 2 229 17 90
Telefax: +386 2 844 39 05

Titova Branch Office
Ljubljanska cesta 11
2310 SLOVENSKA BISTRICA
Telephone: +386 2 229 18 15
Telefax: +386 2 818 21 29

CELJE BRANCH
Mariborska cesta 7
3000 CELJE
Telephone: +386 3 620 30 70
Telefax: +386 3 425 32 36

Department for Corporate Customers and Small Businesses
Mariborska cesta 7
3000 CELJE
Telephone: +386 3 620 30 72
Telefax: +386 3 425 32 36

Celje Branch Office
Cankarjeva ulica 1
3000 CELJE
Telephone: +386 3 620 30 75
Telefax: +386 3 425 32 36

KOROŠKA BRANCH
Meža 10
2370 DRAVOGRAD
Telephone: +386 2 229 17 60
Telefax: +386 2 878 45 93

Department for Corporate Customers and Small Businesses
Meža 10
2370 DRAVOGRAD
Telephone: +386 2 229 17 62
Telefax: +386 2 878 45 93

Dravograd Branch Office
Meža 10
2370 DRAVOGRAD
Telephone: +386 2 229 17 63
Telefax: +386 2 878 45 04

Ravne Branch Office
Prežihova 5
2390 RAVNE NA KOROŠKEM
Telephone: +386 2 229 16 40
Telefax: +386 2 821 69 07

POMURJE BRANCH
Kocljeva ulica 11
9000 MURSKA SOBOTA
Telephone: +386 2 229 17 70
Telefax: +386 2 530 47 81

Department for Corporate Customers and Small Businesses
Kocljeva ulica 11
9000 MURSKA SOBOTA
Telephone: +386 2 229 17 74
Telefax: +386 2 530 47 81

Murska Sobota Branch Office
Kocljeva ulica 11
9000 MURSKA SOBOTA
Telephone: +386 2 229 17 70
Telefax: +386 2 530 47 81

Lendava Branch Office
Trg ljudske pravice 11
9220 LENDAVA
Telephone: +386 2 229 16 30
Telefax: +386 2 578 81 30

Ljutomer Branch Office
Glavni trg 4
9240 LJUTOMER
Telephone: +386 2 229 15 60
Telefax: +386 2 581 12 07

Gornja Radgona Branch Office
Partizanska cesta 26
9250 GORNJA RADGONA
Telephone: +386 2 229 19 70
Telefax: +386 2 264 81 75

SLOVENIA-CENTRE DIVISION

LJUBLJANA BRANCH
Tivolska cesta 48
1000 LJUBLJANA
Telephone: +386 1 620 30 00
Telefax: +386 1 300 97 55

Department for Corporate Customers and Small Businesses
Tivolska cesta 48
1000 LJUBLJANA
Telephone: +386 1 620 30 00
Telefax: +386 1 300 97 55

Ljubljana Branch Office
Tivolska cesta 48
1000 LJUBLJANA
Telephone: +386 1 620 30 00
Telefax: +386 1 431 40 30

Ljubljana Center Branch Office
Stritarjeva ulica 2
1000 LJUBLJANA
Telephone: +386 1 620 30 30
Telefax: +386 1 432 11 09

Žiri Branch Office
Loška cesta 15
4226 ŽIRI
Telephone: +386 4 620 31 30
Telefax: +386 4 518 43 04

DOLENJSKA - POSAVJE BRANCH
Cesta prvih borcev 6
8250 BREŽICE
Telephone: +386 7 620 31 40
Telefax: +386 7 496 17 52

Department for Corporate Customers and Small Businesses
Cesta prvih borcev 6
8250 BREŽICE
Telephone: +386 7 620 31 42
Telefax: +386 7 496 17 52

Novo mesto Branch Office
Novi trg 7
8000 NOVO MESTO
Telephone: +386 7 620 31 60
Telefax: +386 7 393 59 56

Brežice Branch Office
Cesta prvih borcev 6
8250 BREŽICE
Telephone: +386 7 620 31 47
Telefax: +386 7 496 17 52

Krško Branch Office
Cesta krških žrtev 137
8270 KRŠKO
Telephone: +386 7 620 31 70
Telefax: +386 7 492 28 78

KRANJ BRANCH
Koroška cesta 2
4000 KRANJ
Telephone: +386 4 620 31 00
Telefax: +386 4 236 82 46

Department for Corporate Customers and Small Businesses
Koroška cesta 2
4000 KRANJ
Telephone: +386 4 620 31 00
Telefax: +386 4 236 82 46

Kranj Branch Office
Koroška cesta 2
4000 KRANJ
Telephone: +386 4 620 31 04
Telefax: +386 4 236 82 46

NOVA GORICA DIVISION

NOVA GORICA BRANCH
Kidričeva ulica 11
5000 NOVA GORICA
Telephone: +386 5 331 70 00
Telefax: +386 5 331 73 83

Department for Small Businesses
Trg Edvarda Kardelja 3
5000 NOVA GORICA
Telephone: +386 5 331 74 30
Telefax: +386 5 330 25 66

Mestna hranilnica Branch Office
Tumova 1
5000 NOVA GORICA
Telephone: +386 5 331 74 60
Telefax: +386 5 302 31 00

Centrala Branch Office
Kidričeva ulica 11
5000 NOVA GORICA
Telephone: +386 5 331 72 64
Telefax: +386 5 331 70 06

Šempeter Branch Office
Cesta prekomorskih brigad 9
5290 ŠEMPETER
Telephone: +386 5 331 70 60
Telefax: +386 5 303 15 74

Solkan Branch Office
Trg J. Srebrniča 2
5250 SOLKAN
Telephone: +386 5 331 74 80
Telefax: +386 5 333 43 93

Brda Branch Office
Trg 25. maja 5
5212 DOBROVO V BRDIH
Telephone: +386 5 331 74 85
Telefax: +386 5 395 95 46

Kanal Branch Office
Trg svobode 23
5213 KANAL
Telephone: +386 5 331 74 70
Telefax: +386 5 305 10 32

Branik Branch Office
Branik 75
5295 BRANIK
Telephone: +386 5 331 70 86
Telefax: +386 5 305 78 21

Miren Branch Office
Miren 125a
5291 MIREN
Telephone: +386 5 331 70 80
Telefax: +386 5 305 41 70

Deskle Branch Office
Srebrničeva ulica 20
5210 DESKLE
Telephone: +386 5 331 74 75
Telefax: +386 5 331 03 91

Dornberk Branch Office
Gregorčičeva ulica 11
5294 DORNBERK
Telephone: +386 5 331 70 85
Telefax: +386 5 301 81 66

Renče Branch Office
Trg 40
5292 RENČE
Telephone: +386 5 331 70 56
Telefax: +386 5 305 30 24

Delpinova Branch Office
Delpinova ulica 11
5000 NOVA GORICA
Telephone: +386 5 331 74 55
Telefax: +386 5 302 61 12

Rožna Dolina Branch Office
Vipavska cesta 2
5000 NOVA GORICA
Telephone: +386 5 331 70 75
Telefax: +386 5 333 18 33

Vrtojba Branch Office
Ul. 9. septembra 145
5290 ŠEMPETER PRI GORICI
Telephone: +386 5 331 70 76
Telefax: +386 5 393 71 11

AJDOVŠČINA BRANCH
Goriška cesta 25c
5270 AJDOVŠČINA
Telephone: +386 5 331 70 10
Telefax: +386 5 366 20 28

Department for Corporate Customers and Small Businesses
Goriška cesta 25c
5270 AJDOVŠČINA
Telephone: +386 5 331 70 10
Telefax: +386 5 366 20 28

Vipava Branch Office
Cesta 18. aprila 4
5271 VIPAVA
Telephone: +386 5 331 70 50
Telefax: +386 5 366 44 84

Obrtni dom Branch Office
Vipavska cesta 4
5270 AJDOVŠČINA
Telephone: +386 5 331 70 45
Telefax: +386 5 364 49 38

Ajdovščina Branch Office
Goriška cesta 25c
5270 AJDOVŠČINA
Telephone: +386 5 331 70 12
Telefax: +386 5 366 20 28

IDRIJA BRANCH
Lapajnetova ulica 41
5280 IDRIJA
Telephone: +386 5 331 71 00
Telefax: +386 5 377 14 25

Department for Corporate Customers and Small Businesses
Lapajnetova ulica 41
5280 IDRIJA
Telephone: +386 5 331 70 90
Telefax: +386 5 377 14 25

Idrija Branch Office
Lapajnetova ulica 41
5280 IDRIJA
Telephone: +386 5 331 70 91
Telefax: +386 5 377 14 25

Cerkno Branch Office
Glavni trg 5
5282 CERKNO
Telephone: +386 5 331 71 30
Telefax: +386 5 372 31 63

Spodnja Idrija Branch Office
Slovenska cesta 17
5281 SPODNJA IDRIJA
Telephone: +386 5 331 71 35
Telefax: +386 5 377 60 51

TOLMIN BRANCH
Trg maršala Tita 14
5220 TOLMIN
Telephone: +386 5 331 71 50
Telefax: +386 5 388 18 86

Department for Corporate Customers and Small Businesses
Trg maršala Tita 14
5220 TOLMIN
Telephone: +386 5 331 71 43
Telefax: +386 5 388 18 86

Tolmin Branch Office
Trg maršala Tita 14
5220 TOLMIN
Telephone: +386 5 331 71 47
Telefax: +386 5 381 06 88

Bovec Branch Office
Trg golobarskih žrtev 47
5230 BOVEC
Telephone: +386 5 331 71 65
Telefax: +386 5 389 61 48

Kobarid Branch Office
Trg svobode 2
5222 KOBARID
Telephone: +386 5 331 71 70
Telefax: +386 5 388 51 59

Podbrdo Branch Office
Podbrdo 33d
5243 PODBRDO
Telephone: +386 5 331 71 80
Telefax: +386 5 380 80 07

Most na Soči Branch Office
Most na Soči 60a
5216 MOST NA SOČI
Telephone: +386 5 331 71 75
Telefax: +386 5 388 70 63

KOPER BRANCH

Ferrarska ulica 12
6000 KOPER
Telephone: +386 5 331 71 90
Telefax: +386 5 662 54 27

Department for Corporate Customers and Small Businesses
Ferrarska ulica 12
6000 KOPER
Telephone: +386 5 331 71 92
Telefax: +386 5 662 54 27

Koper Branch Office
Ferrarska ulica 12
6000 KOPER
Telephone: +386 5 331 71 96
Telefax: +386 5 662 54 28

Lucija Branch Office
Obala 114b
6320 PORTOROŽ
Telephone: +386 5 331 74 20
Telefax: +386 5 677 01 06

Financial Report of the Nova KBM Group

Our tomorrow is not just about ourselves.
By connecting to each other, we will be best
prepared for what's coming tomorrow,
not just for ourselves, but for all of us.

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

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Fax: + 386 (0)1 3072 900
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INDEPENDENT AUDITOR'S REPORT
to the owners of Nova KBM d.d.

20 let v Sloveniji

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the bank Nova KBM d.d. and its subsidiaries (hereinafter: "the Group"), which comprise the statement of financial position as at 31 December 2012, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Nova KBM Group as at 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Emphasis of Matters

a) *Capital adequacy of the Group*

We draw attention to the disclosures made in Note *2.5 Underlying assumptions of financial statements* and Note *4.6 Capital Risk* to the consolidated financial statements which describes the ongoing impact of the economic recession and impairment losses on the financial position of the Group and the plans to address the situation, including state sponsored planned actions to maintain the capital adequacy of the Group. There are material uncertainties about the future consequences of economic, political and market risks and the realisation of planned actions which could adversely affect the future operations and financial position of the Group. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

b) *Credit Risk*

We draw your attention to Note *4.1.5. Counterparty credit risk* to the consolidated financial statements, which discusses uncertainties about future economic conditions in Slovenia and their likely impact on values of collaterals.

Our opinion is not modified in respect of these matters.

Other Matter

The Group's financial statements for the year ended 31 December 2011 were audited by a different auditor who issued an unqualified opinion on 4 April 2012.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

Ljubljana, 25 April 2013

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

2 FINANCIAL STATEMENTS OF THE NOVA KBM GROUP

1 CONSOLIDATED STATEMENT OF INCOME – NOVA KBM GROUP

€000

ITEM DESCRIPTION	Notes	Year ended 31.12.2012	Year ended 31.12.2011
Interest income and similar income	8	227,856	262,805
Interest expense and similar expense	8	(122,012)	(127,212)
Net interest income	**8**	**105,844**	**135,593**
Dividend income	**9**	**2,572**	**2,956**
Fee and commission income	10	94,185	98,432
Fee and commission expense	10	(35,385)	(42,004)
Net fee and commission income	**10**	**58,800**	**56,428**
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	11	25,972	(615)
Net gains/(losses) on financial assets and liabilities held for trading	12	(5,306)	3,682
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	13	2,656	(7,216)
Net exchange rate differences	14	736	484
Net gains on derecognition of assets excluding non-current assets held for sale	-	15	563
Other net operating income	15	2,451	248
Administration costs	16	(104,059)	(108,455)
Depreciation and amortisation	17	(16,443)	(16,644)
Provisions	18	(9,072)	(16,939)
Impairment losses	19	(300,394)	(158,452)
Share of profits of associates and joint ventures accounted for using the equity method	20	144	185
Net gains/(losses) from non-current assets held for sale and liabilities associated therewith	-	(3,553)	287
(LOSS) FROM CONTINUING OPERATIONS	**-**	**(239,637)**	**(107,895)**
Income tax related to profit or loss from continuing operations	21	12,490	21,443
NET (LOSS) FROM CONTINUING OPERATIONS	**-**	**(227,147)**	**(86,452)**
Total profit after tax from discontinued operations	22	21,450	5,330
NET (LOSS) FOR THE FINANCIAL YEAR	**-**	**(205,697)**	**(81,122)**
a) Attributable to owners of the parent	-	(205,589)	(82,440)
- continuing operations	-	(227,039)	(87,770)
- discontinued operations	-	21,450	5,330
b) Attributable to non-controlling interest	-	(108)	1,318
Basic (loss) per share (€)	23	(5.25)	(2.38)
Diluted (loss) per share (€)	-	(5.25)	(2.38)

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

2 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME – NOVA KBM GROUP

€000

ITEM DESCRIPTION	Year ended 31.12.2012	Year ended 31.12.2011
NET (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**(205,697)**	**(81,122)**
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX	**22,234**	**(19,647)**
Foreign currency translation differences arising from consolidation	**(2,474)**	**901**
Translation gains/(losses) taken to equity	(2,274)	901
Transferred to profit or loss	(200)	0
Available-for-sale financial assets	**29,704**	**(22,455)**
Valuation gains/(losses) taken to equity	18,909	(31,215)
Transferred to profit or loss	10,795	8,760
Share of other recognised comprehensive income/(loss) of associates and joint ventures accounted for using the equity method	**53**	**(107)**
Discontinued operations	**971**	**(3,150)**
Income tax relating to components of other comprehensive income	**(6,020)**	**5,164**
TOTAL COMPREHENSIVE (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**(183,463)**	**(100,769)**
a) Attributable to owners of the parent	(183,880)	(101,253)
b) Attributable to non-controlling interest	417	484

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

3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION – NOVA KBM GROUP

€000

ITEM DESCRIPTION	Notes	31.12.2012	31.12.2011
Cash and balances with the central bank	24	223,882	147,373
Financial assets held for trading	25	1,572	8,741
Financial assets designated at fair value through profit or loss	26	34,563	38,475
Available-for-sale financial assets	27	589,413	699,603
Loans and advances	-	3,633,260	4,040,238
- loans and advances to banks	28	162,408	177,420
- loans and advances to customers	29	3,397,900	3,844,085
- other financial assets	30	72,952	18,733
Held-to-maturity financial assets	31	500,108	449,605
Non-current assets and disposal groups classified as held for sale and discontinued operations	38	2,282	6,405
Property, plant and equipment	32	86,765	94,376
Investment property	33	53,317	54,544
Intangible assets	34	37,485	33,451
Investments in the equity of associates and joint ventures accounted for using the equity method	35	3,090	47,539
Tax assets	36	41,317	34,031
- current tax assets	36	2,424	2,014
- deferred tax assets	36	38,893	32,017
Other assets	37	114,756	158,690
TOTAL ASSETS	**-**	**5,321,810**	**5,813,071**
Financial liabilities due to the central bank	39	485,149	415,478
Financial liabilities held for trading	40	1,658	2,486
Financial liabilities measured at amortised cost	41	4,528,517	4,901,890
- deposits from banks	41	107,077	154,660
- deposits from customers	41	3,612,206	3,760,483
- loans from banks	41	576,004	701,045
- loans from customers	41	6,472	156
- debt securities	41	88,592	48,973
- subordinated liabilities	41	98,069	187,923
- other financial liabilities	41	40,097	48,650
Financial liabilities associated to transferred assets	42	0	8,022
Provisions	43	46,630	38,252
Other liabilities	44	6,652	11,380
TOTAL LIABILITIES	**-**	**5,068,606**	**5,377,508**
Share capital	45	40,814	40,815
Share premium	46	165,775	165,775
Revaluation reserves	47	(1,149)	(25,096)
Translation reserves	-	(2,365)	(127)
Reserves from profit	48	289,741	300,726
Treasury shares	-	(1,412)	(1,412)
Retained (loss) (including net loss for the financial year)	49	(281,237)	(86,628)
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**-**	**210,167**	**394,053**
Non-controlling interest	-	43,037	41,510
TOTAL SHAREHOLDERS' EQUITY	**-**	**253,204**	**435,563**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**-**	**5,321,810**	**5,813,071**

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

4 CONSOLIDATED STATEMENT OF CASH FLOWS – NOVA KBM GROUP

€000

Designation	ITEM DESCRIPTION	Year ended 31.12.2012	Year ended 31.12.2011
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	**Total (loss) before tax from continuing operations**	**(239,637)**	**(107,895)**
	Depreciation and amortisation	16,443	16,644
	(Reversal of impairment) of held-to-maturity financial assets	(21)	(26)
	Impairment of tangible assets, investment property and intangible assets	5,208	2,862
	Share of (profits) of associates and joint ventures accounted for using the equity method	(144)	(185)
	Net (gains) from exchange rate differences	(736)	(484)
	Net (gains)/losses from held-to-maturity financial assets	58	(527)
	Net (gains)/losses from the sale of tangible assets and investment properties	22	(942)
	Other (gains) from investing activities	(19,690)	(8,682)
	Other losses from financing activities	10,079	11,351
	Net unrealised (gains)/losses from non-current assets held for sale and discontinued operations and liabilities associated therewith	3,553	(287)
	Other adjustments to total net profit or loss before tax	305,830	172,546
	Cash flow from operating activities before changes in operating assets and liabilities	**80,965**	**84,375**
b)	**Decrease in operating assets (excluding cash equivalents)**	**367,336**	**114,190**
	Net (increase)/decrease in financial assets held for trading	7,154	(5,586)
	Net decrease in financial assets designated at fair value through profit or loss	3,897	10,323
	Net decrease in available-for-sale financial assets	126,460	151,573
	Net (increase)/decrease in loans and advances	242,901	(13,381)
	Net decrease in non-current assets held for sale	732	521
	Net (increase) in other assets	(13,808)	(29,260)
c)	**(Decrease) in operating liabilities**	**(223,224)**	**(63,881)**
	Net increase in financial liabilities to the central bank	69,671	285,329
	Net (decrease) in financial liabilities held for trading	(827)	(3,626)
	Net (decrease) in deposits and loans measured at amortised cost	(318,343)	(339,274)
	Net increase/(decrease) in debt securities in issue measured at amortised cost	39,619	(16,499)
	Net increase/(decrease) in other liabilities	(13,344)	10,189
d)	**Cash flow from operating activities (a+b+c)**	**225,077**	**134,684**
e)	**Income taxes (paid)/refunded**	**(779)**	**4,748**
f)	**Net cash flow from operating activities (d+e)**	**224,298**	**139,432**

€000

Designation	ITEM DESCRIPTION	Year ended 31.12.2012	Year ended 31.12.2011
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Receipts from investing activities**	**120,263**	**43,295**
	Receipts from the sale of tangible assets and investment properties	8,472	11,257
	Receipts from the sale of intangible assets	4	0
	Receipts from the disposal of associates – discontinued operations	15,000	212
	Receipts from non-current assets or liabilities held for sale	562	382
	Receipts from the sale of held-to-maturity financial assets	94,193	26,998
	Other receipts from investing activities – discontinued operations	2,032	4,446
b)	**Cash payments on investing activities**	**(152,000)**	**(345,845)**
	(Cash payments to acquire tangible assets and investment properties)	(14,342)	(41,792)
	(Cash payments to acquire intangible assets)	(11,651)	(9,646)
	(Cash payments for investments in the equity of associates – discontinued operations)	0	(7,344)
	(Cash outflow to non-current assets or liabilities held for sale)	(2)	0
	(Cash payments to acquire held-to-maturity financial assets)	(126,005)	(287,063)
c)	**Net cash flow from investing activities (a+b)**	**(31,737)**	**(302,550)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Cash proceeds from financing activities**	**0**	**104,328**
	Cash proceeds from issuing shares and other equity instruments	0	104,328
b)	**Cash payments on financing activities**	**(101,567)**	**(23,041)**
	(Dividends paid)	(634)	(4,309)
	(Repayments of subordinated liabilities)	(99,933)	(15,470)
	(Other payments related to financing activities)	(1,000)	(3,262)
c)	**Net cash flow from financing activities (a+b)**	**(101,567)**	**81,287**
D.	**Effects of change in exchange rates on cash and cash equivalents**	**(4,248)**	**2,873**
E.	**Net increase in cash and cash equivalents (Af+Bc+Cc)**	**90,994**	**(81,831)**
F.	**Opening balance of cash and cash equivalents**	**245,776**	**324,734**
G.	**Closing balance of cash and cash equivalents (D+E+F)**	**332,522**	**245,776**

Investing activities in respect of discontinued operations generated net receipts of €17,032,000 in 2012, compared to net cash payments of €2,686,000 in 2011.

Reconciliation of cash and cash equivalents as of 31 December 2012 and 2011 with the statement of financial position items is presented in Note 24.1.

Cash flows from interest, dividends and participation in profits

€000

	Year ended 31.12.2012	Year ended 31.12.2011
Interest paid	(120,355)	(123,124)
Interest received	208,084	208,234
Dividends and participation in profits paid	(634)	(4,309)
Dividends and participation in profits received	4,591	7,402

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

5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – NOVA KBM GROUP

Consolidated Statement of Changes in Equity for the year ended 31 December 2012

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Translation reserves	Reserves from profit	Retained (loss) (including net loss for the financial year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Non-controlling interest	Total shareholders' equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**40,815**	**165,775**	**(25,096)**	**(127)**	**300,726**	**(86,628)**	**(1,412)**	**394,053**	**41,510**	**435,563**
Total comprehensive (loss) for the financial year after tax	**0**	**0**	**23,947**	**(2,238)**	**0**	**(205,589)**	**0**	**(183,880)**	**417**	**(183,463)**
Payment of dividends	0	0	0	0	0	0	0	0	(631)	(631)
Transfer of net profit to reserves from profit	0	0	0	0	787	(787)	0	0	0	0
Other	(1)	0	0	0	(11,772)	11,767	0	(6)	1,741	1,735
CLOSING BALANCE FOR THE FINANCIAL YEAR	**40,814**	**165,775**	**(1,149)**	**(2,365)**	**289,741**	**(281,237)**	**(1,412)**	**210,167**	**43,037**	**253,204**

The figure in line 'Transfer of net profit to reserves from profit', amounting to €787,000, derives from the transfer of net profit of €99,000 and retained earnings of €688,000 to reserves from profit.

The figure in line 'Other', columns 'Reserves from Profit' and 'Retained loss', amounting to €11,772,000, relates to the derecognition of investment in the equity of Zavarovalnica Maribor.

The figure in line 'Other', column 'Non-controlling interest' relates to the derecognition of negative non-controlling interest in KBM Projekt, an ex-subsidiary.

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

Consolidated Statement of Changes in Equity for the year ended 31 December 2011

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Translation reserves	Reserves from profit	Retained earnings/ (loss) (including net loss for the financial year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Non-controlling interest	Total shareholders' equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**27,210**	**78,314**	**(5,542)**	**(868)**	**297,010**	**2,188**	**(1,412)**	**396,900**	**42,089**	**438,989**
Total comprehensive (loss) for the financial year after tax	**0**	**0**	**(19,555)**	**742**	**0**	**(82,440)**	**0**	**(101,253)**	**484**	**(100,769)**
New share capital subscribed (paid)	13,605	90,723	0	0	0	0	0	104,328	0	104,328
Capital increase in Credy banka	0	0	0	0	0	(162)	0	(162)	162	0
Payment of dividends	0	0	0	0	0	(3,119)	0	(3,119)	(1,209)	(4,328)
Transfer of net profit to reserves from profit	0	0	0	0	3,716	(3,716)	0	0	0	0
Other	0	(3,262)	1	(1)	0	621	0	(2,641)	(16)	(2,657)
CLOSING BALANCE FOR THE FINANCIAL YEAR	**40,815**	**165,775**	**(25,096)**	**(127)**	**300,726**	**(86,628)**	**(1,412)**	**394,053**	**41,510**	**435,563**

The figure in line 'Other', column 'Share premium', relates to direct costs of capital raising.

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

3 NOTES TO THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP

1 GENERAL INFORMATION

Nova KBM d.d. (hereafter also referred to as the 'Bank') is the parent company of the Nova KBM Group (hereafter also referred to as the 'Group') which, as of 31 December 2012, comprised the parent company and 11 subsidiary companies.

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

The share capital of the Bank as of 31 December 2012 totalled €40,814,313.08 and was split into 39,122,968 ordinary no-par value shares. The Bank's shareholder structure at the 2012 year-end was as follows: the Republic of Slovenia had a 27.7% shareholding; Pošta Slovenije d.o.o. – 6.6%; Gen d.o.o. – 6.4%; Kapitalska družba d.d. – 4.8%; Slovenska odškodninska družba d.d. – 3.2%; ELES d.o.o. – 2.4%: the total shareholding of the state was 51.1%, the same as at the 2011 year-end, of which 35.7% was a direct and 15.4% was an indirect shareholding of the state in the Bank; households had a 19.5% shareholding (up 3.1 percentage points from the beginning of the year); other financial organisations had a 5.9% shareholding (down 0.6 percentage points from the beginning of the year); foreign investors had a 20.2% shareholding (down 1.8 percentage points from the beginning of the year); non-financial companies had a 2.3% shareholding (down 0.2 percentage points from the beginning of the year); and banks had a 1.1% shareholding (down 0.4 percentage points from the beginning of the year).

The Bank is obliged to prepare consolidated financial statements.

1.1 DEFINITION OF THE GROUP

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

Company	Position in the Group	Group's voting rights in the company (%)
Nova Kreditna banka Maribor d.d.	parent bank	
Poštna banka Slovenije d.d.	subsidiary bank	55.00
Adria Bank AG	subsidiary bank	50.54[1]
Credy banka a.d.	subsidiary bank	76.64[2]
KBM Fineko d.o.o.	subsidiary company	100.00
KBM Infond d.o.o.	subsidiary company	72.73[3]
KBM Leasing d.o.o.	subsidiary company	100.00
KBM Invest d.o.o.	subsidiary company	100.00
Gorica Leasing d.o.o.	subsidiary company	100.00
M-PAY d.o.o.	subsidiary company	50.00
KBM Leasing Hrvatska d.o.o.	subsidiary company	100.00
MB Finance B.V.	subsidiary company	00.00[4]

1 The Group's stake in the share capital of and voting rights in Adria Bank accounts for 50.54%, while its stake in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.
2 The shareholders' agreement entered into between the Bank and the Republic of Serbia includes a provision under which a 12.89% stake of the Republic of Serbia in Credy banka is subject to a call option available to the Bank and a put option available to the Republic of Serbia. Following the exercise of the option, which is included in other liabilities and the price of which is set at €5,636,000, the shareholding of the Bank in Credy banka will increase to 89.53%, while the shareholding of the Republic of Serbia will fall to nil.
3 The Group's stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain percentage of its own shares, the Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.
4 MB Finance is in accordance with an explanation given by the Standing Interpretation Committee, SOP 12, regarded as a special purpose vehicle controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity.

Moja naložba is an associated company in which the Bank has a 45% shareholding.

In December 2012, the Bank sold its 51% shareholding in Zavarovalnica Maribor, which is therefore no longer an associated company within the Group.

The company KBM Projekt is no longer a member of the Group. On 30 October 2012, the company filed for liquidation, with the result that the Group lost control of it.

The company Istra Plan, which is 100% owned by KBM Fineko, is not regarded as a business entity, as a result of which only assets of this company, totalling €2,576,000, are included in the consolidated financial statements.

2 BASIS FOR THE PRESENTATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the period ended 31 December 2012 were authorised for issue on 3 April 2013 by the Bank's Management Board.

2.1 STATEMENT OF COMPLIANCE AND PURPOSE OF FINANCIAL STATEMENTS

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereafter 'IFRSs') as endorsed by the European Union. The financial statements are intended to comply with annual reporting requirements and to provide general use historical financial information. The financial statements are not intended for any specific use or any specific transaction; accordingly, users should not rely on the financial statements as the only source of information when making decisions.

2.2 BASIS OF VALUATION

The consolidated financial statements are prepared under the historical cost convention, except for the following items for which fair value has been applied:

- financial assets designated at fair value through profit or loss
- available-for-sale financial assets
- derivatives
- investment property.

The fair value assessment methods are set out below.

2.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in accordance with IFRSs requires the use of certain accounting estimates and judgements, which may affect the value of reported assets and liabilities and of potential assets and liabilities as of the reporting date, and income and expense for the period then ended.

The most important judgements relate to the classification of financial instruments, in particular to the distribution between the held-to-maturity portfolio and the portfolio held for trading. The classification of financial instruments is carried out in line with the Group's policy prior to the initial recognition of a financial instrument.

Estimates are used for: impairment of loans to customers; impairment of available-for-sale financial assets; fair value of financial assets and liabilities; provisions for off-balance sheet risks; depreciation of property, plant and equipment and amortisation of intangible assets; potential tax items; provisions for liabilities to employees; provisions for pending legal issues.

Changes in estimates for impairment provisions have an especially important impact on financial position of operations. These estimates are subject to adjustment in the future as a result of changes in economic conditions, customers' ability to repay loans, and realisation of collateral values for defaulted loans (see section Credit risk, Note 4.1.5). Currently available information about the state of the economy indicates that it is likely that additional impairments will occur in the future and the future adjustments required could be material.

2.4 PRESENTATION AND FUNCTIONAL CURRENCY

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

All amounts in the consolidated financial statements and in the notes to the consolidated financial statements are expressed in thousands of euros except where stated otherwise. Slight discrepancies in totals may occur due to rounding off of figures.

2.5 BASIS FOR THE PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared assuming the Group will continue its operations as a going concern for the foreseeable future and will be able to meet its liabilities as they become due. The Management Board and senior management of the Bank and the management bodies of Group companies positively assessed the Group's ability to continue as a going concern. In this assessment, a wide range of data on current and future operating conditions was considered. The Group incurred operating losses in both 2011 and 2012, and the management considers it likely that there will also be a net loss in 2013. These operating losses are a direct result of the ongoing financial crisis and the economic recession. The economic conditions include high unemployment, financial difficulties for businesses, including their insolvencies, and declining marketability and pricing of assets, including assets pledged as collateral for the Group's loans. There is evidence that the economic recession will continue and the eventual economic recovery will be slow, which may result in material additional future losses for the Group.

The financial consequences of the economic recession on the Group have been partially mitigated by disposals of some non-core assets and an increase in capital in 2011 and a repurchase of debt at a gain in 2012. Also, the Group maintains a manageable loan-to-deposit ratio, a satisfactory asset/liability management position, and a reasonable net interest margin that is sufficient to cover administration costs. In October 2012, the Bank Assets Management Company (BAMC) was created by the state. Non-performing assets will be taken over by the BAMC in exchange for government guaranteed bonds. The BAMC programme is subject to EU approval and, if approved, is expected to be implemented in 2013. The Group's capital level at the end of 2012 was adequate, but additional capital is needed. A further increase in capital is expected in 2013 based on consultations with state officials and information available about the state's plans for recovery of the banking sector in Slovenia (the state is the controlling shareholder of the Bank).

The Management Board and senior management of the Bank and the management bodies of Group companies are aware that there are inherent uncertainties about the future that are outside the control of the management. These relate to the future impact on the Group of the continuing economic recession, which cannot be fully estimated, and the risk that unanticipated events could occur that might have a material adverse effect on the Group's financial position.

So far, Nova KBM has had steady support from the regulator and its main owner, i.e. the government. In accordance with the Ordinance on the Management of Capital Shares of the Republic of Slovenia in Nova KBM d.d (OdUKNNKBM - Official Gazette of RS, No. 47/2012), Nova KBM is considered a systemic bank supported by the main owner – the Republic of Slovenia. In the aforementioned ordinance, the Bank's main owner declared its understanding that a successful capital raising of the Bank would also be fundamental to the programme of financial consolidation in the Republic of Slovenia and, consequently, relevant to the government's financial position and its credit rating. The government's last capital raising took place at the end of 2012 (this capital raising was completed in April 2013, after the hybrid instrument was converted into Bank equity).

The Republic of Slovenia provided the European Commission with the restructuring programme for the Group, defining the relevant activities and one-time need for additional financing so that the Group would become independent in its operations and development on the basis of capital accumulation in the form of retained earnings. The programme was the result of intensive cooperation between Nova KBM and the Ministry of Finance. The Group continues with activities for improvement of its capital adequacy in line with the restructuring plan for the capital raising in mid-2013 that has been presented to the European Commission.

After the restructuring process, which was initiated in 2012, the organisation will be more economical and efficient. Certain activities carried out by the Group will be merged within the companies in the Group or transferred to the Bank, while some less relevant activities are expected to be sold.

Within the Slovene banking system, Nova KBM and PBS have a favourable structure of assets and liabilities, with a considerable market share in deposit business (especially with households) and an accessible and widespread network for operations with the households segment. The Group carries out diversified scenarios of liquidity management on a monthly basis. Based on these scenarios, it can assure adequate liquidity by considering the assumptions regarding normal functioning, as well as extraordinary situations. According to the results of basic and stressful scenarios on two difficulty levels, the Group has a sufficient amount of liquidity reserves.

In the Spring Forecasts for 2013 Economic Trends (March 2013), experts from the Slovene Institute of Macroeconomic Analysis and Development (UMAR) predicted that Slovenia will start to emerge from the crisis in 2014. According to UMAR, the Slovene banking position will probably stop declining by the end of 2013, thanks to the adoption of measures for restructuring the bank balance sheets. Establishment of the Bank Assets Management Company (BAMC) and implementation of regulations and responsibilities of BAMC under the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (Official Gazette of RS, No. 105/2012) will ensure a smooth launch of activities aimed at improving the banks' stability in order to preserve the Slovene financial system.

2.6 CHANGES IN THE LAYOUTS OF FINANCIAL STATEMENTS

The amended Regulation on Books of Account and Annual Reports of Banks and Savings Banks was published in spring 2012, introducing several changes in the layouts of financial statements. The Group used these amended layouts for the first time for its financial statements as of 30 June 2012. The comparability of data included in this financial report has been ensured.

Changes in the statement of financial position are set out below:

- other financial assets (cheques, claims for fees and commissions, the majority of other receivables) were transferred from the item 'Other assets' to the item 'Loans and advances'
- other financial liabilities (liabilities for fees and commissions, the majority of other liabilities) were transferred from the item 'Other liabilities' to the item 'Financial liabilities measured at amortised cost'
- current and deferred tax assets and tax liabilities are now disclosed in the net amount, and not gross, as was the case before, resulting in a decrease of total assets set out in the Group's statement of financial position as of 31 December 2011 included in this report.

Changes made to the statement of income items do not have any impact on profit or loss, but only on the following notes to the statement of income:

- realised gains and losses on other financial assets are included in realised gains and losses on loans (Note 11)
- impairments of other financial assets were excluded from the item 'Impairment of other assets' and included in the item 'Impairment of loans and other financial assets' (Note 19).

Other accounts were not affected by the aforementioned changes.

Reclassifications of statement of financial position and statement of income items were insignificant in value terms.

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 CONSOLIDATION

Basis of consolidation

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interest
- derecognises the cumulative translation differences, recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Subsidiaries

Subsidiary entities are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into consideration. Financial statements of subsidiary entities are included in the consolidated financial statements from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. Business combinations achieved in stages are accounted for as separate steps. Any additional acquired share of interest does not affect previously recognised goodwill.

When necessary, accounting policies for subsidiary entities have been changed to ensure consistency with the policies adopted by the Group. The reporting dates are unified across the whole Group. All subsidiary entities are fully consolidated.

In the statement of financial position, non-controlling interest is reported as a separate item within equity. Shares of non-controlling interest are eliminated from all equity items in proportion to the share of non-controlling interest in the share capital.

Associated entities

Associated entities are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting rights of another entity.

Associated entities are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date the significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses and dividends arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from intra-group transactions and recognised in assets are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Exchange rate differences are recognised in the statement of income.

Assets and liabilities items denominated in foreign currency are translated and disclosed in the consolidated financial statements by applying the European Central Bank's reference exchange rates as valid on the reporting date. The effects of translating foreign currency into the euro are recognised in the statement of income as net gain/loss from exchange rate differences.

Translation differences on non-monetary items, such as equity instruments designated at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equity instruments designated as available for sale are included in other comprehensive income, together with the fair value measurement effect.

Financial statements of Group companies that have functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the rate of exchange prevailing at the reporting date
- profit or loss is translated at the average exchange rate for the period.

Translation differences are in the statement of financial position recognised in translation reserves, and are recognised in the statement of income only after the investment is disposed of.

3.3 CASH EQUIVALENTS

Cash equivalents are current, highly liquid investments that can be quickly converted to a known amount of cash and for which the risk of changes in value is negligible.

The Group includes the following items among cash equivalents:

- cash and balances in settlement and current accounts
- loans to banks with an original maturity of up to three months
- investments in available-for-sale debt securities with an original maturity of up to three months.

3.4 FINANCIAL ASSETS

3.4.1 CLASSIFICATION OF FINANCIAL ASSETS

Upon initial recognition, the Group classifies financial assets with regard to the purpose of the acquisition, the period held, and the type of the financial asset into one of the following categories:

- Financial assets designated at fair value through profit or loss are classified into financial instruments held for trading and other financial instruments designated at fair value through profit or loss. Financial assets held for trading are those instruments in which the Group intends to actively trade and earn profit from short-term price differences. Equity instruments, debt securities and derivatives, except those held for hedging purposes, are classified into this category. Financial assets are upon initial recognition designated at fair value through profit or loss when doing so provides more relevant information of measurement or recognition.
- Held-to-maturity financial assets are assets with fixed or determinable payments and a fixed maturity, for which the Group attests the purpose and capacity to hold them until maturity.
- Available-for-sale financial assets are assets which the Group did not acquire for the purpose of trading but intends to hold them for an undetermined period of time, and which can be sold for the reason of liquidity requirements, changes in interest rates, exchange rates or the prices of financial instruments.
- Loans and advances are financial assets with fixed or determinable payments which are not traded on an active market.

The Group uses financial instruments for the purpose of economic hedging of another financial instrument. In its accounting, the Group does not apply rules of hedge accounting, as the effects of measurement of both the underlying and the hedge financial instrument are shown simultaneously in the statement of income.

The Group does not hold instruments for which hedge accounting would be required.

3.4.2 RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS

Buying and selling of financial assets, except loans and advances, is recognised on the trading date (day when the contract is made). Loans and advances are recognised when funds are advanced to borrowers.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition (the Group transferred all rights and risks under the financial asset). Should the Group transfer the financial asset, but retain practically all risks and rights, derecognition of the asset is not carried out.

If a financial asset is derecognised in full, the difference between the carrying value of the asset and the sum of any compensations received (including the value of new asset received, reduced by the newly assumed liability), together with accrued gains or losses which were recognised directly in equity, is recognised in the statement of income.

3.4.3 MEASUREMENT OF FINANCIAL ASSETS

Financial assets, except financial assets carried at fair value through profit or loss, are initially measured at fair value plus any transaction costs.

Financial assets carried at fair value through profit or loss are initially measured at fair value, and the transaction costs are expensed in the statement of income on the purchase date.

After they are initially recognised, financial assets held for trading and available-for-sale financial assets are measured at fair value. Fair value of financial assets is based on current bid prices as valid on the reporting date or, if such are not available, closing prices. If a quoted market price is not available, the fair value of the financial instrument is estimated using comparative pricing models or discounted cash flow techniques.

Derivatives, including foreign currency forward transactions, interest rate swaps, currency options and forward transactions in securities, are used by the Group for trading and hedging purposes and are measured at their fair value. The fair value of derivatives equals unrealised gains or losses on the valuation of derivatives at market prices or at contractual forward prices.

Available-for-sale equity instruments for which the fair value cannot be reliably estimated are measured at cost (acquisition cost increased by transaction costs and decreased by appropriate allowance for impairment).

Loans and advances are measured at amortised cost using the effective interest rate method.

Loans and advances are reported at their outstanding unpaid principal balances increased by any accrued interest and fees and reduced by appropriate allowance for impairment.

Held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated as the initially recognised amount of the receivable, reduced by repayments of the principal, increased or decreased by the accumulated difference between the initial amount and the amount due for payment, and reduced by appropriate allowance for impairment.

3.4.4 GAINS AND LOSSES

Gains and losses arising from the change in fair value of financial assets measured at fair value through profit or loss are recognised in the statement of income in the period in which they are incurred.

Gains and losses arising from the change in fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for losses due to impairment and foreign exchange gains and losses, until the financial asset is derecognised at which time the effect previously included in equity is recognised in the statement of income. Interest on available-for-sale debt securities, calculated by applying the effective interest rate method, is recognised directly in the statement of income.

'Day one profit'

Where the transaction price of an instrument in a non-active market is different to the fair value from other observable market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value in the statement of income as the 'day one profit or loss'. In cases where the data used for valuations are not 'fully marketable', the difference between the transaction price and the price based on the valuation technique is recognised in the statement of income only after the market becomes relevant, or if the instrument is disposed of.

3.4.5 RECLASSIFICATION OF FINANCIAL ASSETS

During the year ended 31 December 2012, the Group did not reclassify any of its financial assets into another category.

3.4.6 IMPAIRMENT OF FINANCIAL ASSETS

Available-for-sale financial assets

At each reporting period the Group assesses whether there is objective evidence that available-for-sale financial assets are impaired. A significant or prolonged decline in the fair value of a financial asset below its acquisition cost is taken into consideration when determining whether the asset is impaired. The decision regarding what is to be considered as a significant or prolonged decline in the fair value is based on estimates. In making such estimates, the Group, in addition to other variables, takes into account the price volatility of securities.

If an available-for-sale debt instrument is impaired, the cumulative loss recognised within other comprehensive income is transferred into the statement of income. The loss so recognised may be reversed.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurred after the impairment loss was recognised, the impairment loss is reversed through the statement of income.

In case of impairment of available-for-sale equity instruments, the loss due to impairment of an instrument is recognised in the statement of income. Reversal of impairment of an equity instrument is not carried out through the statement of income, but is, in case of a subsequent increase in fair value, disclosed directly within other comprehensive income.

Held-to-maturity financial assets

At each reporting period the Group assesses whether there is objective evidence that held-to-maturity financial assets are impaired.

The amount of impairment loss is measured as the difference between the instrument's carrying value and the present value of future cash flows discounted by the original effective interest rate. The amount of loss is recognised in the statement of income.

Loans and advances

The Group classifies each customer into the adequate credit rating category using its internal methodology. The classification of customers is based on their financial standing and performance, their ability to provide cash flow needed for the repayment of debts, their settlement of liabilities, the industry sector risk, and on subjective criteria.

The Group continuously, or at least quarterly, assesses whether impartial evidence exists, or events have occurred since recognition of an asset, and whether these events have an impact on the future cash flows of a financial asset or a group of financial assets which can be reliably assessed.

On the basis of risks associated with a customer and transaction entered into, the adequate impairment of a financial asset is made in accordance with IFRSs and an internal methodology. Significant financial assets are assessed individually for impairment. If impairment is established in an individual assessment of an asset, such asset shall be impaired individually, otherwise it shall be classified into the adequate debtor or financial asset risk category and impaired collectively. Individually insignificant financial assets are also collectively assessed for impairment.

For individually assessed financial assets, the amount of loss due to impairment is calculated as the difference between the asset's carrying value and the present value of future cash flows discounted at the contractual interest rate. If the Group possesses prime or adequate collateral, it also takes into account expected cash flows from the realisation of any such collateral.

For collectively assessed financial assets, the Group uses a model that is based on the probability of a customer becoming a defaulting customer, taking into account the amount of loss incurred by each category of defaulting customers. The probability of default and the amount of loss are calculated for each individual category of loans on the basis of information about previous defaults and losses.

The adequacy of collective impairment rates is verified on an annual basis. Collective impairment rates are calculated separately for the portfolio of loans given to retail customers and the portfolio of loans given to corporate customers.

The carrying value of an impaired asset is reduced directly, or through the allowance account. Impairment loss is recognised in the statement of income.

If the amount of impairment decreases in a subsequent period, the previously recognised impairment loss shall be reversed. The amount of reversed loss is recognised in the statement of income.

If a customer is located in a higher-risk country, the sovereign risk also has to be taken into consideration when assessing losses due to impairment.

Whenever possible, the Group strives to restructure loans rather than liquidate collateral. The restructuring of a loan can be made by extending the term of the loan or negotiating new terms and conditions for the loan. Once new terms and conditions are agreed, the loan is no longer classified as being due; however, a customer's rating cannot be upgraded only on the basis of a loan being restructured. If a loan is restructured, the Group constantly controls the borrower's compliance with the terms of the restructured loan and monitors the probability of future repayments. Such loans remain subject to collective or individual impairment calculated using the original effective interest rate of the loan.

3.5 OFFSETTING

Financial assets and liabilities are offset in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.6 SALE AND REPURCHASE AGREEMENTS

Securities purchased under agreements to resell (repos) are retained in the financial statements as loans and advances to banks or customers, as appropriate. According to the agreements on temporarily purchasing an instrument, the Group does not enter into any risk and does not enjoy any benefits from the instrument. The contractual relation is classified as a collateralised loan, and instruments which are defined in the repo contract are pledged as security. The difference between the purchase and the sale price is treated as interest income and is accrued over the life of the repo agreements using the effective interest rate method.

3.7 LEASES

Assets leased to customers under lease agreements, which transfer substantially all the risks and rewards of ownership of an item of property, plant and equipment, with or without ultimate legal title, are classified as finance leases. Depending on the lease agreement, the asset leased may be bought or returned to the lessor. As a rule, such a lease agreement cannot be unilaterally terminated. For depreciating leased assets, the same accounting policy is applied as for the Group's own assets.

A lease which is not a finance lease is an operating lease.

The Group is the lessee

Payments made under operating leases are included in the statement of income on a straight-line basis over the period of the lease.

An asset obtained on the basis of a finance lease is included within property, plant and equipment. Its acquisition cost equals the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. Lease payments are recognised as interest expense. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The Group is the lessor

Assets leased under operating lease agreements are included within investment property or property, plant and equipment. Lease income is recognised in the statement of income on a straight-line basis over the period of the lease.

When assets are held subject to a finance lease, the present value of future lease payments is recognised as a receivable under the finance lease. Income from the finance lease, which is disclosed as interest income, is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor.

3.8 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are assets which the Group uses for conducting its business. They are recorded at historical cost less accumulated depreciation and any impairment loss. Transaction costs directly attributable to the acquisition of an asset are included in the initial cost recognition.

Subsequent costs are included in the asset carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income in the financial period in which they are incurred.

The Group starts to depreciate items of property, plant and equipment when these assets are available for use. Depreciation of assets is provided individually on a straight-line basis over their estimated useful lives.

The following depreciation rates were applied in both 2011 and 2012:

- buildings 1.1% to 5%
- computer equipment 20% to 50%
- motor vehicles 12.5% to 20%
- other equipment 5% to 25%

Based on findings that the materials and technologies used for construction are constantly improving, which extends the estimated useful lives of buildings, the rate used to depreciate buildings owned by the Bank was reduced from 3% in 2011 to 2% in 2012, resulting in a year-to-year decrease of €779,000 in depreciation costs.

Land is recognised separately from buildings and, as it generally has an unlimited beneficial life, is not depreciated.

For co-divided ownership of commercial space, the value of the associated land is included in the Group's acquisition cost of the respective part of the building.

Items of property, plant and equipment are assessed due to possible impairment each time when there are indicators that, due to events or changes in the circumstances, the carrying value of an asset may not be recovered. If the estimated recoverable value of an asset is lower than its carrying amount, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in the statement of income. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

An asset is derecognised upon disposal or if the future economic benefits are no longer expected from its use.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of an item of property, plant and equipment, and are recognised net in the statement of income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

3.9 INVESTMENT PROPERTY

Items of investment property are tangible assets that the Group does not use directly in its operations; they are held with the intention of renting them out commercially.

Upon recognition, they are measured at acquisition cost, and later the Group measures items of investment property using the fair value model.

A licensed real estate appraiser verifies the fair value of items of investment property at the end of each financial year.

Gains or losses arising from changes in fair value are included in the Group's statement of income in the period to which they relate.

3.10 INTANGIBLE ASSETS

The Group possesses only intangible assets with a determinable period of useful life.

Initial recognition of an acquisition cost includes costs which are directly linked to the acquisition of an asset and are necessary for the asset to be put into use. The Group depreciates intangible assets on a straight-line basis over their estimated useful lives.

The following amortisation rates were applied in both 2011 and 2012:

- licences 10% to 20%
- other investments 10%

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

Intangible assets are tested for impairment when there are indicators that the carrying value may not be recovered. If the assessed recoverable amount of an asset is lower than its carrying value, the carrying value should be reduced to the recoverable amount and the reduction recognised as an impairment loss in the statement of income. The recoverable amount is the higher of the fair value less costs of sale and the value in use.

Goodwill

Goodwill arises when the acquisition cost of an investment in a subsidiary or jointly controlled company exceeds the company's fair value. Goodwill is tested for impairment on an annual basis. The impairment is recognised if the estimated recoverable amount is lower than the carrying value.

3.11 INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated sales price achieved in the ordinary course of business net of estimated costs of completion and costs of sale. Inventories are not revalued as a result of the increase in value.

Finished goods and work-in-progress (real estate for sale) are initially measured at direct production costs that are related directly to individual projects, and indirect production costs.

Upon initial recognition, the Group measures items of real estate received as settlement of receivables on the basis of an appraiser's report. The Group holds the items of real estate so acquired with the intention of selling them.

Acquisition cost of inventories seized under lease agreements consists of the debt of the lessee (past due and unpaid and outstanding and not yet due principal, past due and unpaid interest and other costs which can be charged to the lessee).

3.12 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of book and fair value, reduced by the costs of sale. These assets are not depreciated.

3.13 FINANCIAL LIABILITIES

Financial liabilities include liabilities due to the central bank, financial liabilities held for trading and financial liabilities measured at amortised cost.

Financial liabilities held for trading include liabilities arising from the valuation of forward sale of securities, and are measured at fair value.

Financial liabilities measured at amortised cost are deposits and loans from banks and customers, debt instruments issued and other financing liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After they are initially recognised, the liabilities are measured at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income using the effective interest rate method.

A financial liability is derecognised only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying value of a financial liability that is cancelled, or transferred to another party, and the compensation paid is recognised in the statement of income.

3.14 PROVISIONS

The Group recognises non-current provisions for liabilities and expenses due to present obligations (legal or constructive) arising from past events for which it is possible that an outflow of resources embodying economic benefits will be required to settle the obligations and a reasonable estimate of the obligation can be made. The Group creates provisions for long-term employee benefits and similar liabilities, for off-balance sheet liabilities, for pending legal issues, and other provisions.

The Group recognises provisions for pensions and similar liabilities that reflect the present value of liabilities for termination benefits and loyalty bonuses. When calculating the present value, a discount interest rate is used that is equal to the market rate of return on corporate bonds of an issuer with a high credit rating, issued in a currency that is the same as the currency of the employer's liabilities; the discount rate used for 2012 was 4.6% (2011: 5.1%). The Group recognises provisions for every employee in such a manner that termination benefits at retirement provided for by the employment contract are taken into account, as well as the costs of expected loyalty bonuses for the total years of service at the company until retirement, while taking into consideration, among other factors, employee turnover in the range of 0.4% to 1.1% (2011: 0.4% to 1.7%) and the projected increase in salaries in the range of 0.0% to 3.0% (2011: 1.6% to 3.0%). A certified actuary performs the calculation of liabilities for the Group.

The Group recognises provisions for off-balance sheet liabilities on the basis of risk classification of the customer and the transaction concluded, taking into consideration similar criteria as for the impairment of loans.

Provisions for pending legal issues represent reliably assessed amount of liability on the reporting date. Provisions are estimated on the basis of known facts of the legal proceeding, previous experiences with similar proceedings, and opinions of legal experts.

3.15 SHAREHOLDERS´ EQUITY

Share capital of the Bank is split into ordinary no-par value shares.

Treasury shares are deducted from equity.

In accordance with its Articles of Association, the Bank establishes regulatory reserves until the aggregate amount of regulatory reserves and paid-in capital surplus (share premium) equals four times the amount of share capital.

Dividends on shares are recognised as a financial liability for the period in which the Shareholders' Meeting approves the dividend payment.

3.16 COMMITMENTS AND CONTINGENCIES

The Group undertakes transactions in financial instruments that carry off-balance sheet risk, such as financial and service guarantees, letters of credit and credit lines.

Financial guarantees

Off-balance sheet commitments under guarantees represent irrevocable obligations that the Group will make payments in the event a customer cannot fulfil its obligations vis-à-vis third parties.

Fees received are amortised to the statement of income using the straight-line method.

Risks associated with off-balance sheet financial commitments and contingent liabilities are assessed similarly as for loans. Any increase in liability as a result of estimated expenses required for the settlement of contractual obligations is included in the item 'Provisions'.

3.17 INTEREST INCOME AND INTEREST EXPENSE

Income is recognised when a probability of future economic benefits exists, and such benefits can be reliably measured.

Interest income and expense are recognised in accrued amounts at a level, with maturities, and in the manner set out in the Group's decision on interest rates, or based on an agreement between the Group and its customer.

All interest income and expense from operations in financial assets are recognised in the statement of income using the effective interest rate method.

The following items are included in interest income: regular, default and accrued interest, as well as prepaid fees for costs of repaying non-current loans given to households. These fees are transferred to income in line with the loan repayment period.

Income from finance lease is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor; it is disclosed as interest income.

All interest on deposits, securities issued, loans received and other expenses on financial liabilities are included in interest expense.

3.18 DIVIDEND INCOME

Dividends or participating interests received from equity investments in companies are included in the dividend income. The Group recognises dividend income in the statement of income upon obtaining the right to dividend.

3.19 FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSE

Fee and commission income includes fees and commissions for services rendered by the Group. Fee and commission expense includes amounts paid for the services of others.

Fee and commission income and expense are recognised in the statement of income when the service is rendered.

3.20 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Realised gains and losses on available-for-sale financial assets, loans measured at amortised cost and held-to-maturity financial assets are recognised in the statement of income upon selling the asset, at maturity, or upon other derecognition of the financial asset.

3.21 NET GAINS AND LOSSES ON FINANCIAL ASSETS HELD FOR TRADING

Net gains and losses from trading include realised and unrealised gains and losses on financial assets held for trading, valuation of derivatives and net gains from buying and selling foreign currency.

3.22 OTHER NET OPERATING INCOME OR LOSS

Other net operating income or loss includes realised gains and losses from non-banking activities (income from leases, selling of inventory, expenses for memberships and contributions, other expenses).

3.23 IMPAIRMENT

The Group includes the following categories in the item 'Impairment losses': impairment of financial assets not measured at fair value through profit or loss; impairment of items of property, plant and equipment; impairment of intangible assets; and impairment of items of investment property.

3.24 TAXES

Income tax is disclosed in the amount as accounted for by the Group companies on the basis of the applicable local legislation. Deferred tax is calculated for all temporary differences between the value of assets and liabilities for tax purposes and their carrying value. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

The most significant temporary differences arise from the valuation of financial instruments, and from provisions.

Deferred tax is recognised for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which temporary differences can be charged.

Deferred tax relating to the valuation of available-for-sale financial instruments and measured at fair value is disclosed directly within other comprehensive income.

3.25 REPORTING BY SEGMENTS

A segment is recognisable as an integral part of the Group engaged in marketing of products or services (operating segment) and is subject to risks and returns different from those in other segments. Reporting by segments for management purposes is the same as presented in the financial statements.

With the aim of effectively managing its operations, the Group is organised into five operating segments based on products and services provided. These segments are:

Banking	Banking and financial services provided in accordance with the Banking Act: Acceptance of deposits, granting of loans, factoring and financing commercial transactions, payment transaction services, issuance and management of payment instruments, issuance of guarantees and other commitments.
Fund management	Management of financial funds.
Leasing	Finance and operating leasing of moveable property, equipment and real estate.
Real estate activity	Real estate operations, investment engineering and project financing.
Other	Coordination of the Moneta system development.

The management controls the results of operating segments to make proper investment decisions and to assess the performance of segments. Segment performance is assessed based on operating profit or loss which, in certain respects, is different to operating results disclosed in the consolidated financial statements.

The Group does not gather information by geographical regions because more than 90% of its operations are carried out in the domestic market.

3.26 STANDARDS AND INTERPRETATIONS

The accounting policies used to prepare the consolidated financial statements are consistent with those of the previous financial year, except for new and amended standards and interpretations effective as of 1 January 2012, as presented below:

- **Disclosures required by IAS 8.28** – information regarding initial application of particular new regulations.

In the current period, the following amendments to existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- **Amendments to IFRS 7** – Financial instruments: Disclosures – Transfer of financial assets; adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011). The adoption of these amendments to the existing standard has not led to any changes in the Group's accounting policies.

- **Disclosures required by IAS 8.30-31** – regarding already published standards to become effective at a later date. The Group has not early adopted any standard or interpretation issued but not yet effective.

Standards and interpretations issued by the IASB and adopted by the EU but not yet effective

At the date of authorisation of the consolidated financial statements included in this report, the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10** – Consolidated Financial Statements; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **IFRS 11** – Joint Arrangements; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **IFRS 12** – Disclosure of Interests in Other Entities; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **IFRS 13** – Fair Value Measurement; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **IAS 27 (revised in 2011)** – Separate Financial Statements; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **IAS 28 (revised in 2011)** – Investments in Associates and Joint Ventures; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **Amendments to IFRS 1** – First-time adoption of IFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IFRS 7** – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IAS 1** – Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income; adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012).

- **Amendments to IAS 12** – Income Taxes – Deferred Tax: Recovery of Underlying Assets; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IAS 19** – Employee Benefits – Improvements for the Accounting for Post-employment Benefits; adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IAS 32** – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **IFRIC 20** – Stripping Costs in the Production Phase of a Surface Mine; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

Standards and interpretations issued by the IASB but not yet adopted by the EU

At present, IFRSs as adopted by the EU do not differ significantly from regulations adopted by the IASB, except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 8 March 2013:

- **IFRS 9** – Financial Instruments (effective for annual periods beginning on or after 1 January 2015). The implementation of IFRS 9 will have an impact on the Group's financial statements, but its application will not be mandatory before 1 January 2015. The Group has not yet calculated the impact of IFRS 9 on its financial statements.

- **Amendments to IFRS 1** – First-time adoption of IFRSs – Government Loans (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IFRS 9** – Financial Instruments, and **IFRS 7** – Financial Instruments: Disclosures – Mandatory Effective Date and Transition Disclosures (the effective date of application has not been determined yet).

- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 11** – Joint Arrangements, and **IFRS 12** – Disclosures of Interests in Other Entities – Transition Guidance (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 12** – Disclosure of Interests in Other Entities, and **IAS 27** – Separate Financial Statements – Investment Entities (effective for annual periods beginning on or after 1 January 2014).

- **Amendments to various standards – Improvements to IFRSs (2012)** arising from the annual improvements project, published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34). Improvements were made mainly with the aim of remedying inconsistencies and clarifying the wording of the standards (effective for annual periods beginning on or after 1 January 2013).

Hedge accounting in respect of the portfolio of financial assets and liabilities, the principles of which have not yet been adopted by the EU, remains unregulated. The Group estimates that the application of hedge accounting in respect of the portfolio of financial assets and financial liabilities, as required by **IAS 39** – Financial Instruments: Recognition and Measurement, would have no material impact on its financial statements, if applied as at the reporting date.

The Group has not early adopted any standard or interpretation issued but not yet effective.

The Group anticipates that the adoption of the aforementioned standards, amendments to the existing standards and interpretations, with the exception of IFRS 9, will have no material impact on its financial statements in the period of initial recognition.

4 RISK EXPOSURE

The Group revises the document Strategy of the Nova KBM Group on an annual basis. The Strategy is the key document in the preparation of annual business plans.

The Bank's Management Board delegates risk oversight and management to the senior management (policy holders). The policy holders, together with officers responsible for particular policies, determine the method of measuring individual risks. The responsible officers are specialised in defining, measuring and controlling individual risks. The organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the rules of procedure, each risk management policy has to be approved by the committee in charge of overseeing risk management policies and, in addition, agreed by the President of the Management Board or his deputy. The Group companies may use their own approach in managing individual risks, taking into consideration the importance of risk and the regulatory framework.

4.1 CREDIT RISK

Credit risk is the risk of loss resulting from the failure of a Group's debtor to discharge its liabilities. The Group is exposed to credit risk through its loan portfolio.

The management of credit risk is carried out at the customer level, by individual Group members, as well as at the Group level. The Bank controls credit risk to which the Group companies are exposed through its representatives on supervisory boards and credit committees of subsidiary companies.

The Group manages credit risk in several ways, such as by:

- identifying the risk related to debtors and recognising impairment of financial assets and provisions for off-balance sheet liabilities in accordance with International Financial Reporting Standards
- providing capital to ensure sufficient capital coverage of credit risk
- setting exposure limits for debtors, groups of related persons, industry sectors and market segments
- properly securing financial assets.

The Group's exposure to credit risk arising from loans and advances given to banks and customers is described below.

4.1.1 BAD AND DOUBTFUL LOANS

The Group defines as non-performing loans (NPLs) such loans for which it reasonably believes that the debtor will not settle all of its liabilities within the contractual period. In a narrower sense, loans to D- and E-rated customers are treated as NPLs, while in a broader sense, loans to C-rated customers are also included in NPLs.

The following customers are classified into the D and E credit rating category:

- customers that have been over 180 days late in paying their liabilities to any of the Group companies
- customers that have filed for receivership
- customers that have filed for bankruptcy
- customers for whom the Group has information which indicates that they may be incapable of paying their liabilities to any of the Group companies.

The Group defines as doubtful loans such loans that are classified in the C credit rating category. The following customers are classified into this category:

- customers that have been over 90 days late in paying a significant amount due to any of the Group companies
- customers for whom substantial likelihood exists that their future cash flows will not set off their liabilities to any of the Group companies
- customers for whom the Group has negative information on their performance
- customers who have disclosed insufficient or negative capital in their financial statements.

4.1.2 INTEREST RATES AND LOAN APPROVAL FEES

Interest rates are determined in accordance with the adopted credit policies of Group companies. Interest rates depend on the basic interest rate, the purpose of a loan, the borrower's track record of cooperation with Group companies, the borrower's rating, the maturity of a loan, and the type of collateral provided for a loan.

Loan approval fees are determined in accordance with applicable decisions adopted by the management board of individual Group companies, and in accordance with their respective credit policies.

4.1.3 EXPOSURE LIMITS

With respect to limiting its exposure, the Group takes into account all applicable regulatory limitations. In compliance with Slovene banking laws and regulations, exposure to a single customer or to a group of related customers shall not exceed 25% of the Group's equity.

4.1.4 LOAN COLLATERAL POLICY

As a rule, loans are not granted without the borrower providing at least one type of collateral.

Unsecured loans are exception and are approved only to risk-free customers. Loans granted to all other customers are secured by at least one type of collateral. The type of collateral required depends on:

- type of a customer (including its legal status)
- customer's credit rating
- type and maturity of a loan
- customer's repayment capabilities
- customer's relationship with the Group and with other customers
- customer's track record of cooperation with the Group.

Banks in the Group determine eligibility criteria for collateral to be provided in their loan collateral policies. With respect to the adequacy of collateral provided for reducing credit risk, the following classification has been adopted:

- prime collateral
- adequate collateral
- pledge of moveable property or real estate
- other types of collateral.

Leasing companies in the Group are legal owners of assets leased under lease agreements.

Non-banking Group companies define the type of collateral to be provided in their risk management policies.

4.1.5 COUNTERPARTY CREDIT RISK

As of 31 December 2012, the share of performing loans (A- and B-rated loans) accounted for 59.73% of the total loans, compared to 70.09% at the 2011 year-end.

The following table sets forth, for the periods indicated, the structure of the loan portfolio by credit rating category:

	31.12.2012	31.12.2011
Credit rating category	**% of portfolio**	**% of portfolio**
A	39.05	45.15
B	20.68	24.94
C	18.06	14.84
D	5.15	3.28
E	17.06	11.79

Analysis of exposure to credit risk

	Loans to customers		Loans to banks	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Net disbursed loans	**3,397,900**	**3,844,085**	**162,408**	**177,420**
Individual impairment				
Gross amount	1,326,563	1,060,635	37,781	37,926
Impairment	(547,759)	(341,592)	(2,878)	(3,429)
Net amount	778,804	719,043	34,903	34,497
Collective impairment				
Credit rating A	1,313,927	1,669,190	0	0
Credit rating B	890,162	1,050,560	0	0
Credit rating C	370,368	337,034	0	0
Credit rating D	20,319	25,815	0	0
Credit rating E	41,297	42,677	0	0
Gross amount	**2,636,073**	**3,125,276**	**0**	**0**
Impairment	**(93,599)**	**(101,729)**	**0**	**0**
Net amount	**2,542,474**	**3,023,547**	**0**	**0**
Net non-impaired loans	**76,622**	**101,495**	**127,505**	**142,923**
Total net loans	**3,397,900**	**3,844,085**	**162,408**	**177,420**

The total amount of disbursed loans decreased year-on-year by 11.47% to €3,560,308,000 as of 31 December 2012.

Loans of €1,364,344,000 were individually impaired, with impairment losses of €550,637,000 being set aside for this portion of the portfolio. Loans in the amount of €2,636,073,000 were collectively impaired, with impairment losses of €93,599,000 being recognised for this portion of the portfolio.

The following table shows net exposure by credit rating and impairment method, without taking account of collateral provided:

Analysis of net exposure without taking account of collateral

	31.12.2012	31.12.2011
Individual impairment	**941,212**	**896,463**
Collective impairment		
Credit rating A	1,346,640	1,678,454
Credit rating B	891,839	1,106,457
Credit rating C	360,683	313,524
Credit rating D	11,173	14,952
Credit rating E	8,761	11,655
Total net exposure	**3,560,308**	**4,021,505**

Credit risk by market segments

The following tables set forth, for the periods indicated, the volume of loans and total impairment losses by market segments:

Analysis of loans by market segments

	31.12.2012	31.12.2011
Large corporate customers	1,078,571	1,167,705
Micro enterprises and SMEs	1,376,791	1,455,727
Sole proprietors	146,792	169,565
Households	1,016,742	1,072,085
Other	585,648	603,173
Domestic banks	65,551	66,298
State	21,741	17,499
Non-profit household service providers	4,969	6,028
Foreign banks	99,735	114,551
Foreign customers	338,066	375,382
Customers not classified by market segment	55,586	23,415
Total gross loans	**4,204,544**	**4,468,255**

Analysis of total loan impairment losses by market segments

	31.12.2012	31.12.2011
Large corporate customers	180,137	139,027
Micro enterprises and SMEs	307,444	192,936
Sole proprietors	14,305	15,259
Households	33,431	27,693
Other	108,919	71,835
Domestic banks	13	4
State	752	264
Non-profit household service providers	158	160
Foreign banks	2,865	3,425
Foreign customers	82,530	63,502
Customers not classified by market segment	22,601	4,480
Total loan impairment losses	**644,236**	**446,750**

Past due and unpaid claims

	31.12.2012				
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	0	0	0	2,585	2,585
State	149	1	0	2	152
Legal entities	51,010	21,044	13,605	797,255	882,914
Households	4,801	2,909	923	42,477	51,110
Total	**55,960**	**23,954**	**14,528**	**842,319**	**936,761**

	31.12.2011				
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	2	0	0	3,065	3,067
State	311	0	0	3	314
Legal entities	28,730	9,501	19,425	549,624	607,280
Households	6,509	951	707	37,226	45,393
Total	**35,552**	**10,452**	**20,132**	**589,918**	**656,054**

Past due but not impaired claims

31.12.2012			
Up to 30 days	31 to 90 days	Over 90 days	Total
1,703	5,462	44,081	51,246

31.12.2011			
Up to 30 days	31 to 90 days	Over 90 days	Total
4,582	1,880	31,364	37,826

Outstanding loan recovery

Banks in the Group have special departments in charge of bad and doubtful loan recovery. These departments are responsible for controlling and resolving outstanding and bad loans in accordance with regulatory requirements as well as internal instructions and documents.

The Loan Recovery Department is responsible for monitoring and resolving outstanding and bad loans in accordance with regulatory requirements and internal documents. The latter determine the method of transferring bad loans to the Loan Recovery Department for recovery. Outstanding or bad loans are initially handled at the commercial departments' level, with coordination and assistance by the Loan Recovery Department, as needed. When outstanding loans are transferred to the Loan Recovery Department, the Department evaluates all available information, particularly collateral coverage of outstanding loans, and assesses the expected level of loss. The Loan Recovery Department also evaluates the underlying reasons for default to prevent future loans from becoming bad loans.

Following the transfer of a loan, the Loan Recovery Department contacts the borrower to find out the options for restructuring the loan, by extending the term of the loan in order to restore the borrower's ability to resume repayments of liabilities. The Bank also tries to obtain additional collateral. If the loan is restructured, the Loan Recovery Department monitors the borrower's compliance with the terms of the restructured loan.

If a loan cannot be restructured, the Loan Recovery Department triggers appropriate measures in order to reach an agreement with the debtor for an out-of-court settlement.

Sometimes additional measures can be taken to recover some or all of the given funds, such as selling receivables to third parties.

Bad loans are written off after the Loan Recovery Department has taken all the necessary and sufficient measures provided by law and internal regulations to recover the loan. Possible subsequent recoveries of loans of loans are credited to the statement of income.

Collection of bad loans in the non-banking Group companies is governed by respective risk management policies. The Group companies treat as doubtful claims such claims that are in arrears over 90 days. Leasing companies have set up special units for dealing with doubtful investments.

Bad loans are written off after the Loan Recovery Department has taken all necessary and sufficient measures provided by law and internal regulations to recover the loan. Write-offs must be approved according to internal regulations at different levels: executive directors, the Management Board and the Supervisory Board, based on the size of write-off.

NPLs of the total loan portfolio

	31.12.2012	31.12.2011
Gross NPLs (D, E)*	933,694	673,289
Impairment losses for NPLs (D, E)	476,458	313,546
Net NPLs (D, E)	457,236	359,743
Total gross loan portfolio	4,204,544	4,468,255
Total net loan portfolio	3,560,308	4,021,505
Gross NPLs/Total gross loan portfolio (%)	22.21	15.07
Net NPLs/Total net loan portfolio (%)	12.84	8.95

* Gross NPLs (D, E) include collectively impaired loans, which are classified in credit rating categories D and E and for which prime collateral has not been provided, and individually impaired loans, the basic credit rating of which is D or E.

In 2012, the Group continued to collect the unpaid obligations of customers by liquidating instruments of collateral through regular court proceedings and in out-of-court settlements.

The Group has set aside adequate impairment losses for NPLs on the basis of anticipated cash flows generated from the liquidation of collateral. The parameters used to calculate individual impairments are verified at least once a year.

If a customer is willing to actively cooperate in the out-of-court settlement, and on the condition that a Group member (i) holds a mortgage that has all the elements of a suitable mortgage, (ii) possesses a valid appraisal of the property provided to it as security for the loan, and (iii) is registered as the first-priority mortgage creditor, the expected cash flow generated from the liquidation of pledged property, which is used to determine impairment losses, is calculated by taking into account 70% to 80% of the appraised value of pledged property, and the liquidation period of between six months and one year.

If the out-of-court settlement is not successful, the Loan Recovery Department assesses the expected cash flow generated from the liquidation of pledged property by generally taking into account 50% of the appraised value of pledged property and the liquidation period of five years.

In cases where the property cannot be sold at auctions, it is purchased by KBM Invest, a subsidiary company engaged in the sale and brokerage of real estate.

Other types of security for loans may be taken into account in the calculation of individual impairments only if the expected cash flow and the repayment period can be realistically assessed.

Analysis of loans and the percentage of NPLs by industry sectors

The following table sets forth, for the periods indicated, the total gross loans and NPLs by industry sector of debtors, and the percentage of NPLs within each industry sector:

Industry sector	31.12.2012			31.12.2011		
	Total loans	NPLs	Share of NPLs (%)	Total loans	NPLs	Share of NPLs (%)
Households	1,016,742	31,257	3.07	1,094,298	35,142	3.21
Agriculture and hunting, forestry, fishing	42,582	8,637	20.28	30,620	3,713	12.13
Mining	4,712	3,726	79.07	5,762	3,601	62.50
Manufacturing industry	841,441	217,135	25.81	895,378	180,844	20.20
Electricity, gas and steam supply	106,380	0	0.00	93,789	0	0.00
Water supply, waste and sewage management, rehabilitation of the environment	15,071	3,003	19.93	14,284	926	6.48
Construction	457,956	259,989	56.77	501,126	184,056	36.73
Trade, maintenance and repair of motor vehicles	446,943	85,496	19.13	510,873	65,906	12.90
Transportation and storage	83,561	13,648	16.33	91,767	13,826	15.07
Accommodation and food service activities	157,061	40,573	25.83	155,786	24,413	15.67
Information and communication activities	89,806	40,354	44.93	67,243	33,577	49.93
Financial intermediation	458,520	101,997	22.24	505,203	50,644	10.02
Real estate activities	140,527	62,619	44.56	133,427	26,470	19.84
Professional, scientific and technical activities	182,742	52,162	28.54	194,109	39,919	20.57
Other various business activities	17,561	6,277	35.74	20,338	4,878	23.98
Public administration and defence services, compulsory social security activities	19,938	221	1.11	24,217	234	0.97
Education	5,192	412	7.94	8,138	275	3.38
Health and welfare security	33,871	113	0.33	30,926	70	0.23
Arts, entertainment and recreation	68,913	3,580	5.19	77,259	3,723	4.82
Other activities	15,025	2,495	16.61	13,712	1,072	7.82
Total gross loans	**4,204,544**	**933,694**	**22.21**	**4,468,255**	**673,289**	**15.07**

* Loans given to sole proprietors were in 2011 included within loans to households (a total of €22.2 million), while in 2012, they were included in relevant sectors.

Analysis of collateral – value of collateral for given loans

		31.12.2012	31.12.2011
1.	**Collateral for individually impaired loans**	**1,502,097**	**1,051,387**
	- moveable and immoveable property	1,164,227	717,928
	- debt securities	0	0
	- equity instruments	79,180	59,328
	- other	258,690	274,131
2.	**Collateral for collectively impaired loans**	**4,287,650**	**5,077,960**
	- moveable and immoveable property	3,268,668	3,272,566
	- debt securities	241	1,274
	- equity instruments	168,402	174,005
	- other	850,339	1,630,115
3.	**Collateral for non-impaired loans**	**104,152**	**134,751**
	- moveable and immoveable property	962	9,464
	- debt securities	2,900	2,657
	- equity instruments	898	0
	- other	99,392	122,630
4.	**Total**	**5,893,899**	**6,264,098**

As of 31 December 2012, the total amount of collateral in the form of moveable and immoveable property was €4,433,857,000, of which 73.72% related to collectively impaired loans and 26.26% related to individually impaired loans.

Collateral of €3,141,000 was in the form of debt securities, of which €241,000 related to collectively impaired loans and €2,900,000 related to non-impaired loans.

Collateral in the form of equities amounted to €248,480,000, of which 67.77% related to collectively impaired loans, 31.87% related to individually impaired loans and 0.36% related to non-impaired loans.

A significant part of the Group's loan portfolio is secured by real estate and equities. The estimated value of this collateral, which may have a material effect on the financial statements owing to inactivity of the Slovene real estate market, is based on market data. In addition, a number of equities pledged as security for loans are not quoted on a stock exchange and are not traded in markets. There is uncertainty as to the future economic situation, which may have an impact on the value of collateral and the time needed for its realisation.

Analysis of exposure by market segments and regions

	Loans to customers		Loans to banks	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
CARRYING (NET) AMOUNT	**3,397,900**	**3,844,085**	**162,408**	**177,420**
By market segment	**3,397,900**	**3,844,085**	**162,408**	**177,420**
- non-financial companies	1,902,645	2,183,182	0	0
- other monetary financial organisations	0	0	65,535	66,294
- other financial intermediaries, except insurance companies and pension funds	86,978	109,105	0	0
- auxiliary financial service providers	11,137	15,107	0	0
- insurance companies and pension funds	7	2,986	0	0
- central government	5,495	8,214	0	0
- local government	8,315	9,039	0	0
- social security funds	0	9	0	0
- households	1,115,799	1,198,695	0	0
- non-profit household service providers	4,811	5,868	0	0
- foreign persons	262,713	311,880	96,873	111,126
By region	**3,397,900**	**3,844,085**	**162,408**	**177,420**
- Slovenia	3,135,187	3,532,205	65,535	66,294
- European Monetary Union	14,003	14,401	61,700	50,757
- other European Union	1,019	1,597	5,208	5,481
- republics of the former Yugoslavia	243,972	287,340	21,003	41,212
- other	3,719	8,542	8,962	13,676

As of 31 December 2012, net loans given to banks totalled €162,408,000 and net loans to customers totalled €3,397,900,000. Of the latter figure, the largest proportion related to non-financial companies (55.99%), followed by households (32.84%).

Loans given to customers headquartered in the Republic of Slovenia accounted for 92.27% of the total loans to customers. Of the non-banking loans granted to foreign persons, the largest proportion, i.e. 7.18% of the total loans to customers, related to customers in the republics of the former Yugoslavia.

Of the loans given to banks, a total of 40.35% related to loans to domestic banks. Having a share of 37.99%, loans given to banks in the European Monetary Union accounted for the largest proportion of the total exposure to foreign banks.

4.2 LIQUIDITY RISK

Liquidity risk arises from maturity mismatches between assets and liabilities. The Group companies monitor daily liquidity in accordance with regulatory requirements and methodologies, taking into account their activities and the volume of operations. In its liquidity projections, the Bank takes into account liquidity needs of Group companies. The Group uses a harmonised method for monitoring structural liquidity.

During the year ended 31 December 2012, the Group managed liquidity risk in accordance with its Policy of Managing Liquidity Risk in the Nova KBM Group which sets out the methods and responsibilities for managing assets and liabilities to provide for sufficient cash inflows within a certain period of time. The Policy sets out the measures for assessing, measuring, managing and controlling liquidity. The Policy includes liquidity planning for the timely repayment of obligations, measures to be adopted under adverse liquidity conditions, and procedures for checking variables on the basis of which the policy for managing liquidity risk has been formulated.

The Group companies have prepared business continuity plans for managing liquidity risk that set out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position. The Group carries out, on a monthly basis, liquidity stress tests in compliance with the Methodology for Implementing Stress Scenarios of Liquidity Risk in the Nova KBM Group. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on the Group's liquidity position, and for preparing measures to mitigate the liquidity risk.

Net liquid assets

The Group uses an internal methodology for determining net liquid assets, which represent the difference between the portion of assets that can be converted into liquid funds within a short period of time, and the unstable portion of liabilities. The unstable portion of liabilities is the portion of the Group's liabilities that may become due in the same short period of time. According to an internal regulation, at least a positive amount of net liquid assets must be maintained for the Group's operational and regulatory liquidity.

Liquidity gap

The liquidity gap, which is regularly controlled and thoroughly analysed by individual time buckets, is a measure of the level of maturity matching of assets and liabilities. The Group cannot avoid the liquidity gap, but can manage it effectively. A positive gap represents a surplus of funds that can be invested profitably. On the other hand, a negative gap is a sign of a shortage of funds that needs to be provided for.

Analysis of liquidity risk as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	223,882	223,881	0	0	0	1
Financial assets held for trading	1,572	1,572	0	0	0	0
Financial assets designated at fair value through profit or loss	34,563	34,043	0	520	0	0
Available-for-sale financial assets	589,413	589,413	0	0	0	0
Loans and advances	3,633,260	1,046,893	194,814	662,115	1,092,463	636,975
Held-to-maturity financial assets	500,108	23,615	2,012	210,454	231,613	32,414
Other assets*	339,012	101,496	5,687	10,409	38,162	183,258
Total assets	**5,321,810**	**2,020,913**	**202,513**	**883,498**	**1,362,238**	**852,648**
Liabilities						
Financial liabilities due to the central bank	485,149	0	8,004	0	477,145	0
Financial liabilities held for trading	1,658	1,658	0	0	0	0
Financial liabilities measured at amortised cost	4,528,517	1,784,165	539,743	1,155,013	859,867	189,729
Financial liabilities associated to transferred assets	0	0	0	0	0	0
Other liabilities*	306,486	9,058	7,028	14,528	18,865	257,007
Total liabilities and equity	**5,321,810**	**1,794,881**	**554,775**	**1,169,541**	**1,355,877**	**446,736**
Assets-liabilities (including equity) mismatch	**0**	**226,032**	**(352,262)**	**(286,043)**	**6,361**	**405,912**
Guarantees	**294,654**	**31,544**	**29,378**	**95,240**	**88,318**	**50,174**

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with maturity of up to and over five years.

Non-derivative balance sheet liabilities as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities due to the central bank	492,660	259	8,522	2,331	481,548	0
Financial liabilities held for trading	1,658	1,658	0	0	0	0
Financial liabilities measured at amortised cost	4,741,714	1,794,847	553,959	1,209,057	972,363	211,488
Financial liabilities associated to transferred assets	0	0	0	0	0	0
Other liabilities	306,486	9,058	7,028	14,528	18,865	257,007
Total liabilities	**5,542,518**	**1,805,822**	**569,509**	**1,225,916**	**1,472,776**	**468,495**
Guarantees	**294,654**	**31,544**	**29,378**	**95,240**	**88,318**	**50,174**

The table above shows non-discounted contractual balance sheet liabilities. A significant portion of the Group's liabilities falls within a one-month period, referring to sight deposits. The Group monitors the stability of sight deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in sight deposits.

Derivatives as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	90,691	7,125	20,820	62,746	0	0
inflow	90,813	7,173	20,802	62,838	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	1,555	930	625	0	0	0
inflow	809	174	635	0	0	0
TOTAL OUTFLOW	**92,246**	**8,055**	**21,445**	**62,746**	**0**	**0**
TOTAL INFLOW	**91,622**	**7,347**	**21,437**	**62,838**	**0**	**0**

The table above presents non-discounted cash flows on derivatives. The figures were translated into the euro at the ECB exchange rate effective as of 31 December 2012. The table takes into account the method of settlement, which is in most cases done on a gross amount basis.

Analysis of liquidity risk as of 31 December 2011

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	147,373	147,332	0	0	0	41
Financial assets held for trading	8,741	8,741	0	0	0	0
Financial assets designated at fair value through profit or loss	38,475	0	27,161	11,314	0	0
Available-for-sale financial assets	699,603	699,603	0	0	0	0
Loans and advances	4,040,238	859,029	231,016	926,402	1,287,563	736,228
Held-to-maturity financial assets	449,605	3,975	10,599	39,408	360,226	35,397
Other assets*	429,036	84,768	17,822	27,648	98,913	199,885
Total assets	**5,813,071**	**1,803,448**	**286,598**	**1,004,772**	**1,746,702**	**971,551**
Liabilities						
Financial liabilities due to the central bank	415,478	0	70,382	0	345,096	0
Financial liabilities held for trading	2,486	2,486	0	0	0	0
Financial liabilities measured at amortised cost	4,901,890	1,943,518	588,434	1,151,987	1,050,202	167,749
Financial liabilities associated to transferred assets	8,022	8,022	0	0	0	0
Other liabilities*	485,195	14,757	4,390	13,754	17,074	435,220
Total liabilities and equity	**5,813,071**	**1,968,783**	**663,206**	**1,165,741**	**1,412,372**	**602,969**
Assets-liabilities (including equity) mismatch	**0**	**(165,335)**	**(376,608)**	**(160,969)**	**334,330**	**368,582**
Guarantees	**349,962**	**28,534**	**37,416**	**119,246**	**110,947**	**53,819**

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with maturity of up to and over five years.

Non-derivative balance sheet liabilities as of 31 December 2011

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities due to the central bank	425,528	347	71,075	3,119	350,987	0
Financial liabilities held for trading	2,486	2,486	0	0	0	0
Financial liabilities measured at amortised cost	5,182,123	1,949,941	601,216	1,218,951	1,211,353	200,661
Financial liabilities associated to transferred assets	8,022	8,022	0	0	0	0
Other liabilities	485,195	14,758	4,390	13,754	17,074	435,220
Total liabilities	**6,103,354**	**1,975,554**	**676,681**	**1,235,824**	**1,579,414**	**635,881**
Guarantees	**349,962**	**28,534**	**37,416**	**119,246**	**110,947**	**53,819**

The table above shows non-discounted contractual balance sheet liabilities. A significant portion of the Group's liabilities falls within a one-month period, referring to the sight deposits. The Group monitors the stability of sight deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in sight deposits.

Derivatives as of 31 December 2011

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	108,437	12,635	23,081	72,721	0	0
inflow	108,758	12,766	24,083	71,909	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	120	0	0	120	0	0
inflow	107	0	0	107	0	0
TOTAL OUTFLOW	**108,557**	**12,635**	**23,081**	**72,841**	**0**	**0**
TOTAL INFLOW	**108,865**	**12,766**	**24,083**	**72,016**	**0**	**0**

The table above presents non-discounted cash flows on derivatives. The figures were translated into the euro at the ECB exchange rate effective as of 31 December 2011. The table takes into account the method of settlement, which is in most cases done on a gross amount basis.

4.3 MARKET RISKS

The Group monitors market risks of trading book and markets risks of banking book separately. The method of monitoring and reporting as well as of limiting exposure to market risks is set out in the respective risk management policies. The Group companies monitor market risks in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

4.3.1 POSITION RISK

Position risk is a risk of loss arising due to a change in the price of financial instrument that the Group holds in its portfolio for the purpose of trading on its proprietary account.

The trading limit methodology is based on the value-at-risk (VaR) measure and is compliant with Basel requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The basis for determining trading limits is the capital requirement set out in the financial plan. The Group measures the market value of all trading items on a daily basis. The volume of transactions by specific type of financial instruments is defined in detail by the methodology for setting limits.

The Group monitors VaR of trading portfolios on a daily basis.

The aggregate value-at-risk of the Group's trading portfolios for the year 2012 demonstrates with a 99% probability that, by holding the unchanged position in securities, the portfolio loss over the 10 consecutive working days would not exceed €475,000.

10-day VaR in 2012

Maximum	Minimum	Average
€475,000	€78,000	€140,000

10-day VaR in 2011

Maximum	Minimum	Average
€339,000	€111,000	€174,000

4.3.2 INTEREST RATE RISK

Interest rate risk is the risk of loss arising due to changes in interest rates or the structure of interest rates for maturity mismatches of interest-bearing assets and liabilities with regard to interest rate repricing and the remuneration method.

Interest rate risk management of trading book items is included in the methodology for monitoring trading limits. Interest rate risk management of non-trading book items is carried out using an interest rate matching methodology.

The Group monitors interest-bearing statement of financial position items and off-balance sheet items with regard to maturity of variable interest rate items, separated by the key currencies and reference interest rates in which it operates.

The Group calculates, on a quarterly basis, the results of the standardised stress test for interest rate risk as the impact of a parallel shift in the interest rate curve on its equity and net interest income in a period of one year.

The impact of the results of the standardised stress test on the Group's equity, as of 31 December 2012

Currency	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(34)	(235)	(2,650)	(24,246)	(13,034)	(40,199)
USD	0	0	0	0	0	0
RSD	(6)	0	0	0	0	(6)
Total	**(40)**	**(235)**	**(2,650)**	**(24,246)**	**(13,034)**	**(40,205)**

The impact of the results of the standardised stress test on the Group's equity, as of 31 December 2011

Currency	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(43)	(614)	(1,177)	(31,628)	(12,616)	(46,078)
USD	0	0	0	0	0	0
RSD	(4)	0	0	0	0	(4)
Total	**(47)**	**(614)**	**(1,177)**	**(31,628)**	**(12,616)**	**(46,082)**

The tables above show the decline in the fair value of the debt securities portfolio in case of a parallel rise of the interest rate curve by 200 basis points. The change in fair value is reflected in equity.

The impact of the results of the standardised stress test on the Group's net interest income, as of 31 December 2012

	+ 200 basis points	- 200 basis points
EUR	10,527	(990)
CHF	854	(1)
USD	296	(14)
HRK	3	(1)
RSD	171	(172)
Other	53	(53)
Total	**11,904**	**(1,231)**

The impact of the results of the standardised stress test on the Group's net interest income, as of 31 December 2011

	+ 200 basis points	- 200 basis points
EUR	9,836	(5,580)
CHF	(653)	23
USD	(132)	24
HRK	44	(44)
RSD	237	(238)
Other	83	(83)
Total	**9,415**	**(5,898)**

The tables above show the impact of a shift of the interest rate curve on the Group's net interest income in a period of one year.

In addition to the standardised stress test analysis, the Group calculates its exposure to interest rate changes as the change of the net current value of the difference between assets and liabilities subject to variable interest rate in a given period and the expected interest rate changes in the next three months. The expected interest rate changes are calculated as the difference between current and term interest rates, separated for each currency and maturity handled. An analysis of interest rate risk at the Group level is made on a quarterly basis. The Group companies monitor interest rate risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The analysis treats net positions in individual interest rate repricing periods as fixed-coupon debt securities. A longer interest rate repricing period has a larger impact on net current value of assets and liabilities. The interest rate risk analysis made for the Group showed, for the 2012 year-end, a probable negative effect on the net present value of all interest-sensitive items in the total amount of €1,882,000, compared to €1,811,000 a year earlier. The main advantage of this analysis when compared to the standardised interest rate stress test lies in anticipation of probable interest rate changes in the observed period. The Group is exposed mainly to interest rates for EUR, USD, CHF, HRK and RSD.

The impact of interest rate changes on profit or loss is measured for a one-year period. For calculating the change in interest income, the current interest rate is used for the period until the change of interest rate, after which date and until the end of a one-year period the changed interest rate is taken into consideration. The average interest rate repricing period by individual time buckets is used to calculate interest. At the 2012 year-end, the anticipated interest rate change in a three-month period would result in an annual increase in interest income of €1,350,000, compared to an increase of €3,493,000 a year earlier.

A more detailed breakdown of the Group's statement of financial position by maturity as of 31 December 2012 and 2011 is disclosed in the table Analysis of interest rate risk which shows the distribution of items with regard to the interest rate repricing periods. Exposure to changes in interest rates is managed using an interest rate matching methodology, taking into account the characteristics of individual items.

Analysis of interest rate risk as of 31 December 2012

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	223,882	70,690	153,192	153,192	0	0	0	0
Financial assets held for trading	1,572	1,572	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	34,563	34,563	0	0	0	0	0	0
Available-for-sale financial assets	589,413	80,535	508,878	61,934	82,677	19,240	272,923	72,104
Loans and advances	3,633,260	146,996	3,486,264	1,706,218	762,654	892,194	112,286	12,912
Held-to-maturity financial assets	500,108	2,094	498,014	22,998	612	207,474	235,353	31,577
Other assets	114,756	114,756	0	0	0	0	0	0
Total assets	**5,097,554**	**451,206**	**4,646,348**	**1,944,342**	**845,943**	**1,118,908**	**620,562**	**116,593**
Liabilities								
Financial liabilities due to the central bank	485,149	416	484,733	8,083	8,004	0	468,646	0
Financial liabilities held for trading	1,658	891	767	767	0	0	0	0
Financial liabilities measured at amortised cost	4,528,517	28,095	4,500,422	1,919,785	580,554	1,511,244	486,967	1,872
Financial liabilities associated to transferred assets	0	0	0	0	0	0	0	0
Other liabilities	6,652	6,652	0	0	0	0	0	0
Total liabilities	**5,021,976**	**36,054**	**4,985,922**	**1,928,635**	**588,558**	**1,511,244**	**955,613**	**1,872**
Assets-liabilities mismatch	**75,578**	**415,152**	**(339,574)**	**15,707**	**257,385**	**(392,336)**	**(335,051)**	**114,721**

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

Analysis of interest rate risk as of 31 December 2011

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	147,373	73,996	73,377	73,336	0	0	0	41
Financial assets held for trading	8,741	8,741	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	38,475	35,356	3,119	0	0	3,119	0	0
Available-for-sale financial assets	699,603	96,540	603,063	85,396	209,089	11,152	227,609	69,817
Loans and advances	4,040,238	41,848	3,998,390	1,818,397	964,530	1,066,157	116,239	33,067
Held-to-maturity financial assets	449,605	2,059	447,546	6,848	9,108	34,180	362,801	34,609
Other assets	158,690	157,867	823	697	0	19	107	0
Total assets	**5,542,725**	**416,407**	**5,126,318**	**1,984,674**	**1,182,727**	**1,114,627**	**706,756**	**137,534**
Liabilities								
Financial liabilities due to the central bank	415,478	12	415,466	0	70,383	0	345,083	0
Financial liabilities held for trading	2,486	1,694	792	792	0	0	0	0
Financial liabilities measured at amortised cost	4,901,890	18,707	4,883,183	2,070,926	714,839	1,516,520	578,227	2,671
Financial liabilities associated to transferred assets	8,022	0	8,022	8,022	0	0	0	0
Other liabilities	11,380	9,305	2,075	2,075	0	0	0	0
Total liabilities	**5,339,256**	**29,718**	**5,309,538**	**2,081,815**	**785,222**	**1,516,520**	**923,310**	**2,671**
Assets-liabilities mismatch	**203,469**	**386,689**	**(183,220)**	**(97,141)**	**397,505**	**(401,893)**	**(216,554)**	**134,863**

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

Average interest rates (%)

	31.12.2012	31.12.2011
Average interest rate on assets	**4.28**	**4.99**
Average interest rate on liabilities	**2.16**	**2.36**

4.3.3 CURRENCY RISK

Currency risk represents a potential loss arising from an open foreign currency position and the volatility of foreign exchange rates. The Bank controls currency risk by maintaining neutral position in individual foreign currencies.

The Group controls exposure to currency risk by maintaining target positions in individual currencies. The Group companies monitor currency risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations. The Group regularly monitors the exposure of the statement of financial position and off-balance sheet items to currency risk. The Group is exposed to currency risk against USD, CHF and HRK.

A more detailed breakdown of the open foreign currency position as of 31 December 2012 and 2011 is presented in the tables below.

Analysis of currency risk as of 31 December 2012

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	205,405	647	1,456	764	15,610	223,882
Financial assets held for trading	1,447	0	0	0	125	1,572
Financial assets designated at fair value through profit or loss	34,563	0	0	0	0	34,563
Available-for-sale financial assets	582,492	0	0	0	6,921	589,413
Loans and advances	3,418,112	42,295	111,740	31,604	29,509	3,633,260
Held-to-maturity financial assets	496,542	0	0	0	3,566	500,108
Other assets	317,589	0	0	7,431	13,992	339,012
Total assets	**5,056,150**	**42,942**	**113,196**	**39,799**	**69,723**	**5,321,810**
Liabilities						
Financial liabilities due to the central bank	485,149	0	0	0	0	485,149
Financial liabilities held for trading	1,658	0	0	0	0	1,658
Financial liabilities measured at amortised cost	4,409,815	42,776	25,355	384	50,187	4,528,517
Financial liabilities associated to transferred assets	0	0	0	0	0	0
Other liabilities	316,904	3	0	(6,623)	(3,798)	306,486
Total liabilities and equity	**5,213,526**	**42,779**	**25,355**	**(6,239)**	**46,389**	**5,321,810**
Assets-liabilities (including equity) mismatch	**(157,376)**	**163**	**87,841**	**46,038**	**23,334**	**0**
Derivatives	87,953	0	(87,831)	0	0	122
Assets-liabilities (including equity and derivatives) mismatch	**(69,423)**	**163**	**10**	**46,038**	**23,334**	**122**

The table above presents only the statement of financial position items in which the Group has a position also in currencies other than euro.

Analysis of currency risk as of 31 December 2011

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	135,146	867	2,021	1,028	8,311	147,373
Financial assets held for trading	8,564	0	0	0	177	8,741
Financial assets designated at fair value through profit or loss	38,182	0	0	0	293	38,475
Available-for-sale financial assets	698,473	0	0	1,059	71	699,603
Loans and advances	3,760,628	48,434	130,774	47,810	52,592	4,040,238
Held-to-maturity financial assets	445,760	0	0	0	3,845	449,605
Other assets	407,893	64	0	8,197	12,882	429,036
Total assets	**5,494,646**	**49,365**	**132,795**	**58,094**	**78,171**	**5,813,071**
Liabilities						
Financial liabilities due to the central bank	415,478	0	0	0	0	415,478
Financial liabilities held for trading	2,486	0	0	0	0	2,486
Financial liabilities measured at amortised cost	4,774,396	50,827	25,559	325	50,783	4,901,890
Financial liabilities associated to transferred assets	8,022	0	0	0	0	8,022
Other liabilities	505,357	4	60	(18,039)	(2,187)	485,195
Total liabilities and equity	**5,705,739**	**50,831**	**25,619**	**(17,714)**	**48,596**	**5,813,071**
Assets-liabilities (including equity) mismatch	**(211,093)**	**(1,466)**	**107,176**	**75,808**	**29,575**	**0**
Derivatives	107,006	0	(106,449)	0	(236)	321
Assets-liabilities (including equity and derivatives) mismatch	**(104,087)**	**(1,466)**	**727**	**75,808**	**29,339**	**321**

The table above presents only the statement of financial position items in which the Group has a position also in currencies other than euro.

Foreign currency sensitivity analysis

Currency	2012		2011	
	Exchange rate change against EUR (%)	Impact on profit or loss	Exchange rate change against EUR (%)	Impact on profit or loss
USD	+9	15	+12	(176)
CHF	+5	4,392	+17	18,220
HRK	+2	888	+2	1,516
Other currencies	+8	1,806	+10	2,958

The impact of exchange rate changes on equity is negligible and is therefore not presented separately.

4.4 GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES AS OF 31 DECEMBER 2012

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	223,882	194,811	29,071	1,590	27,481	0
Financial assets held for trading	1,572	1,183	389	74	208	107
Financial assets designated at fair value through profit or loss	34,563	34,563	0	0	0	0
Available-for-sale financial assets	589,413	413,263	176,150	134,232	12,496	29,422
Loans and advances	3,633,260	3,263,221	370,039	86,940	270,118	12,981
Held-to-maturity financial assets	500,108	427,939	72,169	68,603	3,566	0
Other assets	339,012	314,583	24,429	2,714	21,715	0
Total assets	**5,321,810**	**4,649,563**	**672,247**	**294,153**	**335,584**	**42,510**
Liabilities						
Financial liabilities due to the central bank	485,149	469,061	16,088	16,088	0	0
Financial liabilities held for trading	1,658	375	1,283	1,226	0	57
Financial liabilities measured at amortised cost	4,528,517	4,219,224	309,293	148,028	150,841	10,424
Financial liabilities associated to transferred assets	0	0	0	0	0	0
Other liabilities	306,486	299,142	7,344	9,214	(2,388)	518
Total liabilities and equity	**5,321,810**	**4,987,802**	**334,008**	**174,556**	**148,453**	**10,999**
Assets-liabilities (including equity) mismatch	**0**	**(338,239)**	**338,239**	**119,597**	**187,131**	**31,511**

Available-for-sale financial assets of foreign issuers

Country of issuer	31.12.2012	31.12.2011
Austria	31,246	35,771
Belgium	7,443	5,262
Denmark	9,987	9,714
France	9,289	38,422
Croatia	0	1,059
Italy	9,876	11,673
Luxembourg	2,866	858
Germany	10,958	16,240
The Netherlands	19,013	1,636
Portugal	9,302	5,594
Slovakia	2,236	2,092
Serbia	12,496	3,494
Spain	0	20,969
Great Britain	22,016	20,965
USA	29,422	55,828
Total	**176,150**	**229,577**

Geographical analysis of assets and liabilities as of 31 December 2011

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	147,373	127,222	20,151	2,106	18,045	0
Financial assets held for trading	8,741	7,391	1,350	590	177	583
Financial assets designated at fair value through profit or loss	38,475	35,063	3,412	3,119	293	0
Available-for-sale financial assets	699,603	470,026	229,577	169,196	4,553	55,828
Loans and advances	4,040,238	3,619,060	421,178	71,253	325,522	24,403
Held-to-maturity financial assets	449,605	422,177	27,428	23,584	3,844	0
Other assets	429,036	406,734	22,302	1,191	21,098	13
Total assets	**5,813,071**	**5,087,673**	**725,398**	**271,039**	**373,532**	**80,827**
Liabilities						
Financial liabilities due to the central bank	415,478	415,478	0	0	0	0
Financial liabilities held for trading	2,486	617	1,869	1,309	0	560
Financial liabilities measured at amortised cost	4,901,890	4,403,416	498,474	348,916	143,400	6,158
Financial liabilities associated to transferred assets	8,022	0	8,022	8,022	0	0
Other liabilities	485,195	490,683	(5,488)	4,728	(10,313)	97
Total liabilities and equity	**5,813,071**	**5,310,194**	**502,877**	**362,975**	**133,087**	**6,815**
Assets-liabilities (including equity) mismatch	**0**	**(222,521)**	**222,521**	**(91,936)**	**240,445**	**74,012**

4.5 OPERATIONAL RISK

The Group has adopted the Operational Risk Management Policy based on recommendations of the Basel standards. The Group companies report on the operational risk loss events on a monthly basis (through the APIS application).

All organisational units of the Bank and each Group company are responsible for identifying, assessing and managing operational risk – each unit for the cost centres that are headed by the manager of the respective unit. The main aim of this is to ensure the functioning of the system of internal controls. In assessing the risk profile of the Group as a whole, each Group company has to give its subjective assessment of operational risk on an annual basis.

Operational risk is managed on a decentralised basis by each organisational unit and Group company, with the following Bank officers being responsible for all the procedures in this regard:

- The operational risk analyst (i) is the administrator of the operational risk loss events data base, (ii) prepares monthly, quarterly, half-yearly and annual reports for the Bank's management, (iii) guides the self-assessment of operational risk by individual organisational units and business processes, (iv) calculates the capital requirement for operational risk on an annual basis, and (iv) conducts interim assessments of operational risk (simulations). In addition, the analyst must once a year produce a risk profile of the Bank, taking account of all nine types of risk according to the regulation of the Bank of Slovenia, including operational risk.
- The head of the information system security is responsible for all the activities set out in the Information Protection Policy of Nova KBM (e.g. prevention of information security related incidents and attacks, prevention of data misuse) and for reporting thereon to the relevant Executive Director.
- The business continuity administrator is responsible for coordinating activities relating to business continuity and for reporting thereon to the relevant Executive Director.
- The adviser for the prevention of money laundering and

terrorism financing is responsible for implementing all the measures to prevent suspicious transactions and for reporting thereon directly to the Management Board.
- The compliance officer is responsible for ensuring the Bank adheres to applicable regulations and for reporting thereon directly to the Management Board.
- Two advisers for security, one in each of the Slovenia-East Division and Nova Gorica Division, are responsible for physical and technical protection of facilities.

During the year ended 31 December 2012, the Group monitored operational risk and calculated capital requirements for operational risk in accordance with the basic indicator approach. As part of the internal capital adequacy assessment process (ICAAP), the risk profile of the Group for 2012 was produced in November, which also included the assessment of operational risk and internal controls.

The majority of operational risk loss events recorded in 2012 related to (according to the Basel standards) 'Execution, Delivery and Process Management' (41%), followed by 'External Fraud' (31%) and 'Damages to Physical Assets' (21%). High proportion of external fraud events was the result of six fraud cases detected on the Bank's ATMs in 2012. In 2011, the majority of operational risk loss events related to 'Internal Fraud' (38%), followed by 'Execution, Delivery and Process Management' (37%) and 'Damages to Physical Assets' (14%).

By ensuring systematic reporting on operational risk loss events through the APIS application, the Group successfully accomplished its short-term objective in respect of operational risk management. The mid-term objective is to develop software to produce all the data needed to assess operational risk and prepare the document 'Risk Profile of the Group'. The Group's long-term objective in respect of operational risk is to build up a risk management culture and to limit the scope and the amount of losses to an acceptable level.

4.6 CAPITAL RISK

Capital risk arises from inadequate size of capital, inadequate structure of capital with regard to the volume and diversity of business conducted by the Group, or from difficulties in acquiring new capital. The Group has set up appropriate procedures and mechanisms to ensure adequate structure and size of its capital.

The Group manages its capital by:
- monitoring current and projected assessments of its regulatory capital and complying with capital requirements for credit, market and operational risks
- monitoring current and projected assessments of its economic available capital and adequate capital
- controlling movements in its capital adequacy ratio.

For the purpose of capital risk management, the Group monitors current and anticipated capital needs and capital requirements, as well as the movements of the capital adequacy ratio, in accordance with legislation and an internal methodology.

The capital adequacy ratio requirement is set at 8%. During the year ended 31 December 2012, the Group fully complied with this regulatory requirement.

Both the Bank and the Group calculate capital requirements for credit risk using the standardised approach. As a reference export agency for the category 'Exposure to Central Governments and Central Banks', the Group nominated SID Banka, Ljubljana. As a reference external rating agency for the category 'Exposure to Institutions, Including Exposure to Institutions with a Short-term Rating', the Group nominated the rating agency Moody's.

The Group calculates capital requirements for market risks in accordance with the applicable regulations and does not use internal models for the time being. The capital requirement for operational risk is calculated according to the basic indicator approach.

For assessing adequate internal capital of the Group, the same methodology is used as for the Bank.

With the aim of restoring confidence in the banking sector, the European Council adopted in October 2011 a decision requiring systemically important banks to achieve the Core Tier 1 capital ratio of 9% by 30 June 2012. In its latest report on the EU capital exercise, the European Banking Authority (EBA) gave consent to the Bank's plan to meet the required Core Tier I capital ratio by 31 December 2012.

In order to comply with the requirements imposed on it by the EBA, the Bank took several measures to increase the capital of the Group while reducing risk-adjusted assets and capital requirements for risk. The measures that the Bank took included a partial redemption of its outstanding hybrid instruments, the sale of its shareholding in Zavarovalnica Maribor, and the raising of a hybrid loan facility.

As a result of a much higher level of impairment losses and provisions than originally planned, the Group did not manage to reach the Core Tier I capital ratio of 9%. Therefore, Nova KBM is continuing to implement measures to improve its capital position and capital position of the Group in accordance with the adopted restructuring plan, which provides for an increase in capital by the end of June 2013.

Composition of regulatory capital and capital requirements

	31.12.2012	31.12.2011
Original own funds		
Paid-up share capital	40,814	40,815
- Treasury shares	(1,301)	(700)
Share premium	165,775	165,775
Reserves and retained earnings or loss	216,105	297,250
- Interim result used in the calculation (unaudited)	(203,773)	(86,327)
Revaluation excesses (PP) – prudential filters	(5,688)	(4,604)
Non-controlling interest	43,037	41,510
Hybrid instruments as a component of original own funds	125,930	26,030
- Intangible long-term assets	(37,485)	(33,451)
- Other country specific deductions	11,360	(2)
Total	**354,774**	**446,296**
Additional own funds I		
Hybrid instruments and preferential cumulative shares	38,254	158,346
Subordinated debt I	1,000	1,000
Other	5,446	7,056
Total	**44,700**	**166,402**
- Deductions from original own funds and additional own funds I		
- Deductions from original own funds	(1,545)	(24,670)
- Deductions from additional own funds I	(1,545)	(24,670)
Total	**(3,090)**	**(49,340)**
Total equity (for solvency purposes)	**396,384**	**563,358**
Capital requirements		
Capital requirements for credit risk	**313,058**	**360,039**
Central governments and central banks	0	4,255
Regional governments and local authorities	327	346
Administrative bodies	378	455
Institutions	15,674	18,348
Corporates	125,971	164,822
Retail banking	72,871	78,905
Secured by real estate	4,324	3,989
Past due items	19,942	14,017
Items belonging to regulatory high-risk categories	41,215	36,277
Collective investment undertakings	1,812	2,634
Other items	30,544	35,991
Total capital requirements for market risks	**3,063**	**3,408**
Debt securities	578	670
Equity instruments	532	1,150
Foreign exchange	1,953	1,588
Capital requirement for operational risk	**29,796**	**29,413**
Total	**345,917**	**392,860**
Total capital adequacy ratio	9.17%	11.47%
Tier I capital ratio	8.17%	8.59%
Core Tier I capital ratio	5.26%	8.06%
Core Tier I capital ratio (EBA methodology)	7.57%	8.06%

5 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	31.12.2012		31.12.2011	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and balances with the central bank	223,882	223,882	147,373	147,373
Financial assets held for trading	1,572	1,572	8,741	8,741
Financial assets designated at fair value through profit or loss	34,563	34,563	38,475	38,475
Available-for-sale financial assets	589,413	589,413	699,603	699,603
Loans and advances to banks	162,408	162,259	177,420	177,642
Loans and advances to customers	3,397,900	3,408,314	3,844,085	3,850,593
Other financial assets	72,952	72,952	18,733	18,733
Held-to-maturity financial assets	500,108	501,743	449,605	444,982
Financial liabilities				
Financial liabilities due to the central bank	485,149	486,931	415,478	415,480
Financial liabilities held for trading	1,658	1,658	2,486	2,486
Deposits from banks	107,077	107,551	154,660	154,622
Deposits from customers	3,612,206	3,625,861	3,760,483	3,776,901
Loans from banks	576,004	576,004	701,045	701,045
Loans from customers	6,472	6,472	156	156
Debt securities	88,592	95,603	48,973	49,005
Subordinated liabilities	98,069	100,844	187,923	190,298
Other financial liabilities	40,097	40,097	48,650	48,650

The Group determines fair values according to the following hierarchy: market value; valuation based on market interest rates; acquisition cost. The table above sets forth fair values of individual balance sheet items. Fair value of items measured at amortised or acquisition cost is estimated on the basis of a model that calculates net present value of cash flows using interest rates for new contracts of the same product offered by the Group. Value is calculated for items with a fixed interest rate and residual maturity of over one year; credit risk is not considered in calculating net present values. As for other items, the Group deems that there is no material difference between the book and fair value. The amounts calculated and presented in the table above are not the amounts that could be realised in a sale in the market.

Fair value is estimated on the basis of discounted cash flows for each item using the present offered interest rates by the Group for the same product at the reporting date.

Analysis of fair value hierarchy

	31.12.2012				31.12.2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Derivatives	1,178	0	1,178	0	8,442	0	8,442	0
Financial assets held for trading	394	394	0	0	299	299	0	0
- debt securities	84	84	0	0	0	0	0	0
- equity instruments	310	310	0	0	299	299	0	0
Available-for-sale financial assets	589,413	504,070	73,739	11,604	699,602	606,675	82,708	10,219
- debt securities	515,379	457,620	57,759	0	610,422	543,283	67,139	0
- equity instruments	74,034	46,450	15,980	11,604	89,180	63,392	15,569	10,219
Financial assets designated at fair value through profit or loss	34,563	24,886	9,677	0	38,475	25,076	13,399	0
- debt securities	0	0	0	0	3,122	3,122	0	0
- equity instruments	34,563	24,886	9,677	0	35,353	21,954	13,399	0
Financial liabilities								
Derivatives	1,658	0	1,658	0	2,486	0	2,486	0

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

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

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

Financial assets designated at fair value through profit or loss - equity financial instruments - form a part of a forward sale and are valued in connection with the underlying forward contract.

Analysis of transitions between Level 1 and Level 2

	31.12.2012		31.12.2011	
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1
Financial assets held for trading	0	0	0	0
Available-for-sale financial assets	12,154	23,943	20,020	11,579
- debt securities	12,154	23,943	20,020	11,579
- equity instruments	0	0	0	0
Financial assets designated at fair value through profit or loss	0	0	0	0

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

Movement in financial assets included in Level 3

	Available-for-sale financial assets		
	Total	Shares	Participating interests
1 January 2011	**8,129**	**5,409**	**2,720**
Valuation through profit or loss	(4,922)	(3,767)	(1,155)
Acquisition	7,034	7,033	1
Exchange rate differences	(22)		(22)
31 December 2011	**10,219**	**8,675**	**1,544**
Acquisition	2,444	2,327	117
Liquidation of KBM Projekt d.o.o.	(1,059)		(1,059)
31 December 2012	**11,604**	**11,002**	**602**

The table above presents changes in Level 3 of the fair value hierarchy. The 2012 change in the value of available-for-sale financial assets was due to both the acquisition of additional equity instruments and derecognition of assets of KBM Projekt.

6 DERECOGNITION OF KBM PROJEKT

The company KBM Projekt is no longer a member of the Group. On 30 October 2012, the company filed for liquidation, with the result that the Group lost control of it.

The 2012 consolidated financial statements include income and expense of KBM Projekt until the date the Group ceased to have control of the company.

Upon the derecognition of both the non-controlling interest in, and assets and liabilities of the ex-subsidiary KBM Projekt, and the recognition of claims against KBM Projekt on the date of losing control, a net loss of €1,552,000 was recognised in the consolidated financial statements.

The impact of derecognition of KBM Projekt on the consolidated statement of comprehensive income is presented in the table below:

	2012
NET (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**(1,552)**
OTHER COMPREHENSIVE (LOSS) AFTER TAX	**(200)**
Foreign currency translation	**(200)**
Transferred to profit or loss	(200)
TOTAL COMPREHENSIVE (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**(1,752)**
a) Attributable to owners of the parent	(1,752)

7 REPORTING BY OPERATING SEGMENTS

Analysis by operating segments as of 31 December 2012

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationship	Relationship to third parties
A. Net income/expense	**184,304**	**3,630**	**4,800**	**762**	**22**	**193,518**	**(222)**	**193,740**
Interest and similar income	231,784	9,741	30	929	6	**242,490**	14,634	**227,856**
Interest and similar expense	(123,915)	(11,231)	(145)	(1,859)	0	**(137,150)**	(15,138)	**(122,012)**
Net interest income	**107,869**	**(1,490)**	**(115)**	**(930)**	**6**	**105,340**	**(504)**	**105,844**
Dividend income	3,378	0	1	5	0	**3,384**	812	**2,572**
Fee and commission income	89,923	259	5,279	26	0	**95,487**	1,302	**94,185**
Fee and commission expense	(35,438)	(256)	(660)	(112)	0	**(36,466)**	(1,081)	**(35,385)**
Net fee and commission income	**54,485**	**3**	**4,619**	**(86)**	**0**	**59,021**	**221**	**58,800**
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	24,432	2	240	1,298	0	**25,972**	0	**25,972**
Net (losses) on financial assets and liabilities held for trading	(8,079)	0	(1)	0	0	**(8,080)**	(2,774)	**(5,306)**
Net gains on financial assets (and liabilities) designated at fair value through profit or loss	2,633	0	22	0	0	**2,655**	(1)	**2,656**
Net exchange rate differences	773	(19)	0	(18)	0	**736**	0	**736**
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	34	(27)	0	7	0	**14**	(1)	**15**
Other net operating income/(loss)	(1,221)	5,161	34	486	16	**4,476**	2,025	**2,451**
B. Other items by segments	**(438,786)**	**(49,473)**	**(3,558)**	**(17,947)**	**(6)**	**(509,770)**	**(76,393)**	**(433,377)**
Administration costs	(97,564)	(2,858)	(2,572)	(1,756)	(5)	**(104,755)**	(696)	**(104,059)**
Depreciation and amortisation	(14,333)	(1,098)	(971)	(49)	(1)	**(16,452)**	(9)	**(16,443)**
Provisions	(10,163)	11	(15)	18	0	**(10,149)**	(1,077)	**(9,072)**
Impairment losses	(317,123)	(41,578)	0	(16,160)	0	**(374,861)**	(74,467)	**(300,394)**
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	**0**	(144)	**144**
Net gains/(losses) from non-current assets held for sale and liabilities associated therewith	397	(3,950)	0	0	0	**(3,553)**	0	**(3,553)**
C. Profit or loss								
Profit/(loss) from continuing operations	(254,482)	(45,843)	1,242	(17,185)	16	**(316,252)**	(76,615)	**(239,637)**
Income tax related to profit or loss from continuing operations	11,545	(1,334)	(1)	49	(3)	**10,256**	(2,234)	**12,490**
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(242,937)	(47,177)	1,241	(17,136)	13	**(305,996)**	(78,849)	**(227,147)**
Total profit after tax from discontinued operations	37,385	0	0	0	0	**37,385**	15,935	**21,450**
D. Segment assets and liabilities								
Total assets	**5,461,263**	**216,492**	**16,781**	**66,290**	**198**	**5,761,024**	**439,214**	**5,321,810**
- non-current assets held for sale and discontinued operations	310	1,972	0	0	0	**2,282**	0	**2,282**
- investments in associates and joint ventures accounted for using the equity method	55,980	33	0	0	0	**56,013**	52,923	**3,090**
Liabilities (excluding equity) by segments	**5,164,656**	**260,086**	**3,521**	**81,168**	**1**	**5,509,432**	**440,826**	**5,068,606**
Total equity	**296,607**	**(43,594)**	**13,260**	**(14,878)**	**197**	**251,592**	**(1,612)**	**253,204**
Increase in property, plant and equipment and intangible assets	10,335	7,727	6,864	18	0	**24,944**	0	**24,944**

The column 'Inter-segment relationship' includes the following items: intra-Group income and expense; income from dividends from subsidiaries and associates; consolidation entries in respect of derecognition of investments in the equity of Zavarovalnica Maribor and the ex-subsidiary KBM Projekt; additional impairment/reversal of impairment as a result of using a harmonised customer classification methodology across the Group; impairment of investments in the equity of subsidiaries; effects of valuation of associates using the equity method; claims and liabilities between Group companies; investments in subsidiaries and proportional share of equity of subsidiaries; other consolidation entries.

Analysis by operating segments as of 31 December 2011

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationship	Relationship to third parties
A. Net income/expense	**188,141**	**3,756**	**3,196**	**(1,781)**	**21**	**193,333**	**1,210**	**192,123**
Interest and similar income	268,070	10,900	34	959	5	**279,968**	17,163	**262,805**
Interest and similar expense	(130,049)	(10,428)	(84)	(3,813)	0	**(144,374)**	(17,162)	**(127,212)**
Net interest income	**138,021**	**472**	**(50)**	**(2,854)**	**5**	**135,594**	**1**	**135,593**
Dividend income	4,374	0	1	8	0	**4,383**	1,427	**2,956**
Fee and commission income	95,698	211	3,758	65	0	**99,732**	1,300	**98,432**
Fee and commission expense	(42,254)	(157)	(573)	(129)	0	**(43,113)**	(1,109)	**(42,004)**
Net fee and commission income	**53,444**	**54**	**3,185**	**(64)**	**0**	**56,619**	**191**	**56,428**
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	(738)	0	110	13	0	**(615)**	0	**(615)**
Net gains on financial assets and liabilities held for trading	2,725	0	0	0	0	**2,725**	(957)	**3,682**
Net (losses) on financial assets (and liabilities) designated at fair value through profit or loss	(7,135)	0	(81)	0	0	**(7,216)**	0	**(7,216)**
Net exchange rate differences	1,677	(91)	0	(1,102)	0	**484**	0	**484**
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	(445)	968	0	(16)	0	**507**	(56)	**563**
Other net operating income/(loss)	(3,782)	2,353	31	2,234	16	**852**	604	**248**
B. Other items by segments	**(295,083)**	**(12,883)**	**(2,285)**	**(6,562)**	**(4)**	**(316,817)**	**(16,799)**	**(300,018)**
Administration costs	(102,676)	(2,461)	(2,135)	(1,975)	(3)	**(109,250)**	(795)	(108,455)
Depreciation and amortisation	(15,400)	(1,070)	(140)	(52)	(1)	**(16,663)**	(19)	(16,644)
Provisions	(17,196)	29	(10)	(9)	0	**(17,186)**	(247)	(16,939)
Impairment losses	(160,098)	(9,381)	0	(4,526)	0	**(174,005)**	(15,553)	(158,452)
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	**0**	(185)	185
Net gains from non-current assets held for sale and liabilities associated therewith	287	0	0	0	0	**287**	0	287
C. Profit or loss								
Profit/(loss) from continuing operations	(106,942)	(9,127)	911	(8,343)	17	**(123,484)**	(15,589)	**(107,895)**
Income tax related to profit or loss from continuing operations	21,132	1,645	(182)	209	(3)	**22,801**	1,358	**21,443**
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(85,810)	(7,482)	729	(8,134)	14	**(100,683)**	(14,231)	**(86,452)**
Total profit after tax from discontinued operations	4,503	0	0	0	0	4,503	(827)	**5,330**
D. Segment assets and liabilities								
Total assets	**5,992,752**	**287,245**	**17,627**	**64,463**	**186**	**6,362,273**	**549,202**	**5,813,071**
- non-current assets held for sale and discontinued operations	451	5,954	0	0	0	**6,405**	0	**6,405**
- investments in associates and joint ventures accounted for using the equity method	101,967	33	0	0	0	**102,000**	54,461	**47,539**
Liabilities (excluding equity) by segments	**5,511,606**	**283,671**	**4,031**	**76,783**	**2**	**5,876,093**	**498,585**	**5,377,508**
Total equity	**481,146**	**3,574**	**13,596**	**(12,320)**	**184**	**486,180**	**50,617**	**435,563**
Increase in property, plant and equipment and intangible assets	14,816	8,022	2,819	115	0	**25,772**	0	**25,772**

The column 'Inter-segment relationship' includes the following items: intra-Group income and expense; income from dividends from subsidiaries and associates; additional impairment/reversal of impairment as a result of using a harmonised customer classification methodology across the Group; impairment of investments in the equity of subsidiaries; effects of valuation of associates using the equity method; claims and liabilities between Group companies; investments in subsidiaries and proportional share of equity of subsidiaries; other consolidation entries.

NOTES TO THE STATEMENT OF INCOME ITEMS

8 INTEREST INCOME AND EXPENSE

8.1 ANALYSIS OF INTEREST BY TYPE

	2012		2011	
	Income	Expense	Income	Expense
Regular interest	214,136	122,012	244,678	127,212
Default interest	13,720	0	18,127	0
Total	**227,856**	**122,012**	**262,805**	**127,212**
Net interest income	**105,844**		**135,593**	

8.2 ANALYSIS OF INTEREST BY MARKET SEGMENTS

	2012		2011	
	Income	Expense	Income	Expense
Non-financial companies	106,174	4,538	131,706	4,674
State	28,928	21,696	20,063	23,529
Banks	11,066	35,161	18,808	39,123
Other financial organisations	5,847	9,625	7,133	10,783
Households	61,499	49,177	66,955	46,045
Foreign persons	14,026	1,486	17,781	2,802
Non-profit household service providers	316	329	359	256
Total	**227,856**	**122,012**	**262,805**	**127,212**
Net interest income	**105,844**		**135,593**	

8.3 ANALYSIS OF INTEREST INCOME AND EXPENSE BY TYPE OF ASSETS AND LIABILITIES

	2012		2011	
	Current	Non-current	Current	Non-current
Interest income				
Balances with the central bank (measured at amortised cost)	575	0	957	0
Financial assets held for trading	77	0	0	0
Financial assets designated at fair value through profit or loss	0	34	1	120
Available-for-sale financial assets	12,175	4,952	18,353	4,979
Loans and advances (including finance leases)	60,875	129,110	81,550	147,843
Held-to-maturity financial assets	1,777	17,902	199	8,483
Other financial assets	379	0	320	0
Total by maturity	**75,858**	**151,998**	**101,380**	**161,425**
Total	**227,856**		**262,805**	
Interest expense				
Financial liabilities due to the central bank (measured at amortised cost)	121	3,965	1,656	442
Financial liabilities held for trading	0	85	0	39
Financial liabilities measured at amortised cost	26,812	90,752	32,534	92,525
Other financial liabilities (including finance leases)	277	0	16	0
Total by maturity	**27,210**	**94,802**	**34,206**	**93,006**
Total	**122,012**		**127,212**	
Net interest income	**105,844**		**135,593**	

8.4 NET INTEREST INCOME

	2012	2011
Total interest income and similar income	227,856	262,805
Total interest expense and similar expense	122,012	127,212
Net interest income	**105,844**	**135,593**
Average interest rate on assets (%)	4.28	4.99
Average interest rate on liabilities (%)	2.16	2.36

9 DIVIDEND INCOME

	2012	2011
Financial assets held for trading	**73**	**37**
- shares and participating interests in banks	0	2
- shares and participating interests in other issuers	73	35
Financial assets designated at fair value through profit or loss	**1,218**	**703**
- shares and participating interests in banks	0	29
- shares and participating interests in other issuers	1,218	674
Available-for-sale financial assets	**1,281**	**2,216**
- shares and participating interests in banks	0	574
- shares and participating interests in other issuers	1,281	1,642
Total	**2,572**	**2,956**

The largest proportion of the 2012 dividend income from available-for-sale financial assets, in the amount of €1,184,000, derived from Mercator shares.

10 FEE AND COMMISSION INCOME AND EXPENSE

10.1 ANALYSIS OF FEES AND COMMISSIONS BY TYPE

	2012	2011
Fee and commission income	**94,185**	**98,432**
Fees from guarantees	3,784	4,370
Domestic payment transactions	49,716	51,962
International payment transactions	3,471	3,968
Brokerage and agency services	252	230
Transactions in securities for customers	303	387
Lending operations	9,859	12,045
Transactions under current accounts	7,253	7,263
Card operations	11,181	11,455
Electronic banking	1,262	1,140
Safekeeping of objects and valuables	82	82
Other services	7,022	5,530
Fee and commission expense	**35,385**	**42,004**
Domestic banking services	5,163	5,197
Banking services abroad	2,071	6,866
Brokerage and agency services	468	343
Stock exchange transactions and other transactions in securities	610	564
Payment transactions	25,747	27,575
Other services	1,326	1,459
Net fee and commission income	**58,800**	**56,428**

10.2 ANALYSIS OF FEES AND COMMISSIONS BY MARKET SEGMENTS

	2012	2011
Fee and commission income	**94,185**	**98,432**
Non-financial companies	51,823	56,346
State	997	1,180
Banks	3,411	3,429
Other financial organisations	7,011	5,477
Households	27,328	28,100
Foreign persons	2,829	3,103
Non-profit household service providers	786	797
Fee and commission expense	**35,385**	**42,004**
Net fee and commission income	**58,800**	**56,428**

10.3 FEE AND COMMISSION INCOME AND EXPENSE RELATING TO FIDUCIARY ACTIVITIES

	2012	2011
Income from fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**5,637**	**4,167**
Receipt, transmission and execution of orders	624	458
Management of financial instruments	4,969	3,664
Administration of book-entry securities accounts of customers	40	45
Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings	4	0
Expenses for fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**278**	**265**
Fees and commissions in connection with the Central Securities Clearing Corporation and similar organisations	245	222
Fees and commissions in connection with the stock exchange and similar organisations	33	43

11 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012			2011		
	Realised gains	Realised losses	Net realised gains/ (losses)	Realised gains	Realised losses	Net realised gains/ (losses)
Available-for-sale financial assets	672	1,325	(653)	600	909	(309)
Loans and advances (including finance leases and other financial assets)	2,420	280	2,140	1,989	2,822	(833)
Held-to-maturity financial assets (Note 31.1)	916	974	(58)	696	169	527
Financial liabilities measured at amortised cost	24,543	0	24,543	0	0	0
Total	**28,551**	**2,579**	**25,972**	**3,285**	**3,900**	**(615)**

In December 2012, the Bank partially redeemed its outstanding hybrid instruments and made a gain of €24,541,000 on this transaction (Note 41.5).

12 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2012			2011		
	Gains	Losses	Net gains/ (losses)	Gains	Losses	Net gains/ (losses)
Trading in equity instruments	561	457	104	720	669	51
Trading in debt securities	23	1	22	0	0	0
Trading in foreign exchange (purchase/sale)	2,386	1,121	1,265	3,124	1,893	1,231
Trading in derivatives	4,093	10,790	(6,697)	15,741	13,340	2,401
- futures/forwards	3,667	10,400	(6,733)	15,691	13,102	2,589
- swaps	426	390	36	50	238	(188)
Trading in financial liabilities	0	0	0	0	1	(1)
Total	**7,063**	**12,369**	**(5,306)**	**19,585**	**15,903**	**3,682**

The Group uses derivatives (futures/forwards) for economic hedging of its exposure to currency risk. Their effects are associated with the effects of exchange rate differences (Note 14).

13 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012			2011		
	Gains	Losses	Net gains	Gains	Losses	Net (losses)
Financial assets designated at fair value through profit or loss	7,023	4,367	2,656	2,752	9,968	(7,216)
Total	**7,023**	**4,367**	**2,656**	**2,752**	**9,968**	**(7,216)**

Net gains and losses on financial assets designated at fair value through profit or loss relate to the valuation and disposal of equities and bonds for which the Bank has entered into forward sale contracts.

14 NET EXCHANGE RATE DIFFERENCES

	2012	2011
Foreign exchange gains	28,913	58,536
Foreign exchange losses	28,177	58,052
Net foreign exchange gain	**736**	**484**

15 OTHER NET OPERATING INCOME

	2012	2011
Income	**13,742**	**11,982**
Income from non-banking services	830	1,377
Income from investment property given under operating leases	3,970	1,168
Other operating income	8,942	9,437
Expense	**11,291**	**11,734**
Taxes	1,249	3,920
Contributions	554	554
Other charges	244	285
Membership fees and similar fees	270	270
Expense for investment property given under operating leases	31	61
Other operating expenses	8,943	6,644
Other net operating income	**2,451**	**248**

The largest proportion of the 2012 other operating income, in the amount of €4,838,000 (2011: €3,832,000), and other operating expenses, in the amount of €5,495,000 (2011: €3,690,000), related to the sale of real estate by KBM Invest.

Income of €1,544,000 from the sale of energy, and income from rents of €1,607,000 made up the largest proportion of other operating income earned in 2012.

Income of €1,161,000 from the recovery of written-off loans, income of €1,160,000 from the sale of energy, income from rents of €1,040,000, and income of €524,000 from the discharge of inactive deposit accounts made up the largest proportion of other operating income earned in 2011.

Losses of €1,552,000 incurred on the derecognition of KBM Projekt, and expenses of €1,066,000 (2011: €813,000) for energy generation accounted for the largest proportion of other operating expenses in 2012.

16 ADMINISTRATION COSTS

	2012	2011
Staff expenses	**61,235**	**63,389**
Gross salaries	45,593	45,548
Social security contribution	4,412	4,420
Pension insurance contribution	3,963	3,959
Other contributions from gross salaries	420	761
Meal allowance	1,203	1,246
Termination benefits and early retirement payments	1,457	1,448
Employee bonuses	44	43
Termination benefits and early retirement payments	1,064	641
Supplementary pension insurance premiums	957	1,665
Pay for annual leave	1,755	2,999
Solidarity help and jubilee benefits	35	26
Other staff costs under employment contracts	332	633
General and administrative expenses	**42,824**	**45,066**
Cost of material	1,914	2,263
Cost of energy	1,556	1,501
Cost of specialised text books	130	173
Other costs of material	322	384
Cost of renting business premises	3,290	3,706
Postal costs	2,645	2,888
Transport costs	2,077	2,153
Information system costs	5,358	5,428
Cost of other services	5,935	6,264
Business travel expenses	383	471
Maintenance costs of fixed assets	6,763	7,137
Advertising costs	3,800	5,732
Entertainment costs	326	383
Consulting, auditing, accounting and other services	6,180	3,907
School fees, scholarships and other training costs	393	760
Cost of insurance	1,045	1,052
Other administrative costs	707	864
Total administration costs	**104,059**	**108,455**

The costs of security, in the amount of €1,262,000 (2011: €1,033,000), and the costs related to the refurbishment of business premises and the tidying of their surrounding area as well as the costs of public utility services, in the amount of €1,137,000 (2011: €1,216,000), made up the largest proportion of the cost of other services in 2012.

Remuneration of auditors

	2012	2011
Audit of the annual report	352	369
Other audit services	151	337
Total	**503**	**706**

17 DEPRECIATION AND AMORTISATION

	2012	2011
Depreciation of items of property, plant and equipment (Note 32)	8,743	9,274
Amortisation of intangible assets (Note 34)	7,700	7,370
Total	**16,443**	**16,644**

18 PROVISIONS

	2012	2011
Provisions for pensions and similar benefits (Note 43)	566	588
Provisions for off-balance sheet liabilities (Note 43)	7,650	14,958
Provisions for tax claims and other pending legal issues (Note 43)	874	1,697
Other provisions (Note 43)	(18)	(304)
Total	**9,072**	**16,939**

19 IMPAIRMENT LOSSES

	2012	2011
Financial assets not measured at fair value through profit or loss	243,352	154,478
Other assets	57,042	3,974
Total impairment losses	**300,394**	**158,452**

19.1 IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
Financial assets measured at cost (Note 27.2)	1,740	22,903
Available-for-sale financial assets designated at fair value (Note 27.2)	11,587	10,064
Loans and advances (including finance leases and other financial assets) measured at amortised cost	230,046	121,537
- loans and advances to banks (Note 28.1)	(114)	(12)
- loans and advances to customers (Note 29.1)	222,630	120,969
- other financial assets (Note 30.1)	7,530	580
Held-to-maturity financial assets measured at amortised cost	(21)	(26)
Total impairment of financial assets not measured at fair value through profit or loss	**243,352**	**154,478**

19.2 IMPAIRMENT OF OTHER ASSETS

	2012	2011
Property, plant and equipment	1,687	282
Investment property (Note 33)	3,521	(9)
Intangible assets	0	2,589
- goodwill	0	2,589
Other assets (Note 37.1)	51,834	1,112
Total impairment of other assets	**57,042**	**3,974**

20 SHARE OF PROFITS OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

	2012	2011
Moja naložba d.d.	144	185
Total	**144**	**185**

21 INCOME TAX RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS

	2012	2011
Income tax expense related to profit or loss from continuing operations	361	1,575
Deferred tax from continuing operations (Note 36.2)	(12,851)	(23,018)
Total	**(12,490)**	**(21,443)**

21.1 RECONCILIATION OF EFFECTIVE TAX RATE

	2012	2011
(Loss) before tax according to IFRSs	(218,187)	(102,565)
Income tax calculated using the official tax rate (2012: 18%; 2011: 20%)	(39,274)	(20,513)
Increased tax base – 5% of the dividend income, income similar to dividends and gains made on disposal of equity holdings	215	88
Tax relief in the current year	(384)	(71)
Non-allowable tax expenses	4,912	2,082
Income that reduces the tax base	(4,311)	(1,766)
Increase of expenses (not recognised in previous years)	(9)	0
Income adjustment to the level of taxable income (increase)	86	3
Adjustments due to changes in the tax legislation (reduction of tax rate)	7,271	0
Other adjustments to the statement of income	18,373	0
Non-recognised tax losses	1,037	(1,109)
Effect of reduced tax rate	(406)	(157)
Total income tax	**(12,490)**	**(21,443)**
Effective tax rate (%)	**/**	**/**

The effective tax rate for 2012 and 2011 has not been calculated because the income tax liability has not been accounted for by most of the Group companies.

Adjustments due to changes in the tax legislation were made as a result of the reduction in the rate applicable to deferred tax assets from 20% to either 18% or 15%.

Other adjustments to the statement of income relate mainly to the reversal of deferred tax assets, and to the partial creation of deferred tax assets in respect of the tax loss.

22 TOTAL PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS

	2012	2011
Share of profit from investment in the equity of Zavarovalnica Maribor d.d., accounted for using the equity method	3,355	5,330
Gains on the derecognition of investment in the equity of Zavarovalnica Maribor d.d.	18,095	0
Total profit after tax from discontinued operations	**21,450**	**5,330**

Deferred taxes in respect of gains earned on Zavarovalnica Maribor shares totalled €5,608,000 in 2012.

Further details regarding the sale of equity stake in Zavarovalnica Maribor are given in Note 35.1.

23 BASIC LOSS PER SHARE

Diluted net loss per share equals basic net loss per share.

Basic net loss per share is calculated as the ratio between the net loss reported for the period and the weighted average number of ordinary no-par value shares.

Following the May 2011 capital raising, the total number of outstanding ordinary shares of the Bank increased from 26,081,979 to 39,122,968, with the weighted average number of shares standing at 34,692,605 in 2011. The number of outstanding shares did not change in 2012.

NOTES TO THE STATEMENT OF FINANCIAL POSITION ITEMS

24 CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2012	31.12.2011
Cash in hand	59,839	64,196
Obligatory deposits with the central bank	153,025	60,998
Other deposits with the central bank	11,018	22,179
Total	**223,882**	**147,373**

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

24.1 CASH AND CASH EQUIVALENTS

	31.12.2012	31.12.2011
Cash and balances with the central bank	223,882	147,373
Loans and advances to banks	108,640	98,403
Total	**332,522**	**245,776**

25 FINANCIAL ASSETS HELD FOR TRADING

	31.12.2012	31.12.2011
Derivatives	**1,178**	**8,442**
Equity instruments	**310**	**299**
- of banks	59	73
- of other issuers	251	226
Debt securities	**84**	**0**
- bonds of other issuers	84	0
Total	**1,572**	**8,741**
Quoted	394	299
Unquoted	1,178	8,442
Total	**1,572**	**8,741**

No financial assets held for trading are pledged as collateral and none of these assets have the characteristics of subordinated debt.

25.1 MOVEMENT IN FINANCIAL ASSETS HELD FOR TRADING

	2012	2011
1 January	**8,741**	**3,148**
Increase during the year	**12,841**	**23,446**
- acquisition	12,490	17,215
- exchange rate differences	0	7
- change in fair value (recovery and reversal of impairment)	63	5,737
- other (deferred interest, realised gains)	288	487
Decrease during the year	**20,010**	**17,853**
- disposal (sale and redemption)	12,474	17,478
- change in fair value (impairment and reversal of recovery)	7,306	45
- exchange rate differences	16	0
- other (deferred interest, realised losses)	214	330
31 December	**1,572**	**8,741**

26 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2012	31.12.2011
Equity instruments	34,563	35,353
Debt securities	0	3,122
Total	**34,563**	**38,475**
Quoted	24,372	25,072
Unquoted	10,191	13,403
Total	**34,563**	**38,475**

As of 31 December 2012, no assets of this portfolio were pledged as collateral. In 2012, the Group did not receive any financial assets, included in this portfolio, from the realisation of collateral provided as security for loans.

Financial assets designated at fair value through profit or loss include bonds and equities for which the Group has entered into forward sale contracts.

The effects of valuation of financial assets designated at fair value through profit or loss and the effects of valuation of forward contracts are recorded through profit or loss.

None of the instruments included in the portfolio of financial assets designated at fair value through profit or loss have the characteristics of subordinated debt.

26.1 MOVEMENT IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
1 January	**38,475**	**16,705**
Increase during the year	**7,120**	**35,461**
- acquisition	22	32,395
- change in fair value (recovery and reversal of impairment)	6,936	2,697
- deferred interest	34	120
- exchange rate differences	1	82
- other	127	167
Decrease during the year	**11,032**	**13,691**
- disposal (sale and redemption)	6,488	3,401
- change in fair value (impairment and reversal of recovery)	4,191	10,121
- interest received	120	120
- exchange rate differences	19	47
- other	214	2
31 December	**34,563**	**38,475**

27 AVAILABLE-FOR-SALE FINANCIAL ASSETS

27.1 ANALYSIS BY TYPE AND MARKET SEGMENTS

	31.12.2012	31.12.2011
Available-for-sale equity instruments designated at fair value	**50,810**	**67,752**
- equity investments in banks	18	23
- equity investments in other financial organisations	27,460	37,516
- equity investments in non-financial organisations	23,331	30,212
- equity investments in other foreign persons	1	1
Available-for-sale equity instruments measured at cost	**23,225**	**21,429**
- equity investments in banks	11,629	11,218
- equity investments in other financial organisations	5	5
- equity investments in non-financial organisations	11,583	9,139
- equity investments in other foreign persons	8	1,067
Debt securities	**515,378**	**610,422**
- issued by the state and the central bank	302,186	332,862
- issued by banks	176,662	244,585
- issued by other issuers	36,530	32,975
Total	**589,413**	**699,603**
Quoted	542,640	644,775
Unquoted	46,773	54,828
Total	**589,413**	**699,603**

As of 31 December 2012, assets of this portfolio totalling €342,475,000 were pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors. In 2012, the Group did not receive any financial assets, included in this portfolio, from the realisation of collateral provided as security for loans.

The following six instruments have the characteristics of subordinated debt: NLB FLOAT 49, in the amount of €2,510,000; ZVM2 bonds, in the amount of €1,814,000; BCE 11, in the amount of €1,026,000; BCE 16, in the amount of €2,257,000; ABVIP FLOAT 12/29/49, in the amount of €690,000; and INTNED FLOAT 49, in the amount of €18,323,000, which, in aggregate, accounted for 4.52% of the portfolio at the end of 2012.

27.2 MOVEMENT IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Equity instruments			
	At fair value	At cost	Debt securities	Total
1 January 2012	**67,752**	**21,429**	**610,422**	**699,603**
Recognition of new financial assets	234	4,596	124,141	128,971
Interest	0	0	(2,952)	(2,952)
Net exchange rate differences	(6)	0	(295)	(301)
Net revaluation through equity	5,544	0	24,160	29,704
Net impairment through profit or loss (Note 19.1)	(11,588)	(1,740)	1	(13,327)
Derecognition of financial assets upon disposal	(11,652)	(1,060)	(8,486)	(21,198)
Derecognition of financial assets at maturity	0	0	(230,434)	(230,434)
Net gains/(losses) on sale	526	0	(1,179)	(653)
31 December 2012	**50,810**	**23,225**	**515,378**	**589,413**

	Equity instruments			
	At fair value	At cost	Debt securities	Total
1 January 2011	**75,633**	**8,159**	**794,214**	**878,006**
Recognition of new financial assets	0	36,140	27,888	64,028
Interest	0	0	(1,164)	(1,164)
Net exchange rate differences	4	(22)	132	114
Net revaluation through equity	1,542	0	(23,997)	(22,455)
Net impairment through profit or loss (Note 20.1)	(9,036)	(22,903)	(1,028)	(32,967)
Derecognition of financial assets upon disposal	(495)	(2)	(10,687)	(11,184)
Derecognition of financial assets at maturity	0	0	(173,937)	(173,937)
Net gains/(losses) on sale	104	57	(999)	(838)
31 December 2011	**67,752**	**21,429**	**610,422**	**699,603**

28 LOANS AND ADVANCES TO BANKS

	31.12.2012	31.12.2011
Sight deposits	32,033	10,560
Impairment of sight deposits	0	(146)
Current loans	102,067	121,504
Impairment of current loans	(2,585)	(2,867)
Non-current loans	31,186	48,785
Impairment of non-current loans	(293)	(416)
Total – net amount	**162,408**	**177,420**
Impairment	**2,878**	**3,429**
Total – gross amount	**165,286**	**180,849**

28.1 MOVEMENT IN IMPAIRMENT OF LOANS AND ADVANCES TO BANKS

	2012	2011
1 January	**3,429**	**3,865**
Net impairment of principal (Note 19.1)	(114)	(12)
- additional impairment	1,761	4,804
- reversal of impairment	(1,875)	(4,816)
Additional impairment/reversal of impairment of interest	1	(1)
Write-offs of loans and advances to banks	(96)	(527)
Exchange rate differences	(342)	104
31 December	**2,878**	**3,429**

Additional impairment/reversal of impairment of interest and fees on loans and advances to banks is reflected in the statement of income (Note 8: 'Interest income and expense').

29 LOANS AND ADVANCES TO CUSTOMERS

	31.12.2012	31.12.2011
Current loans	877,873	1,008,822
Impairment of current loans	(178,699)	(138,840)
Non-current loans	3,138,356	3,262,359
Impairment of non-current loans	(450,718)	(296,214)
Claims under guarantees	23,029	16,225
Impairment of claims under guarantees	(11,941)	(8,267)
Total – net amount	**3,397,900**	**3,844,085**
Impairment	**641,358**	**443,321**
Total – gross amount	**4,039,258**	**4,287,406**

29.1 MOVEMENT IN IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

	2012	2011
1 January	**443,321**	**327,748**
Net impairment of principal (Note 19.1)	222,630	120,969
- additional impairment	362,044	275,711
- reversal of impairment	(139,414)	(154,742)
Additional impairment of interest	21,817	9,181
Additional impairment of fees	59	106
Write-offs of loans and advances to customers	(45,332)	(13,549)
Exchange rate differences	(298)	170
Other	(839)	(1,304)
31 December	**641,358**	**443,321**

Additional impairment of interest and fees on loans and advances to customers is reflected in the statement of income (Note 8: 'Interest income and expense' and Note 10: 'Fee and commission income and expense').

30 OTHER FINANCIAL ASSETS

	31.12.2012	31.12.2011
Cheques	136	112
Claims for fees and commissions	2,210	2,086
Claims for advance payments	7	0
Accounts receivables	948	2,343
Other financial assets	69,651	14,192
Total – net amount	**72,952**	**18,733**
Impairment	**10,053**	**2,789**
Total – gross amount	**83,005**	**21,522**

A claim of €45,000,000 against Slovenska odškodninska družba and a claim of €5,033,000 against Pozavarovalnica Sava, both relating to the purchase price for the sale of Zavarovalnica Maribor, made up the largest proportion of other financial assets as of 31 December 2012.

Other financial assets at the end of 2012 included also a claim of €10,750,000 for the subscription of shares in respect of the conversion of the Bank's claims into equity of the company Merkur.

30.1 MOVEMENT IN IMPAIRMENT OF OTHER FINANCIAL ASSETS

	2012	2011
1 January	**2,789**	**1,807**
Net impairment of principal (Note 19.1)	7,530	580
- additional impairment	8,314	1,701
- reversal of impairment	(784)	(1,121)
Additional impairment of interest	18	11
Additional impairment of fees	242	194
Write-offs of other financial assets	(446)	(111)
Exchange rate differences	(80)	(1)
Other	0	309
31 December	**10,053**	**2,789**

Additional impairment of interest and fees on other assets is reflected in the statement of income (Note 8: 'Interest income and expense' and Note 10: 'Fee and commission income and expense').

31 HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2012	31.12.2011
Debt securities	**500,108**	**449,605**
- current securities issued by the state and the central bank	37,787	0
- non-current securities issued by the state and the central bank	399,951	352,738
- non-current securities issued by banks and savings banks	50,172	84,382
- current securities issued by other issuers	3,566	3,844
- non-current securities issued by other issuers	8,632	8,641
Total	**500,108**	**449,605**
Quoted	496,543	445,760
Unquoted	3,565	3,845
Total	**500,108**	**449,605**

As of 31 December 2012, assets of this portfolio totalling €434,815,000 were pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.

Debt securities NLB26 totalling €3,093,000, or 0.62% of the total held-to-maturity portfolio at the end of 2012, have the characteristics of subordinated debt.

31.1 MOVEMENT IN HELD-TO-MATURITY FINANCIAL ASSETS

	2012	2011
1 January	**449,605**	**180,220**
Increase during the year	**145,703**	**296,663**
- acquisition	126,005	287,063
- gains (Note 11)	916	696
- reversal of impairment	52	197
- exchange rate differences	0	25
- other (deferred interest)	18,730	8,682
Decrease during the year	**95,200**	**27,278**
- redemption	83,226	18,870
- losses (Note 11)	974	169
- impairment	31	170
- other (interest received)	10,969	8,069
31 December	**500,108**	**449,605**

32 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2012	**114,514**	**34,732**	**38,417**	**6,797**	**194,460**
Transfer between types of assets	112	2,901	(24)	(3,952)	(963)
Additions	72	2,034	5,900	5,197	13,203
Disposals	(131)	(6,386)	(5,563)	(4,430)	(16,510)
Exchange rate differences	(1,548)	(98)	(99)	(6)	(1,751)
31 December 2012	**113,019**	**33,183**	**38,631**	**3,606**	**188,439**
Accumulated depreciation					
1 January 2012	**43,335**	**30,288**	**26,461**	**0**	**100,084**
Transfer between types of assets	(30)	15	(15)	0	(30)
Additions	0	0	7	0	7
Depreciation (Note 17)	2,474	2,763	3,506	0	8,743
Disposals	(58)	(6,368)	(1,628)	0	(8,054)
Revaluation	1,279	2	110	296	1,687
Exchange rate differences	(616)	(87)	(60)	0	(763)
31 December 2012	**46,384**	**26,613**	**28,381**	**296**	**101,674**
Carrying amount as of 1 January 2012	**71,179**	**4,444**	**11,956**	**6,797**	**94,376**
Carrying amount as of 31 December 2012	**66,635**	**6,570**	**10,250**	**3,310**	**86,765**

No items of property, plant and equipment are pledged as collateral.

The acquisition cost of completely depreciated items of property, plant and equipment still used by the Group totalled €39,847,000.

The Group's obligations to suppliers of items of property, plant and equipment were €1,392,000 as of 31 December 2012.

	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2011	**112,641**	**34,655**	**38,118**	**2,437**	**187,851**
Transfer between types of assets	1,280	1,648	1,077	(4,132)	(127)
Additions	52	549	2,422	11,663	14,686
Disposals	(98)	(2,167)	(3,164)	(3,177)	(8,606)
Exchange rate differences	639	47	(36)	6	656
31 December 2011	**114,514**	**34,732**	**38,417**	**6,797**	**194,460**
Accumulated depreciation					
1 January 2011	**39,938**	**29,592**	**25,622**	**0**	**95,152**
Transfer between types of assets	8	82	(90)	0	0
Additions	0	2	5	0	7
Depreciation (Note 17)	3,233	2,717	3,324	0	9,274
Disposals	(85)	(2,148)	(2,399)	0	(4,632)
Revaluation	0	6	11	0	17
Exchange rate differences	241	37	(12)	0	266
31 December 2011	**43,335**	**30,288**	**26,461**	**0**	**100,084**
Carrying amount as of 1 January 2011	**72,703**	**5,063**	**12,496**	**2,437**	**92,699**
Carrying amount as of 31 December 2011	**71,179**	**4,444**	**11,956**	**6,797**	**94,376**

33 INVESTMENT PROPERTY

	2012	2011
1 January	**54,544**	**44,966**
Transfer between types of assets	704	(11,005)
Additions	1,739	26,827
Disposals	(149)	(6,253)
Change in fair value (Note 19.2)	(3,521)	9
31 December	**53,317**	**54,544**

The number of agreements the Group had in place for renting out investment properties increased from 89 as of 1 January 2012 to 122 as of 31 December 2012. The aggregate annual rent amounts to €4,333,000, inclusive of VAT.

Direct operating expenses relating to investment property amounted to €50,000 in 2012, compared to €35,000 in 2011.

Items of investment property are not subject to any sale restrictions.

34 INTANGIBLE ASSETS

	Computer software	Intangible assets in preparation	Other intangible assets	Total
Cost				
1 January 2012	**70,731**	**1,546**	**2,824**	**75,101**
Transfer between types of assets	2,142	(2,142)	0	0
Additions	1,908	2,996	6,837	11,741
Disposals	(21)	0	0	(21)
Exchange rate differences	(66)	0	0	(66)
31 December 2012	**74,694**	**2,400**	**9,661**	**86,755**
Accumulated amortisation				
1 January 2012	**41,567**	**0**	**83**	**41,650**
Amortisation (Note 17)	6,809	0	891	7,700
Disposals	(17)	0	0	(17)
Exchange rate differences	(63)	0	0	(63)
31 December 2012	**48,296**	**0**	**974**	**49,270**
Carrying amount as of 1 January 2012	**29,164**	**1,546**	**2,741**	**33,451**
Carrying amount as of 31 December 2012	**26,398**	**2,400**	**8,687**	**37,485**

	Computer software	Intangible assets in preparation	Goodwill	Other intangible assets	Total
Cost					
1 January 2011	**62,799**	**808**	**2,589**	**481**	**66,677**
Transfer between types of assets	6,856	(6,438)	0	(418)	0
Additions	1,149	7,176	0	2,761	11,086
Disposals	(91)	0	0	0	(91)
Revaluation	0	0	(2,589)	0	(2,589)
Exchange rate differences	18	0	0	0	18
31 December 2011	**70,731**	**1,546**	**0**	**2,824**	**75,101**
Accumulated amortisation					
1 January 2011	**33,817**	**0**	**0**	**379**	**34,196**
Transfer between types of assets	361	0	0	(361)	0
Additions	160	0	0	0	160
Amortisation (Note 17)	7,305	0	0	65	7,370
Disposals	(90)	0	0	0	(90)
Exchange rate differences	14	0	0	0	14
31 December 2011	**41,567**	**0**	**0**	**83**	**41,650**
Carrying amount as of 1 January 2011	**28,982**	**808**	**2,589**	**102**	**32,481**
Carrying amount as of 31 December 2011	**29,164**	**1,546**	**0**	**2,741**	**33,451**

The Group's obligations to suppliers of intangible assets were €850,000 as of 31 December 2012, compared to €725,000 as of 31 December 2011.

The Group may freely dispose of its intangible assets and none of these assets are pledged as collateral.

The Group did not capitalise development costs in 2012 and 2011.

Goodwill in the amount of €2,589,000, which was recognised upon the integration of Credy banka into the Group in 2010, was impaired in full in 2011.

35 INVESTMENTS IN THE EQUITY OF ASSOCIATES

	31.12.2012	31.12.2011
Investments in the equity of other Group companies	3,090	47,539
• capital investments in associated financial organisations	3,090	47,539
Total	**3,090**	**47,539**

35.1 MOVEMENT IN INVESTMENTS IN THE EQUITY OF ASSOCIATES

	2012	2011
1 January	**47,539**	**41,719**
Increase during the year	**22,616**	**10,421**
• acquisition	0	7,344
• realised gains	18,095	0
• other	4,521	3,077
Decrease during the year	**67,065**	**4,601**
• disposal	65,033	155
• dividends received	2,032	4,446
31 December	**3,090**	**47,539**

The Group made a gain of €18,095,000 on the sale of a 51% shareholding in Zavarovalnica Maribor. The purchase price for the equity stake in Zavarovalnica Maribor was set at €65,033,000. The sale of Zavarovalnica Maribor was subject to receipt of approvals from the Insurance Supervision Agency and the Slovenian Competition Protection Agency. It was clear at the time of signing the agreement for the sale of Zavarovalnica Maribor that the necessary approvals would be obtained. The applications for granting approvals were submitted immediately following the signing of the agreement. In accordance with the agreement, the buyers, i.e. Pozavarovalnica Sava and Slovenska odškodninska družba, had paid the advance payment of €15,000,000 by the end of 2012, while the remaining amount must be settled within 30 days of the approvals becoming final, with Pozavarovalnica Sava and Slovenska odškodninska družba paying €5,033,000 and €45,000,000, respectively, of the amount due.

Other increase in investments in the equity of associates related to the share of profits of associates and the surplus arising from the revaluation of associates.

35.2 INFORMATION ON COMPANIES IN WHICH THE GROUP HOLDS AT LEAST A 20% STAKE IN THE EQUITY

Name and registered address of the company	Total assets of the company as of 31.12.2012	Total liabilities of the company as of 31.12.2012	Total equity of the company as of 31.12.2012	Equity attributable to Nova KBM	The 2012 technical income and investment income of the company	The 2012 net profit of the company	Acquisition cost	Nova KBM's shareholding (%)	Nova KBM's voting rights (%)	Investment value as of 31.12.2012
Moja naložba, pokojninska družba, d.d.	136,496	129,629	6,867	3,090	2,501	672	2,237	45.00	45.00	3,090
Total				**3,090**			**2,237**			**3,090**

36 TAX ASSETS

36.1 NET TAX ASSETS

	31.12.2012	31.12.2011
Current tax assets	2,424	2,014
Deferred tax assets	38,893	32,017
Total	**41,317**	**34,031**

36.2 NET DEFERRED TAXES

	31.12.2012	31.12.2011
Deferred tax assets	**38,893**	**32,017**
- tax loss	26,661	12,970
- investments in fixed assets	310	6
- grants for cultural projects and for protection against natural disasters	0	22
- fees and commissions	0	589
- available-for-sale financial assets	8,581	14,808
- other provisions for pending legal issues	215	245
- other provisions for employees	686	947
- temporary differences in respect of impairments	2,290	2,430
- other	150	0
Included in the statement of income (Note 21)	**12,851**	**23,018**
- tax loss	13,691	12,043
- investments in fixed assets	304	6
- grants for cultural projects and for protection against natural disasters	(22)	22
- available-for-sale financial assets	(207)	6,341
- fees and commissions	(589)	589
- other provisions for pending legal issues	(30)	12
- other provisions for settled deposits	0	(50)
- other provisions for employees	(261)	(60)
- temporary differences in respect of impairments	(140)	4,192
- other	105	(77)
Included in equity	**173**	**6,029**
- available-for-sale financial assets (Note 47)	173	6,029

The 2012 tax loss of the Group companies totalled €348,618,000. The Group companies have recognised deferred tax assets up to the amount of their estimated future taxable income.

The Group companies have not created long-term deferred tax assets of €25,806,000 for the tax loss in the amount of €170,880,000.

The year-on-year decrease in deferred tax assets in respect of available-for-sale financial assets was mainly due to a rise in the price of several available-for-sale securities and, consequently, a decrease in impairment losses set aside for these securities. The adjustment made as a result of a reduction in the tax rate applicable to deferred tax assets also contributed to a large extent to the decrease in this item.

37 OTHER ASSETS

	31.12.2012	31.12.2011
Inventories	103,333	146,671
Assets received as payment of claims	5,255	5,227
Claims for advance payments	3,110	4,335
Prepayments and accrued income	1,768	1,258
Other claims	1,290	1,199
Total – net amount	**114,756**	**158,690**
Impairment	**58,310**	**9,782**
Total – gross amount	**173,066**	**168,472**

Stock of real estate intended for sale, in the amount of €70,051,000, and stock of real estate and moveable property seized under lease agreements and intended for sale or lease, in the amount of €32,458,000, accounted for the largest proportion of inventories as of 31 December 2012.

Inventories recorded at net realisable value totalled €88,347,000 as of 31 December 2012.

Impairment losses of €57,529,000 on inventories related to a large extent to real estate intended for sale whose value was impaired as a result of a drop in market prices.

No items of inventory are pledged as collateral.

Prepayments and short-term deferred costs accounted for the largest proportion of prepayments and accrued income.

37.1 MOVEMENT IN IMPAIRMENT OF OTHER ASSETS

	2012	2011
1 January	**9,782**	**9,069**
Net impairment of principal (Note 19.2)	51,834	1,112
- additional impairment of principal	52,448	1,416
- reversal of impairment of principal	(614)	(304)
Reversal of impairment of other assets	0	(6)
Write-offs of other assets	(202)	(248)
Exchange rate differences	(16)	(172)
Other	(3,088)	27
31 December	**58,310**	**9,782**

38 NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

	31.12.2012	31.12.2011
Items of property, plant and equipment held for sale	1,089	1,268
Items of investment property held for sale	1,193	5,137
Total	**2,282**	**6,405**

39 FINANCIAL LIABILITIES DUE TO THE CENTRAL BANK

	31.12.2012	31.12.2011
Loans from the central bank	**485,149**	**415,478**
- current loans	8,004	70,382
- non-current loans	477,145	345,096
Total	**485,149**	**415,478**

The expected maturity of these liabilities is disclosed in section '4.2 Liquidity risk'.

40 FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2012	31.12.2011
Derivatives	1,658	2,486
- forward contracts	501	1,681
- swap contracts	1,157	805
Total	**1,658**	**2,486**

41 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31.12.2012	31.12.2011
Deposits (Note 41.1)	3,719,283	3,915,143
Loans (Note 41.2)	582,476	701,201
Debt securities (Note 41.4)	88,592	48,973
Subordinated liabilities (Note 41.5)	98,069	187,923
Other financial liabilities	40,097	48,650
Total	**4,528,517**	**4,901,890**

41.1 DEPOSITS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2012	31.12.2011
Deposits from banks	**107,077**	**154,660**
- sight deposits	5,691	9,857
- current deposits	97,245	135,543
- non-current deposits	4,141	9,260
Deposits from customers	**3,612,206**	**3,760,483**
- sight deposits	1,330,981	1,333,396
- current deposits	827,365	926,640
- non-current deposits	1,453,860	1,500,447
Total	**3,719,283**	**3,915,143**

41.2 LOANS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2012	31.12.2011
Loans from banks	**576,004**	**701,045**
- current loans	13,846	16,636
- non-current loans	562,158	684,409
Loans from customers	**6,472**	**156**
- non-current loans	6,472	156
Total	**582,476**	**701,201**

41.3 DEPOSITS AND LOANS BY MARKET SEGMENTS

	31.12.2012	31.12.2011
Deposits	**3,719,283**	**3,915,143**
Banks	107,077	154,660
Non-financial companies	283,177	278,788
State	490,738	570,217
Other financial organisations	169,029	186,171
Foreign persons	118,772	123,033
Non-profit household service providers	34,379	32,489
Households	2,516,111	2,569,785
Loans	**582,476**	**701,201**
Banks	576,004	701,045
Non-financial companies	102	153
State	6,368	1
Foreign persons	2	2
Total	**4,301,759**	**4,616,344**

41.4 DEBT SECURITIES BY TYPE AND MATURITY

	31.12.2012	31.12.2011
Non-current securities	**45,413**	**16,725**
- bonds issued	45,413	16,725
Certificates of deposit issued	**43,179**	**32,248**
- current	24,790	15,832
- non-current	18,389	16,416
Total	**88,592**	**48,973**

In December 2012, the Bank issued 5-year KBM10 bonds (ISIN SI0022103301) worth €45,413,000, with a fixed coupon rate of 6.00% p.a., as part of its programme to partially redeem/convert its outstanding hybrid loan facilities. For the same reason, it also issued 5-year certificates of deposit worth €11,657,000, with a fixed nominal interest rate of 5.30% p.a.

41.5 SUBORDINATED LIABILITIES

ISIN code	Currency	Date of maturity	Interest rate	31.12.2012	31.12.2011
Subordinated debt					
Adria Bank AG	EUR	perpetual; call option on each 28.12.	variable	1,250	1,296
Hybrid instruments as a component of additional own funds					
Pošta Slovenije d.o.o., contributions 1 to 4	EUR	perpetual	6M EURIBOR + 2.70%	6,740	6,713
Pošta Slovenije d.o.o. 5th contribution	EUR	perpetual	6M EURIBOR + 3.50%	1,988	1,981
ISIN: XS0270427163	EUR	perpetual; call option after 05.10.2016	3M EURIBOR + 1.60%	50,222	50,386
ISIN: XS0325446903	EUR	perpetual; call option booked as executable on 31.12.2030	3M EURIBOR + 4.00%	11,920	101,599
Hybrid instruments as a component of original own funds					
ISIN: SI0022103046	EUR	perpetual; call option after 29.12.2014	8.70%	25,949	25,948
Total				**98,069**	**187,923**

In December 2012, the Bank partially redeemed/converted its outstanding hybrid loan facilities by way of purchasing its subordinated instruments or converting them into the newly issued KBM10 bonds, or certificates of deposit, or a deposit. As a result of this redemption, a transaction on which a gain of €24,541,000 was made by the Bank, and the consequent decrease of €88,192,000 in the outstanding NOVAKR VAR 10/49 notes, the outstanding amount of a hybrid loan facility fell from €100,000,000 to €11,808,000.

The outstanding amount of the €50,000,000 hybrid loan facility did not change, despite its conversion, and neither a gain nor a loss was made by the Bank on this transaction in 2012. This was due to the fact that, as a result of the issuer requesting too high fees, the Bank had decided not to reduce the outstanding amount of the INTNED FLOAT 49 notes, totalling €31,900,000, but to purchase the notes from investors and to include them in its own portfolio of available-for-sale financial assets.

Subordinated liabilities are included in the calculation of capital adequacy. Capital risk is disclosed in Note 4.6.

41.6 OTHER FINANCIAL LIABILITIES

	31.12.2012	31.12.2011
Liabilities for fees and commissions	70	92
Liabilities for gross salaries of employees	3,462	3,655
Liabilities to suppliers	5,733	9,458
Liabilities related to card transactions	5,420	7,780
Liabilities related to ATM transactions	2,036	1,472
Liabilities related to funds of customers provided for payments abroad	4,733	4,317
Liabilities related to cash transactions	665	1,071
Liabilities from participation in profits – dividends	75	78
Accruals and deferred income	7,129	5,118
Surplus arising from authorised transactions for customers	73	119
Other financial liabilities	10,701	15,490
Total other financial liabilities	**40,097**	**48,650**

42 FINANCIAL LIABILITIES ASSOCIATED TO TRANSFERRED ASSETS

	31.12.2012	31.12.2011
Financial liabilities to banks	0	8,022
- current financial liabilities	0	8,022
Total	**0**	**8,022**

Current liabilities arising from repo transactions with ING Bank NV, Amsterdam, were repaid on 21 December 2012.

43 PROVISIONS

	Provisions for tax claims and other pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2012	**3,551**	**7,737**	**26,456**	**508**	**38,252**
Net provisions made during the year (Note 18)	874	566	7,650	(18)	9,072
- provisions made during the year	968	957	33,308	5	35,238
- provisions reversed during the year	(94)	(391)	(25,658)	(23)	(26,166)
Provisions used during the year	0	(608)	0	(1)	(609)
Exchange rate differences	(25)	(97)	37	0	(85)
31 December 2012	**4,400**	**7,598**	**34,143**	**489**	**46,630**

	Provisions for tax claims and other pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2011	**2,003**	**8,092**	**11,479**	**1,046**	**22,620**
Net provisions made during the year (Note 18)	1,697	588	14,958	(304)	16,939
- provisions made during the year	1,760	948	36,167	5	38,880
- provisions reversed during the year	(63)	(360)	(21,209)	(309)	(21,941)
Provisions used during the year	(153)	(956)	0	(234)	(1,343)
Exchange rate differences	4	13	19	0	36
31 December 2011	**3,551**	**7,737**	**26,456**	**508**	**38,252**

Provisions for pensions and similar benefits to employees are recognised on the basis of an actuarial calculation; the assumptions used in the calculation are disclosed in Note 3.14.

Other provisions of €489,000 (2011: €508,000) related to the provisions for undrawn loans under the National Housing Savings Scheme.

44 OTHER LIABILITIES

	31.12.2012	31.12.2011
Liabilities for prepayments received	1,629	3,064
Liabilities related to taxes and contributions	2,486	4,349
Accruals and deferred income	2,537	3,967
Total other liabilities	**6,652**	**11,380**

45 SHARE CAPITAL

	31.12.2012	31.12.2011
Ordinary shares	**40,814**	**40,815**
- subscribed by non-financial companies	7,209	7,305
- subscribed by the state	14,562	14,562
- subscribed by banks	458	615
- subscribed by other financial organisations	2,409	2,663
- subscribed by households	7,952	6,693
- subscribed by foreign persons	8,224	8,977

In May 2011, the Bank raised additional capital, thus increasing its share capital by €13,605,000 to €40,815,000 (exact amount: €40,814,313.08) at the end of 2011. No changes were made in the share capital of the Bank in 2012.

As of 31 December 2011 and 2012, the Bank's share capital was split into 39,122,968 shares. The accounting value of each ordinary no-par value share, calculated as the ratio between the share capital and the total number of shares, is €1.04.

The shares issued by the Bank are ordinary no-par value shares. All shares are of the same class, entail a voting right, are freely transferable, and have been issued in a book-entry form. The holders of shares have the following rights: participation in the management of the Bank; participation in profits (dividend); and pro-rata distribution of residual assets in case of bankruptcy or liquidation of the Bank, as laid down by the law. All shares have been fully paid for.

At the end of 2012, the Bank had 97,429 shareholders (2011: 98,354), of which 956 were legal entities, 96,346 were individuals and 127 were foreign investors. The number of Bank shareholders decreased by 925 year-on-year.

In 2010, Poštna banka Slovenije received 136,000 shares of the Bank (it took over the possession of shares that were provided as collateral for securing a loan), totalling €1,412,000. These shares are treated as treasury shares and were disclosed as such in the financial statements for the 2012 and 2011 year-end. The proportion of treasury shares in the total outstanding shares of the Bank was 0.35% at the end of both 2012 and 2011. In 2011 and 2012 the Group did not acquire or sell treasury shares.

46 SHARE PREMIUM

	31.12.2012	31.12.2011
Paid-in capital surplus	143,467	143,467
Share premium arising from the general capital revaluation	22,308	22,308
Total	**165,775**	**165,775**

Share premium cannot be paid out to shareholders, but can only be used for the purposes and under the conditions as laid down in the Companies Act.

47 REVALUATION RESERVES

	31.12.2012	31.12.2011
Revaluation reserves in respect of available-for-sale financial assets	(1,149)	(25,096)
• revaluation	(1,322)	(31,125)
• deferred taxes (Note 36.2)	173	6,029
Total	**(1,149)**	**(25,096)**

47.1 MOVEMENT IN REVALUATION RESERVES

	2012	2011
1 January	**(25,096)**	**(5,542)**
Net change in valuation of available-for-sale financial assets	29,804	(23,931)
- gains/(losses) recognised in revaluation reserves	19,050	(32,321)
- losses transferred from revaluation reserves to profit or loss	10,754	8,390
Exchange rate differences	(1)	(1)
Net change in deferred taxes	(5,856)	4,378
31 December	**(1,149)**	**(25,096)**

48 RESERVES FROM PROFIT

	31.12.2012	31.12.2011
Reserves from profit		
- regulatory reserves	13,616	19,169
- reserves for treasury shares	1,412	1,412
- statutory reserves	174,184	174,184
- other reserves from profit	100,529	105,961
Total	**289,741**	**300,726**

Reserves from profit are formed in compliance with the Companies Act and provisions of individual Group companies' Articles of Association.

48.1 MOVEMENT IN RESERVES FROM PROFIT

	2012	2011
1 January	**300,726**	**297,010**
- decrease in regulatory reserves	(5,553)	1,306
- decrease in other reserves	(5,432)	2,410
31 December	**289,741**	**300,726**

Movements in reserves from profit are disclosed in the statement of changes in equity.

49 RETAINED LOSS (INCLUDING NET LOSS FOR THE FINANCIAL YEAR)

	31.12.2012	31.12.2011
Retained (loss) from previous years	(75,549)	(1,888)
Net (loss) for the financial year	(205,688)	(84,740)
Total	**(281,237)**	**(86,628)**

For 2012, the Group reported a net loss of €205,697,000, of which €205,589,000 was attributable to owners of the parent and €108,000 was attributable to non-controlling interest. A total of €99,000 of the 2012 net profit was transferred to reserves from profit.

A net loss of €81,122,000 was reported by the Group for 2011. A loss of €82,440,000 was attributable to the owners of the parent, whereas a profit of €1,318,000 was attributable to non-controlling interest. A total of €2,300,000 of the 2011 net profit was transferred to reserves from profit.

Movements in retained earnings or loss are disclosed in the statement of changes in equity.

OTHER NOTES

50 COMMITMENTS AND CONTINGENT LIABILITIES BY TYPE

	31.12.2012		
	Current	Non-current	Total
Financial guarantees	52,100	46,240	98,340
Service guarantees	104,381	92,290	196,671
Total guarantees	**156,481**	**138,530**	**295,011**
Unsecured letters of credit	**21**	**0**	**21**
Approved and undrawn loans	93,004	1,383	94,387
Approved and undrawn overdrafts	182,164	560	182,724
Approved credit lines	8,557	0	8,557
Other	6,989	0	6,989
Total commitments and contingent liabilities	**290,714**	**1,943**	**292,657**
Derivatives	**196,132**	**5,636**	**201,768**
Total	**643,348**	**146,109**	**789,457**

	31.12.2011		
	Current	Non-current	Total
Financial guarantees	68,650	56,166	124,816
Service guarantees	116,547	108,600	225,147
Total guarantees	**185,197**	**164,766**	**349,963**
Unsecured letters of credit	**25**	**0**	**25**
Approved and undrawn loans	131,742	22,104	153,846
Approved and undrawn overdrafts	196,816	108	196,924
Approved credit lines	8,361	0	8,361
Other	9,027	0	9,027
Total commitments and contingent liabilities	**345,946**	**22,212**	**368,158**
Derivatives	**157,024**	**13,873**	**170,897**
Total	**688,192**	**200,851**	**889,043**

As of 31 December 2012, legal claims against the Group totalled €16,769,000 (2011: €16,676,000). On the basis of legal opinions, provisions in the amount of €4,400,000 were set aside for these claims at the end of 2012 (2011: €3,551,000).

Liabilities under rental agreements

	Annual amount in 2013	2 to 5 years (2014 - 2017)	Over 5 years
Business premises, ATMs, parking spaces	1,556	5,342	7,548
Software	195	486	1,204
Information channels	860	3,442	8,606
Other equipment	146	537	1,034
Total	**2,757**	**9,807**	**18,392**

Agreements for renting business premises, ATMs and information channels account for the largest share of liabilities under operating lease agreements.

The Group has not entered into any irrevocable rental agreements.

Receivables under rental agreements

	Annual amount in 2013	2 to 5 years (2014 - 2017)	Over 5 years
Business premises, parking spaces and apartments	5,020	18,271	21,173
Other equipment	67	79	193
Total	**5,087**	**18,350**	**21,366**

The most important rental agreements have been made for renting out business premises and apartments under operating leases.

51 DERIVATIVES

Type of risk	Type of derivative	Carrying amount in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	410	1,157	54,300
Equity instrument price risk	Futures contracts in securities	565	368	42,180
Equity instrument price risk	Options	0	0	14,597
Foreign exchange risk	Currency forwards	203	133	90,691
Total as of 31 December 2012		**1,178**	**1,658**	**201,768**

Type of risk	Type of derivative	Carrying amount in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	0	805	3,000
Equity instrument price risk	Futures contracts in securities	7,252	608	45,587
Equity instrument price risk	Options	0	0	13,873
Foreign exchange risk	Currency forwards	1,190	1,073	108,437
Total as of 31 December 2011		**8,442**	**2,486**	**170,897**

51.1 DERIVATIVES BY TYPE

	Current	Non-current	Total
Forward contracts	**90,691**	**0**	**90,691**
- trading	90,691	0	90,691
Futures contracts	**42,180**	**0**	**42,180**
- trading	42,180	0	42,180
Swaps	**54,300**	**0**	**54,300**
- trading	54,300	0	54,300
Options	**8,961**	**5,636**	**14,597**
- trading	8,961	5,636	14,597
Total as of 31 December 2012	**196,132**	**5,636**	**201,768**

	Current	Non-current	Total
Forward contracts	**108,437**	**0**	**108,437**
- trading	108,437	0	108,437
Futures contracts	**45,587**	**0**	**45,587**
- trading	**45,587**	0	45,587
Swaps	**3,000**	**0**	**3,000**
- trading	3,000	0	3,000
Options	**0**	**13,873**	**13,873**
- trading	0	13,873	13,873
Total as of 31 December 2011	**157,024**	**13,873**	**170,897**

52 AUTHORISED TRANSACTIONS

	31.12.2012	31.12.2011
Non-financial companies	13	35
State	9,180	12,067
Banks and other financial organisations	11,199	14,947
Households	6	26
Non-profit household service providers	1,316	1,321
Foreign persons	77	78
Liabilities related to transactions in securities	930	215
Total	**22,721**	**28,689**

53 FIDUCIARY ACTIVITIES

	31.12.2012	31.12.2011
ASSETS	**825**	**1,151**
Claims of settlement and transactions accounts for customer assets	**262**	**480**
- from financial instruments	171	344
- against the Central Securities Clearing Corporation or the Bank's clearing account for sold financial instruments	91	23
- against other settlement systems and institutions for sold financial instruments (buyers)	0	113
Customers' cash	**563**	**671**
- in the settlement account for customer assets	511	571
- in banks' transaction accounts	52	100
LIABILITIES	**825**	**1,151**
Liabilities of settlement and transactions accounts for customer assets	**825**	**1,151**
- to customers from cash and financial instruments	654	805
- to the Central Securities Clearing Corporation or the Bank's clearing account for purchased financial instruments	105	256
- to other settlement systems and institutions for purchased financial instruments (suppliers)	0	2
- to the Bank or the Bank's settlement account for commissions, fees, etc.	66	88
OFF-BALANCE SHEET ITEMS	**105**	**258**
Customers' financial instruments, itemised by service	**105**	**258**
- receipt, transmission and execution of orders	105	258

54 RELATED PARTY TRANSACTIONS

54.1 STATEMENT OF FINANCIAL POSITION AND OFF-BALANCE SHEET ITEMS

	Associates	
	31.12.2012	31.12.2011
Assets		
Loans and advances given (gross amount)	3	3,261
- loans and advances to customers	2	3,011
- other financial assets	1	250
Investments in securities	2,237	33,732
- equity instruments	2,237	31,918
- debt securities	0	1,814
Other claims	0	5
Liabilities		
Deposits and loans received	1,696	30,184
- deposits and loans from customers	1,686	30,102
- other financial liabilities	10	82
Subordinated liabilities	27	5,254
Other liabilities	0	4
Off-balance sheet items	1,686	1,766

	Key management personnel		Other related persons	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Assets				
Loans and advances given (gross amount)	323	533	13,292	50,113
- loans and advances to customers	322	531	13,289	50,071
- other financial assets	1	2	3	42
Investments in securities	0	0	382	31,073
- equity instruments	0	0	382	31,073
Liabilities				
Deposits and loans received	684	776	3,459	3,935
- deposits and loans from customers	677	776	3,370	3,801
- other financial liabilities	7	0	89	134
Other liabilities	3	0	0	0
Off-balance sheet items	90	104	939	1,889

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

Other related persons of the Group include:

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

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

54.2 STATEMENT OF INCOME

	Associates	
	2012	2011
Net interest income	(1,652)	(1,234)
Net fee and commission income	172	233
Cost of services	(716)	(745)
Total	**(2,196)**	**(1,746)**

	Key management personnel		Other related persons	
	2012	2011	2012	2011
Net interest income	(7)	(3)	4,112	2,817
Dividend income	0	0	0	1,593
Net fee and commission income	0	1	(454)	(49)
Cost of services	(338)	(122)	(1,509)	(1,809)
Individual impairments	0	0	(1,076)	(229)
Total	**(345)**	**(124)**	**1,073**	**2,323**

54.3 LOANS AND GUARANTEES GIVEN

	Management Board members		Supervisory Board members		Other Group employees on individual contract	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Loans	7	60	58	47	2,807	3,448
Average interest rate on loans (%)	8.59	4.34	4.18	4.30	3.67	4.39
Repayments	0	9	10	4	682	649

55 EXPOSURE TO THE BANK OF SLOVENIA, REPUBLIC OF SLOVENIA AND STATE-OWNED INSTITUTIONS

Exposure to:	31.12.2012	31.12.2011
Bank of Slovenia	**140,764**	**68,152**
- settlement account	133,796	49,031
- other	6,968	19,121
Republic of Slovenia	**721,036**	**799,042**
- bonds	387,788	468,739
- other securities	261,500	179,652
- loans	2,906	2,272
- investments guaranteed by the Republic of Slovenia, by type	56,060	130,981
- other	1,118	8,315
State-owned institutions	**578,126**	**659,805**
- loans	277,344	292,116
- securities	139,637	191,668
- commitments and contingent liabilities	66,287	78,410
- other	94,858	97,611
Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	**1,439,926**	**1,526,999**
Share in total assets (%)	27.06	26.27
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	11,664	9,083
Total assets	**5,321,810**	**5,813,071**

56 MOVEMENT IN PAST DUE AND UNPAID CLAIMS

Type of claim	01.01.2012	(%)	Net increase/ (decrease)	Write-offs	Exchange rate differences	31.12.2012	(%)
Available-for-sale financial assets	82	0.01	0	0	0	82	0.01
Loans and advances to banks	3,066	1.70	(133)	(96)	(251)	2,586	1.56
Loans and advances to customers	652,988	15.23	326,995	(44,923)	(885)	934,175	23.13
Other financial assets	4,550	2.39	1,039	(561)	0	5,028	6.06
Total	**660,686**	**12.20**	**327,901**	**(45,580)**	**(1,136)**	**941,871**	**18.71**

Type of claim	01.01.2011	(%)	Net increase/ (decrease)	Write-offs	Exchange rate differences	31.12.2011	(%)
Available-for-sale financial assets	82	0.01	0	0	0	82	0.01
Loans and advances to banks	3,488	1.39	(4)	(527)	109	3,066	1.70
Loans and advances to customers	433,699	9.94	235,425	(16,312)	176	652,988	15.23
Other financial assets	2,239	1.49	2,521	(210)	0	4,550	2.39
Total	**439,508**	**7.79**	**237,942**	**(17,049)**	**285**	**660,686**	**12.20**

57 REMUNERATION

	31.12.2012	31.12.2011
Management Board	**258**	**479**
Aleš Hauc	95	0
Igor Žibrik	50	0
Matjaž Kovačič	0	214
Manja Skernišak	40	132
Andrej Plos	73	133
Supervisory Board members	**210**	**147**
Members of Supervisory Board committees	**68**	**52**
Other Group employees on individual contract	**8,548**	**8,400**
Total	**9,084**	**9,078**

Aleš Hauc has been the President of the Bank's Management Board since 24 April 2012, while Igor Žibrik has been a member of the Bank's Management Board since 18 August 2012.

Manja Skernišak had been a member of the Bank's Management Board until 23 April 2012, while Andrej Plos had been a member of the Bank's Management Board until 14 July 2012.

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

Remuneration paid to members of the Supervisory Board, the Audit Committee, and the Remuneration and Nomination Committee comprises: meeting attendance fees, reimbursement of costs and seminar participation fees.

Remuneration paid to other employees on individual contract comprises: salary, pay for annual leave, termination benefits, bonuses and supplementary pension insurance premium.

The total amount paid in 2012 to Aleš Hauc, President of the Bank's Management Board, in the form of meeting attendance fees, reimbursement of costs and awards for acting on Supervisory Boards of Nova KBM Group companies was €27,000. Igor Žibrik, Member of the Bank's Management Board, was paid €7,000, Andrej Plos, ex-Member of the Bank's Management Board, was paid €17,000, and Manja Skernišak, ex-Member of the Bank's Management Board, was paid €15,000.

57.1 ANALYSIS OF REMUNERATION PAID TO MANAGEMENT BOARD MEMBERS, EXECUTIVE DIRECTORS, SUPERVISORY BOARD MEMBERS AND MEMBERS OF SUPERVISORY BOARD COMMITTEES

Remuneration of the Management Board in 2012

€

Name and surname	Salary		Pay for annual leave		Awards		Bonuses	Supple-mentary pension insurance premium	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
Aleš Hauc	88,118.32	41,391.50	508.71	361.11	0.00	0.00	5,071.46	1,837.12	0.00	0.00	95,535.61	41,752.61
Igor Žibrik	45,168.49	20,982.10	0.00	0.00	0.00	0.00	4,227.59	918.56	0.00	0.00	50,314.64	20,982.10
Manja Skernišak	36,738.23	18,134.57	763.06	474.68	0.00	0.00	1,445.78	918.56	0.00	0.00	39,865.63	18,609.25
Andrej Plos	67,792.87	33,539.19	763.06	472.46	0.00	0.00	2,524.15	1,607.48	92.77	0.00	72,780.33	34,011.65
Total	**237,817.91**	**114,047.36**	**2,034.83**	**1,308.25**	**0.00**	**0.00**	**13,268.98**	**5,281.72**	**92.77**	**0.00**	**258,496.21**	**115,355.61**

Remuneration of the Management Board in 2011

€

Name and surname	Salary		Pay for annual leave		Awards		Bonuses	Supple-mentary pension insurance premium	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
Matjaž Kovačič	129,156.15	63,296.56	1,582.25	878.43	0.00	0.00	4,312.05	2,683.32	75,940.78	34,903.15	213,674.55	99,078.14
Manja Skernišak	122,698.78	60,035.85	1,582.25	880.15	0.00	0.00	4,853.81	2,683.32	0.00	0.00	131,818.16	60,916.00
Andrej Plos	122,697.86	59,337.05	1,582.25	880.33	0.00	0.00	6,146.20	2,683.32	0.00	0.00	133,109.63	60,217.38
Total	**374,552.79**	**182,669.46**	**4,746.75**	**2,638.91**	**0.00**	**0.00**	**15,312.06**	**8,049.96**	**75,940.78**	**34,903.15**	**478,602.34**	**220,211.52**

Remuneration of Executive Directors in 2012

€

	Salary		Pay for annual leave		Awards		Bonuses	Supple-mentary pension insurance premium	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
Total	**633,134.91**	**305,027.54**	**5,341.42**	**3,355.40**	**0.00**	**0.00**	**36,983.28**	**3,950.00**	**0.00**	**0.00**	**679,409.61**	**308,382.94**

Remuneration of Executive Directors in 2011

€

	Salary		Pay for annual leave		Awards		Bonuses	Supple-mentary pension insurance premium	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
Total	**671,918.84**	**318,224.65**	**11,075.75**	**6,405.66**	**0.00**	**0.00**	**42,315.05**	**7,140.00**	**54,879.60**	**27,418.82**	**787,329.24**	**352,049.13**

Remuneration of the Supervisory Board in 2012

€

Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Franc Škufca	12,583.19	2,576.29	673.55	15,833.03
Andrej Svetina	9,684.23	785.07	433.55	10,902.85
Anton Guzej	11,169.23	737.32	433.55	12,340.10
Aleš Krisper	8,804.23	433.36	921.29	10,158.88
Janez Košak	11,224.23	1,703.29	433.55	13,361.07
Dušan Jovanovič	14,718.87	279.20	710.71	15,708.78
Ivan Simič	1,798.33	133.13	0.00	1,931.46
Darjan Petrič	10,894.23	1,938.68	1,184.52	14,017.43
Vida Lebar	11,664.23	715.49	433.55	12,813.27
Peter Kukovica	11,161.13	1,357.67	0.00	12,518.80
Niko Samec	8,481.85	13.78	1,006.45	9,502.08
Karmen Dvorjak	7,880.73	446.84	0.00	8,327.57
Andrej Fatur	8,375.73	816.39	0.00	9,192.12
Miha Glavič	8,155.73	00.00	976.13	9,131.86
Peter Kavčič	8,375.73	503.81	983.87	9,863.41
Dušanka Jurenec	5,922.40	0.00	0.00	5,922.40
Keith Charles Miles	5,972.40	3,412.00	0.00	9,384.40
Egon Žižmond	7,880.73	0.00	0.00	7,880.73
Total remuneration paid by the Bank	**164,747.20**	**15,852.32**	**8,190.72**	**188,790.24**
Dušan Jovanovič	21,032.00	258.00	0.00	21,290.00
Total remuneration paid by subsidiaries	**21,032.00**	**258.00**	**0.00**	**21,290.00**
Total	**185,779.20**	**16,110.32**	**8,190.72**	**210,080.24**

Remuneration of the Supervisory Board in 2011

€

Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Danilo Toplek	5,094.27	172.26	433.55	5,700.08
Franc Škufca	12,324.05	2,568.59	1,353.29	16,245.93
Andrej Svetina	9,891.16	1,173.47	418.06	11,482.69
Anton Guzej	10,867.39	1,033.84	1,353.29	13,254.52
Ivan Vizjak	3,506.26	0.00	851.61	4,357.87
Aleš Krisper	10,179.90	948.22	851.61	11,979.73
Alenka Bratušek	3,506.26	1,087.05	433.55	5,026.86
Janez Košak	11,059.91	1,573.24	418.06	13,051.21
Dušan Jovanovič	14,025.49	119.35	1,060.64	15,205.48
Ivan Simič	7,416.15	551.21	0.00	7,967.36
Darjan Petrič	8,516.13	1,632.05	0.00	10,148.18
Vida Lebar	7,636.13	754.49	501.68	8,892.30
Total remuneration paid by the Bank	**104,023.10**	**11,613.77**	**7,675.34**	**123,312.21**
Dušan Jovanovič	23,214.24	0.00	0.00	23,214.24
Total remuneration paid by subsidiaries	**23,214.24**	**0.00**	**0.00**	**23,214.24**
Total	**127,237.34**	**11,613.77**	**7,675.34**	**146,526.45**

Remuneration of the Audit Committee in 2012

€

Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Andrej Svetina	5,254.65	945.78	0.00	6,200.43
Kosta Bizjak	6,228.55	956.89	0.00	7,185.44
Franc Koletnik	6,228.55	0.00	0.00	6,228.55
Janez Košak	3,507.29	679.52	0.00	4,186.81
Aleksander Igličar	3,280.97	587.51	441.29	4,309.77
Keith Charles Miles	2,844.15	459.65	0.00	3,303.80
Andrej Fatur	1,312.06	181.42	0.00	1,493.48
John Harris	1,666.77	1,299.52	0.00	2,966.29
Total	**30,322.99**	**5,110.29**	**0.00**	**35,874.57**

Remuneration of the Audit Committee in 2011

€

Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Andrej Svetina	5,913.58	1,190.81	0.00	7,104.39
Kosta Bizjak	6,044.70	1,114.94	0.00	7,159.64
Franc Koletnik	5,673.45	0.00	0.00	5,673.45
Janez Košak	4,026.53	1,214.64	0.00	5,241.17
Total	**21,658.26**	**3,520.39**	**0.00**	**25,178.65**

Remuneration of the Remuneration and Nomination Committee in 2012

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Dušan Jovanovič	5,034.65	119.35	5,154.00
Franc Škufca	3,287.29	14.32	3,301.61
Marko Vresk	5,733.55	329.43	6,062.98
Ivan Simič	490.83	23.87	514.70
Peter Kukovica	2,844.15	479.21	3,323.36
Niko Samec	1,312.06	0.00	1,312.06
Peter Kavčič	1,752.06	17.54	1,769.60
Romana Košorok	3,280.97	287.33	3,568.30
Jure Srhoij	2,316.78	128.90	2,445.68
Total	**26,052.34**	**1,399.95**	**27,452.29**

Remuneration of the Remuneration and Nomination Committee in 2011

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Dušan Jovanovič	7,098.85	0.00	7,098.85
Danilo Toplek	1,856.26	112.88	1,969.14
Franc Škufca	4,989.03	956.11	5,945.14
Marko Vresk	6,635.94	566.84	7,202.78
Ivan Simič	1,530.02	358.05	1,888.07
Total	**22,110.10**	**1,993.88**	**24,103.98**

Remuneration of the Appointment Board in 2012

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Dušan Jovanovič	761.67	0.00	761.67
Slava Horvat	870.00	0.00	870.00
Marko Garbajs	870.00	0.00	870.00
Vanessa Grmek	870.00	0.00	870.00
Anja Strojin Štampar	870.00	0.00	870.00
Total	**4,241.67**	**0.00**	**4,241.67**

Remuneration of the Appointment Board in 2011

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Dušan Jovanovič	482.62	130.84	613.46
Franc Škufca	371.25	0.00	371.25
Andreja Kert	371.25	0.00	371.25
Borut Bratina	371.25	130.84	502.09
Ivan Vizjak	371.25	130.84	502.09
Total	**1,967.62**	**392.52**	**2,360.14**

58 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 4 January 2013, a hybrid loan facility of €100,000,000 was given to the Bank by the Government of the Republic of Slovenia. During the audit of the 2012 Annual Report, additional impairment losses were set aside, as a result of which the Core Tier I capital ratio of the Group was reduced to such an extent that the criteria for converting the hybrid loan facility into Bank equity were met. Following the conversion of the hybrid loan facility into shares, it is estimated that the shareholding of the Republic of Slovenia in the Bank will increase to about 79%.

If an agreement is reached with the issuer of INTNED FLOAT 49 notes, the Bank will reduce the outstanding amount of these notes by €31,900,000 and generate a gain of €13,460,000 on the transaction.

All the conditions precedent in respect of the sale of the Bank's equity stake in Zavarovalnica Maribor have been met.

Financial Report of Nova KBM d.d.

We invest our experience and new skills in the future and in development to ensure that we will be even more successful tomorrow.

1 AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF NOVA KBM D.D.

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20 let v Sloveniji

INDEPENDENT AUDITOR'S REPORT
to the owners of Nova KBM d.d.

Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of the bank Nova KBM d.d. (hereinafter: the "bank"), which comprise the statement of financial position as at 31 December 2012, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the unconsolidated financial statements give a true and fair view of the financial position of the bank as at 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Emphasis of Matters

a) *Consolidated Financial Statements*

Bank is the controlling company within the Nova KBM Group (hereinafter: the »group«). The consolidated financial statements of the group, prepared in accordance with the International Financial Reporting Standards as adopted by the EU, are presented separately. We have audited the consolidated financial statements of the group and issued an unqualified opinion on 25 April 2013.

b) *Capital adequacy of the bank*

We draw attention to the disclosures made in Note *2.5 Underlying assumptions of financial statements* and Note *4.6 Capital Risk* to the unconsolidated financial statements which describes the ongoing impact of the economic recession and impairment losses on the financial position of the Bank and the plans to address the situation, including state sponsored planned actions to maintain the capital adequacy of the Bank. There are material uncertainties about the future consequences of economic, political and market risks and the realisation of planned actions which could adversely affect the future operations and financial position of the Bank. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

c) *Credit Risk*

We draw your attention to Note *4.1.5. Counterparty credit risk* to the unconsolidated financial statements, which discusses uncertainties about future economic conditions in Slovenia and their likely impact on values of collaterals.

Our opinion is not modified in respect of these matters.

Other Matter

The bank's financial statements for the year ended 31 December 2011 were audited by a different auditor who issued an unqualified opinion on 4 April 2012.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

Ljubljana, 25 April 2013

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

2 FINANCIAL STATEMENTS OF NOVA KBM D.D.

1 STATEMENT OF INCOME – NOVA KBM D.D.

€000

ITEM DESCRIPTION	Notes	Year ended 31.12.2012	Year ended 31.12.2011
Interest income and similar income	6	177,026	207,085
Interest expense and similar expense	6	(105,290)	(107,828)
Net interest income	**6**	**71,736**	**99,257**
Dividend income	**7**	**3,364**	**4,354**
Fee and commission income	8	46,365	49,944
Fee and commission expense	8	(4,630)	(9,520)
Net fee and commission income	**8**	**41,735**	**40,424**
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	9	24,550	(796)
Net gains/(losses) on financial assets and liabilities held for trading	10	(8,630)	3,188
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	11	2,633	(7,135)
Net exchange rate differences	12	716	2,202
Net (losses) on derecognition of assets excluding non-current assets held for sale	-	(26)	(413)
Other net operating (loss)	13	(1,067)	(2,963)
Administration costs	14	(70,157)	(75,580)
Depreciation and amortisation	15	(11,986)	(13,162)
Provisions	16	(9,947)	(15,931)
Impairment losses	17	(295,038)	(142,253)
Net gains from non-current assets held for sale and liabilities associated therewith	-	397	287
(LOSS) FROM CONTINUING OPERATIONS	**-**	**(251,720)**	**(108,521)**
Income tax related to profit or loss from continuing operations	18	11,080	20,043
NET (LOSS) FROM CONTINUING OPERATIONS	**-**	**(240,640)**	**(88,478)**
Total profit after tax from discontinued operations	19	37,385	4,503
NET (LOSS) FOR THE FINANCIAL YEAR	**-**	**(203,255)**	**(83,975)**
Basic (loss) per share (€)	20	(5.20)	(2.42)
Diluted (loss) per share (€)	-	(5.20)	(2.42)

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

2 STATEMENT OF OTHER COMPREHENSIVE INCOME – NOVA KBM D.D.

€000

ITEM DESCRIPTION	Notes	Year ended 31.12.2012	Year ended 31.12.2011
NET (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**-**	**(203,255)**	**(83,975)**
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX	**-**	**22,089**	**(15,477)**
Available-for-sale financial assets	**44.1**	**27,765**	**(19,347)**
Valuation gains/(losses) taken to equity	44.1	17,061	(27,868)
Transferred to profit or loss	44.1	10,704	8,521
Income tax relating to components of other comprehensive income	**44.1**	**(5,676)**	**3,870**
TOTAL COMPREHENSIVE (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**-**	**(181,166)**	**(99,452)**

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

3 STATEMENT OF FINANCIAL POSITION – NOVA KBM D.D.

€000

ITEM DESCRIPTION	Notes	31.12.2012	31.12.2011
Cash and balances with the central bank	21	151,124	97,023
Financial assets held for trading	22	1,178	8,442
Financial assets designated at fair value through profit or loss	23	34,043	37,942
Available-for-sale financial assets	24	417,102	523,932
Loans and advances	-	3,127,450	3,533,437
- loans and advances to banks	25	169,382	182,418
- loans and advances to customers	26	2,891,136	3,342,123
- other financial assets	27	66,932	8,896
Held-to-maturity financial assets	28	397,130	339,819
Non-current assets and disposal groups classified as held for sale and discontinued operations	35	310	450
Property, plant and equipment	29	62,004	64,753
Investment property	30	1,660	1,900
Intangible assets	31	23,381	27,099
Investments in the equity of subsidiaries, associates and joint ventures accounted for using the equity method	32	55,980	101,967
Tax assets	33	35,100	29,694
- current tax assets	-	4	3
- deferred tax assets	-	35,096	29,691
Other assets	34	32,106	44,079
TOTAL ASSETS	**-**	**4,338,568**	**4,810,537**
Financial liabilities due to the central bank	36	423,646	370,465
Financial liabilities held for trading	37	3,412	1,693
Financial liabilities measured at amortised cost	38	3,674,360	4,019,386
- deposits from banks	38	53,880	121,380
- deposits from customers	38	2,910,847	3,061,681
- loans from banks	38	501,368	603,842
- loans from customers	38	6,470	154
- debt securities	38	88,591	27,885
- subordinated liabilities	38	88,190	178,035
- other financial liabilities	38	25,014	26,409
Financial liabilities associated to transferred assets	39	0	8,022
Provisions	40	41,033	31,268
Other liabilities	41	3,548	5,967
TOTAL LIABILITIES	**-**	**4,145,999**	**4,436,801**
Share capital	42	40,814	40,815
Share premium	43	165,775	165,775
Revaluation reserves	44	(2,092)	(24,181)
Reserves from profit	45	275,044	275,044
Retained (loss) (including net loss for the financial year)	46	(286,972)	(83,717)
TOTAL SHAREHOLDERS' EQUITY	**-**	**192,569**	**373,736**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**-**	**4,338,568**	**4,810,537**

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

4 STATEMENT OF CASH FLOWS – NOVA KBM D.D.

€000

Designation	ITEM DESCRIPTION	Year ended 31.12.2012	Year ended 31.12.2011
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	**Total (loss) before tax from continuing operations**	**(251,720)**	**(108,521)**
	Depreciation and amortisation	11,986	13,162
	Impairment of tangible assets, investment property and intangible assets	239	(123)
	Impairment of investments in the equity of subsidiaries, associates and joint ventures	15,307	16,421
	Net (gains) from exchange rate differences	(716)	(2,202)
	Net (gains)/losses from held-to-maturity financial assets	58	(527)
	Net losses from the sale of tangible assets and investment properties	26	34
	Other (gains) from investing activities	(15,472)	(5,629)
	Other losses from financing activities	9,697	10,811
	Net unrealised (gains) from non-current assets held for sale and discontinued operations and liabilities associated therewith	(397)	(287)
	Other adjustments to total net profit or loss before tax	289,439	141,886
	Cash flow from operating activities before changes in operating assets and liabilities	**58,447**	**65,025**
b)	**Decrease in operating assets (excluding cash equivalents)**	**301,431**	**132,949**
	Net (increase)/decrease in financial assets held for trading	7,263	(5,658)
	Net decrease in financial assets designated at fair value through profit or loss	3,884	10,417
	Net decrease in available-for-sale financial assets	122,261	138,537
	Net (increase)/decrease in loans and advances	167,554	(31,677)
	Net decrease in non-current assets held for sale	700	540
	Net (increase)/decrease in other assets	(231)	20,790
c)	**(Decrease) in operating liabilities**	**(210,495)**	**(18,094)**
	Net increase in financial liabilities to the central bank	53,181	240,316
	Net increase/(decrease) in financial liabilities held for trading	1,719	(4,149)
	Net (decrease) in deposits and loans measured at amortised cost	(315,481)	(220,201)
	Net increase/(decrease) in debt securities in issue measured at amortised cost	60,706	(16,519)
	Net (decrease) in other liabilities	(10,620)	(17,541)
d)	**Cash flow from operating activities (a+b+c)**	**149,383**	**179,880**
e)	**Income taxes refunded**	**0**	**7,518**
f)	**Net cash flow from operating activities (d+e)**	**149,383**	**187,398**

€000

Designation	ITEM DESCRIPTION	Year ended 31.12.2012	Year ended 31.12.2011
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Receipts from investing activities**	**83,999**	**10,413**
	Receipts from the sale of tangible assets and investment properties	45	198
	Receipts from the disposal of subsidiaries, associates and joint ventures – discontinued operations	15,000	212
	Receipts from non-current assets or liabilities held for sale	562	415
	Receipts from the sale of held-to-maturity financial assets	65,536	3,726
	Other receipts from investing activities	824	1,416
	Other receipts from investing activities – discontinued operations	2,032	4,446
b)	**Cash payments on investing activities**	**(113,393)**	**(295,520)**
	(Cash payments to acquire tangible assets and investment properties)	(2,573)	(5,947)
	(Cash payments to acquire intangible assets)	(2,561)	(5,527)
	(Cash payments for investments in the equity of subsidiaries, associates and joint ventures)	0	(16,847)
	(Cash payments for investments in the equity of associates – discontinued operations)	0	(7,344)
	(Cash outflow to non-current assets or liabilities held for sale)	(2)	0
	(Cash payments to acquire held-to-maturity financial assets)	(108,257)	(259,855)
	(Other cash payments related to investing activities)	0	0
c)	**Net cash flow from investing activities (a+b)**	**(29,394)**	**(285,107)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Cash proceeds from financing activities**	**0**	**104,328**
	Cash proceeds from issuing shares and other equity instruments	**0**	**104,328**
b)	**Cash payments on financing activities**	**(99,542)**	**(17,102)**
	(Dividends paid)	(3)	(3,111)
	(Repayments of subordinated liabilities)	(99,539)	(10,729)
	(Other payments related to financing activities)	0	(3,262)
c)	**Net cash flow from financing activities (a+b)**	**(99,542)**	**87,226**
D.	**Effects of change in exchange rates on cash and cash equivalents**	**(850)**	**1,416**
E.	**Net increase in cash and cash equivalents (Af+Bc+Cc)**	**20,447**	**(10,483)**
F.	**Opening balance of cash and cash equivalents**	**200,933**	**210,000**
G.	**Closing balance of cash and cash equivalents (D+E+F)**	**220,530**	**200,933**

Investing activities in respect of discontinued operations generated net receipts of €17,032,000 in 2012, compared to net cash payments of €2,686,000 in 2011.

Reconciliation of cash and cash equivalents as of 31 December 2012 and 2011 with the statement of financial position items is presented in Note 21.1.

Cash flows from interest, dividends and participation in profits

€000

	Year ended 31.12.2012	Year ended 31.12.2011
Interest paid	(102,786)	(102,254)
Interest received	161,941	156,359
Dividends paid	(3)	(3,111)
Dividends and participation in profits received	5,395	8,800

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

5 STATEMENT OF CHANGES IN EQUITY – NOVA KBM D.D.

Statement of Changes in Equity for the year ended 31 December 2012

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained (loss) (including net loss for the financial year)	Total shareholders' equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**40,815**	**165,775**	**(24,181)**	**275,044**	**(83,717)**	**373,736**
Total comprehensive (loss) for the financial year after tax	**0**	**0**	**22,089**	**0**	**(203,255)**	**(181,166)**
Other	(1)	0	0	0	0	(1)
CLOSING BALANCE FOR THE FINANCIAL YEAR	**40,814**	**165,775**	**(2,092)**	**275,044**	**(286,972)**	**192,569**
RETAINED (LOSS) FOR THE FINANCIAL YEAR					**(286,972)**	**(286,972)**

The figure in line 'Other' arises from rounding to thousands of euros.

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

Statement of Changes in Equity for the year ended 31 December 2011

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained earnings/ (loss) (including net loss for the financial year)	Total shareholders' equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**27,210**	**78,314**	**(8,704)**	**275,044**	**3,392**	**375,256**
Total comprehensive (loss) for the financial year after tax	**0**	**0**	**(15,477)**	**0**	**(83,975)**	**(99,452)**
New share capital subscribed (paid)	13,605	90,723	0	0	0	104,328
Payment of dividends	0	0	0	0	(3,130)	(3,130)
Other	0	(3,262)	0	0	(4)	(3,266)
CLOSING BALANCE FOR THE FINANCIAL YEAR	**40,815**	**165,775**	**(24,181)**	**275,044**	**(83,717)**	**373,736**
RETAINED (LOSS) FOR THE FINANCIAL YEAR					**(83,717)**	**(83,717)**

The figure in line 'Other', column 'Share premium', relates to direct costs of capital raising.

The figure in line 'Other', column 'Retained earnings/loss (including net loss for the financial year)', arises from rounding to thousands of euros.

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

3 NOTES TO THE FINANCIAL STATEMENTS OF NOVA KBM D.D.

1 GENERAL INFORMATION

Nova KBM d.d. (hereafter also referred to as the 'Bank') is the parent company of the Nova KBM Group (hereafter also referred to as the 'Group') which, as of 31 December 2012, comprised the parent company and 11 subsidiary companies.

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

The share capital of the Bank as of 31 December 2012 totalled €40,814,313.08 and was split into 39,122,968 ordinary no-par value shares. The Bank's shareholder structure at the 2012 year-end was as follows: the Republic of Slovenia had a 27.7% shareholding; Pošta Slovenije d.o.o. – 6.6%; Gen d.o.o. – 6.4%; Kapitalska družba d.d. – 4.8%; Slovenska odškodninska družba d.d. – 3.2%; ELES d.o.o. – 2.4%: the total shareholding of the state was 51.1%, the same as at the 2011 year-end, of which 35.7% was a direct and 15.4% was an indirect shareholding of the state in the Bank; households had a 19.5% shareholding (up 3.1 percentage points from the beginning of the year); other financial organisations had a 5.9% shareholding (down 0.6 percentage points from the beginning of the year); foreign investors had a 20.2% shareholding (down 1.8 percentage points from the beginning of the year); non-financial companies had a 2.3% shareholding (down 0.2 percentage points from the beginning of the year); and banks had a 1.1% shareholding (down 0.4 percentage points from the beginning of the year).

The Bank is obliged to prepare consolidated financial statements.

2 BASIS FOR THE PRESENTATION OF FINANCIAL STATEMENTS

The financial statements of the Bank for the period ended 31 December 2012 were authorised for issue on 3 April 2013 by the Management Board of Nova KBM.

2.1 STATEMENT OF COMPLIANCE AND PURPOSE OF FINANCIAL STATEMENTS

The financial statements are prepared in accordance with International Financial Reporting Standards (hereafter 'IFRSs') as endorsed by the European Union. The financial statements are intended to comply with annual reporting requirements and to provide general use historical financial information. The financial statements are not intended for any specific use or any specific transaction; accordingly, users should not rely on the financial statements as the only source of information when making decisions.

2.2 BASIS OF VALUATION

The financial statements are prepared under the historical cost convention, except for the following items for which fair value has been applied:

- financial assets designated at fair value through profit or loss
- available-for-sale financial assets

- derivatives
- investment property.

The fair value assessment methods are set out below.

2.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRSs requires the use of certain accounting estimates and judgements, which may affect the value of reported assets and liabilities and of potential assets and liabilities as of the reporting date, and income and expense for the period then ended.

The most important judgements relate to the classification of financial instruments, in particular to the distribution between the held-to-maturity portfolio and the portfolio held for trading. The classification of financial instruments is carried out in line with the Bank's policy prior to the initial recognition of a financial instrument.

Estimates are used for: impairment of loans to customers; impairment of available-for-sale financial assets; fair value of financial assets and liabilities; provisions for off-balance sheet risks; depreciation of property, plant and equipment and amortisation of intangible assets; potential tax items; provisions for liabilities to employees; provisions for pending legal issues.

Changes in estimates for impairment provisions have an especially important impact on financial position of operations. These estimates are subject to adjustment in the future as a result of changes in economic conditions, customers' ability to repay loans, and realisation of collateral values for defaulted loans (see section Credit risk, Note 4.1.5). Currently available information about the state of the economy indicates that it is likely that additional impairments will occur in the future and the future adjustments required could be material.

2.4 PRESENTATION AND FUNCTIONAL CURRENCY

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

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros except where stated otherwise. Slight discrepancies in totals may occur due to rounding off of figures.

2.5 UNDERLYING ASSUMPTIONS OF FINANCIAL STATEMENTS

The financial statements have been prepared assuming the Bank will continue its operations as a going concern for the foreseeable future and will be able to meet its liabilities as they become due. The Management Board of the Bank and its senior management positively assessed the Bank's ability to continue as a going concern. In this assessment, a wide range of data on current and future operating conditions was considered. The Bank incurred operating losses in both 2011 and 2012, and the management considers it likely that there will also be a net loss in 2013. These operating losses are a direct result of the ongoing financial crisis and the economic recession. The economic conditions include high unemployment, financial difficulties for businesses, including their insolvencies, and declining marketability and pricing of assets, including assets pledged as collateral for the Bank's loans. There is evidence that the economic recession will continue and the eventual economic recovery will be slow, which may result in material additional future losses for the Bank.

The financial consequences of the economic recession on the Bank have been partially mitigated by disposals of some non-core assets and an increase in capital in 2011 and a repurchase of debt at a gain in 2012. Also, the Bank maintains a manageable loan-to-deposit ratio, a satisfactory asset/liability management position, and a reasonable net interest margin that is sufficient to cover administration costs. In October 2012, the Bank Assets Management Company (BAMC) was created by the state. Non-performing assets will be taken over by the BAMC in exchange for government guaranteed bonds. The BAMC programme is subject to EU approval and, if approved, is expected to be implemented in 2013. The Bank's capital level at the end of 2012 was adequate, but additional capital is needed. A further increase in capital is expected in 2013 based on consultations with state officials and information available about the state's plans for recovery of the banking sector in Slovenia (the state is the controlling shareholder of the Bank).

The Management Board of the Bank and its senior management are aware that there are inherent uncertainties about the future that are outside the control of the management. These relate to the future impact on the Bank of the continuing economic recession, which cannot be fully estimated, and the risk that unanticipated events could occur that might have a material adverse effect on the Bank's financial position.

So far, the Bank has had steady support from the regulator and its main owner, i.e. the government. In accordance with the Ordinance on the Management of Capital Shares of the Republic of Slovenia in Nova KBM d.d (OdUKNNKBM - Official Gazette of RS, No. 47/2012), Nova KBM is considered a systemic bank supported by the main owner – the Republic of Slovenia. In the aforementioned ordinance, the Bank's main owner declared its understanding that a successful capital raising of the Bank would also be fundamental to the programme of financial consolidation in the Republic of Slovenia and, consequently, relevant to the government's financial position and its credit rating. The government's last capital raising took place at the end of 2012 (this capital raising was completed in April 2013, after the hybrid instrument was converted into Bank equity).

The Republic of Slovenia provided the European Commission with the restructuring programme for the Bank, defining the relevant activities and one-time need for additional financing so that the Bank would become independent in its operations and development on the basis of capital accumulation in the form of retained earnings. The programme was the result of intensive cooperation between Nova KBM and the Ministry of Finance. The Bank continues with activities for improvement of its capital adequacy in line with the restructuring plan for the capital raising in mid-2013 that has been presented to the European Commission.

After the restructuring process, which was initiated in 2012, the organisation will be more economical and efficient. Certain activities carried out by the Group will be merged within the companies in the Group or transferred to the Bank, while some less relevant activities are expected to be sold.

Within the Slovene banking system, Nova KBM has a favourable structure of assets and liabilities, with a considerable market share in deposit business (especially with households) and an accessible and widespread network for operations with the households segment. The Bank carries out diversified scenarios of liquidity management on a monthly basis. Based on these scenarios, it can assure adequate liquidity by considering the assumptions regarding normal functioning, as well as extraordinary situations. According to the results of basic and stressful scenarios on two difficulty levels, the Bank has a sufficient amount of liquidity reserves.

In the Spring Forecasts for 2013 Economic Trends (March 2013), experts from the Slovene Institute of Macroeconomic Analysis and Development (UMAR) predicted that Slovenia will start to emerge from the crisis in 2014. According to UMAR, the Slovene banking position will probably stop declining by the end of 2013, thanks to the adoption of measures for restructuring the bank balance sheets. Establishment of the Bank Assets Management Company (BAMC) and implementation of regulations and responsibilities of BAMC under the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (Official Gazette of RS, No. 105/2012) will ensure a smooth launch of activities aimed at improving the banks' stability in order to preserve the Slovene financial system.

2.6 CHANGES IN THE LAYOUTS OF FINANCIAL STATEMENTS

The amended Regulation on Books of Account and Annual Reports of Banks and Savings Banks was published in spring 2012, introducing several changes in the layouts of financial statements. The Bank used these amended layouts for the first time for its financial statements as of 30 June 2012. The comparability of data included in this financial report has been ensured.

Changes in the statement of financial position are set out below:

- other financial assets (cheques, claims for fees and commissions, the majority of other receivables) were transferred from the item 'Other assets' to the item 'Loans and advances'
- other financial liabilities (liabilities for fees and commissions, the majority of other liabilities) were transferred from the item 'Other liabilities' to the item 'Financial liabilities measured at amortised cost'
- current and deferred tax assets and tax liabilities are now disclosed in the net amount, and not gross, as was the case before, resulting in a decrease of total assets set out in the Bank's statement of financial position as of 31 December 2011 included in this report.

Changes made to the statement of income items do not have any impact on profit or loss, but only on the following notes to the statement of income:

- realised gains and losses on other financial assets are included in realised gains and losses on loans (Note 9)
- impairments of other financial assets were excluded from the item 'Impairment of other assets' and included in the item 'Impairment of loans and other financial assets' (Note 17.1).

Other accounts were not affected by the aforementioned changes.

Reclassifications of statement of financial position and statement of income items were insignificant in value terms.

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Exchange rate differences are recognised in the statement of income.

Assets and liabilities items denominated in foreign currency are translated and disclosed in the financial statements by applying the European Central Bank's reference exchange rates as valid on the reporting date. The effects of translating foreign currency into the euro are recognised in the statement of income as net gain/loss from exchange rate differences.

Translation differences on non-monetary items, such as equity instruments designated at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equity instruments designated as available for sale are included in other comprehensive income, together with the fair value measurement effect.

3.2 CASH AND CASH EQUIVALENTS

Cash equivalents are current, highly liquid investments that can be quickly converted to a known amount of cash and for which the risk of changes in value is negligible.

The Bank includes the following items among cash equivalents:

- cash and balances in settlement and current accounts
- loans to banks with an original maturity of up to three months
- investments in available-for-sale debt securities with an original maturity of up to three months.

3.3 FINANCIAL ASSETS

3.3.1 CLASSIFICATION OF FINANCIAL ASSETS

Upon initial recognition, the Bank classifies financial assets with regard to the purpose of the acquisition, the period held, and the type of the financial asset into one of the following categories:

- Financial assets designated at fair value through profit or loss are classified into financial instruments held for

trading and other financial instruments designated at fair value through profit or loss. Financial assets held for trading are those instruments in which the Bank intends to actively trade and earn profit from short-term price differences. Equity instruments, debt securities and derivatives, except those held for hedging purposes, are classified into this category. Financial assets are upon initial recognition designated at fair value through profit or loss when doing so provides more relevant information of measurement or recognition.
- Held-to-maturity financial assets are assets with fixed or determinable payments and a fixed maturity, for which the Bank attests the purpose and capacity to hold them until maturity.
- Available-for-sale financial assets are assets which the Bank did not acquire for the purpose of trading but intends to hold them for an undetermined period of time, and which can be sold for the reason of liquidity requirements, changes in interest rates, exchange rates or the prices of financial instruments.
- Loans and advances are financial assets with fixed or determinable payments which are not traded on an active market.

The Bank uses financial instruments for the purpose of economic hedging of another financial instrument. In its accounting, the Bank does not apply rules of hedge accounting, as the effects of measurement of both the underlying and the hedge financial instrument are shown simultaneously in the statement of income.

The Bank does not hold instruments for which hedge accounting would be required.

3.3.2 RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS

Buying and selling of financial assets, except loans and advances, is recognised on the trading date (day when the contract is made). Loans and advances are recognised when funds are advanced to borrowers.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition (the Bank transferred all rights and risks under the financial asset). Should the Bank transfer the financial asset, but retain practically all risks and rights, derecognition of the asset is not carried out.

If a financial asset is derecognised in full, the difference between the carrying value of the asset and the sum of any compensations received (including the value of new asset received, reduced by the newly assumed liability), together with accrued gains or losses which were recognised directly in equity, is recognised in the statement of income.

3.3.3 MEASUREMENT OF FINANCIAL ASSETS

Financial assets, except financial assets carried at fair value through profit or loss, are initially measured at fair value plus any transaction costs.

Financial assets carried at fair value through profit or loss are initially measured at fair value, and the transaction costs are expensed in the statement of income on the purchase date.

After they are initially recognised, financial assets held for trading and available-for-sale financial assets are measured at fair value. Fair value of financial assets is based on current bid prices as valid on the reporting date or, if such are not available, closing prices. If a quoted market price is not available, the fair value of the financial instrument is estimated using comparative pricing models or discounted cash flow techniques.

Derivatives, including foreign currency forward transactions, interest rate swaps, currency options and forward transactions in securities, are used by the Bank for trading and hedging purposes and are measured at their fair value. The fair value of derivatives equals unrealised gains or losses on the valuation of derivatives at market prices or at contractual forward prices.

Available-for-sale equity instruments for which the fair value cannot be reliably estimated are measured at cost (acquisition cost increased by transaction costs and decreased by appropriate allowance for impairment).

Loans and advances are measured at amortised cost using the effective interest rate method.

Loans and advances are reported at their outstanding unpaid principal balances increased by any accrued interest and fees and reduced by appropriate allowance for impairment.

Held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated as the initially recognised amount of the receivable, reduced by repayments of the principal, increased or decreased by the accumulated difference between the initial amount and the amount due for payment, and reduced by appropriate allowance for impairment.

3.3.4 GAINS AND LOSSES

Gains and losses arising from the change in fair value of financial assets measured at fair value through profit or loss are recognised in the statement of income in the period in which they are incurred.

Gains and losses arising from the change in fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for losses due to impairment and foreign exchange gains and losses, until the financial asset is derecognised at which time the effect previously included in equity is recognised in the statement of income. Interest on available-for-sale debt securities, calculated by applying the effective interest rate method, is recognised directly in the statement of income.

'Day one profit'

Where the transaction price of an instrument in a non-active market is different to the fair value from other observable market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value in the statement of income as the 'day one profit or loss'. In cases where the data used for valuations are not 'fully marketable', the difference between the transaction price and the price based on the valuation technique is recognised in the statement of income only after the market becomes relevant, or if the instrument is disposed of.

3.3.5 RECLASSIFICATION OF FINANCIAL ASSETS

During the year ended 31 December 2012, the Bank did not reclassify any of its financial assets into another category.

3.3.6 IMPAIRMENT OF FINANCIAL ASSETS

Available-for-sale financial assets

At each reporting period the Bank assesses whether there is objective evidence that available-for-sale financial assets are impaired. A significant or prolonged decline in the fair value of a financial asset below its acquisition cost is taken into consideration when determining whether the asset is impaired. The decision regarding what is to be considered as a significant or prolonged decline in the fair value is based on estimates. In making such estimates, the Bank, in addition to other variables, takes into account the price volatility of securities.

If an available-for-sale debt instrument is impaired, the cumulative loss recognised within other comprehensive income is transferred into the statement of income. The loss so recognised may be reversed.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurred after the impairment loss was recognised, the impairment loss is reversed through the statement of income.

In case of impairment of available-for-sale equity instruments, the loss due to impairment of an instrument is recognised in the statement of income. Reversal of impairment of an equity instrument is not carried out through the statement of income, but is, in case of a subsequent increase in fair value, disclosed directly within other comprehensive income.

Held-to-maturity financial assets

At each reporting period the Bank assesses whether there is objective evidence that held-to-maturity financial assets are impaired.

The amount of impairment loss is measured as the difference between the instrument's carrying value and the present value of future cash flows discounted by the original effective interest rate. The amount of loss is recognised in the statement of income.

Loans and advances

The Bank classifies each customer into the adequate credit rating category using its internal methodology. The classification of customers is based on their financial standing and performance, their ability to provide cash flow needed for the repayment of debts, their settlement of liabilities, the industry sector risk, and on subjective criteria.

The Bank continuously, or at least quarterly, assesses whether impartial evidence exists, or events have occurred since recognition of an asset, and whether these events have an impact on the future cash flows of a financial asset or a group of financial assets which can be reliably assessed.

On the basis of risks associated with a customer and transaction entered into, the adequate impairment of a financial asset is made in accordance with IFRSs and an internal methodology. Significant financial assets are assessed individually for impairment. If impairment is established in an individual assessment of an asset, such asset shall be impaired individually, otherwise it shall be classified into the adequate debtor or financial asset risk category and impaired collectively. Individually insignificant financial assets are also collectively assessed for impairment.

For individually assessed financial assets, the amount of loss due to impairment is calculated as the difference between the asset's carrying value and the present value of future cash flows discounted at the contractual interest rate. If the Bank possesses prime or adequate collateral, it also takes into account expected cash flows from the realisation of any such collateral.

For collectively assessed financial assets, the Bank uses a model that is based on the probability of a customer becoming a defaulting customer, taking into account the amount of loss incurred by each category of defaulting customers. The probability of default and the amount of loss are calculated for each individual category of loans on the basis of information about previous defaults and losses.

The adequacy of collective impairment rates is verified on an annual basis. Collective impairment rates are calculated separately for the portfolio of loans given to retail customers and the portfolio of loans given to corporate customers.

The carrying value of an impaired asset is reduced directly, or through the allowance account. Impairment loss is recognised in the statement of income.

If the amount of impairment decreases in a subsequent period, the previously recognised impairment loss shall be reversed. The amount of reversed loss is recognised in the statement of income.

If a customer is located in a higher-risk country, the sovereign risk also has to be taken into consideration when assessing losses due to impairment.

Whenever possible, the Bank strives to restructure loans rather than liquidate collateral. The restructuring of a loan can be made by extending the term of the loan or negotiating new terms and conditions for the loan. Once new terms and conditions are agreed, the loan is no longer classified as being due; however, a customer's rating cannot be upgraded only on the basis of a loan being restructured. If a loan is restructured, the Bank constantly controls the borrower's compliance with the terms of the restructured loan and monitors the probability of future repayments. Such loans remain subject to collective or individual impairment calculated using the original effective interest rate of the loan.

3.4 OFFSETTING

Financial assets and liabilities are offset in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.5 INVESTMENTS IN THE EQUITY OF SUBSIDIARIES AND ASSOCIATES

Investments in the equity of subsidiaries and associates are measured at acquisition cost, as reduced by any impairment losses.

3.6 SALE AND REPURCHASE AGREEMENTS

Securities purchased under agreements to resell (repos) are retained in the financial statements as loans and advances to banks or customers, as appropriate. According to the agreements on temporarily purchasing an instrument, the Bank does not enter into any risk and does not enjoy any benefits from the instrument. The contractual relation is classified as a collateralised loan, and instruments which are defined in the repo contract are pledged as security. The difference between the purchase and the sale price is treated as interest income and is accrued over the life of the repo agreements using the effective interest rate method.

3.7 LEASES

Assets leased to customers under lease agreements, which transfer substantially all the risks and rewards of ownership of an item of property, plant and equipment, with or without ultimate legal title, are classified as finance leases. Depending on the lease agreement, the asset leased may be bought or returned to the lessor. As a rule, such a lease agreement cannot be unilaterally terminated. For depreciating leased assets, the same accounting policy is applied as for the Bank's own assets.

A lease which is not a finance lease is an operating lease.

The Bank is the lessee

Payments made under operating leases are included in the statement of income on a straight-line basis over the period of the lease.

An asset obtained on the basis of a finance lease is included within property, plant and equipment. Its acquisition cost equals the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. Lease payments are recognised as interest expense. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The Bank is the lessor

Assets leased under operating lease agreements are included within investment property or property, plant and equipment. Lease income is recognised in the statement of income on a straight-line basis over the period of the lease.

When assets are held subject to a finance lease, the present value of future lease payments is recognised as a receivable under the finance lease. Income from the finance lease, which is disclosed as interest income, is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor.

3.8 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are assets which the Bank uses for conducting its business. They are recorded at historical cost less accumulated depreciation and any impairment loss. Transaction costs directly attributable to the acquisition of an asset are included in the initial cost recognition.

Subsequent costs are included in the asset carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income in the financial period in which they are incurred.

The Bank starts to depreciate items of property, plant and equipment when these assets are available for use. Depreciation of assets is provided individually on a straight-line basis over their estimated useful lives.

The following depreciation rates were applied:

	2012	2011
• buildings	1.3% and 2%	1.3% and 3%
• computer equipment	25%	25%
• motor vehicles	12.5% to 20%	12.5% to 20%
• other equipment	6.7% to 25%	6.7% to 25%

Based on findings that the materials and technologies used for construction are constantly improving, which extends the estimated useful lives of buildings, the rate used to depreciate buildings owned by the Bank was reduced from 3% in 2011 to 2% in 2012, resulting in a year-to-year decrease of €779,000 in depreciation costs.

Land is recognised separately from buildings and, as it generally has an unlimited beneficial life, is not depreciated.

For co-divided ownership of commercial space, the value of the associated land is included in the Bank's acquisition cost of the respective part of the building.

Items of property, plant and equipment are assessed due to possible impairment each time when there are indicators that, due to events or changes in the circumstances, the carrying value of an asset may not be recovered. If the estimated recoverable value of an asset is lower than its carrying amount, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in the statement of income. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

An asset is derecognised upon disposal or if the future economic benefits are no longer expected from its use.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of an item of property, plant and equipment, and are recognised net in the statement of income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

3.9 INVESTMENT PROPERTY

Items of investment property are tangible assets that the Bank does not use directly in its operations; they are held with the intention of renting them out commercially.

Upon recognition, they are measured at acquisition cost, and later the Bank measures items of investment property using the fair value model.

A licensed real estate appraiser verifies the fair value of items of investment property at the end of each financial year.

Gains or losses arising from changes in fair value are included in the Bank's statement of income in the period to which they relate.

3.10 INTANGIBLE ASSETS

The Bank possesses only intangible assets with a determinable period of useful life.

Initial recognition of an acquisition cost includes costs which are directly linked to the acquisition of an asset and are necessary for the asset to be put into use. The Bank depreciates intangible assets on a straight-line basis over their estimated useful lives. The following amortisation rates were applied in both 2011 and 2012:

- licences 10 to 20%
- other investments 10%

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

Intangible assets are tested for impairment when there are indicators that the carrying value may not be recovered. If the assessed recoverable amount of an asset is lower than its carrying value, the carrying value should be reduced to the recoverable amount and the reduction recognised as an impairment loss in the statement of income. The recoverable amount is the higher of the fair value less costs of sale and the value in use.

3.11 INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated sales price achieved in the ordinary course of business net of estimated costs of completion and costs of sale. Inventories are not revalued as a result of the increase in value.

Upon initial recognition, the Bank measures items of real estate received as settlement of receivables on the basis of an appraiser's report. The Bank holds the items of real estate so acquired with the intention of selling them.

3.12 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of book and fair value, reduced by the costs of sale. These assets are not depreciated.

3.13 FINANCIAL LIABILITIES

Financial liabilities include liabilities due to the central bank, financial liabilities held for trading and financial liabilities measured at amortised cost.

Financial liabilities held for trading include liabilities arising from the valuation of forward sale of securities, and are measured at fair value.

Financial liabilities measured at amortised cost are deposits and loans from banks and customers, debt instruments issued and other financing liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After they are initially recognised, the liabilities are measured at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income using the effective interest rate method.

A financial liability is derecognised only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying value of a financial liability that is cancelled, or transferred to another party, and the compensation paid is recognised in the statement of income.

3.14 PROVISIONS

The Bank recognises non-current provisions for liabilities and expenses due to present obligations (legal or constructive) arising from past events for which it is possible that an outflow of resources embodying economic benefits will be required to settle the obligations and a reasonable estimate of the obligation can be made. The Bank creates provisions for long-term employee benefits and similar liabilities, for off-balance sheet liabilities, for pending legal issues, and other provisions.

The Bank recognises provisions for pensions and similar liabilities that reflect the present value of liabilities for termination benefits and loyalty bonuses. When calculating the present value, a discount interest rate is used that is equal to the market rate of return on corporate bonds of an issuer with a high credit rating, issued in a currency that is the same as the currency of the employer's liabilities; the discount rate used for 2012 was 4.6% (2011: 5.1%). The Bank recognises provisions for every employee in such a manner that termination benefits at retirement provided for by the employment contract are taken into account, as well as the costs of expected loyalty bonuses for the total years of service at the company until retirement, while taking into consideration, among other factors, employee turnover in the range of 0.4% to 1.1% (2011: 0.4% to 1.7%) and the projected increase in salaries in the range of 0.0% to 3.0% (2011: 1.6% to 3.0%). A certified actuary performs the calculation of liabilities for the Bank.

The Bank recognises provisions for off-balance sheet liabilities on the basis of risk classification of the customer and the transaction concluded, taking into consideration similar criteria as for the impairment of loans.

Provisions for pending legal issues represent reliably assessed amount of liability on the reporting date. Provisions are estimated on the basis of known facts of the legal proceeding, previous experiences with similar proceedings, and opinions of legal experts.

3.15 SHAREHOLDERS' EQUITY

Share capital of the Bank is split into ordinary no-par value shares.

Treasury shares are deducted from equity.

In accordance with its Articles of Association, the Bank establishes regulatory reserves until the aggregate amount of regulatory reserves and paid-in capital surplus (share premium) equals four times the amount of the Bank's share capital.

Statutory reserves are established up to the amount which equals eight times the amount of the Bank's share capital.

Dividends on shares are recognised as a financial liability for the period in which the Shareholders' Meeting approves the dividend payment.

3.16 COMMITMENTS AND CONTINGENCIES

The Bank undertakes transactions in financial instruments that carry off-balance sheet risk, such as financial and service guarantees, letters of credit and credit lines.

Financial guarantees

Off-balance sheet commitments under guarantees represent irrevocable obligations that the Bank will make payments in the event a customer cannot fulfil its obligations vis-à-vis third parties.

Fees received are amortised to the statement of income using the straight-line method.

Risks associated with off-balance sheet financial commitments and contingent liabilities are assessed similarly as for loans. Any increase in liability as a result of estimated expenses required for the settlement of contractual obligations is included in the item 'Provisions'.

3.17 INTEREST INCOME AND INTEREST EXPENSE

Income is recognised when a probability of future economic benefits exists, and such benefits can be reliably measured.

Interest income and expense are recognised in accrued amounts at a level, with maturities, and in the manner set out in the Bank's decision on interest rates, or based on an agreement between the Bank and its customer.

All interest income and expense from operations in financial assets are recognised in the statement of income using the effective interest rate method.

The following items are included in interest income: regular, default and accrued interest, as well as prepaid fees for costs of repaying non-current loans given to households. These fees are transferred to income in line with the loan repayment period.

All interest on deposits, securities issued, loans received and other expenses on financial liabilities are included in interest expense.

3.18 DIVIDEND INCOME

Dividends or participating interests received from equity investments in companies are included in the dividend income. The Bank recognises dividend income in the statement of income upon obtaining the right to dividend.

3.19 FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSE

Fee and commission income includes fees and commissions for services rendered by the Bank. Fee and commission expense includes amounts paid for the services of others.

Fee and commission income and expense are recognised in the statement of income when the service is rendered.

3.20 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Realised gains and losses on available-for-sale financial assets, loans measured at amortised cost and held-to-maturity financial assets are recognised in the statement of income upon selling the asset, at maturity, or upon other derecognition of the financial asset.

3.21 NET GAINS AND LOSSES ON FINANCIAL ASSETS HELD FOR TRADING

Net gains and losses from trading include realised and unrealised gains and losses on financial assets held for trading, valuation of derivatives and net gains from buying and selling foreign currency.

3.22 OTHER NET OPERATING INCOME OR LOSS

Other net operating income or loss includes realised gains and losses from non-banking activities (income from leases, selling of inventory, expenses for memberships and contributions, other expenses).

3.23 IMPAIRMENT

The Bank includes the following categories in the item 'Impairment losses': impairment of financial assets not measured at fair value through profit or loss; impairment of items of property, plant and equipment; impairment of intangible assets; and impairment of items of investment property.

3.24 TAXES

In accordance with the applicable legislation, the income tax rate is set at 18% of the tax base (the Bank’s tax base for 2012 was negative).

Deferred tax is calculated for all temporary differences between the value of assets and liabilities for tax purposes and their carrying value. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability settled.

The most significant temporary differences arise from the valuation of financial instruments, and from provisions.

Deferred tax is recognised for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which temporary differences can be charged.

Deferred tax relating to the valuation of available-for-sale financial instruments and measured at fair value is disclosed directly within other comprehensive income.

3.25 REPORTING BY SEGMENTS

A segment is recognisable as an integral part of the Bank engaged in marketing of products or services (operating segment) and is subject to risks and returns different from those in other segments. Reporting by segments for management purposes is the same as presented in the financial statements.

The Bank conducts its business as a single operating segment, since the risks and returns across different activities do not vary significantly. The Bank's reporting by segments is disclosed in the Financial Report of the Nova KBM Group.

3.26 STANDARDS AND INTERPRETATIONS

The accounting policies used to prepare the financial statements are consistent with those of the previous financial year, except for new and amended standards and interpretations effective as of 1 January 2012, as presented below:

- **Disclosures required by IAS 8.28** – information regarding initial application of particular new regulations.

In the current period, the following amendments to existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- **Amendments to IFRS 7** – Financial instruments: Disclosures – Transfer of financial assets; adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011). The adoption of these amendments to the existing standard has not led to any changes in the Bank's accounting policies.

- **Disclosures required by IAS 8.30-31** – regarding already published standards to become effective at a later date. The Bank has not early adopted any standard or interpretation issued but not yet effective.

Standards and interpretations issued by the IASB and adopted by the EU but not yet effective

At the date of authorisation of the financial statements included in this report, the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10** – Consolidated Financial Statements; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **IFRS 11** – Joint Arrangements; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **IFRS 12** – Disclosure of Interests in Other Entities; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **IFRS 13** – Fair Value Measurement; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **IAS 27 (revised in 2011)** – Separate Financial Statements; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **IAS 28 (revised in 2011)** – Investments in Associates and Joint Ventures; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **Amendments to IFRS 1** – First-time adoption of IFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IFRS 7** – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IAS 1** – Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income; adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012).

- **Amendments to IAS 12** – Income Taxes – Deferred Tax: Recovery of Underlying Assets; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IAS 19** – Employee Benefits – Improvements for the Accounting for Post-employment Benefits; adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IAS 32** – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **IFRIC 20** – Stripping Costs in the Production Phase of a Surface Mine; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

Standards and interpretations issued by the IASB but not yet adopted by the EU

At present, IFRSs as adopted by the EU do not differ significantly from regulations adopted by the IASB, except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 8 March 2013:

- **IFRS 9** – Financial Instruments (effective for annual periods beginning on or after 1 January 2015). The implementation of IFRS 9 will have an impact on the Bank's financial statements, but its application will not be mandatory before 1 January 2015. The Bank has not yet calculated the impact of IFRS 9 on its financial statements.

- **Amendments to IFRS 1** – First-time adoption of IFRSs – Government Loans (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IFRS 9** – Financial Instruments, and **IFRS 7** – Financial Instruments: Disclosures – Mandatory Effective Date and Transition Disclosures (the effective date of application has not been determined yet).

- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 11** – Joint Arrangements, and **IFRS 12** – Disclosures of Interests in Other Entities – Transition Guidance (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 12** – Disclosure of Interests in Other Entities, and **IAS 27** – Separate Financial Statements – Investment Entities (effective for annual periods beginning on or after 1 January 2014).

- **Amendments to various standards – Improvements to IFRSs (2012)** arising from the annual improvements project, published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34). Improvements were made mainly with the aim of remedying inconsistencies and clarifying the wording of the standards (effective for annual periods beginning on or after 1 January 2013).

Hedge accounting in respect of the portfolio of financial assets and liabilities, the principles of which have not yet been adopted by the EU, remains unregulated. The Bank estimates that the application of hedge accounting in respect of the portfolio of financial assets and financial liabilities, as required by **IAS 39** – Financial Instruments: Recognition and Measurement, would have no material impact on its financial statements, if applied as at the reporting date.

The Bank has not early adopted any standard or interpretation issued but not yet effective.

The Bank anticipates that the adoption of the aforementioned standards, amendments to the existing standards and interpretations, with the exception of IFRS 9, will have no material impact on its financial statements in the period of initial recognition.

4 RISK EXPOSURE

The Bank revises the document Strategy of Nova KBM on an annual basis. The Strategy is the key document in the preparation of annual business plans.

The Bank's Management Board delegates risk oversight and management to the senior management (policy holders). The policy holders, together with officers responsible for particular policies, determine the method of measuring individual risks. The responsible officers are specialised in defining, measuring and controlling individual risks. The organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the rules of procedure, each risk management policy has to be approved by the committee in charge of overseeing risk management policies and, in addition, agreed by the President of the Management Board or his deputy.

Risk management is conducted in accordance with established and approved risk management policies. The system of limits and the limits themselves are proposed by organisational units that are specialised in managing individual risks and are organisationally independent of the units accepting risks, whereas the approval lies with decision-making bodies or the Management Board. Organisational units specialised in managing individual risks report periodically on risk exposure and possible violation of limits.

4.1 CREDIT RISK

Credit risk is the risk of loss resulting from the failure of a Bank's debtor to discharge its liabilities. The Bank is exposed to credit risk through its loan portfolio.

The Bank manages credit risk by: continuous monitoring and analysis of debtors' performance; monitoring the repayments made by debtors; monitoring approved loans; monitoring the adequacy of collateral provided for securing loans; measuring the concentration of the loan portfolio by industry sectors, regions, market segments and the size of debtors. In addition to individual treatment of each debtor, the Bank analyses the impact of each approved loan on the Bank's total loan portfolio, i.e. on the concentration or diversification of the portfolio. For that purpose, the Bank devotes special attention to the size of exposure to individual categories of credit risk, and to the concentration of loans by individual industry sectors, regions and market segments. The Management Board of the Bank is informed of the portfolio measurement reports on a monthly basis.

The Bank manages credit risk in several ways, such as by:

- identifying the risk related to debtors and recognising impairment of financial assets and provisions for off-balance sheet liabilities in accordance with International Financial Reporting Standards
- providing capital to ensure sufficient capital coverage of credit risk
- setting exposure limits for debtors, groups of related persons, industry sectors and market segments
- properly securing financial assets.

4.1.1 BAD AND DOUBTFUL LOANS

The Bank defines as non-performing loans (NPLs) such loans for which it reasonably believes that the debtor will not settle all of its liabilities within the contractual period. In a narrower sense, loans to D- and E-rated customers are treated as NPLs, while in a broader sense, loans to C-rated customers are also included in NPLs.

The Bank classifies within NPLs exposures to D- and E-rated customers. According to the internal methodology for assessing the creditworthiness of corporate customers, banks, sole proprietors and non-profit organisations, the following customers are classified into these rating categories:

- customers that have been over 180 days late in paying their liabilities
- customers that have filed for receivership or for whom a receivership has been approved
- customers that have filed for bankruptcy
- customers for whom the Bank has information which indicates that they may be incapable of paying their liabilities.

The Loan Recovery Department and the Legal Office are responsible for managing the portfolio of D- and E-rated customers.

The Bank defines as doubtful loans such loans that are classified in the C rating category. The following customers are classified into this category:

- customers that have been over 90 days late in paying a significant amount due
- customers for whom substantial likelihood exists that their future cash flows will not set off their liabilities
- customers for whom Nova KBM has negative information on their performance
- customers who have disclosed insufficient or negative capital in their financial statements.

C-rated customers are dealt with by the Bank's commercial departments.

4.1.2 INTEREST RATES AND LOAN APPROVAL FEES

Interest rates are determined in accordance with the applicable Interest Rate Schedule approved by the Management Board on a monthly basis.

Interest rates depend on the maturity and purpose of a loan, the borrower's rating, type of collateral provided for the loan, and the borrower's track record of cooperation with the Bank or companies of the Nova KBM Group.

Loan approval fees are set out in the applicable Tariff which is approved by the Management Board. Fees are determined upon considering market analysis, calculation of cost prices, and cooperation with the respective customer.

4.1.3 EXPOSURE LIMITS

With respect to limiting its exposure, the Bank takes into account all applicable regulatory limitations. In compliance with Slovene banking laws and regulations, exposure to a single customer or to a group of related customers shall not exceed 25% of the Bank's equity.

According to Slovene banking laws and regulations, the approval of the Supervisory Board is required in cases where the exposure to a single customer or to a group of related customers exceeds 10%, 15% and 20% of the Bank's equity. The Supervisory Board's consent is also required for loans approved to customers having a special relationship with the Bank.

4.1.4 LOAN COLLATERAL POLICY

As a rule, loans are not granted without the borrower providing at least one type of collateral.

Unsecured loans are exception and are approved only to risk-free customers. Risk-free customers are stipulated in the Bank's internal documents. Such risk-free customers are, for example, the Republic of Slovenia, the Bank of Slovenia, and banks in the Republic of Slovenia with the authorisation of the Bank of Slovenia for conducting banking operations.

Loans given to all other customers are secured by at least one type of collateral. The type of collateral to be provided depends on:

- type of a customer (including its legal status)
- customer's credit rating
- type and maturity of a loan
- customer's repayment capabilities
- customer's relationship with the Bank and with other customers
- customer's track record of cooperation with the Bank.

For corporate loans, the basic collateral to be provided is a clean bill of exchange along with a bill of exchange statement outlining the conditions for completing and enforcing the bill of exchange.

If so required by the Bank, individual or several loans shall be additionally secured by providing one or several other types of collateral. As a rule, additional collateral is required for non-current loans (loans with maturity of over one year).

With regard to the adequacy of collateral provided for reducing credit risk, the following classification has been adopted:

- prime collateral
- adequate collateral
- pledge of moveable property or real estate
- other types of collateral.

4.1.5 COUNTERPARTY CREDIT RISK

As of 31 December 2012, the share of performing loans (A- and B-rated loans) accounted for 56.49% of the total loans, compared to 72.59% at the 2011 year-end.

The following table sets forth, for the periods indicated, the structure of the loan portfolio by credit rating category:

	31.12.2012	31.12.2011
Credit rating category	**% of portfolio**	**% of portfolio**
A	38.84	50.86
B	17.65	21.73
C	23.90	14.54
D	4.67	3.03
E	14.94	9.84

4.1.6 ANALYSIS OF EXPOSURE TO CREDIT RISK

	Loans to customers		Loans to banks	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Net disbursed loans	**2,891,136**	**3,342,123**	**169,382**	**182,418**
Individual impairment				
Gross amount	1,191,874	642,503	62,062	81,171
Impairment	(502,173)	(258,504)	(289)	(394)
Net amount	689,701	383,999	61,773	80,777
Collective impairment				
Credit rating A	1,111,019	1,629,361	0	0
Credit rating B	687,393	860,813	0	0
Credit rating C	352,383	398,347	0	0
Credit rating D	15,546	17,660	0	0
Credit rating E	29,645	27,300	0	0
Gross amount	**2,195,986**	**2,933,481**	**0**	**0**
Impairment	**(71,061)**	**(76,569)**	**0**	**0**
Net amount	**2,124,925**	**2,856,912**	**0**	**0**
Net non-impaired loans	**76,510**	**101,212**	**107,609**	**101,641**
Total net loans	**2,891,136**	**3,342,123**	**169,382**	**182,418**

The total amount of disbursed loans decreased year-on-year by 13.17% to €3,060,518,000 as of 31 December 2012.

Loans of €1,253,936,000 were individually impaired, with impairment losses of €502,462,000 being set aside for this portion of the portfolio. Loans in the amount of €2,195,986,000 were collectively impaired, with impairment losses of €71,061,000 being recognised for this portion of the portfolio. Loans in the aggregate amount of €184,119,000 were not impaired at the end of 2012, of which loans worth €76,510,000 were secured by prime collateral.

As of 31 December 2012, net non-impaired loans given to banks and to customers totalled €107,609,000 and €76,510,000, respectively.

The following table shows net exposure by credit rating and impairment method, without taking account of collateral provided:

Analysis of net exposure without taking account of collateral

	31.12.2012	31.12.2011
Individual impairment	**859,083**	**566,417**
Collective impairment		
Credit rating A	1,151,591	1,651,065
Credit rating B	686,071	917,050
Credit rating C	347,053	371,159
Credit rating D	8,769	10,561
Credit rating E	7,951	8,289
Total net exposure	**3,060,518**	**3,524,541**

Credit risk by market segments

The following tables set forth, for the periods indicated, the volume of loans and total impairment losses by market segments:

Analysis of loans by market segments

	31.12.2012	31.12.2011
Large corporate customers	934,875	993,996
Micro enterprises and SMEs	1,274,809	1,312,577
Sole proprietors	113,597	132,213
Households	898,236	950,533
Other	412,524	470,689
Domestic banks	52,807	54,108
State	15,180	21,014
Non-profit household service providers	4,119	4,979
Foreign banks	116,864	128,704
Foreign customers	221,723	246,746
Customers not classified by market segment	1,831	15,138
Total gross loans	**3,634,041**	**3,860,008**

Analysis of total loan impairment losses by market segments

	31.12.2012	31.12.2011
Large corporate customers	163,319	112,484
Micro enterprises and SMEs	298,889	142,801
Sole proprietors	8,390	9,731
Households	25,028	21,017
Other	77,897	49,434
Domestic banks	2	2
State	509	690
Non-profit household service providers	132	133
Foreign banks	287	392
Foreign customers	76,467	46,661
Customers not classified by market segment	500	1,556
Total loan impairment losses	**573,523**	**335,467**

Past due and unpaid claims

	31.12.2012				
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	0	0	0	29	29
State	144	0	0	0	144
Legal entities	37,480	14,678	2,604	613,901	668,663
Households	3,780	1,103	538	27,144	32,565
Total	**41,404**	**15,781**	**3,142**	**641,074**	**701,401**

	31.12.2011				
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	2	0	0	2	4
State	306	0	0	3	309
Legal entities	1,893	5,587	14,726	401,845	424,051
Households	3,153	531	348	25,191	29,223
Total	**5,354**	**6,118**	**15,074**	**427,041**	**453,587**

Past due but not impaired claims

31.12.2012			
Up to 30 days	31 to 90 days	Over 90 days	Total
0	1	192	193

31.12.2011			
Up to 30 days	31 to 90 days	Over 90 days	Total
307	27	1,121	1,455

Outstanding loan recovery

The Loan Recovery Department is responsible for monitoring and resolving outstanding and bad loans in accordance with regulatory requirements and internal documents. The latter determine the method of transferring bad loans to the Loan Recovery Department for recovery. If a debtor is in default on a materially significant amount for more than 90 days, the Bank declares such customer as a delinquent customer and undertakes all the necessary steps for the collection of debt, or restructures the loan if this might mitigate the loss incurred by the Bank.

Where an obligation is overdue for more than 180 days, or if the debtor declares the implementation of an insolvency procedure, the collection of the debt is transferred to the Loan Recovery Department or Legal Office. As long as the overdue period does not exceed 180 days, the collection of debts is managed within the commercial departments, with the professional support provided by the Loan Recovery Department.

When outstanding loans are transferred to the Loan Recovery Department, the Department evaluates all available information, particularly collateral coverage of outstanding loans, on the basis of which it assesses the expected loss. The Loan Recovery Department also evaluates the underlying reasons for default to prevent future loans from becoming bad loans.

Together with the debtor, the Loan Recovery Department tries to find out the options for restructuring the loan in order to restore the borrower's ability to resume repayments of liabilities to the Bank (extension of maturity date, possible grace period on the principal, change of interest rate). In such cases, the Bank also tries to obtain additional collateral. If the loan is restructured, the Loan Recovery Department monitors the borrower's compliance with the terms of the restructured loan.

If a loan cannot be restructured, or if another solution acceptable to the Bank cannot be agreed upon, the Loan Recovery Department lodges a request for carrying out appropriate court procedures under which the Bank and the debtor try to reach an in-court or out-of-court settlement (e.g. through mediation). The Loan Recovery Department might try to reach an agreement with a debtor together with other companies in the Nova KBM Group, or through bank syndicates. Sometimes additional measures can be taken to recover some or all of the given funds, such as selling Bank's rights to third parties.

In carrying out its work, the Loan Recovery Department complies with internal rules and applicable legislation and, as needed, collaborates with legal and other experts.

Bad loans are written off after the Loan Recovery Department has taken all the necessary and sufficient measures provided by law and internal regulations to recover the loan.

NPLs of the total loan portfolio

	31.12.2012	31.12.2011
Gross NPLs (D, E)*	712,671	496,917
Impairment losses for NPLs (D, E)	362,486	219,930
Net NPLs (D, E)	350,185	276,987
Total gross loan portfolio	3,634,041	3,860,008
Total net loan portfolio	3,060,518	3,524,541
Gross NPLs/Total gross loan portfolio (%)	19.61	12.87
Net NPLs/Total net loan portfolio (%)	11.44	7.86

* Gross NPLs (D, E) include collectively impaired loans, which are classified in credit rating categories D and E and for which prime collateral has not been provided, and individually impaired loans, the basic credit rating of which is D or E.

In 2012, the Bank continued to collect the unpaid obligations of customers by liquidating instruments of collateral through regular court proceedings and in out-of-court settlements.

The Bank has set aside adequate impairment losses for NPLs on the basis of anticipated cash flows generated from the liquidation of collateral. The parameters used to calculate individual impairments are verified at least once a year.

If a customer is willing to actively cooperate in the out-of-court settlement, and on the condition that the Bank (i) holds a mortgage that has all the elements of a suitable mortgage, (ii) possesses a valid appraisal of the property provided to it as security for the loan, and (iii) is registered as the first-priority mortgage creditor, the expected cash flow generated from the liquidation of pledged property, which is used to determine impairment losses, is calculated by taking into account 70% to 80% of the appraised value of pledged property, and the liquidation period of between six months and one year.

If the out-of-court settlement is not successful, the Loan Recovery Department assesses the expected cash flow generated from the liquidation of pledged property by generally taking into account 50% of the appraised value of pledged property and the liquidation period of five years.

In cases where the property cannot be sold at auctions, it is purchased by KBM Invest, a subsidiary company engaged in the sale and brokerage of real estate.

Other types of security for loans may be taken into account in the calculation of individual impairments only if the expected cash flow and the repayment period can be realistically assessed.

As of 31 December 2012, the Bank's exposure to C-rated customers whose loans have been restructured amounted to €381,502,000, of which loans totalling €195,605,000 were approved in 2012.

Loans are restructured because of financial difficulties of borrowers. The Bank may, in order to reduce potential loss, restructure a loan by modifying the terms of the original loan or by approving a new loan for the purpose of repaying the existing one.

Analysis of loans and the percentage of NPLs by industry sectors

The following table sets forth, for the periods indicated, the total gross loans and NPLs by industry sector of debtors, and the percentage of NPLs within each industry sector:

Industry sector	31.12.2012			31.12.2011		
	Total loans	NPLs	Share of NPLs (%)	Total loans	NPLs	Share of NPLs (%)
Households	898,235	23,722	2.64	969,381	29,272	3.02
Agriculture and hunting, forestry, fishing	27,644	4,020	14.54	23,524	416	1.77
Mining	2,131	1,798	84.37	2,811	1,803	64.14
Manufacturing industry	659,623	172,150	26.10	707,488	136,828	19.34
Electricity, gas and steam supply	92,266	0	0.00	78,868	0	0.00
Water supply, waste and sewage management, rehabilitation of the environment	7,247	2,276	31.41	8,619	106	1.23
Construction	337,679	196,414	58.17	374,350	143,178	38.25
Trade, maintenance and repair of motor vehicles	320,881	55,631	17.34	375,583	40,087	10.67
Transportation and storage	70,962	8,402	11.84	78,557	9,019	11.48
Accommodation and food service activities	131,166	31,419	23.95	131,866	17,638	13.38
Information and communication activities	66,581	36,007	54.08	51,218	31,734	61.96
Financial intermediation	588,752	91,770	15.59	642,667	44,465	6.92
Real estate activities	166,951	53,764	32.20	154,331	22,638	14.67
Professional, scientific and technical activities	145,397	29,229	20.10	131,804	13,769	10.45
Other various business activities	10,789	3,093	28.67	12,046	3,188	26.47
Public administration and defence services, compulsory social security activities	12,419	0	0.00	15,385	28	0.18
Education	4,902	348	7.10	7,673	211	2.75
Health and welfare security	26,250	104	0.40	25,256	60	0.24
Arts, entertainment and recreation	59,193	1,991	3.36	62,470	1,984	3.18
Other activities	4,973	533	10.72	6,111	493	8.07
Total gross loans	**3,634,041**	**712,671**	**19.61**	**3,860,008**	**496,917**	**12.87**

Analysis of collateral – value of collateral for given loans

		31.12.2012	31.12.2011
1.	**Collateral for individually impaired loans**	**1,364,061**	**782,559**
	- moveable and immoveable property	993,205	523,517
	- equity instruments	59,180	48,412
	- other	311,676	210,630
2.	**Collateral for collectively impaired loans**	**3,598,658**	**4,723,001**
	- moveable and immoveable property	2,827,950	2,980,806
	- debt securities	213	1,240
	- equity instruments	141,014	150,376
	- other	629,481	1,590,579
3.	**Collateral for non-impaired loans**	**96,241**	**128,480**
	- moveable and immoveable property	962	9,464
	- debt securities	2,900	2,657
	- other	92,379	116,359
4.	**Total**	**5,058,960**	**5,634,040**

As of 31 December 2012, the total amount of collateral in the form of moveable and immoveable property was €3,822,117,000, of which 73.99% related to collectively impaired loans and 25.99% related to individually impaired loans. Collateral of €3,113,000 was in the form of debt securities, of which €213,000 related to collectively impaired loans and €2,900,000 related to non-impaired loans. Collateral in the form of equities amounted to €200,194,000, of which 70.44% related to collectively impaired loans and 29.56% related to individually impaired loans.

A significant part of the Bank's loan portfolio is secured by real estate and equities. The estimated value of this collateral, which may have a material effect on the financial statements owing to inactivity of the Slovene real estate market, is based on market data. In addition, a number of equities pledged as security for loans are not quoted on a stock exchange and are not traded in markets. There is uncertainty as to the future economic situation, which may have an impact on the value of collateral and the time needed for its realisation.

Valuation of real estate

A special agreement regulating mutual relationship in the valuation of property (immoveable and moveable) of Bank customers has been signed between the Bank and several appraisers. The agreement sets out in detail the conditions which an appraiser or appraisal must meet, such as scrupulous performance of duties that must be in compliance with regulations, International Valuation Standards and the code of ethics of the relevant appraisers association.

In addition to the standards hierarchy, the appraiser shall, for the needs of the Bank, determine or verify the following:

- market value of real estate
- time (period) needed for the sale and any restrictions on the sale
- functionality of real estate
- validity of a building and/or operating permit.

To ensure that appraisals are made in compliance with International Valuation Standards, each individual appraisal is checked by commercial departments from the point of view of formal records included in the appraisal report and the appraisal methods applied (the cost method, the sales comparison method, the income capitalisation method, the highest and best use of land), the market value of real estate, and other internally prescribed parameters for appraisal.

Analysis of exposure by market segments and regions

	Loans to customers		Loans to banks	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
CARRYING (NET) AMOUNT	**2,891,136**	**3,342,123**	**169,382**	**182,418**
By market segment	**2,891,136**	**3,342,123**	**169,382**	**182,418**
- non-financial companies	1,560,416	1,793,290	0	0
- other monetary financial organisations	0	0	52,801	54,103
- other financial intermediaries, except insurance companies and pension funds	180.729	259.889	0	0
- auxiliary financial service providers	7,991	11,664	0	0
- insurance companies and pension funds	7	4	0	0
- central government	3,245	5,937	0	0
- local government	4,417	5,059	0	0
- social security funds	0	9	0	0
- households	978,078	1,051,994	0	0
- non-profit household service providers	3,987	4,846	0	0
- foreign persons	152,266	209,431	116,581	128,315
By region	**2,891,136**	**3,342,123**	**169,382**	**182,418**
- Slovenia	2,738,870	3,132,692	52,801	54,103
- European Monetary Union	1,489	4,631	101,827	108,488
- other European Union	53	147	195	435
- republics of the former Yugoslavia	149,152	204,324	11,992	16,814
- other	1,572	329	2,567	2,578

As of 31 December 2012, net loans given to banks totalled €169,382,000 and net loans given to customers totalled €2,891,136,000. Of the latter figure, the largest proportion related to non-financial companies (53.97%), followed by households (33.83%).

Loans given to customers headquartered in the Republic of Slovenia accounted for 94.73% of the total loans to customers. Of the non-banking loans granted to foreign persons, the largest proportion, i.e. 5.16% of the total loans to customers, related to customers in the republics of the former Yugoslavia.

Loans given to banks with their registered office in the European Monetary Union made up 60.12% of the total loans to banks, 49.24% of which was net exposure to Austrian banks. Having a share of 0.76%, net exposure to German costumers accounted for the largest proportion of the total exposure to foreign customers.

4.2 LIQUIDITY RISK

Liquidity risk is the risk of loss resulting from the Bank's inability to meet all of its payment obligations, or the risk that it has to provide necessary funding at significantly higher than usual costs. It arises from maturity mismatches between assets and liabilities.

During the year ended 31 December 2012, the Bank managed liquidity risk in accordance with its Policy of Managing Liquidity Risk in the Nova KBM Group which sets out the methods and responsibilities for managing assets and liabilities to provide for sufficient cash inflows within a certain period of time. The Policy sets out the measures for assessing, measuring, managing and controlling liquidity.

The Policy includes liquidity planning for the timely repayment of obligations, measures to be adopted under adverse liquidity conditions, and procedures for checking variables on the basis of which the policy for managing liquidity risk has been formulated.

The document Business Continuity Plan for Managing Liquidity Risk in Nova KBM sets out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position of the Bank. The Bank carries out, on a monthly basis, liquidity stress tests in compliance with the Methodology for Implementing Stress Scenarios of Liquidity Risk in the Nova KBM Group. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on the Bank's liquidity position, and for preparing measures to mitigate the liquidity risk.

Net liquid assets

The Bank uses an internal methodology for determining net liquid assets, which represent the difference between the portion of assets that can be converted into liquid funds within a short period of time, and the unstable portion of liabilities. The unstable portion of liabilities is the portion of the Bank's liabilities that may become due in the same short period of time. According to an internal regulation, at least a positive amount of net liquid assets must be maintained for the Bank's operational and regulatory liquidity.

Liquidity gap

The liquidity gap, which is regularly controlled and thoroughly analysed by individual time buckets, is a measure of the level of maturity matching of assets and liabilities. The Bank cannot avoid the liquidity gap, but can manage it effectively. A positive gap represents a surplus of funds that can be invested profitably. On the other hand, a negative gap is a sign of a shortage of funds that needs to be provided for.

Liquidity ratios and obligatory deposits

During the year ended 31 December 2012, the Bank complied with the Bank of Slovenia regulations on minimum liquidity. As of 31 December 2012, the Bank's liquidity ratio was 1.292, compared to 1.401 a year earlier. The prescribed liquidity ratio is set at 1.0. The Bank also complied with the Bank of Slovenia regulations on obligatory deposits.

Stability of deposits

Since 22 July 2011, the Bank has been using its own econometric model for calculating the proportion of stable sight deposits. This model is based on regression analysis which is used to examine the movements in sight deposits over time. For using the model, the dependent variable and independent variables must be determined. The results derived from the model provide a basis for analysing the predictive strength, and for carrying out retroactive testing. The assessment of the proportion of stable sight deposits over 22 working days is carried out on a daily basis. For the period from 1 January to 31 December 2012, the results of this model gave a higher level of stable sight deposits than the one that was taken into account in the calculation of liquidity ratios according to the regulations. During the year ended 31 December 2012, the average stability of sight deposits was 83.96%, compared to 83.75% in the period from 22 July 2011 to 31 December 2011. The average stability of household deposits was as high as 93.77%, against 94.14% in the period from 22 July 2011 to 31 December 2011.

Analysis of liquidity risk as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	151,124	151,124	0	0	0	0
Financial assets held for trading	1,178	1,178	0	0	0	0
Financial assets designated at fair value through profit or loss	34,043	34,043	0	0	0	0
Available-for-sale financial assets	417,102	417,102	0	0	0	0
Loans and advances	3,127,450	902,308	154,884	614,034	942,641	513,583
Held-to-maturity financial assets	397,130	20,596	901	189,976	156,259	29,398
Other assets*	210,541	11,454	0	460	31,947	166,680
Total assets	**4,338,568**	**1,537,805**	**155,785**	**804,470**	**1,130,847**	**709,661**
Liabilities						
Financial liabilities due to the central bank	423,646	0	0	0	423,646	0
Financial liabilities held for trading	3,412	3,412	0	0	0	0
Financial liabilities measured at amortised cost	3,674,360	1,283,226	429,924	939,092	846,936	175,182
Other liabilities*	237,150	4,388	3,982	12,994	17,406	198,380
Total liabilities and equity	**4,338,568**	**1,291,026**	**433,906**	**952,086**	**1,287,988**	**373,562**
Assets-liabilities (including equity) mismatch	**0**	**246,779**	**(278,121)**	**(147,616)**	**(157,141)**	**336,099**
Guarantees	**256,592**	**27,789**	**26,266**	**84,693**	**72,126**	**45,718**

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with maturity of up to and over five years.

Non-derivative balance sheet liabilities as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities due to the central bank	431,157	259	518	2,331	428,049	0
Financial liabilities held for trading	3,412	3,412	0	0	0	0
Financial liabilities measured at amortised cost	3,818,526	1,289,410	439,690	981,266	916,793	191,367
Other liabilities	237,150	4,388	3,982	12,994	17,406	198,380
Total liabilities	**4,490,245**	**1,297,469**	**444,190**	**996,591**	**1,362,248**	**389,747**
Guarantees	**256,592**	**27,789**	**26,266**	**84,693**	**72,126**	**45,718**

The table above shows non-discounted contractual balance sheet liabilities. A significant portion of the Bank's liabilities falls within a one-month period, referring to sight deposits. The Bank monitors the stability of sight deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in sight deposits.

Derivatives as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	90,691	7,125	20,820	62,746	0	0
inflow	90,813	7,173	20,802	62,838	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	788	163	625	0	0	0
inflow	809	174	635	0	0	0
TOTAL OUTFLOW	**91,479**	**7,288**	**21,445**	**62,746**	**0**	**0**
TOTAL INFLOW	**91,622**	**7,347**	**21,437**	**62,838**	**0**	**0**

The table above presents non-discounted cash flows on derivatives. The figures were translated into the euro at the ECB exchange rate effective as of 31 December 2012. The table takes into account the method of settlement, which is in most cases done on a gross amount basis.

Analysis of liquidity risk as of 31 December 2011

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	97,023	97,023	0	0	0	0
Financial assets held for trading	8,442	8,442	0	0	0	0
Financial assets designated at fair value through profit or loss	37,942	0	27,161	10,781	0	0
Available-for-sale financial assets	523,932	523,932	0	0	0	0
Loans and advances	3,533,437	758,949	168,426	859,447	1,138,321	608,294
Held-to-maturity financial assets	339,819	605	1,054	30,249	275,535	32,376
Other assets*	269,942	9,697	13,458	3	54,268	192,516
Total assets	**4,810,537**	**1,398,648**	**210,099**	**900,480**	**1,468,124**	**833,186**
Liabilities						
Financial liabilities due to the central bank	370,465	0	70,382	0	300,083	0
Financial liabilities held for trading	1,693	1,693	0	0	0	0
Financial liabilities measured at amortised cost	4,019,386	1,362,013	480,002	1,015,434	1,013,346	148,591
Financial liabilities associated to transferred assets	8,022	8,022	0	0	0	0
Other liabilities*	410,971	4,888	3,124	9,732	15,066	378,161
Total liabilities and equity	**4,810,537**	**1,376,616**	**553,508**	**1,025,166**	**1,328,495**	**526,752**
Assets-liabilities (including equity) mismatch	**0**	**22,032**	**(343,409)**	**(124,686)**	**139,629**	**306,434**
Guarantees	**309,437**	**23,553**	**40,189**	**99,808**	**95,863**	**50,024**

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with maturity of up to and over five years.

Non-derivative balance sheet liabilities as of 31 December 2011

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities due to the central bank	380,515	347	71,075	3,119	305,974	0
Financial liabilities held for trading	1,693	1,693	0	0	0	0
Financial liabilities measured at amortised cost	4,244,826	1,367,501	489,021	1,071,077	1,131,834	185,393
Financial liabilities associated to transferred assets	8,022	8,022	0	0	0	0
Other liabilities	410,971	4,888	3,124	9,732	15,066	378,161
Total liabilities	**5,046,027**	**1,382,451**	**563,220**	**1,083,928**	**1,452,874**	**563,554**
Guarantees	**309,437**	**23,553**	**40,189**	**99,808**	**95,863**	**50,024**

The table above shows non-discounted contractual balance sheet liabilities.

Derivatives as of 31 December 2011

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	108,437	12,635	23,081	72,721	0	0
inflow	108,758	12,766	24,083	71,909	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	120	0	0	120	0	0
inflow	107	0	0	107	0	0
TOTAL OUTFLOW	**108,557**	**12,635**	**23,081**	**72,841**	**0**	**0**
TOTAL INFLOW	**108,865**	**12,766**	**24,083**	**72,016**	**0**	**0**

The table above presents non-discounted cash flows on derivatives. The figures were translated into the euro at the ECB exchange rate effective as of 31 December 2011.

4.3 MARKET RISKS

The Bank monitors market risks of trading book and markets risks of banking book separately. The method of monitoring and reporting as well as of limiting the exposure to market risks is set out in the respective risk management policies.

4.3.1 POSITION RISK

Position risk is a risk of loss arising due to a change in the price of financial instrument that the Bank holds in its portfolio for the purpose of trading on its proprietary account.

The trading limit methodology is based on the value-at-risk (VaR) measure and is compliant with Basel requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The basis for determining trading limits is the capital requirement set out in the financial plan. The Bank measures the market value of all trading items on a daily basis. The volume of transactions by specific type of financial instruments is defined in detail by the methodology for setting limits.

The portfolio of equity instruments is limited by the highest market value, stop-loss limit and the VaR measure. The portfolio of debt securities is limited by the highest market value and stop-loss limit. The limits for specific types of transactions may be changed by a decision of the ALCO. Changes to the structure of limits shall not affect the annual plan of capital adequacy.

The Bank manages three trading portfolios: the portfolio of debt securities, the portfolio of equity instruments and the currency portfolio. The value-at-risk of trading portfolios for the year 2012 demonstrates with a 99% probability that, by holding the unchanged position in securities, the portfolio loss over the 10 consecutive working days would not exceed €447,000.

10-day VaR in 2012

Maximum	Minimum	Average
€447,000	€0	€63,000

10-day VaR in 2011

Maximum	Minimum	Average
€272,000	€0	€72,000

A more detailed breakdown of financial assets held for trading and of their movements is disclosed in the table 'Financial assets held for trading' in the notes to the financial statements.

Position risk in foreign exchange trading is controlled by trading limits. Limits for foreign currency trading for the account of the Bank are defined as the maximum allowable open position for the Trading Department. The Trading Support Department monitors trading results on a daily basis and reports findings to the responsible authorities.

The Bank offers its customers the service of buying and selling derivatives as a broker only and does not assume its own positions.

4.3.2 INTEREST RATE RISK

Interest rate risk is the risk of loss arising due to changes in interest rates or the structure of interest rates for maturity mismatches of interest-bearing assets and liabilities with regard to interest rate repricing and the remuneration method.

Interest rate risk management of trading book items is included in the methodology for monitoring trading limits. Interest rate risk management of non-trading book items is carried out using an interest rate matching methodology. The Bank monitors interest-bearing statement of financial position items and off-balance sheet items with regard to maturity of variable interest rate items, separated by the key currencies and reference interest rates in which it operates. The Bank monitors separately reference interest rate risk for EUR, USD and CHF, and the interest rate TOM (basic interest rate), which together cover 99.67% of the entire exposure to interest rate changes.

The Bank calculates, on a monthly basis, the results of the standardised stress test for interest rate risk as the impact of a parallel shift in the interest rate curve on its equity and net interest income in a period of one year.

The impact of the results of the standardised stress test on the Bank's equity, as of 31 December 2012

Currency	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(21)	(130)	(1,927)	(16,335)	(8,696)	(27,109)
USD	0	0	0	0	0	0
Total	**(21)**	**(130)**	**(1,927)**	**(16,335)**	**(8,696)**	**(27,109)**

The impact of the results of the standardised stress test on the Bank's equity, as of 31 December 2011

Currency	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(1)	(10)	(873)	(23,317)	(10,369)	(34,570)
USD	0	0	0	0	0	0
Total	**(1)**	**(10)**	**(873)**	**(23,317)**	**(10,369)**	**(34,570)**

The tables above show the decline in the fair value of the debt securities portfolio in case of a parallel rise of the interest rate curve by 200 basis points. The change in fair value is reflected in equity.

The impact of the results of the standardised stress test on the Bank's net interest income, as of 31 December 2012

Currency	+ 200 basis points	- 200 basis points
EUR	15,448	(1,634)
USD	341	(25)
CHF	896	(2)
Other	55	(55)
Total	**16,740**	**(1,716)**

The impact of the results of the standardised stress test on the Bank's net interest income, as of 31 December 2011

Currency	+ 200 basis points	- 200 basis points
EUR	13,045	(6,251)
USD	(124)	40
CHF	(623)	28
Other	86	(86)
Total	**12,384**	**(6,269)**

The tables above show the impact of a shift of the interest rate curve on the Bank's net interest income in a period of one year.

In addition to the standardised stress test analysis, the Bank calculates its exposure to interest rate changes as the change of the net current value of the difference between assets and liabilities subject to variable interest rate in a given period and the expected interest rate changes in the next three months. The expected interest rate changes are calculated as the difference between current and term interest rates, separated for each currency and maturity handled. An analysis of interest rate risk is included in a monthly report on liquidity and market risk and is subject to a monthly review by the ALCO.

The analysis treats net positions in individual interest rate repricing periods as fixed-coupon debt securities. A longer interest rate repricing period has a larger impact on net current value of assets and liabilities. The interest rate risk analysis made for the Bank showed, for the 2012 year-end, a probable negative effect on the net present value of all interest-sensitive items in the total amount of €1,089,000. The main advantage of this analysis when compared to the standardised interest rate stress test lies in anticipation of probable interest rate changes in the observed period.

The impact of interest rate changes on profit or loss is measured for a one-year period. For calculating the change in interest income, the current interest rate is used for the period until the change of interest rate, after which date and until the end of a one-year period the changed interest rate is taken into consideration. The average interest rate repricing period by individual time buckets is used to calculate interest. At the 2012 year-end, the anticipated interest rate change in a three-month period would result in the annual increase in interest income of €1,636,000.

The standardised stress test of the impact of a parallel shift of the interest rate curve by 200 basis points on the total present value of all interest-sensitive items gave a result that was equal to 4.4% of the Bank's regulatory equity, at the 2012 year-end. In compliance with the applicable legislation, the regulator may impose certain measures for reducing the risk if the result of the standardised stress test exceeds 20% of the Bank's equity.

A more detailed breakdown of the Bank's statement of financial position by maturity as of 31 December 2012 and 2011 is disclosed in the table Analysis of interest rate risk which shows the distribution of items with regard to the interest rate repricing periods. Exposure to changes in interest rates is managed using an interest rate matching methodology, taking into account the characteristics of individual items.

Analysis of interest rate risk as of 31 December 2012

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	151,124	39,490	111,634	111,634	0	0	0	0
Financial assets held for trading	1,178	1,178	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	34,043	34,043	0	0	0	0	0	0
Available-for-sale financial assets	417,102	68,506	348,596	49,749	74,299	13,963	175,118	35,467
Loans and advances	3,127,450	61,051	3,066,399	1,329,466	650,171	969,662	103,251	13,849
Held-to-maturity financial assets	397,130	0	397,130	19,986	0	188,583	159,999	28,562
Other assets	32,106	32,106	0	0	0	0	0	0
Total assets	**4,160,133**	**236,374**	**3,923,759**	**1,510,835**	**724,470**	**1,172,208**	**438,368**	**77,878**
Liabilities								
Financial liabilities due to the central bank	423,646	0	423,646	0	0	0	423,646	0
Financial liabilities held for trading	3,412	3,412	0	0	0	0	0	0
Financial liabilities measured at amortised cost	3,674,360	330	3,674,030	1,438,216	446,411	1,276,445	512,239	719
Other liabilities	3,548	3,548	0	0	0	0	0	0
Total liabilities	**4,104,966**	**7,290**	**4,097,676**	**1,438,216**	**446,411**	**1,276,445**	**935,885**	**719**
Assets-liabilities mismatch	**55,167**	**229,084**	**(173,917)**	**72,619**	**278,059**	**(104,237)**	**(497,517)**	**77,159**

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

Analysis of interest rate risk as of 31 December 2011

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	97,023	39,703	57,320	57,320	0	0	0	0
Financial assets held for trading	8,442	8,442	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	37,942	34,823	3,119	0	0	3,119	0	0
Available-for-sale financial assets	523,932	81,362	442,570	75,714	164,001	6,152	145,062	51,641
Loans and advances	3,533,437	54,116	3,479,321	1,311,022	860,658	1,142,221	138,158	27,262
Held-to-maturity financial assets	339,819	0	339,819	0	859	29,182	278,129	31,649
Other assets	44,079	44,079	0	0	0	0	0	0
Total assets	**4,584,674**	**262,525**	**4,322,149**	**1,444,056**	**1,025,518**	**1,180,674**	**561,349**	**110,552**
Liabilities								
Financial liabilities due to the central bank	370,465	0	370,465	0	70,383	0	300,082	0
Financial liabilities held for trading	1,693	1,693	0	0	0	0	0	0
Financial liabilities measured at amortised cost	4,019,386	433	4,018,953	1,520,847	581,406	1,357,067	557,814	1,819
Financial liabilities associated to transferred assets	8,022	0	8,022	8,022	0	0	0	0
Other liabilities	5,967	5,967	0	0	0	0	0	0
Total liabilities	**4,405,533**	**8,093**	**4,397,440**	**1,528,869**	**651,789**	**1,357,067**	**857,896**	**1,819**
Assets-liabilities mismatch	**179,141**	**254,432**	**(75,291)**	**(84,813)**	**373,729**	**(176,393)**	**(296,547)**	**108,733**

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

Average interest rates (%)

	31.12.2012	31.12.2011
Average interest rate on assets	**4.06**	**4.67**
Average interest rate on liabilities	**2.36**	**2.58**

4.3.3 CURRENCY RISK

Currency risk represents a potential loss arising from an open foreign currency position and the volatility of foreign exchange rates. The Bank controls currency risk exposure by maintaining neutral position in individual foreign currencies.

In accordance with the resolution adopted by the ALCO, the Bank maintains a daily aggregate closed foreign currency position. The aggregate open position for all currencies is limited by its impact on the Bank's capital adequacy ratio. The methodology for monitoring and maintaining a balanced foreign currency position is based on the VaR method in compliance with Basel requirements. The maximum allowable VaR is established at the individual currency level just as for the entire foreign currency portfolio. VaR depends on the exposure amount and the volatility of individual pair of currencies.

The open position for each foreign currency is monitored daily, and the Bank calculates the daily result due to discrepancies in the foreign currency position. In case of an increase in volatility, the Bank, in accordance with the adopted methodology, reduces the allowable open position in individual currencies. Any changes in volatility are reviewed on a monthly basis.

A 10-day value-at-risk of the open foreign currency position is calculated on the basis of one-year data and a 99% confidence interval. For 2012, at the highest exposure to currency risk, the calculation made demonstrates with a 99% probability that, by holding the unchanged currency position, the loss over the 10 consecutive working days would not exceed €326,000.

10-day VaR in 2012

Maximum	Minimum	Average
€326,000	€24,000	€49,000

10-day VaR in 2011

Maximum	Minimum	Average
€717,000	€23,000	€316,000

Analysis of currency risk as of 31 December 2012

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	148,338	356	948	641	841	151,124
Financial assets held for trading	1,178	0	0	0	0	1,178
Financial assets designated at fair value through profit or loss	34,043	0	0	0	0	34,043
Available-for-sale financial assets	417,102	0	0	0	0	417,102
Loans and advances	2,978,835	32,446	106,588	148	9,433	3,127,450
Held-to-maturity financial assets	397,130	0	0	0	0	397,130
Other assets	210,541	0	0	0	0	210,541
Total assets	**4,187,167**	**32,802**	**107,536**	**789**	**10,274**	**4,338,568**
Liabilities						
Financial liabilities due to the central bank	423,646	0	0	0	0	423,646
Financial liabilities held for trading	3,412	0	0	0	0	3,412
Financial liabilities measured at amortised cost	3,611,509	32,559	20,028	306	9,958	3,674,360
Other liabilities	237,150	0	0	0	0	237,150
Total liabilities and equity	**4,275,717**	**32,559**	**20,028**	**306**	**9,958**	**4,338,568**
Assets-liabilities (including equity) mismatch	**(88,550)**	**243**	**87,508**	**483**	**316**	**0**
Derivatives	87,953	0	(87,831)	0	0	122
Assets-liabilities (including equity and derivatives) mismatch	**(597)**	**243**	**(323)**	**483**	**316**	**122**

The table above presents only the statement of financial position items in which the Bank has a position also in currencies other than euro. The last line in the table, which shows the open position in individual foreign currencies by taking into account derivatives, gives the accurate information on the total foreign currency exposure.

Analysis of currency risk as of 31 December 2011

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	92,216	711	1,649	905	1,542	97,023
Financial assets held for trading	8,442	0	0	0	0	8,442
Financial assets designated at fair value through profit or loss	37,649	0	0	0	293	37,942
Available-for-sale financial assets	523,932	0	0	0	0	523,932
Loans and advances	3,362,453	36,410	127,373	15	7,186	3,533,437
Held-to-maturity financial assets	339,819	0	0	0	0	339,819
Other assets	269,922	17	0	0	3	269,942
Total assets	**4,634,433**	**37,138**	**129,022**	**920**	**9,024**	**4,810,537**
Liabilities						
Financial liabilities due to the central bank	370,465	0	0	0	0	370,465
Financial liabilities held for trading	1,693	0	0	0	0	1,693
Financial liabilities measured at amortised cost	3,949,903	39,687	21,521	390	7,885	4,019,386
Financial liabilities associated to transferred assets	8,022	0	0	0	0	8,022
Other liabilities	410,971	0	0	0	0	410,971
Total liabilities and equity	**4,741,054**	**39,687**	**21,521**	**390**	**7,885**	**4,810,537**
Assets-liabilities (including equity) mismatch	**(106,621)**	**(2,549)**	**107,501**	**530**	**1,139**	**0**
Derivatives	107,006	0	(106,449)	0	(236)	321
Assets-liabilities (including equity and derivatives) mismatch	**385**	**(2,549)**	**1,052**	**530**	**903**	**321**

The table above presents only the statement of financial position items in which the Bank has a position also in currencies other than euro. The last line in the table, which shows the open position in individual foreign currencies by taking into account derivatives, gives the accurate information on the total foreign currency exposure.

Foreign currency sensitivity analysis

Currency	2012		2011	
	Exchange rate change against EUR (%)	Impact on profit or loss	Exchange rate change against EUR (%)	Impact on profit or loss
USD	+9	22	+12	(306)
CHF	+5	4,375	+17	18,275
HRK	+2	10	+2	11
Other currencies	+8	25	+10	114

The impact of exchange rate changes on equity is negligible and is therefore not presented separately.

4.4 GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES AS OF 31 DECEMBER 2012

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	151,124	151,124	0	0	0	0
Financial assets held for trading	1,178	997	181	74	0	107
Financial assets designated at fair value through profit or loss	34,043	34,043	0	0	0	0
Available-for-sale financial assets	417,102	303,667	113,435	84,013	0	29,422
Loans and advances	3,127,450	2,856,912	270,538	104,484	161,673	4,381
Held-to-maturity financial assets	397,130	326,870	70,260	70,260	0	0
Other assets	210,541	176,236	34,305	16,154	18,151	0
Total assets	**4,338,568**	**3,849,849**	**488,719**	**274,985**	**179,824**	**33,910**
Liabilities						
Financial liabilities due to the central bank	423,646	423,646	0	0	0	0
Financial liabilities held for trading	3,412	375	3,037	459	2,521	57
Financial liabilities measured at amortised cost	3,674,360	3,518,398	155,962	138,178	12,370	5,414
Other liabilities	237,150	228,607	8,543	7,488	537	518
Total liabilities and equity	**4,338,568**	**4,171,026**	**167,542**	**146,125**	**15,428**	**5,989**
Assets-liabilities (including equity) mismatch	**0**	**(321,177)**	**321,177**	**128,860**	**164,396**	**27,921**

Available-for-sale financial assets of foreign issuers

Country of issuer	31.12.2012	31.12.2011
Belgium	8	8
Denmark	9,987	9,714
France	3,996	33,194
Italy	7,875	7,126
Luxembourg	858	858
Germany	10,958	16,240
The Netherlands	19,013	1,636
Portugal	9,302	5,594
Spain	0	20,969
Great Britain	22,016	20,965
USA	29,422	55,828
Total	**113,435**	**172,132**

Geographical analysis of assets and liabilities as of 31 December 2011

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	97,023	97,023	0	0	0	0
Financial assets held for trading	8,442	7,269	1,173	590	0	583
Financial assets designated at fair value through profit or loss	37,942	34,530	3,412	3,119	293	0
Available-for-sale financial assets	523,932	351,800	172,132	116,304	0	55,828
Loans and advances	3,533,437	3,189,682	343,755	114,521	226,143	3,091
Held-to-maturity financial assets	339,819	317,604	22,215	22,215	0	0
Other assets	269,942	227,601	42,341	16,153	26,188	0
Total assets	**4,810,537**	**4,225,509**	**585,028**	**272,902**	**252,624**	**59,502**
Liabilities						
Financial liabilities due to the central bank	370,465	370,465	0	0	0	0
Financial liabilities held for trading	1,693	616	1,077	517	0	560
Financial liabilities measured at amortised cost	4,019,386	3,681,746	337,640	307,119	25,419	5,102
Financial liabilities associated to transferred assets	8,022	0	8,022	8,022	0	0
Other liabilities	410,971	410,332	639	114	433	92
Total liabilities and equity	**4,810,537**	**4,463,159**	**347,378**	**315,772**	**25,852**	**5,754**
Assets-liabilities (including equity) mismatch	**0**	**(237,650)**	**237,650**	**(42,870)**	**226,772**	**53,748**

4.5 OPERATIONAL RISK

Operational risk management is set out in the Bank's Operational Risk Management Policy which complies with recommendations of the Basel standards and the local regulator.

The Bank has its own-developed software for the systematic monitoring of operational risk loss events, which has been in use since 2007. This system enables the Bank to carry out qualitative analyses of operational risk loss events, and it automatically warns responsible persons of losses on a monthly basis. On the basis of monitoring operational risk loss events, the Bank has internally set the threshold of material loss resulting from operational risk at €1,000. Uniform recording of loss events has been set up, as well as the standard monthly internal reporting procedure.

All organisational units of the Bank are responsible for identifying, assessing and managing operational risk – each unit for the cost centres that are headed by the manager of the respective unit. The main aim of this is to ensure the functioning of the system of internal controls. In assessing the risk profile of the Bank as a whole, individual organisational units have to give its subjective assessment of operational risk on an annual basis.

Operational risk is managed on a decentralised basis by each organisational unit, with the following officers being responsible for all the procedures in this regard:

- The operational risk analyst (i) is the administrator of the operational risk loss events data base, (ii) prepares monthly, quarterly, half-yearly and annual reports for the Bank's Management Board, (iii) guides the self-assessment of operational risk by individual organisational units and business processes, (iv) calculates the capital requirement for operational risk on an annual basis, and (iv) conducts interim assessments of operational risk (simulations). In addition, the analyst must once a year produce a risk profile of the Bank, taking account of all nine types of risk according to the regulation of the Bank of Slovenia, including operational risk.

- The head of the Bank's information system security is responsible for all the activities set out in the Information Protection Policy of Nova KBM (e.g. prevention of information security related incidents and attacks, prevention of data misuse) and for reporting thereon to the relevant Executive Director.
- The business continuity administrator is responsible for coordinating activities relating to business continuity and for reporting thereon to the relevant Executive Director.
- The adviser for the prevention of money laundering and terrorism financing is responsible for implementing all the measures to prevent suspicious transactions and for reporting thereon directly to the Management Board.
- The compliance officer is responsible for ensuring the Bank adheres to applicable regulations and for reporting thereon directly to the Management Board.
- Two advisers for security, one in each of the Slovenia-East Division and Nova Gorica Division, are responsible for physical and technical protection of the Bank's facilities.

During the year ended 31 December 2012, the Bank monitored operational risk and calculated capital requirements for operational risk in accordance with the basic indicator approach.

As part of the internal capital adequacy assessment process, the risk profile of the entire Bank is produced on an annual basis, which includes an analysis of operational risk and internal controls.

The majority of operational risk loss events recorded in 2012 related to (according to the Basel standards) 'Payment and Settlement' (59%), followed by 'Retail Banking' (19%) and 'Unallocated Other Expenses' (18%)[1]. In 2011, the majority of operational risk loss events related to 'Retail Banking' (64%), followed by 'Payment and Settlement' (23%) and 'Unallocated Other Expenses' (12%).

In terms of type, the majority of loss events recorded in 2012 related to 'External Fraud' (53%), followed by 'Damages to Physical Assets' (36%) and 'Execution, Delivery and Process Management' (11%).

By ensuring systematic reporting on operational risk loss events, the Bank successfully accomplished its short-term objective in respect of operational risk management. The mid-term objective is to develop software to produce all the data needed to assess operational risk and prepare the document 'Risk Profile of the Bank'.

The Bank's long-term objective in respect of operational risk is to establish an integrated, impartial and standardized approach to operational risk management, to raise the awareness of employees about operational risk, and to build up a risk management culture – all with the aim to limit the scope and the amount of losses to an acceptable level.

4.6 CAPITAL RISK

The Bank manages its capital by:

- monitoring current and projected assessments of its regulatory capital and complying with capital requirements for credit, market and operational risks
- monitoring current and projected assessments of its economic available capital and adequate capital
- controlling movements in its capital adequacy ratio
- examining options to increase its core capital or additional capital.

The ALCO reviews the capital position and the projection of capital, capital requirements, and capital adequacy ratios on a monthly basis. The information on capital adequacy is included in the regular monthly Report on the Bank's Operations prepared for the Management Board. The Supervisory Board is informed of the level of capital and capital adequacy ratios at its meetings.

1 'Unallocated other expenses' include operational risk loss events that cannot be allocated to only one area or department, such as, for example, breakdown of air conditioning systems, heating devices, lifts etc. Most of such loss events occur at the headquarters of the Bank.

The Bank calculates capital requirements for credit risk using the standardised approach. As a reference export agency for the category 'Exposure to Central Governments and Central Banks', the Bank nominated SID Banka, Ljubljana. As a reference external rating agency for the category 'Exposure to Institutions, Including Exposure to Institutions with a Short-term Rating', the Bank nominated the rating agency Moody's.

The Bank calculates capital requirements for market risks in accordance with the applicable regulations and does not use internal models for the time being. The capital requirement for operational risk is calculated according to the basic indicator approach.

To assess adequate internal capital, the Bank uses a methodology that defines the method for calculating available economic capital and adequate economic capital.

Available economic capital is the Bank's own consideration of the amount of available capital. The amount of available economic capital equals the amount of regulatory available capital increased by 50% of the profit for the current year.

Adequate economic capital is the Bank's own consideration of the amount of capital needed to cover any unexpected risks it 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), including additional capital requirements. Additional capital requirements for the banking book interest rate risk, currency risk, liquidity risk and capital risk are determined on the basis of an internal methodology. Additional capital requirements for reputation and strategic risks are determined on a basis of an expert assessment.

The ALCO is responsible for reviewing regulatory available and minimum capital as well as economic available and adequate capital.

The required total capital adequacy ratio for the Bank is set at 8%. During the year ended 31 December 2012, the Bank fully complied with the regulatory capital adequacy requirements.

With the aim of restoring confidence in the banking sector, the European Council adopted in October 2011 a decision requiring systemically important banks to achieve the Core Tier 1 capital ratio of 9% by 30 June 2012. In its latest report on the EU capital exercise, the European Banking Authority (EBA) gave consent to the Bank's plan to meet the required Core Tier I capital ratio by 31 December 2012.

In order to comply with the requirements imposed on it by the EBA, the Bank took several measures to increase its capital while reducing risk-adjusted assets and capital requirements for risk. The measures that the Bank took included a partial redemption of its outstanding hybrid instruments, the sale of its shareholding in Zavarovalnica Maribor, and the raising of a hybrid loan facility.

As a result of a much higher level of impairment losses and provisions than originally planned, the Group did not manage to reach the Core Tier I capital ratio of 9%. Therefore, the Bank is continuing to implement measures to improve its capital position and capital position of the Group in accordance with its restructuring plan, which provides for an increase in capital by the end of June 2013.

Composition of regulatory capital and capital requirements

	31.12.2012	31.12.2011
Original own funds		
Paid-up share capital	40,814	40,815
(-) Treasury shares	(111)	(270)
Share premium	165,775	165,775
Reserves and retained earnings or loss	191,356	275,095
(-) Interim result used in the calculation (unaudited)	(203,226)	(84,190)
Revaluation excesses (PP) – prudential filters	(794)	(4,085)
Hybrid instruments as a component of original own funds	126,030	26,030
(-) Intangible long-term assets	(23,381)	(27,099)
(-) Other country specific deductions	11,356	(2)
Total	**307,819**	**392,069**
Additional own funds I		
Hybrid instruments and preferential cumulative shares	29,908	150,000
Other	2,380	1,605
Total	**32,288**	**151,605**
(-) Deductions from original own funds and additional own funds I		
(-) Deductions from original own funds	(1,119)	(58,520)
(-) Deductions from additional own funds I	(1,119)	(58,520)
Total	**(2,238)**	**(117,040)**
Total equity (for solvency purposes)	**337,869**	**426,634**
Capital requirements		
Capital requirements for credit risk	**269,546**	**290,487**
Central governments and central banks	0	748
Regional governments and local authorities	182	213
Administrative bodies	24	93
Institutions	14,558	16,367
Corporates	113,339	150,234
Retail banking	59,361	64,827
Secured by real estate	4,324	3,989
Past due items	11,782	6,308
Items belonging to regulatory high-risk categories	33,651	29,146
Collective investment undertakings	1,381	2,112
Other items	30,944	16,450
Total capital requirements for market risks	**1,805**	**1,772**
Debt securities	577	670
Equity instruments	483	1,102
Foreign exchange	745	0
Capital requirement for operational risk	**23,237**	**22,773**
Total	**294,588**	**315,032**
Total capital adequacy ratio	9.18%	10.83%
Tier I capital ratio	8.33%	8.47%
Core Tier I capital ratio	4.91%	7.81%
Core Tier I capital ratio (EBA methodology)	7.62%	7.81%

4.7 *BASEL III*

Basel III provides for a raise in the Common Equity Capital Ratio, which is a ratio that does not take into consideration hybrid instruments. For 2013, the minimum requirement for this ratio is set at 3.5%, for 2014 at 4.0%, and for 2015, when the final minimum requirement is to be implemented, at 4.5%. The capital conservation buffer is to be introduced as well. It will be phased in between 2016 and 2019, each year by 0.625%, to reach 2.5% in 2019, following the end of the transitional period. This means that the Core Tier I capital ratio will have to be at least 7.0%. Nova KBM's Core Tier I capital ratio was 4.91% as of 31 December 2012.

As regards the Tier I capital requirement, the ratio will have to be at least 4.5% in 2013, 5.5% in 2014, and 6.0% in 2015 when the final minimum requirement will be implemented. When calculating this ratio, the capital buffer must also be taken into account, meaning that the minimum Tier I capital ratio requirement will be 8.5% in 2019. Innovative instruments, which the Bank includes in its Tier I capital, may be taken into account as a component of Tier I capital in their full amount, until recall or until 2040 at the latest. Nova KBM's Tier I capital ratio was 8.33% as of 31 December 2012.

The minimum total capital adequacy ratio requirement will be increased by the capital conservation buffer, meaning an effective minimum requirement of 10.50% in 2019. Nova KBM's total capital adequacy ratio was 9.18% as of 31 December 2012.

Furthermore, provided for systemically important banks is a countercyclical buffer to withstand future risks that follow a period of high economic growth. In case the regulator decides to introduce a certain capital conservation buffer for a bank, it will have to inform the respective bank of such an intention 12 months prior to the introduction; the capital conservation buffer shall amount to a maximum of 2.5%.

Two new ratios are to be introduced in the area of liquidity. *The Liquidity Coverage Ratio* (LCR) relates to the provision of short-term liquidity needed for a bank's resilience under a stress scenario over a period of 30 days. The Net Stable Fund Ratio (NSFR) has the objective of ensuring the resilience of banking activities over a longer time horizon. LCR and NSFR will become effective in 2015 and 2018, respectively. The *Leverage Ratio* (LR) is also planned to be introduced in the future.

Final drafts of the regulations and technical standards have not yet been adopted. This is expected to happen in April 2013, with effect from 31 December 2013.

4.8 *INFORMATION PROTECTION RISK*

The information protection strategy of Nova KBM is based on guidelines laid down in the Bank's business strategy and was formulated in accordance with the applicable legislation and requirements of the Bank of Slovenia and other regulators.

Protection of information includes:

- Protection of Bank's information and information technology from sabotage, unauthorised access and all other threats in such a way that in case of an unpleasant incident any possible loss is kept to a minimum while ensuring business continuity.
- Risk mitigation in case of exceptional occurrences, damages, natural and other disasters that might have a significant impact on the Bank's operations.
- High awareness of all of the employees and other providers about their responsibilities, and their acquaintance and compliance with the Bank's information security policy, internal regulations, legislation and standards, as well as their appropriate handling of information with regard to its classification.

The purpose of the overall security plan is to protect the following characteristics of information:

- Confidentiality – protecting sensitive business information from unauthorised access and interception.

- Integrity – protecting the accuracy and entirety of business information and computer business equipment.
- Availability – ensuring that business information and computer services are available to the users whenever and wherever they need them to perform day-to-day business processes.

The umbrella information security policy is adopted by the Policy Harmonisation Forum on the proposal of the Information Protection Forum.

A web-based training programme on the protection of information has been conducted for all Bank employees. The main purpose of this training was to make employees aware of the importance of information and information protection for the organisation, of threats to which information and information systems are exposed, and to inform them of the methods and ways of work that contribute to a reduction of risks threatening the information security.

5 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	31.12.2012		31.12.2011	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and balances with the central bank	151,124	151,124	97,023	97,023
Financial assets held for trading	1,178	1,178	8,442	8,442
Financial assets designated at fair value through profit or loss	34,043	34,043	37,942	37,942
Available-for-sale financial assets	417,102	417,102	523,932	523,932
Loans and advances to banks	169,382	169,233	182,418	182,640
Loans and advances to customers	2,891,136	2,901,689	3,342,123	3,348,369
Other financial assets	66,932	66,932	8,896	8,896
Held-to-maturity financial assets	397,130	399,072	339,819	337,361
Financial liabilities				
Financial liabilities due to the central bank	423,646	425,428	370,465	370,467
Financial liabilities held for trading	3,412	3,412	1,693	1,693
Deposits from banks	53,880	54,354	121,380	121,342
Deposits from customers	2,910,847	2,924,576	3,061,681	3,078,248
Loans from banks	501,368	501,368	603,842	603,842
Loans from customers	6,470	6,470	154	154
Debt securities	88,591	95,602	27,885	27,932
Subordinated liabilities	88,190	90,965	178,035	180,410
Other financial liabilities	25,014	25,014	26,409	26,409

The Bank determines fair values according to the following hierarchy: market value; valuation based on market interest rates; acquisition cost. The table above sets forth fair values of individual balance sheet items. Fair value of items measured at amortised or acquisition cost is estimated on the basis of a model that calculates net present value of cash flows using interest rates for new contracts of the same product offered by the Bank. Value is calculated for items with a fixed interest rate and residual maturity of over one year; credit risk is not considered in calculating net present values. As for other items, the Bank deems that there is no material difference between the book and fair value. The amounts calculated and presented in the table are not the amounts that could be realised in a sale in the market.

Fair value is estimated on the basis of discounted cash flows for each item using the present offered interest rates by the Bank for the same product at the reporting date.

Analysis of fair value hierarchy

	31.12.2012				31.12.2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Derivatives	1,178	0	1,178	0	8,442	0	8,442	0
Financial assets held for trading	0	0	0	0	0	0	0	0
- debt securities	0	0	0	0	0	0	0	0
- equity instruments	0	0	0	0	0	0	0	0
Available-for-sale financial assets	417,102	332,937	72,705	11,460	523,932	432,112	82,708	9,112
- debt securities	348,596	291,871	56,725	0	442,569	375,430	67,139	0
- equity instruments	68,506	41,066	15,980	11,460	81,363	56,682	15,569	9,112
Financial assets designated at fair value through profit or loss	34,043	24,366	9,677	0	37,942	25,072	12,870	0
- debt securities	0	0	0	0	3,118	3,118	0	0
- equity instruments	34,043	24,366	9,677	0	34,824	21,954	12,870	0
Financial liabilities								
Derivatives	3,412	0	3,412	0	1,693	0	1,693	0

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

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

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

Financial assets designated at fair value through profit or loss - equity financial instruments - form a part of a forward sale and are valued in connection with the underlying forward contract.

The Bank uses a valuation model for quoted shares issued by Pozavarovalnica Sava, trading symbol POSR, because it believes that the market price for these shares on the Ljubljana Stock Exchange does not reflect the fair price that could be achieved under appropriate conditions. In accordance with IFRSs, the Bank may use its own valuation model if the market is illiquid. Considering the expected turnover on the Ljubljana Stock Exchange, the Bank concluded that it could take at least several months to sell all POSR shares. POSR shares are included among available-for-sale financial assets. Having considered all relevant data, the Bank has estimated the fair value of POSR shares using the comparable companies method at €10. The estimated fair value is 40.45% above the market price quoted on 31 December 2012, but significantly below the last known book value. The effect due to a change in the price of POSR shares is recognised in capital through revaluation surplus.

Analysis of transitions between Level 1 and Level 2

	31.12.2012		31.12.2011	
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1
Financial assets held for trading	0	0	0	0
Available-for-sale financial assets	11,120	23,943	20,020	11,579
- debt securities	11,120	23,943	20,020	11,579
- equity instruments	0	0	0	0
Financial assets designated at fair value through profit or loss	0	0	0	0

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

Movement in financial assets included in Level 3

	Available-for-sale financial assets		
	Total	Shares	Participating interests
1 January 2011	**7,015**	**5,409**	**1,606**
Valuation through profit or loss	(4,922)	(3,767)	(1,155)
Acquisition	7,019	7,018	1
31 December 2011	**9,112**	**8,660**	**452**
Acquisition	2,348	2,327	21
31 December 2012	**11,460**	**10,987**	**473**

The table above presents changes in Level 3 of the fair value hierarchy. The 2012 change in the value of available-for-sale financial assets was due exclusively to the acquisition of additional equity instruments.

NOTES TO THE STATEMENT OF INCOME ITEMS

6 INTEREST INCOME AND EXPENSE

6.1 ANALYSIS OF INTEREST BY TYPE

	2012		2011	
	Income	Expense	Income	Expense
Regular interest	169,208	105,290	194,821	107,828
Default interest	7,818	0	12,264	0
Total	**177,026**	**105,290**	**207,085**	**107,828**
Net interest income	**71,736**		**99,257**	

6.2 ANALYSIS OF INTEREST BY MARKET SEGMENTS

	2012		2011	
	Income	Expense	Income	Expense
Non-financial companies	79,375	3,782	96,689	4,047
State	20,095	20,452	12,453	22,216
Banks	8,662	30,420	13,496	33,105
Other financial organisations	10,805	7,682	13,666	8,377
Households	50,510	41,748	55,575	39,100
Foreign persons	7,321	935	14,920	773
Non-profit household service providers	258	271	286	210
Total	**177,026**	**105,290**	**207,085**	**107,828**
Net interest income	**71,736**		**99,257**	

6.3 ANALYSIS OF INTEREST INCOME AND EXPENSE BY TYPE OF ASSETS AND LIABILITIES

	2012		2011	
	Current	Non-current	Current	Non-current
Interest income				
Balances with the central bank (measured at amortised cost)	281	0	653	0
Financial assets held for trading	77	0	0	0
Financial assets designated at fair value through profit or loss	0	34	0	120
Available-for-sale financial assets	10,837	0	17,166	0
Loans and advances (including finance leases)	34,666	116,443	47,440	137,389
Held-to-maturity financial assets	698	13,950	0	4,270
Other financial assets	40	0	47	0
Total by maturity	**46,599**	**130,427**	**65,306**	**141,779**
Total	**177,026**		**207,085**	
Interest expense				
Financial liabilities due to the central bank (measured at amortised cost)	117	3,562	1,646	380
Financial liabilities held for trading	0	85	0	39
Financial liabilities measured at amortised cost	18,089	83,437	20,957	84,804
Other financial liabilities (including finance leases)	0	0	2	0
Total by maturity	**18,206**	**87,084**	**22,605**	**85,223**
Total	**105,290**		**107,828**	
Net interest income	**71,736**		**99,257**	

6.4 NET INTEREST INCOME

	2012	2011
Total interest income and similar income	177,026	207,085
Total interest expense and similar expense	105,290	107,828
Net interest income	**71,736**	**99,257**
Average interest rate on assets (%)	4.06	4.67
Average interest rate on liabilities (%)	2.36	2.58

7 DIVIDEND INCOME

	2012	2011
Financial assets held for trading	**59**	**28**
- shares and participating interests in other issuers	59	28
Financial assets designated at fair value through profit or loss	**1,218**	**703**
- shares and participating interests in banks	0	29
- shares and participating interests in other issuers	1,218	674
Available-for-sale financial assets	**1,263**	**2,207**
- shares and participating interests in banks	0	574
- shares and participating interests in other issuers	1,263	1,633
Investments in Group companies accounted for using the cost method	**824**	**1,416**
- investments in the equity of subsidiaries	824	1,416
- investments in equity of associates	0	0
Total	**3,364**	**4,354**

The largest proportion of the 2012 dividend income from available-for-sale financial assets, in the amount of €1,184,000, derived from Mercator shares.

The 2012 dividend income from investments in the equity of Group companies was made up of dividends from Adria Bank, in the amount of €441,000, and KBM Infond, in the amount of €383,000.

The 2011 dividend income from investments in the equity of Group companies was made up of dividends from Adria Bank, in the amount of €881,000, and KBM Infond, in the amount of €535,000.

8 FEE AND COMMISSION INCOME AND EXPENSE

8.1 ANALYSIS OF FEES AND COMMISSIONS BY TYPE

	2012	2011
Fee and commission income	**46,365**	**49,944**
Fees from guarantees	3,229	3,742
Services provided to banks in the Group	935	944
Services provided to other Group subsidiaries	293	365
Domestic payment transactions	14,288	14,636
International payment transactions	1,858	2,193
Brokerage and agency services	251	230
Transactions in securities for customers	286	358
Lending operations	5,500	7,589
Transactions under current accounts	7,253	7,263
Card operations	9,761	10,014
Electronic banking	1,219	1,101
Safekeeping of objects and valuables	70	67
Other services	1,422	1,442
Fee and commission expense	**4,630**	**9,520**
Domestic banking services	1,257	1,203
Banking services abroad	1,997	6,804
Brokerage and agency services	72	46
Stock exchange transactions and other transactions in securities	339	328
Payment transactions	907	863
Services of banks in the Group	55	72
Other services	3	204
Net fee and commission income	**41,735**	**40,424**

8.2 ANALYSIS OF FEES AND COMMISSIONS BY MARKET SEGMENTS

	2012	2011
Fee and commission income	**46,365**	**49,944**
Non-financial companies	19,653	22,075
State	256	336
Banks	3,282	3,228
Other financial organisations	1,409	1,379
Households	20,519	21,504
Foreign persons	579	737
Non-profit household service providers	667	685
Fee and commission expense	**4,630**	**9,520**
Net fee and commission income	**41,735**	**40,424**

8.3 FEE AND COMMISSION INCOME AND EXPENSE RELATING TO FIDUCIARY ACTIVITIES

	2012	2011
Income from fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**358**	**409**
Receipt, transmission and execution of orders	310	355
Management of financial instruments	4	9
Administration of book-entry securities accounts of customers	40	45
Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings	4	0
Expenses for fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**248**	**265**
Fees and commissions in connection with the Central Securities Clearing Corporation and similar organisations	217	222
Fees and commissions in connection with the stock exchange and similar organisations	31	43

9 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012			2011		
	Realised gains	Realised losses	Net realised gains/(losses)	Realised gains	Realised losses	Net realised gains/(losses)
Available-for-sale financial assets	417	1,304	(887)	432	909	(477)
Loans and advances (including finance leases and other financial assets)	1,108	154	954	1,973	2,819	(846)
Held-to-maturity financial assets (Note 28.1)	916	974	(58)	696	169	527
Financial liabilities measured at amortised cost	24,541	0	24,541	0	0	0
Total	**26,982**	**2,432**	**24,550**	**3,158**	**3,897**	**(796)**

In December 2012, the Bank partially redeemed its outstanding hybrid instruments and made a gain of €24,541,000 on this transaction (Note 38.5).

10 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2012			2011		
	Gains	Losses	Net gains/ (losses)	Gains	Losses	Net gains
Trading in equity instruments	287	214	73	485	330	155
Trading in foreign exchange (purchase/sale)	1,512	994	518	2,059	1,665	394
Trading in derivatives	4,090	13,311	(9,221)	15,741	13,102	2,639
- futures/forwards	3,667	10,400	(6,733)	15,691	13,102	2,589
- options	0	2,521	(2,521)	0	0	0
- swaps	423	390	33	50	0	50
Total	**5,889**	**14,519**	**(8,630)**	**18,285**	**15,097**	**3,188**

The Bank uses derivatives (futures/forwards) for economic hedging of its exposure to currency risk. Their effects are associated with the effects of exchange rate differences (Note 12).

11 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012			2011		
	Gains	Losses	Net gains	Gains	Losses	Net (losses)
Financial assets designated at fair value through profit or loss	6,998	4,365	2,633	2,751	9,886	(7,135)
Total	**6,998**	**4,365**	**2,633**	**2,751**	**9,886**	**(7,135)**

Net gains and losses on financial assets designated at fair value through profit or loss relate to the valuation and disposal of equities and bonds for which the Bank has entered into forward sale contracts.

12 NET EXCHANGE RATE DIFFERENCES

	2012	2011
Foreign exchange gains	14,292	46,310
Foreign exchange losses	13,576	44,108
Net foreign exchange gain	**716**	**2,202**

13 OTHER NET OPERATING LOSS

	2012	2011
Income	**983**	**1,743**
Income from investment property given under operating lease	137	154
Other operating income	846	1,589
Expense	**2,050**	**4,706**
Taxes	976	3,563
Contributions	485	489
Membership fees and similar fees	125	130
Other operating expenses	464	524
Other net operating (loss)	**(1,067)**	**(2,963)**

14 ADMINISTRATION COSTS

	2012	2011
Staff expenses	**40,634**	**43,356**
Gross salaries	30,991	31,807
Social security contribution	2,284	2,321
Pension insurance contribution	2,788	2,833
Transportation allowance	777	816
Meal allowance	1,066	1,069
Termination benefits and early retirement payments	990	575
Supplementary pension insurance premiums	552	1,157
Pay for annual leave	1,026	2,319
Solidarity help and jubilee benefits	27	19
Other staff costs under employment contracts	133	440
General and administrative expenses	**29,523**	**32,224**
Cost of material	768	1,012
Cost of energy	1,343	1,317
Cost of specialised text books	29	68
Other costs of material	247	322
Cost of renting business premises	1,743	2,034
Postal costs	1,738	1,989
Transport costs	2,076	2,010
Information system costs	4,877	4,421
Cost of other services	3,479	4,207
Business travel expenses	113	212
Maintenance costs of fixed assets	4,492	4,908
Advertising costs	2,888	4,593
Entertainment costs	126	198
Consulting, auditing, accounting and other services	4,670	3,415
School fees, scholarships and other training costs	155	460
Cost of insurance	643	662
Other administrative costs	136	396
Total administration costs	**70,157**	**75,580**

The costs of security, in the amount of €800,000 (2011: €734,000), and the costs related to the refurbishment of business premises and the tidying of their surrounding area as well as the costs of public utility services, in the amount of €739,000 (2011: €765,000), made up the largest proportion of the cost of other services in 2012.

Remuneration of auditors

	2012	2011
Audit of the annual report	154	141
Other audit services	131	337
Total	**285**	**478**

15 DEPRECIATION AND AMORTISATION

	2012	2011
Depreciation of items of property, plant and equipment (Note 29)	5,803	6,446
Amortisation of intangible assets (Note 31)	6,183	6,716
Total	**11,986**	**13,162**

16 PROVISIONS

	2012	2011
Provisions for pensions and similar benefits (Note 40)	(14)	(31)
Provisions for off-balance sheet liabilities (Note 40)	9,225	14,742
Provisions for tax claims and other pending legal issues (Note 40)	742	1,501
Other provisions (Note 40)	(6)	(281)
Total	**9,947**	**15,931**

17 IMPAIRMENT LOSSES

	2012	2011
Financial assets not measured at fair value through profit or loss	267,288	125,955
Other assets	27,750	16,298
Total impairment losses	**295,038**	**142,253**

17.1 IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
Financial assets measured at cost (Note 24.2)	840	22,874
Available-for-sale financial assets designated at fair value (Note 24.2)	11,494	9,742
Loans and advances (including finance leases and other financial assets) measured at amortised cost	254,954	93,339
- loans and advances to banks (Note 25.1)	(106)	(834)
- loans and advances to customers (Note 26.1)	248,235	93,912
- other financial assets (Note 27.1)	6,825	261
Total impairment of financial assets not measured at fair value through profit or loss	**267,288**	**125,955**

17.2 IMPAIRMENT OF OTHER ASSETS

	2012	2011
Investment property (Note 30)	239	(123)
Investments in the equity of subsidiaries, associates and joint ventures (Note 32.1)	15,307	16,421
Other assets (Note 34.1)	12,204	0
Total impairment of other assets	**27,750**	**16,298**

18 INCOME TAX RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS

	2012	2011
Deferred tax from continuing operations (Note 33.2)	(11,080)	(20,043)
Total	**(11,080)**	**(20,043)**

18.1 RECONCILIATION OF EFFECTIVE TAX RATE

	2012	2011
	Amount	Amount
(Loss) before tax according to IFRSs	(214,335)	(104,018)
Income tax calculated using the official tax rate (2012: 18%; 2011: 20%)	(38,580)	(20,804)
Increased tax base – 5% of the dividend income, income similar to dividends and gains made on disposal of equity holdings	215	88
Non-allowable tax expenses	2,567	2,432
Income that reduces the tax base	(4,304)	(1,761)
Income adjustment to the level of taxable income (increase)	84	2
Adjustments due to changes in the tax legislation (reduction of tax rate)	5,874	0
Other adjustments to the statement of income	23,064	0
Total income tax	**(11,080)**	**(20,043)**
Effective tax rate (%)	**/**	**/**

The effective tax rate for the period from 1 January to 31 December 2012 has not been calculated because the income tax liability has not been accounted for. The amount of €11,080,000 represents the difference between income and expenses in respect of deferred taxes.

Adjustments due to changes in the tax legislation were made as a result of the reduction in the rate applicable to deferred tax assets from 20% to 15%. Based on the projection for the period from 2013 to 2015, the Bank estimates that it will be able to use deferred tax assets after 2015, when the official tax rate will stand at 15%.

Other adjustments to the statement of income relate to the reversal of deferred tax assets, and to the partial creation of deferred tax assets in respect of the tax loss.

19 TOTAL PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS

	2012	2011
Dividends from investment in the equity of Zavarovalnica Maribor d.d.	2,032	4,446
Gains on the derecognition of investment in the equity of Zavarovalnica Maribor d.d.	35,353	57
Total profit after tax from discontinued operations	**37,385**	**4,503**

Deferred taxes in respect of gains earned on Zavarovalnica Maribor shares amounted to €5,608,000 in 2012.

Further details regarding the sale of equity stake in Zavarovalnica Maribor are given in Note 32.1.

20 BASIC LOSS PER SHARE

	2012	2011
Net (loss) for the financial year (€000)	(203,255)	(83,975)
Weighted average number of ordinary no-par value shares	39,122,968	34,692,605
Basic (loss) per share (€)	**(5.20)**	**(2.42)**

Diluted net loss per share equals basic net loss per share.

Basic net loss per share is calculated as the ratio between the net loss reported for the period and the weighted average number of ordinary no-par value shares.

Following the May 2011 capital raising, the total number of outstanding ordinary shares increased from 26,081,979 to 39,122,968, with the weighted average number of shares standing at 34,692,605 in 2011. The number of outstanding shares did not change in 2012.

NOTES TO THE STATEMENT OF FINANCIAL POSITION ITEMS

21 CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2012	31.12.2011
Cash in hand	39,490	39,703
Obligatory deposits with the central bank	107,758	42,415
Other deposits with the central bank	3,876	14,905
Total	**151,124**	**97,023**

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

21.1 CASH AND CASH EQUIVALENTS

	31.12.2012	31.12.2011
Cash and balances with the central bank	151,124	97,023
Loans and advances to banks	69,406	103,910
Total	**220,530**	**200,933**

22 FINANCIAL ASSETS HELD FOR TRADING

	31.12.2012	31.12.2011
Derivatives	**1,178**	**8,442**
Total	**1,178**	**8,442**
Unquoted	1,178	8,442
Total	**1,178**	**8,442**

No financial assets held for trading are pledged as collateral and none of these assets have the characteristics of subordinated debt.

22.1 MOVEMENT IN FINANCIAL ASSETS HELD FOR TRADING

	2012	2011
1 January	**8,442**	**2,784**
Increase during the year	**12,689**	**23,437**
- acquisition	12,402	17,215
- change in fair value (recovery and reversal of impairment)	0	5,737
- other (deferred interest, realised gains)	287	485
Decrease during the year	**19,953**	**17,779**
- disposal (sale and redemption)	12,474	17,449
- change in fair value (impairment and reversal of recovery)	7,264	0
- exchange rate differences	1	0
- other (deferred interest, realised losses)	214	330
31 December	**1,178**	**8,442**

23 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2012	31.12.2011
Equity instruments	34,043	34,824
Debt securities	0	3,118
Total	**34,043**	**37,942**
Quoted	24,366	25,072
Unquoted	9,677	12,870
Total	**34,043**	**37,942**

As of 31 December 2012, no assets of this portfolio were pledged as collateral. In 2012, the Bank did not receive any financial assets, included in this portfolio, from the realisation of collateral provided as security for loans.

Financial assets designated at fair value through profit or loss include bonds and equities for which the Bank has entered into forward sale contracts.

The effects of valuation of financial assets designated at fair value through profit or loss and the effects of valuation of forward contracts are recorded through profit or loss.

None of the instruments included in the portfolio of financial assets designated at fair value through profit or loss have the characteristics of subordinated debt.

23.1 MOVEMENT IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
1 January	**37,942**	**16,266**
Increase during the year	**7,033**	**35,130**
- acquisition	0	32,219
- change in fair value (recovery and reversal of impairment)	6,871	2,542
- deferred interest	34	120
- exchange rate differences	1	82
- other	127	167
Decrease during the year	**10,932**	**13,454**
- disposal (sale and redemption)	6,431	3,401
- change in fair value (impairment and reversal of recovery)	4,151	9,886
- interest received	120	120
- exchange rate differences	16	47
- other	214	0
31 December	**34,043**	**37,942**

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

24.1 ANALYSIS BY TYPE AND MARKET SEGMENTS

	31.12.2012	31.12.2011
Available-for-sale equity instruments designated at fair value	**45,425**	**61,041**
- equity investments in other financial organisations	22,156	31,076
- equity investments in non-financial organisations	23,269	29,965
Available-for-sale equity instruments measured at cost	**23,081**	**20,322**
- equity investments in banks	11,621	11,210
- equity investments in other financial organisations	1	1
- equity investments in non-financial organisations	11,451	9,103
- equity investments in other foreign entities	8	8
Debt securities	**348,596**	**442,569**
- issued by the state and the central bank	182,824	217,350
- issued by banks	142,599	200,348
- issued by other issuers	23,173	24,871
Total	**417,102**	**523,932**
Quoted	374,939	480,995
Unquoted	42,163	42,937
Total	**417,102**	**523,932**

As of 31 December 2012, assets of this portfolio totalling €280,866,000 were pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors. In 2012, the Bank did not receive any financial assets, included in this portfolio, from the realisation of collateral provided as security for loans.

The following six instruments of this portfolio have the characteristics of subordinated debt: NLB FLOAT 49, in the amount of €2,510,000; ZVM2 bonds, in the amount of €1,814,000; BCE 11, in the amount of €1,026,000; BCE 16, in the amount of €2,257,000; ABVIP FLOAT 12/29/49, in the amount of €690,000; and INTNED FLOAT 49, in the amount of €18,323,000, which, in aggregate, accounted for 6.38% of the portfolio at the end of 2012.

24.2 MOVEMENT IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Equity instruments			
	At fair value	At cost	Debt securities	Total
1 January 2012	**61,041**	**20,322**	**442,569**	**523,932**
Recognition of new financial assets	234	3,600	70,352	74,186
Interest	0	0	(2,944)	(2,944)
Net revaluation through equity (Note 44.1)	5,462	0	22,303	27,765
Net impairment through profit or loss (Note 17.1)	(11,494)	(840)	0	(12,334)
Derecognition of financial assets at maturity	0	0	(174,019)	(174,019)
Derecognition of financial assets upon disposal	(10,110)	(1)	(8,486)	(18,597)
Net gains/(losses) on sale	292	0	(1,179)	(887)
31 December 2012	**45,425**	**23,081**	**348,596**	**417,102**

	Equity instruments			
	At fair value	At cost	Debt securities	Total
1 January 2011	**66,913**	**7,015**	**611,990**	**685,918**
Recognition of new financial assets	0	36,124	0	36,124
Interest	0	0	(1,217)	(1,217)
Net revaluation through equity (Note 44.1)	2,738	0	(22,085)	(19,347)
Net impairment through profit or loss (Note 17.1)	(8,714)	(22,874)	(1,028)	(32,616)
Derecognition of financial assets at maturity	0	0	(133,823)	(133,823)
Derecognition of financial assets upon disposal	0	0	(10,687)	(10,687)
Net gains/(losses) on sale	104	57	(581)	(420)
31 December 2011	**61,041**	**20,322**	**442,569**	**523,932**

25 LOANS AND ADVANCES TO BANKS

	31.12.2012	31.12.2011
Sight deposits	6,995	4,537
Current loans	97,783	108,782
Impairment of current loans	(172)	(273)
Non-current loans	64,893	69,492
Impairment of non-current loans	(117)	(121)
Claims under guarantees	0	1
Total – net amount	**169,382**	**182,418**
Impairment	**289**	**394**
Total – gross amount	**169,671**	**182,812**

25.1 MOVEMENT IN IMPAIRMENT OF LOANS AND ADVANCES TO BANKS

	2012	2011
1 January	**394**	**1,229**
Net impairment of principal (Note 17.1)	(106)	(834)
- additional impairment	1,627	3,990
- reversal of impairment	(1,733)	(4,824)
Additional impairment/reversal of impairment of interest	1	(1)
31 December	**289**	**394**

Additional impairment/reversal of impairment of interest on loans and advances to banks is reflected in the statement of income (Note 6: 'Interest income and expense').

26 LOANS AND ADVANCES TO CUSTOMERS

	31.12.2012	31.12.2011
Current loans	579,103	732,032
Impairment of current loans	(120,282)	(86,012)
Non-current loans	2,866,538	2,932,460
Impairment of non-current loans	(443,849)	(243,372)
Claims under guarantees	18,729	12,704
Impairment of claims under guarantees	(9,103)	(5,689)
Total – net amount	**2,891,136**	**3,342,123**
Impairment	**573,234**	**335,073**
Total – gross amount	**3,464,370**	**3,677,196**

26.1 MOVEMENT IN IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

	2012	2011
1 January	**335,073**	**241,783**
Net impairment of principal (Note 17.1)	248,235	93,912
- additional impairment of principal	361,917	220,576
- reversal of impairment of principal	(113,682)	(126,664)
Additional impairment of interest	20,531	9,181
Additional impairment of fees	59	106
Write-offs of loans and advances to customers	(30,664)	(9,909)
31 December	**573,234**	**335,073**

Additional impairment/reversal of impairment of interest and fees on loans and advances to customers is reflected in the statement of income (Note 6: 'Interest income and expense' and Note 8: 'Fee and commission income and expense').

27 OTHER FINANCIAL ASSETS

	31.12.2012	31.12.2011
Cheques	75	66
Claims for fees and commissions	1,673	1,663
Accounts receivables	245	159
Other financial assets	64,939	7,008
Total – net amount	**66,932**	**8,896**
Impairment	**7,721**	**918**
Total – gross amount	**74,653**	**9,814**

A claim of €45,000,000 against Slovenska odškodninska družba and a claim of €5,033,000 against Pozavarovalnica Sava, both relating to the purchase price for the sale of Zavarovalnica Maribor, made up the largest proportion of other financial assets as of 31 December 2012.

Other financial assets at the end of 2012 included also a claim of €10,750,000 for the subscription of shares in respect of the conversion of claims into equity of the company Merkur.

27.1 MOVEMENT IN IMPAIRMENT OF OTHER FINANCIAL ASSETS

	2012	2011
1 January	**918**	**550**
Net impairment of principal (Note 17.1)	6,825	261
- additional impairment of principal	7,475	1,375
- reversal of impairment of principal	(650)	(1,114)
Additional impairment of interest	18	11
Additional impairment of fees	242	179
Write-offs of other financial assets	(282)	(83)
31 December	**7,721**	**918**

Additional impairment/reversal of impairment of interest and fees on other assets is reflected in the statement of income (Note 6: 'Interest income and expense' and Note 8: 'Fee and commission income and expense').

28 HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2012	31.12.2011
Debt securities		
- current securities issued by the state and the central bank	29,855	0
- non-current securities issued by the state and the central bank	330,194	276,545
- non-current securities issued by banks and savings banks	33,203	59,393
- non-current securities issued by other issuers	3,878	3,881
Total	**397,130**	**339,819**
Quoted	395,473	338,101
Unquoted	1,657	1,718
Total	**397,130**	**339,819**

As of 31 December 2012, assets of this portfolio totalling €363,710,000 were pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.

The following two instruments of this portfolio have the characteristics of subordinated debt: debt securities issued by Adria Bank, in the amount of €1,657,000, and NLB 26 bonds, in the amount of €3,093,000, which, in aggregate, accounted for 1.20% of the portfolio at the end of 2012.

28.1 MOVEMENT IN HELD-TO-MATURITY FINANCIAL ASSETS

	2012	2011
1 January	**339,819**	**78,894**
Increase during the year	**123,821**	**264,820**
- acquisition	108,257	259,854
- gains (Note 9)	916	696
- other (deferred interest)	14,648	4,270
Decrease during the year	**66,510**	**3,895**
- redemption	58,729	0
- losses (Note 9)	974	169
- other (interest received)	6,807	3,726
31 December	**397,130**	**339,819**

29 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2012	**84,352**	**26,877**	**27,426**	**2,437**	**141,092**
Transfer between types of assets	531	2,877	618	(4,026)	0
Additions	0	0	7	3,164	3,171
Disposals	(1)	(5,126)	(973)	(27)	(6,127)
31 December 2012	**84,882**	**24,628**	**27,078**	**1,548**	**138,136**
Accumulated depreciation					
1 January 2012	**32,207**	**23,584**	**20,548**	**0**	**76,339**
Additions	0	0	7	0	7
Depreciation (Note 15)	1,849	1,760	2,194	0	5,803
Disposals	0	(5,116)	(901)	0	(6,017)
31 December 2012	**34,056**	**20,228**	**21,848**	**0**	**76,132**
Carrying amount as of 1 January 2012	**52,145**	**3,293**	**6,878**	**2,437**	**64,753**
Carrying amount as of 31 December 2012	**50,826**	**4,400**	**5,230**	**1,548**	**62,004**

No items of property, plant and equipment are pledged as collateral.

The acquisition cost of completely depreciated items of property, plant and equipment still used by the Bank totalled €32,043,000.

The Bank's obligations to suppliers of items of property, plant and equipment were €1,242,000 as of 31 December 2012.

Purchases of items of property, plant and equipment made in 2012 were not evenly distributed across all asset types. A total of €2,877,000, or 67% of the amount invested in the purchase of fixed assets, was spent on computer equipment, with the remaining 33% being evenly spent on land, buildings and other equipment.

	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2011	**82,832**	**27,158**	**27,704**	**1,201**	**138,895**
Transfer between types of assets	1,605	1,549	1,228	(4,382)	0
Additions	0	0	0	5,667	5,667
Disposals	(85)	(1,830)	(1,506)	(49)	(3,470)
31 December 2011	**84,352**	**26,877**	**27,426**	**2,437**	**141,092**
Accumulated depreciation					
1 January 2011	**29,703**	**23,557**	**19,953**	**0**	**73,213**
Additions	0	2	5	0	7
Depreciation (Note 15)	2,584	1,845	2,017	0	6,446
Disposals	(80)	(1,820)	(1,427)	0	(3,327)
31 December 2011	**32,207**	**23,584**	**20,548**	**0**	**76,339**
Carrying amount as of 1 January 2011	**53,129**	**3,601**	**7,751**	**1,201**	**65,682**
Carrying amount as of 31 December 2011	**52,145**	**3,293**	**6,878**	**2,437**	**64,753**

30 INVESTMENT PROPERTY

	2012	2011
1 January	**1,900**	**1,777**
Change in fair value (Note 17.2)	(239)	123
Rounding off	(1)	0
31 December	**1,660**	**1,900**

As of 1 January 2012, the Bank had in place five agreements for renting out investment properties. One agreement terminated on 31 March 2012, bringing the number of agreements the Bank held at the end of last year to four. The aggregate annual rent amounted to €145,000, inclusive of VAT.

Direct operating expenses relating to investment property amounted to €19,000 in 2012, compared to €7,000 in 2011.

Items of investment property are not subject to any sale restrictions.

31 INTANGIBLE ASSETS

	Computer software	Intangible assets in preparation	Total
Cost			
1 January 2012	**61,745**	**586**	**62,331**
Transfer between types of assets	2,142	(2,142)	0
Additions	0	2,465	2,465
31 December 2012	**63,887**	**909**	**64,796**
Accumulated amortisation			
1 January 2012	**35,232**	**0**	**35,232**
Amortisation (Note 15)	6,183	0	6,183
31 December 2012	**41,415**	**0**	**41,415**
Carrying amount as of 1 January 2012	**26,513**	**586**	**27,099**
Carrying amount as of 31 December 2012	**22,472**	**909**	**23,381**

The Bank may freely dispose of its intangible assets and none of these assets are pledged as collateral.

The acquisition cost of completely amortised intangible assets still used by the Bank totalled €15,130,000.

The Bank's obligations to suppliers of intangible assets were €535,000 as of 31 December 2012.

	Computer software	Intangible assets in preparation	Total
Cost			
1 January 2011	**55,307**	**217**	**55,524**
Transfer between types of assets	6,438	(6,438)	0
Additions	0	6,807	6,807
31 December 2011	**61,745**	**586**	**62,331**
Accumulated amortisation			
1 January 2011	**28,516**	**0**	**28,516**
Amortisation (Note 15)	6,716	0	6,716
31 December 2011	**35,232**	**0**	**35,232**
Carrying amount as of 1 January 2011	**26,791**	**217**	**27,008**
Carrying amount as of 31 December 2011	**26,513**	**586**	**27,099**

The Bank did not capitalise development costs in 2012 and 2011.

32 INVESTMENTS IN THE EQUITY OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	31.12.2012	31.12.2011
Investments in the equity of banks in the Group	45,170	51,726
- capital investments in banks in the Group	45,170	51,726
Investments in the equity of other Group companies	10,810	50,241
- capital investments in financial associates	2,237	31,918
- capital investments in other financial subsidiaries	7,719	13,695
- capital investments in non-financial subsidiaries	854	4,628
Total	**55,980**	**101,967**

32.1 MOVEMENT IN INVESTMENTS IN THE EQUITY OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	2012	2011
1 January	**101,967**	**94,352**
Increase during the year	**35,353**	**24,248**
- acquisition	0	24,191
- other (realised gains)	35,353	57
Decrease during the year	**81,340**	**16,633**
- disposal	65,033	212
- impairment (Note 17.2)	15,307	16,421
- other	1,000	0
31 December	**55,980**	**101,967**

By selling its shareholding in Zavarovalnica Maribor in 2012, the Bank reduced its investments in the equity of subsidiaries, associates and joint ventures by €29,680,000. The refund of capital contribution by KBM Infond, in the amount of €1,000,000, also led to a decrease in the Bank's investments in the equity of Group companies. Apart from that, in 2012 the Bank impaired its investments in Group companies as follows: KBM Leasing: impairment of €746,000; KBM Invest: impairment of €3,774,000; Gorica Leasing: impairment of €2,856,000; KBM Leasing Hrvatska: impairment of €1,375,000; Credy banka: impairment of €6,556,000.

The purchase price for the Bank's 51% shareholding in Zavarovalnica Maribor was set at €65,033,000, and the Bank made a gain of €35,353,000 on the sale. The sale of Zavarovalnica Maribor was subject to receipt of approvals from the Insurance Supervision Agency and the Slovenian Competition Protection Agency. It was clear at the time of signing the agreement for the sale of Zavarovalnica Maribor that the necessary approvals would be obtained. The applications for granting approvals were submitted immediately following the signing of the agreement. In accordance with the agreement, the buyers, i.e. Pozavarovalnica Sava and Slovenska odškodninska družba, had paid the advance payment of €15,000,000 by the end of 2012, while the remaining amount must be settled within 30 days of the approvals becoming final, with Pozavarovalnica Sava and Slovenska odškodninska družba paying €5,033,000 and €45,000,000, respectively, of the amount due.

On 30 October 2012, KBM Projekt filed for liquidation, with the result that the Bank lost control of it. From this date, KBM Projekt was no longer a subsidiary of the Bank. The investment in the equity of KBM Projekt was impaired in full in 2011.

During the year ended 31 December 2011, the Bank injected additional capital into the following subsidiaries: Credy banka: €5,000,000; KBM Leasing: €3,000,000; KBM Leasing Hrvatska: €1,997,000. In addition, it invested €7,401,000 into the equity of Zavarovalnica Maribor and made a subsequent capital contribution of €6,850,000 to KBM Infond. Also during 2011, the Bank reduced its shareholding in Zavarovalnica Maribor by €212,000, and recognised impairments of its investments in Group companies as follows: KBM Leasing: €8,316,000; KBM Invest: €369,000; Gorica Leasing: €754,000; KBM Projekt: €3,997,000; KBM Leasing Hrvatska: €2,985,000.

32.2 INFORMATION ON COMPANIES IN WHICH THE BANK HOLDS AT LEAST A 20% STAKE IN THE EQUITY

Name and registered address of the company	Total equity of the company as of 31.12.2012	The 2012 net profit/(loss) of the company	Equity attributable to Nova KBM	Acquisition cost	Nova KBM's shareholding (%)	Nova KBM's voting rights (%)	Investment value as of 31.12.2012
Investment in the equity of banks				**51,726**			**45,170**
Adria Bank AG, Vienna	29,989	(5,444)	13,990	16,149	46.65	50.54	16,149
Credy banka a.d., Kragujevac	23,893	100	21,391	24,416	76.64	76.64	17,860
Poštna banka Slovenije d.d., Maribor	47,441	332	26,093	11,161	55.00	55.00	11,161
Investment in the equity of other companies				**32,984**			**10,810**
Gorica Leasing d.o.o., Nova Gorica	(18,091)	(20,905)	(18,091)	3,610	100.00	100.00	0
KBM Fineko d.o.o., Maribor	2,985	634	2,985	853	100.00	100.00	853
KBM Infond d.o.o., Maribor	13,260	1,241	11,239	8,660	72.73	72.73	7,661
KBM Invest d.o.o., Maribor	(17,863)	(21,806)	(17,863)	4,143	100.00	100.00	0
KBM Leasing d.o.o., Maribor	(22,041)	(22,310)	(22,041)	9,062	100.00	100.00	0
KBM Leasing Hrvatska d.o.o., Zagreb	(3,462)	(3,962)	(3,462)	4,360	94.38	94.38	0
M-PAY d.o.o., Maribor	197	13	98	59	50.00	50.00	59
Moja naložba, pokojninska družba d.d., Maribor	6,867	320	3,090	2,237	45.00	45.00	2,237
Total				**84,710**			**55,980**

The shareholders' agreement entered into between the Bank and the Republic of Serbia includes a provision under which a 12.89% stake of the Republic of Serbia in Credy banka is subject to a call option available to the Bank and a put option available to the Republic of Serbia.

Following the exercise of the option, which is included in other liabilities and the price of which is set at €5,636,000, the shareholding of the Bank in Credy banka will increase to 89.53%.

33 TAX ASSETS

33.1 NET TAX ASSETS

	31.12.2012	31.12.2011
Current tax assets	4	3
Deferred tax assets	35,096	29,691
Total	**35,100**	**29,694**

As a result of incurring a tax loss, the Bank did not account for current income tax liabilities for 2012.

33.2 NET DEFERRED TAXES

	31.12.2012	31.12.2011
Deferred tax assets	**35,096**	**29,691**
- tax loss	25,767	12,096
- investments in fixed assets	310	6
- grants for cultural projects and for protection against natural disasters	0	22
- fees and commissions	0	589
- available-for-sale financial assets	8,432	14,259
- other provisions for pending legal issues	62	83
- other provisions for employees	525	748
- investments in the equity of Group companies	0	1,888
Included in the statement of income (Note 18)	**11,080**	**20,043**
- tax loss	13,671	11,374
- investments in fixed assets	304	6
- grants for cultural projects and for protection against natural disasters	(22)	22
- available-for-sale financial assets	(152)	6,272
- fees and commissions	(589)	589
- other provisions for pending legal issues	(21)	0
- other provisions for settled deposits	0	(50)
- other provisions for employees	(223)	(58)
- investments in the equity of Group companies	(1,888)	1,888
Included in equity	**369**	**6,045**
- available-for-sale financial assets (Note 44)	369	6,045

The 2012 tax loss amounted to €218,349,000, while the total tax loss reached €278,830,000. The Bank has recognised deferred tax assets up to the amount of its estimated future taxable income.

The Bank has not created long-term deferred tax assets of €16,057,000 for the tax loss in the amount of €107,052,000.

The year-on-year decrease in long-term deferred tax assets in respect of available-for-sale financial assets was mainly due to a rise in the price of several available-for-sale securities and, consequently, a decrease in impairment losses set aside for these securities. The adjustment made as a result of a reduction in the tax rate applicable to deferred tax assets from 20% to 15% also contributed to a large extent to the decrease in this item.

The Bank has not created long-term deferred tax assets in respect of impairment of equity investments in subsidiaries. Deferred tax assets will be recognised once a firm intention of the status change of subsidiaries is made.

34 OTHER ASSETS

	31.12.2012	31.12.2011
Inventories	14	14
Assets received as payment of claims	31,382	43,590
Claims for advance payments	40	33
Prepayments and accrued income	618	310
Other claims	52	132
Total – net amount	**32,106**	**44,079**
Impairment	**12,281**	**76**
Total – gross amount	**44,387**	**44,155**

In 2012, the Bank impaired assets received as payment of claims.

34.1 MOVEMENT IN IMPAIRMENT OF OTHER ASSETS

	2012	2011
1 January	**76**	**76**
Net impairment of principal (Note17.2)	12,204	0
- additional impairment of principal	12,768	13
- reversal of impairment of principal	(564)	(13)
Rounding off	1	0
31 December	**12,281**	**76**

35 NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

	31.12.2012	31.12.2011
Items of property, plant and equipment held for sale	310	450
Total	**310**	**450**

36 FINANCIAL LIABILITIES DUE TO THE CENTRAL BANK

	31.12.2012	31.12.2011
Loans from the central bank	**423,646**	**370,465**
- current loans	0	70,382
- non-current loans	423,646	300,083
Total	**423,646**	**370,465**

The expected maturity of these liabilities is disclosed in section '4.2 Liquidity risk'.

37 FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2012	31.12.2011
Derivatives	3,412	1,693
- forward contracts	501	1,680
- option contracts	2,521	0
- swap contracts	390	13
Total	**3,412**	**1,693**

38 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31.12.2012	31.12.2011
Deposits (Note 38.1)	2,964,727	3,183,061
Loans (Note 38.2)	507,838	603,996
Debt securities (Note 38.4)	88,591	27,885
Subordinated liabilities (Note 38.5)	88,190	178,035
Other financial liabilities (Note 38.6)	25,014	26,409
Total	**3,674,360**	**4,019,386**

38.1 DEPOSITS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2012	31.12.2011
Deposits from banks	**53,880**	**121,380**
- sight deposits	2,471	9,804
- current deposits	3,540	65,228
- non-current deposits	47,869	46,348
Deposits from customers	**2,910,847**	**3,061,681**
- sight deposits	971,591	965,573
- current deposits	616,703	715,996
- non-current deposits	1,322,553	1,380,112
Total	**2,964,727**	**3,183,061**

38.2 LOANS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2012	31.12.2011
Loans from banks	**501,368**	**603,842**
- non-current loans	501,368	603,842
Loans from customers	**6,470**	**154**
- non-current loans	6,470	154
Total	**507,838**	**603,996**

38.3 DEPOSITS AND LOANS BY MARKET SEGMENTS

	31.12.2012	31.12.2011
Deposits	**2,964,727**	**3,183,061**
Banks	53,880	121,380
Non-financial companies	256,295	257,348
State	458,681	537,083
Other financial organisations	144,080	160,083
Foreign persons	42,591	37,648
Non-profit household service providers	28,041	26,097
Households	1,981,159	2,043,422
Loans	**507,838**	**603,996**
Banks	501,368	603,842
Non-financial companies	102	154
State	6,368	0
Total	**3,472,565**	**3,787,057**

38.4 DEBT SECURITIES BY TYPE AND MATURITY

	31.12.2012	31.12.2011
Non-current securities	**45,413**	**0**
- bonds issued	45,413	0
Certificates of deposit issued	**43,178**	**27,885**
- current	24,790	15,832
- non-current	18,388	12,053
Total	**88,591**	**27,885**

In December 2012, the Bank issued 5-year KBM10 bonds (ISIN SI0022103301) worth €45,413,000, with a fixed coupon rate of 6.00% p.a., as part of its programme to partially redeem/convert its outstanding hybrid loan facilities. For the same reason, it also issued 5-year certificates of deposit worth €11,657,000, with a fixed nominal interest rate of 5.30% p.a. The remaining year-to-year increase in certificates of deposit was the result of regular operations of the Bank.

38.5 SUBORDINATED LIABILITIES

ISIN code	Currency	Date of maturity	Interest rate	31.12.2012	31.12.2011
Hybrid instruments as a component of additional own funds					
ISIN: XS0270427163	EUR	perpetual; call option after 05.10.2016	3M EURIBOR + 1.60%	50,222	50,386
ISIN: XS0325446903	EUR	perpetual; call option booked as executable on 31.12.2030	3M EURIBOR + 4.00%	11,920	101,599
Hybrid instruments as a component of original own funds					
ISIN: SI0022103046	EUR	perpetual; call option after 29.12.2014	8.70%	26,048	26,050
Total				**88,190**	**178,035**

In December 2012, the Bank partially redeemed/converted its outstanding hybrid loan facilities by way of purchasing its subordinated instruments or converting them into the newly issued KBM10 bonds, or certificates of deposit, or a deposit. As a result of this redemption, a transaction on which a gain of €24,541,000 was made by the Bank, and the consequent decrease of €88,192,000 in the outstanding NOVAKR VAR 10/49 notes, the outstanding amount of a hybrid loan facility fell from €100,000,000 to €11,808,000.

The outstanding amount of the €50,000,000 hybrid loan facility did not change, despite its conversion, and neither a gain nor a loss was made by the Bank on this transaction in 2012. This was due to the fact that, as a result of the issuer requesting too high fees, the Bank had decided not to reduce the outstanding amount of the INTNED FLOAT 49 notes, totalling €31,900,000, but to purchase the notes from investors and to include them in its own portfolio of available-for-sale financial assets.

Subordinated liabilities are included in the calculation of capital adequacy. Capital risk is disclosed in Note 4.6.

38.6 OTHER FINANCIAL LIABILITIES

	2012	2011
Liabilities for fees and commissions	22	59
Liabilities for gross salaries of employees	2,472	2,729
Liabilities to suppliers	4,384	4,199
Liabilities related to card transactions	5,420	7,781
Liabilities related to ATM transactions	2,036	1,473
Liabilities related to funds of customers provided for payments abroad	4,733	4,328
Liabilities related to cash transactions	665	1,074
Liabilities from participation in profits – dividends	75	78
Accruals and deferred income	2,985	1,311
Surplus arising from authorised transactions for customers	72	117
Other financial liabilities	2,150	3,260
Total other financial liabilities	**25,014**	**26,409**

39 FINANCIAL LIABILITIES ASSOCIATED TO TRANSFERRED ASSETS

	31.12.2012	31.12.2011
Financial liabilities to banks	**0**	**8,022**
- current financial liabilities	0	8,022
Total	**0**	**8,022**

Current liabilities arising from repo transactions with ING Bank NV, Amsterdam, were repaid on 21 December 2012.

40 PROVISIONS

	Provisions for tax claims and other pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2012	**2,532**	**4,529**	**23,773**	**434**	**31,268**
Net provisions made during the year (Note 16)	742	(14)	9,225	(6)	9,947
- provisions made during the year	836	238	31,900	0	32,974
- provisions reversed during the year	(94)	(252)	(22,675)	(6)	(23,027)
Provisions used during the year	0	(182)	0	0	(182)
31 December 2012	**3,274**	**4,333**	**32,998**	**428**	**41,033**

	Provisions for tax claims and other pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2011	**1,031**	**4,786**	**9,031**	**812**	**15,660**
Net provisions made during the year (Note 16)	1,501	(31)	14,742	(281)	15,931
- provisions made during the year	1,564	194	31,176	0	32,934
- provisions reversed during the year	(63)	(225)	(16,434)	(281)	(17,003)
Provisions used during the year	0	(226)	0	(97)	(323)
31 December 2011	**2,532**	**4,529**	**23,773**	**434**	**31,268**

Provisions for pensions and similar benefits to employees are recognised on the basis of an actuarial calculation; the assumptions used in the calculation are disclosed in Note 3.14.

Other provisions in 2012 and 2011 related to the provisions for undrawn loans under the National Housing Savings Scheme.

41 OTHER LIABILITIES

	31.12.2012	31.12.2011
Liabilities related to taxes and contributions	1,639	3,534
Accruals and deferred income	1,909	2,433
Total other liabilities	**3,548**	**5,967**

42 SHARE CAPITAL

	31.12.2012	31.12.2011
Ordinary shares	**40,814**	**40,815**
- subscribed by non-financial companies	7,209	7,305
- subscribed by the state	14,562	14,562
- subscribed by banks	458	615
- subscribed by other financial organisations	2,409	2,663
- subscribed by households	7,952	6,693
- subscribed by foreign persons	8,224	8,977

In May 2011, the Bank raised additional capital, thus increasing its share capital by €13,605,000 to €40,815,000 (exact amount: €40,814,313.08) at the end of 2011. No changes were made in the share capital of the Bank in 2012.

As of 31 December 2011 and 2012, the Bank's share capital was split into 39,122,968 shares. The accounting value of each ordinary no-par value share, calculated as the ratio between the share capital and the total number of shares, is €1.04.

The shares issued by the Bank are ordinary no-par value shares. All shares are of the same class, entail a voting right, are freely transferable, and have been issued in a book-entry form. The holders of shares have the following rights: participation in the management of the Bank; participation in profits (dividend); and pro-rata distribution of residual assets in case of bankruptcy or liquidation of the Bank, as laid down by the law. All shares have been fully paid for.

At the end of 2012, the Bank had 97,429 shareholders (2011: 98,354), of which 956 were legal entities, 96,346 were individuals and 127 were foreign investors. The number of Bank shareholders decreased by 925 year-on-year.

In 2011 and 2012 the Bank did not acquire or sell treasury shares, neither did it hold any treasury shares at the end of 2012.

A subsidiary of the Bank held 136,000 shares of the Bank (it took over the possession of shares that were provided as collateral for securing a loan) at the end of both 2012 and 2011.

43 SHARE PREMIUM

	31.12.2012	31.12.2011
Paid-in capital surplus	143,467	143,467
Share premium arising from the general capital revaluation	22,308	22,308
Total	**165,775**	**165,775**

Share premium cannot be paid out to shareholders, but can only be used for the purposes and under the conditions as laid down in the Companies Act.

44 REVALUATION RESERVES

	31.12.2012	31.12.2011
Revaluation reserves in respect of available-for-sale financial assets (Note 44.1)	(2,092)	(24,181)
- revaluation	(2,461)	(30,226)
- deferred taxes (Note 33.2)	369	6,045
Total	**(2,092)**	**(24,181)**

44.1 MOVEMENT IN REVALUATION RESERVES

	2012	2011
1 January	**(24,181)**	**(8,704)**
Net change in valuation of available-for-sale financial assets (Note 24.2)	27,765	(19,347)
- gains/(losses) recognised in revaluation reserves	17,061	(27,868)
- losses transferred from revaluation reserves to profit or loss	10,704	8,521
Net change in deferred taxes	(5,676)	3,870
31 December	**(2,092)**	**(24,181)**

45 RESERVES FROM PROFIT

	31.12.2012	31.12.2011
Reserves from profit		
- regulatory reserves	12,145	12,145
- statutory reserves	172,158	172,158
- other reserves from profit	90,741	90,741
Total	**275,044**	**275,044**

Reserves from profit were not increased in 2011 and 2012 due to the Bank incurring a net loss in both of these years.

45.1 MOVEMENT IN RESERVES FROM PROFIT

The balance of reserves from profit did not change in 2011 and 2012.

46 RETAINED LOSS (INCLUDING NET LOSS FOR THE FINANCIAL YEAR)

	31.12.2012	31.12.2011
Retained earnings/(loss) from previous years	(83,717)	262
Net (loss) for the financial year	(203,255)	(83,979)
Total	**(286,972)**	**(83,717)**

For 2012, the Bank reported a net loss of €203,255,000. The Management Board will, in accordance with the decisions passed by it and the Supervisory Board, inform the Bank's Shareholders' Meeting that the total retained loss of €286,972,000 is to remain uncovered.

Movements in retained earnings or loss are disclosed in the statement of changes in equity.

OTHER NOTES

47 RETAINED LOSS

	31.12.2012	31.12.2011
Net loss for the financial year	(203,255)	(83,975)
- retained loss from previous years	(83,979)	0
- retained earnings from previous years	262	262
- rounding off	0	(4)
Retained loss	**(286,972)**	**(83,717)**

The Management and Supervisory Boards reached a unanimous decision to leave the 2012 loss uncovered. The retained loss of the Bank totalled €286,972,000 at the end of 2012.

48 COMMITMENTS AND CONTINGENT LIABILITIES BY TYPE

	31.12.2012		
	Current	Non-current	Total
Financial guarantees	43,060	38,036	81,096
Service guarantees	95,669	79,827	175,496
Total guarantees	**138,729**	**117,863**	**256,592**
Unsecured letters of credit	**249**	**0**	**249**
Approved and undrawn loans	89,671	1,124	90,795
Approved and undrawn overdrafts	160,906	180	161,086
Other	165	0	165
Total commitments and contingent liabilities	**250,742**	**1,304**	**252,046**
Derivatives	**184,632**	**5,636**	**190,268**
Total	**574,352**	**124,803**	**699,155**

	31.12.2011		
	Current	Non-current	Total
Financial guarantees	56,852	48,942	105,794
Service guarantees	106,698	96,945	203,643
Total guarantees	**163,550**	**145,887**	**309,437**
Unsecured letters of credit	**543**	**0**	**543**
Approved and undrawn loans	120,267	21,792	142,059
Approved and undrawn overdrafts	174,127	108	174,235
Other	2,268	0	2,268
Total commitments and contingent liabilities	**296,662**	**21,900**	**318,562**
Derivatives	**157,024**	**13,873**	**170,897**
Total	**617,779**	**181,660**	**799,439**

As of 31 December 2012, legal claims against the Bank totalled €15,569,000 (2011: €15,222,000). On the basis of legal opinions, provisions in the amount of €3,274,000 were set aside for these claims at the end of 2012 (2011: €2,532,000).

Liabilities under rental agreements

	Annual amount in 2013	2 to 5 years (2014 – 2017)	Over 5 years
Business premises, ATMs, parking spaces	925	3,484	4,955
Software	97	389	971
Information channels	529	2,117	5,294
Other equipment	81	262	579
Total	**1,632**	**6,252**	**11,799**

Agreements for renting business premises, ATMs and information channels account for the largest share of liabilities under operating lease agreements.

The Bank has not entered into any irrevocable rental agreements.

Receivables under rental agreements

	Annual amount in 2013	2 to 5 years (2014 – 2017)	Over 5 years
Business premises and apartments	417	1,492	2,770
Equipment	19	77	193
Total	**436**	**1,569**	**2,963**

The most important rental agreements have been made for renting out business premises and apartments under operating leases.

49 DERIVATIVES

Type of risk	Type of derivative	Carrying amount in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	410	390	42,800
Equity instrument price risk	Futures contracts in securities	565	368	42,180
Equity instrument price risk	Options	0	2,521	14,597
Foreign exchange risk	Currency forwards	203	133	90,691
Total as of 31 December 2012		**1,178**	**3,412**	**190,268**

Type of risk	Type of derivative	Carrying amount in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	0	13	3,000
Equity instrument price risk	Futures contracts in securities	7,252	608	45,587
Equity instrument price risk	Options	0	0	13,873
Foreign exchange risk	Currency forwards	1,190	1,072	108,437
Total as of 31 December 2011		**8,442**	**1,693**	**170,897**

49.1 DERIVATIVES BY TYPE

	Current	Non-current	Total
Forward contracts	**90,691**	**0**	**90,691**
- trading	90,691	0	90,691
Futures contracts	**42,180**	**0**	**42,180**
- trading	42,180	0	42,180
Swaps	**42,800**	**0**	**42,800**
- trading	42,800	0	42,800
Options	**8,961**	**5,636**	**14,597**
- trading	8,961	5,636	14,597
Total as of 31 December 2012	**184,632**	**5,636**	**190,268**

	Current	Non-current	Total
Forward contracts	**108,437**	**0**	**108,437**
– trading	108,437	0	108,437
Futures contracts	**45,587**	**0**	**45,587**
- trading	45,587	0	45,587
Swaps	**3,000**	**0**	**3,000**
- trading	3,000	0	3,000
Options	**0**	**13,873**	**13,873**
- trading	0	13,873	13,873
Total as of 31 December 2011	**157,024**	**13,873**	**170,897**

50 AUTHORISED TRANSACTIONS

	31.12.2012	31.12.2011
Non-financial companies	13	35
State	9,180	12,067
Banks and other financial organisations	35,437	37,585
Households	6	26
Non-profit household service providers	1,316	1,321
Liabilities related to transactions in securities	930	215
Total	**46,882**	**51,249**

51 FIDUCIARY ACTIVITIES

	31.12.2012	31.12.2011
ASSETS	**825**	**1,151**
Claims of settlement and transactions accounts for customer assets	**262**	**480**
- from financial instruments	171	344
- against the Central Securities Clearing Corporation or the Bank's clearing account for sold financial instruments	91	23
- against other settlement systems and institutions for sold financial instruments (buyers)	0	113
Customers' cash	**563**	**671**
- in the settlement account for customer assets	511	571
- in banks' transaction accounts	52	100
LIABILITIES	**825**	**1,151**
Liabilities of settlement and transactions accounts for customer assets	**825**	**1,151**
- to customers from cash and financial instruments	654	805
- to the Central Securities Clearing Corporation or the Bank's clearing account for purchased financial instruments	105	256
- to other settlement systems and institutions for purchased financial instruments (suppliers)	0	2
- to the Bank or the Bank's settlement account for commissions, fees, etc.	66	88
OFF-BALANCE SHEET ITEMS	**105**	**258**
Customers' financial instruments, itemised by service	**105**	**258**
- receipt, transmission and execution of orders	105	258

52 RELATED PARTY TRANSACTIONS

52.1 STATEMENT OF FINANCIAL POSITION AND OFF-BALANCE SHEET ITEMS

	Subsidiaries		Associates	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Assets				
Loans and advances given (gross amount)	343,928	374,921	199	250
- loans and advances to banks	81,609	98,964	0	0
- loans and advances to customers	260,936	275,581	3	0
- other financial assets	1,383	376	196	250
Investment in securities	57,089	76,213	4,051	33,732
- equity instruments	55,432	74,495	2,237	31,918
- debt securities	1,657	1,718	1,814	1,814
Other claims	0	0	13	5
Liabilities				
Deposits and loans received	50,730	92,242	28,956	22,567
- deposits and loans from banks	47,418	79,850	0	0
- deposits and loans from customers	3,066	11,642	28,624	22,485
- other financial liabilities	246	750	332	82
Subordinated liabilities	100	100	13,549	5,255
Other liabilities	0	1	4	4
Off-balance sheet items	4,900	12,043	2,510	1,766

	Key management personnel		Other related persons	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Assets				
Loans and advances given (gross amount)	323	491	12,660	43,447
- loans and advances to customers	322	489	12,657	43,405
- other financial assets	1	2	3	42
Investment in securities	0	0	348	31,073
– equity instruments	0	0	348	31,073
Liabilities				
Deposits and loans received	684	776	898	2,831
- deposits and loans from customers	677	776	809	2,697
- other financial liabilities	7	0	89	134
Other liabilities	3	0	0	0
Off-balance sheet items	90	104	33	1,605

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

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

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

52.2 STATEMENT OF INCOME

	Subsidiaries		Associates	
	2012	2011	2012	2011
Net interest income	11,415	15,521	(1,405)	(977)
Dividend income	824	1,416	2,032	4,446
Net fee and commission income	1,103	1,112	472	465
Cost of services	(382)	(512)	(616)	(664)
Individual impairments	(63,759)	(5,663)	0	0
Impairment of investments	15,307	16,421	0	0
Write-offs	0	0	0	0
Total	**(35,492)**	**28,295**	**483**	**3,270**

	Key management personnel		Other related persons	
	2012	2011	2012	2011
Net interest income	(7)	(5)	2,729	2,267
Dividend income	0	0	0	1,593
Net fee and commission income	0	0	35	343
Cost of services	(235)	(122)	(1,398)	(1,563)
Individual impairments	0	0	0	0
Write-offs	0	0	0	0
Total	**(242)**	**(127)**	**1,366**	**2,640**

52.3 LOANS AND GUARANTEES GIVEN

	Management Board members		Supervisory Board members		Other Bank employees on individual contract	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Loans	7	60	58	47	1,755	2,153
Average interest rate on loans (%)	8.59	4.34	4.18	4.30	3.30	4.09
Repayments	0	9	10	4	441	338

53 EXPOSURE TO THE BANK OF SLOVENIA, REPUBLIC OF SLOVENIA AND STATE-OWNED INSTITUTIONS

Exposure to:	31.12.2012	31.12.2011
Bank of Slovenia	**111,634**	**57,333**
- settlement account	107,758	42,390
– other	3,876	14,943
Republic of Slovenia	**524,953**	**592,739**
- bonds	237,559	303,201
- other securities	236,711	170,198
- loans	228	18
- investments guaranteed by the Republic of Slovenia, by type	38,739	109,942
- other	52	297
State-owned institutions	**718,163**	**754,786**
- loans	485,217	474,303
- securities	128,340	165,387
- commitments and contingent liabilities	66,975	79,064
- other	37,631	36,032
Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	**1,354,750**	**1,404,858**
Share in total assets (%)	31.23	29.20
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	11,664	9,083
Total assets	**4,338,568**	**4,810,537**

54 MOVEMENT IN PAST DUE AND UNPAID CLAIMS

Type of claim	01.01.2012	(%)	Net increase	Write-offs	31.12.2012	(%)
Loans and advances to banks	4	0,00	25	0	29	0.02
Loans and advances to customers	453,583	12.34	278,512	(30,723)	701,372	20.25
Other financial assets	1,526	15.55	1,022	(377)	2,171	2.91
Total	**455,113**	**11.76**	**279,559**	**(31,100)**	**703,572**	**18.97**

Type of claim	01.01.2011	(%)	Net increase	Write-offs	31.12.2011	(%)
Loans and advances to banks	3	0.00	1	0	4	0.00
Loans and advances to customers	306,688	8.18	159,536	(12,641)	453,583	12.34
Other financial assets	793	3.65	904	(171)	1,526	15.55
Total	**307,484**	**7.72**	**160,441**	**(12,812)**	**455,113**	**11.76**

55 REMUNERATION

	31.12.2012	31.12.2011
Management Board	**258**	**479**
Aleš Hauc	95	0
Igor Žibrik	50	1
Matjaž Kovačič	0	214
Manja Skernišak	40	132
Andrej Plos	73	133
Supervisory Board members	**189**	**123**
Members of Supervisory Board committees	**68**	**52**
Other Bank employees on individual contract	**3,818**	**3,962**
Total	**4,333**	**4,616**

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

Aleš Hauc has been the President of the Management Board since 24 April 2012, while Igor Žibrik has been a Management Board member since 18 August 2012.

Manja Skernišak had been a Management Board member until 23 April 2012, while Andrej Plos had been a Management Board member until 14 July 2012.

Remuneration paid to members of the Supervisory Board, the Audit Committee, and the Remuneration and Nomination Committee comprises: meeting attendance fees, reimbursement of costs and seminar participation fees.

Remuneration paid to other employees on individual contract comprises: salary, pay for annual leave, bonuses, supplementary pension insurance premium and other receipts. Included in the above figures are remuneration paid during of each individual contract, and other receipts that are not counted as current year costs due to having been accounted for previously.

A more detailed disclosure of remuneration is set out in Note 57 of the Financial Report of the Nova KBM Group.

56 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 4 January 2013, a hybrid loan facility of €100,000,000 was given to the Bank by the Government of the Republic of Slovenia. During the audit of the 2012 Annual Report, additional impairment losses were set aside, as a result of which the Core Tier I capital ratio of the Bank was reduced to such an extent that the criteria for converting the hybrid loan facility into Bank equity were met. Following the conversion of the hybrid loan facility into shares, it is estimated that the shareholding of the Republic of Slovenia in the Bank will increase to about 79%.

If an agreement is reached with the issuer of INTNED FLOAT 49 notes, the Bank will reduce the outstanding amount of these notes by €31,900,000 and generate a gain of €13,460,000 on the transaction.

All the conditions precedent in respect of the sale of the Bank's equity stake in Zavarovalnica Maribor have been met.