ANNUAL REPORT

of Nova KBM Group
and Nova KBM d.d.

2022

NovaKBM

Name of the parent bank:	Nova Kreditna banka Maribor d.d.
Abbreviated name of the Bank:	Nova KBM d.d.
Registered office:	Ulica Vita Kraigherja 4, 2000 Maribor, Slovenia
Website:	www.nkbm.si
Facebook:	www.facebook.com/novakbm/
YouTube:	www.youtube.com/user/NovaKBMdd
Instagram:	www.instagram.com/nova.kbm
LinkedIn:	www.linkedin.com/company/nova-kbm-d-d-
Email:	info@nkbm.si
Skype:	NovaKBM
Switchboard:	+386 2 229 22 90
Call centre:	080 17 70
Share capital:	€150,000,000
Registration number:	5860580
VAT ID no.:	SI94314527
Account no.:	01000-0000400014
IBAN:	SI56 0100 0000 0400 014
BIC (SWIFT):	KBMASI2X
BLOOMBERG DEALING CODE:	NKBM
LEI:	549300J0GSZ83GTKBZ89
GIIN:	BGX87Q.99999.SL.705

Highlights in 2022

	**Successful operations in 2022** Despite numerous challenges, the Group ended the 2022 financial year successfully with total assets of €10.4 billion and a net profit of €106.1 million.
	**Best online and mobile bank for the third year in a row** Bank@Net and mBank@Net were named the best online and mobile banks in Slovenia for the third year in a row by the independent research agency, E-laborat.
	**Awards and recognition** Nova KBM was the first bank in Slovenia to receive the Green Star certificate, which confirms that the Bank has been on the path to the green transformation for some time, with objectives and measures in place for sustainable development, as well as a climate action plan.
	**Issue of senior non-preferred bonds** Nova KBM issued senior non-preferred bonds on the international market in the total nominal amount of €300 million. This marked the successful completion of the first senior non-preferred international bond issue by a Slovenian bank and the fourth such issue by a bank in CEE region.
	**Adaptation to macroeconomic challenges** With the aim of minimising the expected negative consequences of the Russian military aggression, rising energy prices, supply-chain problems in certain sectors, and rising inflation and reference interest rates, the Group has adopted measures for the timely identification of entities that are or will be affected by the aforementioned crises, as well as measures to mitigate negative impacts on their operations or financial position, and thus the position of the Group.
	**Expansion of the leasing activity** With the completion of the purchase of Mercedes-Benz Leasing Hrvatska d.o.o.,[1] Summit Leasing Slovenija d.o.o.[2] expanded its leasing activity in Croatia. The company was subsequently renamed Mobil Leasing Hrvatska d.o.o.

[1] Summit Leasing Slovenija d.o.o. is also referred to as Summit Leasing Slovenija, Summit Leasing or SLS in the Annual Report.
[2] Mercedes-Benz Leasing Hrvatska d.o.o. is also referred to as MBL and Mobil Leasing d.o.o. (renamed in 2022) in the Annual Report.

Upgrading of Contact centre services

The Bank upgraded the online chat function (Niko), which successfully responds to customers' questions regarding more than 900 topics in more than 90% of cases. The average monthly number of complaints was down by 25.1% in 2022.

Digital transformation

The digital transformation continued successfully. The use of digital services by customers is growing. The active use of digital channels amongst clients rose by 18% in 2022.

Secure online operations

The Nova KBM Group[3] has introduced the proactive identification of websites used to phish customers and automatically removes these sites. The Group upgraded its technical protection, including mechanisms to detect potential leaks of information, and also has in place an external security operations centre that functions 24/7.

Motivation-oriented work environment

The Bank adopted a bylaw regarding the Employee Development Strategy and updated the onboarding process for new employees. Through intensive training, it gained 16 internal coaches, who acquired the skills and basic coaching competences needed to support the personal and professional development of their colleagues via a structured coaching process.

Green products to promote the green transition

Through the development of new products, we encourage customers to use sustainable solutions. For sustainable purchases or a sustainable home, the Bank has developed green consumer and housing loans with a better interest rate than regular loans.

Energy renovations

Nova KBM d.d.[4] carried out the complete renovation of one branch office, while energy efficiency improvements were made to the façade, roof, cooling, heating and ventilation systems at three locations.

Use of renewable energy sources

The Bank purchased 100% of its electricity from renewable sources in 2022, while the first six electric vehicles were put into service, with 14 electric charging points available at three of the Bank's locations.

[3] The Nova KBM Group is also referred to as the Group in the Annual Report.
[4] Nova KBM d.d. is also referred to as Nova KBM or the Bank in the Annual Report.

 	**Bronze medal for the issue of subordinated Tier 2 bonds** Nova KBM received a bronze medal from the European Bank for Reconstruction and Development (EBRD) for its issue of subordinated Tier 2 bonds in the scope of the award for sustainable development and outstanding achievements in addressing the challenges of climate change, promoting the use of more sustainable forms of energy, and improving environmental and social effectiveness.

BUSINESS REPORT

At Nova KBM, we know what we're doing and why we're here. We introduce innovations that make sense, such as green loans with a clear focus on sustainability, or digital banking because it makes it easier for clients to do business.

1 KEY PERFORMANCE INDICATORS

1.1 KEY PERFORMANCE INDICATORS OF THE NOVA KBM GROUP[5]

ITEM DESCRIPTION	2022	2021	2020
Statement of financial position (in €000)	**31 Dec**	**31 Dec**	**31 Dec**
Total assets	**10,413,071**	9,958,393	9,176,869
Total deposits by the non-banking sector measured at amortised cost	**8,527,801**	8,176,349	7,516,412
Total loans to the non-banking sector	**5,241,176**	4,857,886	4,660,823
Securities portfolio	**2,488,986**	1,922,366	2,151,888
a) of which financial assets measured at fair value through other comprehensive income	***700,871***	*1,293,858*	*1,839,592*
b) of which debt securities measured at amortised cost	***1,761,967***	*600,925*	*283,473*
Total equity	**993,037**	1,028,034	991,285
Off-balance-sheet items	**2,117,317**	2,504,949	2,376,364
Income statement (in €000)	**1 Jan to 31 Dec**	**1 Jan to 31 Dec**	**1 Jan to 31 Dec**
Net interest income	**177,725**	144,226	154,458
Net non-interest income	**108,171**	119,840	304,450
– of which net fee and commission income	***89,557***	*86,660*	*73,465*
Staff, general and administrative costs	**(149,210)**	(149,964)	(163,551)
Depreciation and amortisation	**(16,761)**	(15,548)	(23,444)
Impairments and provisions (credit losses)	**(12,785)**	13,393	(29,946)
Profit before tax from continuing and discontinued operations	**105,853**	113,139	214,175
Corporate income tax on profit from continuing and discontinued operations	**233**	(545)	(3,390)
Net profit for the financial year	**106,086**	112,594	210,785
Statement of comprehensive income (in €000)	**1 Jan to 31 Dec**	**1 Jan to 31 Dec**	**1 Jan to 31 Dec**
Other comprehensive income/(loss) before tax	(39,643)	(10,551)	(3,850)
Corporate income tax on other comprehensive income	7,862	2,120	596
	31 Dec	**31 Dec**	**31 Dec**
Number of employees (at the end of the financial year)	**1,767**	1,801	2,075
Shares			
Number of shareholders	**1**	1	1
Number of shares	**10,000,000**	10,000,000	10,000,000
Corresponding amount in share capital of one no-par-value share (€)	**15.00**	15.00	15.00
Book value per share (€)	**99.30**	102.80	99.13

* Data in tables 1.1. and 1.2. are in line with the prescribed methodology for the calculation of performance indicators by Bank of Slovenia.

[5] The Nova KBM Group is also referred to as the Group in the Annual Report.

ITEM DESCRIPTION	2022	2021	2020
Ratios (in %)			
a) Equity			
- Common Equity Tier 1 capital ratio	**15.62**	16.40	18.82
- Tier 1 capital ratio	**15.62**	16.40	18.82
- Total capital adequacy ratio	**17.27**	18.15	20.68
b) Asset quality			
– non-performing (on-balance-sheet and off-balance-sheet) exposures / classified balance-sheet exposures and classified off-balance-sheet exposures	**1.30**	1.35	2.12
– non-performing loans and other financial assets / classified loans and other financial assets (excluding cash balances at the central bank and demand deposits at banks)	**2.72**	2.92	4.20
– non-performing loans and other financial assets / classified loans and other financial assets (including cash balances at the central bank and demand deposits at banks)	**1.94**	1.89	2.99
– value allowances and adjustments for credit losses / non-performing loans and other financial assets (excluding cash balances at the central bank and demand deposits at banks)	**39.14**	31.70	28.80
– value allowances and adjustments for credit losses / non-performing loans and other financial assets (including cash balances at the central bank and demand deposits at banks)	**39.14**	31.70	28.80
– collateral received / non-performing loans and other financial assets (excluding cash balances at the central bank and demand deposits at banks)	**21.83**	33.16	45.42
c) Profitability			
- interest margin	**1.75**	1.50	1.78
- non-interest margin	**1.06**	1.24	3.51
- financial intermediation margin	**2.81**	2.74	5.30
- ROAA before tax	**1.04**	1.17	2.47
- ROAA after tax	**1.04**	1.17	2.43
- ROAE before tax	**10.94**	11.09	21.93
- ROAE after tax	**10.96**	11.04	21.59
d) Operating costs			
- operating costs / average assets	**1.63**	1.72	2.16
- cost-to-income ratio (CIR)	**58.05**	62.68	40.75
- cost-to-income ratio (normalised) – CIR2	**52.09**	59.67	63.86
e) Net loans to / deposits from non-banking customers (net LTD ratio)	**61.46**	59.41	62.01
f) Gross loans to / deposits from non-banking customers (gross LTD ratio)	**62.62**	60.45	63.25
g) Liquidity			
- liquidity coverage ratio[6]	**334**	382	360
- net stable funding ratio	**177**	175	180
h) Leverage			
- leverage ratio	**7.88**	8.03	9.40

[6] Simple average of liquidity coverage ratios as of the last calendar day in a 12-month financial year.

ITEM DESCRIPTION	2022	2021	2020
International ratings			
Fitch Ratings	BBB-/F3 (Stable Outlook)	BBB-/F3 (Stable Outlook)	BB+/B (Negative Outlook)
Moody's Investors Service	Baa1/P-2 (Ratings Under Review from Stable)	Baa1/P-2 (Ratings Under Review from Stable)	Baa1/P-2 (Stable Outlook)

1.2 KEY PERFORMANCE INDICATORS OF NOVA KBM D.D.[7]

ITEM DESCRIPTION	2022	2021	2020
Statement of financial position (in €000)	**31 Dec**	**31 Dec**	**31 Dec**
Total assets	**10,414,447**	9,945,049	9,167,386
Total deposits by the non-banking sector measured at amortised cost	**8,547,087**	8,179,518	7,518,864
a) of which from legal entities and other persons pursuing business activities	***2,465,233***	*2,419,805*	*1,970,197*
b) of which from retail (natural persons)	***6,081,854***	*5,759,713*	*5,548,667*
Total loans to the non-banking sector	**5,168,000**	4,771,122	4,578,521
a) of which to legal entities and other persons pursuing business activities	***3,152,430***	*2,798,278*	*2,581,575*
b) of which to retail (natural persons)	***2,015,570***	*1,972,844*	*1,996,946*
Securities portfolio	**2,488,970**	1,922,366	2,151,888
a) of which financial assets measured at fair value through other comprehensive income	***700,871***	1,293,858	*1,839,592*
b) of which debt securities measured at amortised cost	***1,761,967***	600,925	*283,473*
Total equity	**997,700**	1,023,118	990,015
Impairments and provisions for credit losses	**84,524**	78,837	106,601
Off-balance-sheet items	**2,163,969**	2,523,036	2,398,226
Income statement (in €000)	**1 Jan to 31 Dec**	**1 Jan to 31 Dec**	**1 Jan to 31 Dec**
Net interest income	**152,204**	123,886	134,778
Net non-interest income	**116,130**	113,990	300,013
– of which net fee and commission income	***88,045***	85,504	*73,383*
Staff, general and administrative costs	**(133,390)**	(138,608)	(152,857)
Depreciation and amortisation	**(11,043)**	(10,722)	(18,571)
Impairments and provisions (credit losses)	**(9,077)**	18,184	(27,809)
Profit before tax from continuing and discontinued operations	**113,560**	107,964	210,473
Corporate income tax on profit from continuing and discontinued operations	**2,023**	968	(1,561)
Net profit for the financial year	**115,583**	108,932	208,912
Statement of comprehensive income (in €000)	**1 Jan to 31 Dec**	**1 Jan to 31 Dec**	**1 Jan to 31 Dec**
Other comprehensive income/(loss) before tax	**(39,931)**	(10,546)	(3,741)
Corporate income tax on other comprehensive income	**7,862**	2,119	586
	31 Dec	**31 Dec**	**31 Dec**
Number of branches (at the end of the financial year)[8]	**65**	69	100
Number of employees (at the end of the financial year)	**1,539**	1,631	1,903

[7] Nova KBM d.d. is also referred to as Nova KBM or the Bank in the Annual Report.
[8] The figure includes branch offices and specialised bank counters.

ITEM DESCRIPTION	2022	2021	2020
	31 Dec	**31 Dec**	**31 Dec**
Shares			
Number of shareholders	**1**	1	1
Number of shares	**10,000,000**	10,000,000	10,000,000
Corresponding amount in share capital of one no-par-value share (€)	**15.00**	15.00	15.00
Book value per share (€)	**99.77**	102.31	99.00
Ratios (in %)			
a) Equity			
- Common Equity Tier 1 capital ratio	**15.79**	16.49	14.82
- Tier 1 capital ratio	**15.79**	16.49	14.82
- Total capital adequacy ratio	**17.42**	18.24	16.67
b) Asset quality			
– non-performing (on-balance-sheet and off-balance-sheet) exposures / classified on-balance-sheet exposures and classified off-balance-sheet exposures	**0.76**	0.94	1.77
- non-performing loans and other financial assets / classified loans and other financial assets (excluding balances on accounts at the central bank and demand deposits at banks)	**1.55**	1.99	3.48
- non-performing loans and other financial assets / classified loans and other financial assets (including balances on accounts at the central bank and demand deposits at banks)	**1.10**	1.28	2.46
- impairments for credit losses / non-performing loans and other financial assets (excluding balances on accounts at the central bank and demand deposits at banks)	**47.54**	36.51	29.53
- impairments for credit losses / non-performing loans and other financial assets (including balances on accounts at the central bank and demand deposits at banks)	**47.54**	36.51	29.53
- collateral received / non-performing loans and other financial assets (excluding cash balances at the central bank and demand deposits at banks)	**38.88**	49.69	56.04
c) Profitability			
- interest margin	**1.50**	1.29	1.56
- non-interest margin	**1.14**	1.19	3.47
- financial intermediation margin	**2.64**	2.47	5.03
- ROAA before tax	**1.12**	1.12	2.43
- ROAA after tax	**1.14**	1.13	2.42
- ROAE before tax	**11.73**	10.62	21.58
- ROAE after tax	**11.94**	10.72	21.42
d) Operating costs			
- operating costs / average assets	**1.42**	1.55	1.98
- cost-to-income ratio (CIR)	**53.83**	62.78	39.43
- cost-to-income ratio (normalised) – CIR2	**47.46**	59.46	62.92
e) Net loans to / deposits from non-banking customers (net LTD ratio)	**60.47**	58.33	60.89
f) Gross loans to / deposits from non-banking customers (gross LTD ratio)	**61.36**	59.20	62.00

ITEM DESCRIPTION	2022	2021	2020
	31 Dec	31 Dec	31 Dec
g) Liquidity			
- liquidity coverage ratio[9]	**305**	367	295
- net stable funding ratio	**170**	179	171
h) Leverage			
- leverage ratio	**8.07**	8.11	7.43

[9] Simple average of liquidity coverage ratios as of the last calendar day in a 12-month financial year.

2 STATEMENT BY THE MANAGEMENT BOARD OF NOVA KBM

From left: Miha Kristl, Sabina Županec Kranjc, John Denhof, Matej Falatov

Dear stakeholders,

In 2022, we solidified our position as the most accessible bank in Slovenia, which provides its clients superior and comprehensive financial services that they can use virtually anywhere, anytime. Digitalisation, as development priority, represents one of the Bank's strategic focuses, and the **numerous awards** we have received for our digital solutions, including our online and mobile banks, which were named the best in Slovenia for the third year in a row, confirm that we are successfully pursuing our ambitious **vision of being the best bank**. Both the Bank and Nova KBM Group generated a profit, and thus ensured the basis for their long-term **sustainability and resilience**, and for further investments in development and socially responsible operations. Within the Group, we are also implementing a comprehensive **ESG strategy** that focuses on greater sustainability to strengthen our competitiveness and attractiveness. Through that strategy, we strive to systematically manage environmental and social aspects, and to ensure high standards of corporate governance by which we are setting the best examples. On 6th February 2023 the sale to OTP bank Nyrt. was closed following all regulatory approvals and as a part of this transaction Summit Leasing Slovenia was sold. Our focus remains on our clients, as well as advancing our strategic priorities, including ESG strategy and digitalization. We now begin the preparations for merger with our sister SKB banka, subject to regulatory approvals and integration within OTP Group.

In many respects, 2022 was an exceptional year due to the demanding business environment. For the third year in a row, we successfully managed restrictions in connection with the **COVID-19 epidemic**, and provided clients uninterrupted banking services and were a reliable financial partner in changing conditions, while responsibly ensuring the safety of our employees and clients. With the aim of minimising the expected negative consequences of the **Russian military aggression**, rising energy prices, supply-chain problems in certain sectors, **rising inflation** and the resulting **hike in reference interest rates**, the Group has adopted measures for the timely identification of entities that are or will be affected by the aforementioned crisis, as well as measures to mitigate negative impacts on their operations or financial position, and thus the position of the Group. We succeeded in turning challenges into opportunities to improve our portfolio and strengthen partnerships with our key stakeholders.

The transformation of the Group continued in 2022. One of the leading domestic leasing companies, Summit Leasing Slovenija, which has been a member of the Group since 2017, completed the purchase of Mercedes Benz Leasing Hrvatska (MBL) and thus expanded the leasing activity to the Croatian market.

The performance and wider corporate responsibility of the Nova KBM Group are reflected in various surveys and awards received in different business areas. The **European Bank for Reconstruction and Development** (EBRD) awarded the Bank for its achievements in facing the challenges of climate change, promoting the use of more sustainable forms of energy, and improving environmental and social effectiveness. For the third year in a row, we received the **Superbrands** title, which ranks Nova KBM amongst the **top 1% of the most successful brands in Slovenia.** Based on our commitments, we introduced numerous best practices in our operations, while setting ambitious objectives to chart our future ESG path. Based on data submitted and a self-assessment, Nova KBM was awarded the **Green Star certificate** with a four-star rating, which places it in the Green Leader category. According to the findings of the certificate issuer, the CER Partnership for a Sustainable Economy, Nova KBM has been on the path to the green transformation for some time, with objectives and measures in place for sustainable development, as well as a climate action plan. The Bank received the **HORUS** award for the strategic management of social responsibility for the third time.

A five-pillared business strategy to pursue our vision to be the best

In the scope of the business strategy, we continued implementing activities and projects in **five key strategic areas: growth and profitability, client excellence, strong risk management and compliance, operational efficiency, and organisational culture and talent development**. Metrics and milestones that allow the Bank to effectively monitor the implementation of its strategy have been defined for every strategic pillar. We enhanced all five pillars of the business strategy in 2022 by including ESG aspects in each of those pillars, with the aim of successfully managing and controlling the challenges that climate change, in particular, pose to operations and the environment, without neglecting the responsible role that the Group plays in the development of the social environment in which it operates and works, while offering examples of best practices in the area of corporate governance.

The Group's focus on **growth and sustainable profitability** facilitates investments in further development, while ensuring sufficient capacity to adapt to future changes in the financial and economic environment. The Nova KBM Group ended 2022 with a net profit of €106.1 million, while Nova KBM generated a net profit of €115.6 million. Return on equity after tax for the year ending 31 December 2022 was 10.96% at the Group and 11.94% at the Bank level. Strong growth is also reflected in a 7.9% increase in loans to clients. Despite difficult conditions in the economic environment, the Group maintained ratings that reflect its performance in recent years. Moody's rating was Baa1/P-2 (Ratings Under Review From Stable), while the rating issued by Fitch Ratings was BBB-/F3 (with a Stable Outlook).

The Group successfully managed its balance sheet in terms of credit, liquidity, interest rate and currency risks, in accordance with internal and regulatory requirements. In the area of credit risk management, the Group **continuously monitors and controls its portfolio**, which was characterised in 2022 primarily by the Russian military aggression. Although these uncertainties were seen in the past, the combination of the current circumstances is specific in that it follows an almost two-year pandemic, while the economic situation is closely linked to political factors, making forecasts very uncertain and difficult to assess. The Group **is not directly or indirectly exposed** to Russia and Ukraine, but is closely monitoring the impact of the Russian military aggression on the creditworthiness of its clients.

The Group maintains its important role as primary dealer for Slovenian government bonds and treasury bills. It has **continuously increased turnover and the number of clients** on the primary and secondary Slovenian government bond market in recent years, through which the importance of its role on the local and international markets is likewise increasing. Due to the limited size of the local market, the Group's activities in recent years have focused increasingly on attracting new eligible counterparties and expanding the volume of trading in bonds from abroad. All of this confirms that Nova KBM is recognised amongst domestic and foreign institutional investors as an important partner in ensuring the liquidity of Slovenian government securities.

The strategic pillar '**client excellence**' was implemented through the continuation of the Group's client excellence programme. We monitored the needs, experiences and expectations of our clients in 2022 through regular satisfaction surveys and daily contacts with them. Such active client care helped ensure that customer satisfaction continued to improve in various segments. In addition to improving satisfaction, we also increased clients' willingness to recommend the Bank to their family, friends and acquaintances. We are particularly proud of the **high ratings and positive feedback given to employees in branch offices** by clients following their visits to branch offices across Slovenia. We also recorded very high ratings amongst the **users of the online and mobile banks, and the users of the Komplet and Premium bundles**.

The Group maintained its clear focus on compliance and risk management in 2022. This is reflected in robust internal policies and processes, and in regular training and education for all employees. The Group takes a serious and responsible approach to the take-up of risks, and continues to act in accordance with the highest risk management standards. The Group significantly improved its forward-look capabilities, especially in the area of client creditworthiness assessment, capital planning and credit provisioning. In a highly unpredictable operating environment, the Group continuously performed various scenario and sensitivity analyses to better understand the nature of risks and uncertainties, and their potential impact on the capital and liquidity position of the Group.

Improvements in operational efficiency remain a key priority task. We continue with the intensive pursuit of all strategic objectives aimed at strengthening the resilience, security, availability, scalability and cost-effectiveness of the information and communication (ICT) infrastructure. The Bank is thus achieving its medium-term, multi-year vision of the digital transformation of ICT through the inclusion of modern technologies and the development of solutions tailored to clients, some of which are cloud services. Due to growing IT security threats, the Bank strengthened its capacity for the early detection of security events and increased its resilience to them, and organised a campaign to raise awareness about online scams.

A strong organisational culture and the development of employees remain crucial for the Group's business success. Nova KBM is an employer of choice that develops a common and success-oriented culture. Contributing significantly to the Group's business success are our corporate values and internal programmes, which focus on the professional development of employees and the stimulation of their innovativeness with the aim of simplifying business processes. The Group is aware of the importance of investing in the development of managers. For this reason, we organised management skill workshops, linked primarily to practical guidelines in the area of promoting employee engagement, how to lead in conjunction with coaching, and how to adapt communication styles to the situation. We conducted two employee satisfaction and engagement (Voice of Employees or VoE) surveys in 2022. The results of those surveys confirm that the tools that we use to develop and motivate employees are appropriate.

Our responsibility for the green transition

The Group recognises that its business environment is and will be impacted by **climate change**. Climate change will also impact the physical and macro-economic environment in which the Group operates. The transition to a low-carbon or carbon-neutral economy brings with it risks and opportunities for the Group (and other financial institutions). The Group recognises both physical climate change and transition risk as important drivers of its overall risk profile. With the objective of raising awareness and enabling as many clients as possible to make the green transition, we introduced two new products for retail clients in the form of green consumer and housing loans, which enable clients to make purchases of specific goods and investments that are more environmentally friendly.

We are aware of our responsibility to the environment in which we operate. We therefore strive to reduce our own impact on the natural environment, while demonstrating a high level of social responsibility. In accordance with our ESG strategy, investments and activities were implemented to reduce our own impact on the environment, while encouraging employees to reflect on their contribution to a more sustainable society.

Building a successful future based on trust

The Group closely monitors macroeconomic forecasts and trends in financial operations, changes in the habits of our clients, and the needs and expectations of all key stakeholders. The Group has implemented a sustainably profitable business model, remains well capitalised and has a very strong liquidity position. Based on its knowledge and experience, senior management assesses that the Group is well prepared to face future risks and to take advantage of future opportunities, including as a new member of the OTP Group in 2023.

We are proud of our rich tradition, experience and achievements, based on which we can look to the future with confidence and optimism. We will continue to strengthen teamwork in the achievement of personal, business and wider social objectives through superior services and valuable partnerships.

We would like to thank all employees, clients and business partners for their trust. Together with our focus on ensuring the best value for our stakeholders, we believe this serves as an excellent basis for development paths in the future.

Sincerely,

Maribor, 30 March 2023

Management Board of Nova KBM d.d.

Miha Kristl	**Matej Falatov**	**Sabina Župec Kranjc**	**John Denhof**
Member	Member	Vice-President	President

3 REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Introduction

Due to the expiration of term of member and Deputy Chair of the Supervisory Board, Andrzej Piotr Klesyk, the Bank's Shareholders' Meeting, with the aim of ensuring unhindered operation of the Bank's management body and maintaining high professional coherence and the level of the Supervisory Board as a whole, in particular in the period prior to the pending closing of the sales process of the shareholding in Nova KBM d.d. to the new owner, reappointed Andrzej Piotr Klesyk on 23 August 2022 as a member of the Supervisory Board of Nova KBM d.d. for a 5-year term, which began on 1 September 2022.

Pursuant to Article 56 of Zban-3, which requires that the function of Supervisory Board member may only be held by a person who obtained BoS/ECB authorization, the Shareholders' Meeting apponited the following candidates for new Supervisory Board members in January 2022:

- Tünde Barabás,
- Sándorja Istvána Patakija,
- Marka Košaka, and
- Tamása Bernátha.

In April 2022, the Shareholders' Meeting further appointed Imre Bertalan as a candidate for new Supervisory Board member and Dorotha Nikolaeva Nikolova-Iltcheva in July 2022.

Candidates for new Supervisory Board members were appointed for a term of 5 years, starting as of the date of them taking office, i.e. the date of closing of the indirect purchase/sale of Nova KBM d.d. shares to OTP BANK Nyrt. and under the condition precedent of them obtaining prior ECB authorization to perform the function of member of a bank's supervisory board.

Candidates for new members of the Supervisory Board of Nova KBM d.d. Tünde Barabás, Sándor István Pataki, Marko Košak, and Tamás Bernáth obtained their respective ECB authorizations to perform the function of members of the Supervisory Board of Nova KBM d.d. on 6 May 2022.

Candidate Imre Bertalan obtained his ECB authorization on 4 August 2022, whereas candidate Dorothea Nikolaeva Nikolova-Iltcheva obtained her authorization on 3 November 2022.

Sitting Supervisory Board member Mr Borut Jamnik tendered his resignation as member of the Supervisory Board of Nova KBM d.d. on 3 January 2023 based on which his function of Supervisory Board member was terminated as of 4 January 2023, i.e. as of the date of effect of his resignation letter.

As at 31 December 2022, the Supervisory Board was composed of seven members: dr. Andrej Fatur, Chair; Andrzej Klesyk, Deputy Chair; and Manfred Puffer, Michele Rabà, Andrea Moneta, Kristina Žagar, and Borut Jamnik, members.

The Supervisory Board carried out its function of supervising the management of Nova KBM and Nova KBM Group and honoured its duty of care and diligence based on authorizations provided by applicable laws and other regulations and Nova KBM's bylaws. Having examined the success of the Supervisory Board's performance, it is our assessment that the Supervisory Board duly supervised the work of the Management and operations of Nova KBM and Nova KBM Group in accordance with its authorizations and responsibilities.

Supervision of Nova KBM and Nova KBM Group management method and scope

The work of the Supervisory Board was properly organised and carried out in accordance with the Rules of Procedure of the Supervisory Board and the Rules for Managing Conflict of Interest of Supervisory Board Members. In accordance with the Companies Act (ZGD-1) and the Banking Act (ZBan-3), the following Supervisory Board committees operated under the Supervisory Board in 2022:

- Audit Committee,
- Risk Committee,
- Remuneration Committee,
- Nomination Committee,
- Credit Committee.

The Bank's Management Board provided Supervisory Board members with professionally drawn up materials, which allowed them to be well-informed of matters subject to their decisions.

We consider that the Supervisory Board received sufficient and transparent reports, together with timely and accurate information on the management function, to monitor the operations of the Group in a responsible and prudent manner, in particular the work of the Group's Internal Audit. The Supervisory Board and its committees were actively involved in all significant topics by way of formal and informal meetings, as reflected by decisions taken in or based on said meetings. Where necessary, the Supervisory Board was provided with additional clarifications and explanations, whereby together with the Management Board, they launched initiatives for further improvement of the quality and quantity of data delivered, including the optimisation of data submission times.

Members of the Supervisory Board took all precautionary measures to avoid any conflict of interest that may have influenced their decisions, as required by the Rules for Managing Conflict of Interest of Supervisory Board Members. Any conflicts of interest encountered by respective Supervisory Board members occurred only occasionally and they neither constituted a reason to terminate the term of office of any Supervisory Board member, nor did they impede smooth operations of the supervisory body. These conflicts of interest were duly recorded and reported to the Nova KBM Compliance Office.

The Chair of the Supervisory Board performed his duties in line with his powers and the Rules of Procedure of the Supervisory Board, while communicating and working with the Management Board also in the periods between respective Supervisory Board meetings. He regularly monitored the developments related to operations of the Bank and responded promptly and consistently. The Chair encouraged other Supervisory Board members to perform their duties in an efficient and active manner and involved them in communications with the Management Board and heads of internal control functions even outside regular meetings. By chairing Supervisory Board meetings, the Chair ensured that the Supervisory Board took its decisions in a responsible, transparent, and prudent manner. He committed sufficient time to his chairmanship duties; and thus, his other commitments did not impede his work in the Supervisory Board.

Supervisory Board members have adequate and complementary professional knowledge, experience, and skills to perform their duties, and complement each other by virtue of their different professional, geographical and educational backgrounds. The current composition of the Supervisory Board allows for full compensation of any potential lack of specific knowledge by any of its members through the professional expertise of other members. All members of the Supervisory Board have the necessary personal integrity and professional ethics to hold their positions. This ensures responsible supervision and decision-making that is in the best interest of Nova KBM and Nova KBM Group.

Supervisory Board members were well-prepared for Supervisory Board meetings. The meetings were regularly attended by the majority of its members. Supervisory Board members were properly equipped to discuss important topics; they presented constructive proposals, and often challenged the Management Board. On the basis of expertly drawn up and comprehensive information provided by the Management Board, Supervisory Board members were able to take high-quality decisions. The Rules of Procedure of the Supervisory Board comply with applicable principles of best corporate governance and banking-specific international guidelines. The work of the Supervisory Board and distribution of materials followed digitalisation trends, all while maintaining appropriate security standards. All meetings were recorded, with written minutes highlighting and/or summarising the most important positions and key questions raised during discussions which has ensured full traceability and transparency of all matters discussed or decisions made.

The Supervisory Board considers that its members carried out their work with appropriate responsibility, professionalism, and commitment. The Management Board completed the materials prepared for the Supervisory Board with all the necessary explanations on respective topics. Communication and cooperation between the Management Board and the Supervisory Board remained transparent, appropriate, and balanced.

Supervisory Board committees

In 2022, the Supervisory Board operated with five committees. The following is a breakdown of committee composition and their mission, all of which is in compliance with the provisions of the Banking Act (ZBan-3) and the Companies Act (ZGD-1):

a) Audit Committee: In 2022, the Audit Committee was composed of the following members: Andrzej Klesyk, Chair, Andrea Moneta, Andrej Fatur and Borut Jamnik, members.
In 2022, the Committee considered key topics and issues in line with Article 280 of ZGD-1. The following is a summary of key topics considered by the Audit Committee:

- 2022 Group Internal Audit plan and revised plan;
- Control of the accuracy of financial and accounting information provided by the Group to shareholders and other external users;
- Assessing the structure of the Group's Annual Report, including drawing up a proposal to the Supervisory Board of the Group;
- Supervising the risk management system, internal control system, and internal audit;
- Monitoring the financial reporting procedure, the efficiency of the Group's internal controls, internal audit, and risk management systems;
- Working with the external auditor in auditing the Group's Annual Report and performing interim reviews, in particular by means of exchanging briefings on audit-related issues;
- Working with the internal auditor, in particular by means of exchanging briefings on the main issues arising from the activities of Internal Audit;
- Taking part in drawing up the agreement between the auditor and the Group;
- Considering reports of regulators and other supervisory and audit companies;
- Procedure for the selection of the external auditor of Nova KBM and Nova KBM Group for the term 2022 – 2024 and reviewing the agreement with the auditor.

b) Risk Committee: In 2022, the Risk Committee was composed of the following members: Kristina Žagar, Chair, Andrea Moneta, Deputy Chair, and Michele Rabà and Manfred Puffer, members.
In 2022, the Committee considered key topics and issues in line with Article 53 of ZBan-3. The following is a summary of key topics considered by the Risk Committee:

- Reports on regulatory risks;
- The Group's Risk Appetite Framework for 2022, and the Group's Risk Appetite Statement for 2022, including ILAAP, ICAAP and the results of ECB and internal stress tests;
- Recovery Plan for 2022;
- Resolution planning and progress of the multi-annual work programme;
- Capital Adequacy Statement and Liquidity Adequacy Statement;
- Advising on the Group's current and future risk appetite and the Risk Management Strategy;
- The Group's risk identification and assessment process and related reports;
- Monitoring of the Group's implementation of its Risk Management Strategy;
- Compliance risk assessment;
- The Group's participation in the ECB's Climate risk stress test;
- Assessment of the Risk function;

- Annual self-assessment related to identified staff whose professional activities have material impact on the risk profile of the Bank;
- Cost of risk planning for 2022.

c) Remuneration Committee: In 2022, the Remuneration Committee was composed of the following members: Andrzej Klesyk, Chair, Kristina Žagar, Deputy Chair, and Michele Rabà, member.
In 2022, the Committee considered key topics and issues in line with Article 54 of ZBan-3. The following is a summary of key topics considered by the Remuneration Committee:

- Approval of amendments to the Remuneration Policy;
- Annual self-assessment related to identified staff whose professional activities have material impact on the risk profile of the Bank;
- Reviewing proposals underlying general principles of remuneration policies, including definition of positions on respective remuneration policy topics;
- Preparing recommendations to the Group's Supervisory Board concerning the implementation of remuneration policies;
- Adjustment of SIP scheme, approval of performance scores and proposal for annual variable compensation awarded to the Group's senior management;
- Approval of employment contracts for newly appointed procurators and Management Board members.

d) Nomination Committee: In 2022, the Nomination Committee was composed of the following members: Andrej Fatur, Chair, Kristina Žagar, Deputy Chair, and Andrzej Klesyk, member.
In 2022, the Committee considered key topics and issues in line with ZBan-3. The following is a summary of key topics considered by the Nomination Committee:

- Reappointment of procurators;
- Suitability assessment of candidates for new Supervisory Board members and proposal to appoint candidates for new Supervisory Board members;
- Assessment of structure, size, composition, and performance of the Management Board and Supervisory Board, and drawing up recommendations for any changes;
- Assessment of knowledge, skills, and experience of each Management Board and Supervisory Board members as well as the body as a whole and reporting accordingly to the Supervisory Board;
- People Strategy;
- DEIB Policy.

e) Credit Committee: In 2022, the Credit Committee was composed of the following members: Manfred Puffer, Chair, Andrea Moneta, Deputy Chair and Michele Rabà, and Kristina Žagar as members.
The Credit Committee is an expert advisory body to the Nova KBM Supervisory Board. It provides prior written consent to certain loan transactions as determined by a resolution of the Supervisory Board. The Management Board is required to seek consent (approval) of the Credit Committee for legal transactions subject to special resolution of the Supervisory Board (i.e., the List of Transactions) prior to concluding the transaction. In 2022, the Credit Committee dealt with these tasks and activities.

Supervisory Board committees performed their work in accordance with the tasks assigned to them, in line with decisions adopted and duties delegated by the Supervisory Board, and in accordance with duties imposed on the committees directly by ZGD-1 and ZBan-3, applicable implementing regulations, and the Bank's Articles of Association. Supervisory Board committees supported the Supervisory Board in controlling the management of Nova KBM and companies of Nova KBM Group. The committees carried out their work based on the law, Nova KBM´s Articles of Association, and respective rules of procedure setting out the lines and method of operation of respective committees. Pursuant to ZBan-3, committees need to be composed solely of Supervisory Board members.

In 2022, the Supervisory Board met in 4 regular, 2 extraordinary, and 44 by-correspondence meetings and considered key topics and issues in accordance with Article 50 of ZBan-3.

The following is a summary of key topics considered by the Supervisory Board:

- Election of new Supervisory Board members and appointment of a Supervisory Board member for a new term;
- Regular monthly and quarterly financial, compliance and risk reports;
- Reports on the ICAAP, ILAAP and internal and external stress test outcomes;
- Annual Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS);
- Amendments to the Group's Remuneration Policy;
- Amendments to the Fit & Proper Policy;
- Group ESG Strategy;
- ESG Policy;
- DEIB Policy;
- Governance Policy;
- People Strategy;
- NKBM Group Strategic and Financial Plan 2022 – 2024;
- Succession Plan 2022;
- Recovery Plan;
- Appointment and reappointment of Bank procurators;
- Appointment of auditor for the term 2022 -2024;
- Adoption of Annual Report;
- Internal Audit Annual Report, AML Annual Report, Internal Control System Annual Report;
- Approval of new Collective Agreement.

Based on the above, the Supervisory Board hereby considers and declares that it complied fully with Articles 272 and 281 of ZGD-1, having regularly and thoroughly monitored the operations and activities of Nova KBM and Nova KBM Group during 2022, at all times within its competences, and therefore properly supervised the management and operations of Nova KBM and Nova KBM Group and the work of Internal Audit.

Review and approval of 2022 Annual Report in accordance with Article 282 of the Companies Act (ZGD-1)

The Bank's Management Board submitted to the Supervisory Board within the statutory deadline the audited Annual Report of the Nova KBM Group and Nova KBM d.d. for 2022, including the Auditor's Report for the year ended 31 December 2022. The Management Board also submitted the 2022 Annual Internal Audit Report of Nova KBM Group.

The Supervisory Board considered the audited Annual Report of the Nova KBM Group and Nova KBM d.d. for 2022, determining that the Annual Report is a complete and comprehensive review of business operations of the Bank and the Group for the year ended 31 December 2022. The Supervisory Board also took note of the opinion of certified auditor Ernst&Young revizija, poslovno svetovanje d.o.o. on the audit of financial statements of Nova KBM and Nova KBM Group for the year ended 31 December 2022.

According to the certified auditor's opinion concerning the audit of financial statements of Nova KBM and Nova KBM Group as of 31 December 2022, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2022 and their separate and consolidated financial performance and separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Review of the Report on Related Party Relationship

Pursuant to Article 546a of ZGD-1, the Supervisory Board examined the Report on Related Party Relationship and took note of the opinion given by certified auditor Ernst&Young revizija, poslovno svetovanje d.o.o. concerning the Report on Related Party Relationship. The auditor declared in the report that the company Ernst&Young revizija, poslovno svetovanje d.o.o., based on procedures performed and evidence obtained, confirms that nothing has come to their attention that would cause them to believe that:

- Information in the Report on Related Party Relationship for the year ending 31 December 2022 is not presented fairly, in all material aspects;
- The fulfilment of the company's obligations in the scope of legal transactions presented in the Report, based on circumstances known at the time of these transactions, was materially disproportionate; and
- Circumstances exist which, in relation to other actions disclosed in the Report, would indicate an assessment of disadvantages incurred that is substantially different from the assessment presented by the management; all of which was considered based on the above criteria.

Conclusion

Based on the review of the Bank's operations described above, the Supervisory Board deems the Bank's operations in 2022 to be successful.

The Supervisory Board is not aware of any relevant breach of legislation and/or the Group's internal rules.

Maribor, 30 March 2023

Nova KBM d.d. Supervisory Board

Imre Bertalan
Chairman

4 STRATEGIC POLICIES OF NOVA KBM AND THE NOVA KBM GROUP

4.1 VISION, MISSION AND STRATEGIC PILLARS

Nova KBM is taking decisive steps to achieve its ambitious vision 'to be the best bank in Slovenia'. This is confirmed by both operating results and numerous other achievements during 2022 that bring the Bank a great amount of pride. The Bank has included the ESG aspect in all five strategic pillars, as seen in the figure below. ESG factors are explained in more detail in Section 5.

Nova KBM's vision is prudently built on five key strategic pillars:

1. **Growth and profitability**: We strive for the continuous growth of operations, while meeting our shareholders' expectations regarding profitability. The Group continues to focus on the redeployment of assets to core activities, which include retail and corporate banking on the domestic market, international lending and leasing (through the Group company Summit Leasing Slovenija), and factoring (through the Group company ALEJA finance). In addition to asset redeployment and growth, we also strive for an optimal funding structure and a sound balance sheet which contribute to our sustainable profitability targets.

2. **Client excellence**: Customers remain the focus of our efforts and their satisfaction is crucial for the successful performance of Nova KBM. We therefore plan to maintain the simple and convenient, yet profitable range of products that we have developed over the years, and to provide our customers with high-quality services through the most accessible network of banking outlets in Slovenia. In addition to providing services at branch offices, we will continue investing in digital channels with the aim of improving online/mobile banking platforms and maintaining their status as the best in Slovenia. We will upgrade the Contact centre platform with new services to enable customers to receive the best experience and support without them visiting a branch office in person.

3. **Strong risk management and compliance**: Compliance and effective risk management remain crucial for the Group. Our aim is to maintain compliance with all required legislation and regulations by investing time, resources and money in these areas. We plan to continue building a culture of compliance and effective risk management that are based on our corporate values and Code of Conduct. We also plan to maintain a strong capital and liquidity position.

4. **Operational efficiency**: The continuous improvement of operational efficiency is crucial to achieving our goal of profitability. In 2022, the Group exceeded initially planned synergies from the takeover of the former Abanka. We continue to invest in our core IT platforms that are based on the core banking system. We are investing in the optimisation and automation of processes and a 'paperless' bank which in turn will contribute to our efficiency and achieving client excellence goals. Robust IT platforms with a clear risk and security focus and stable operations will play a key role in our operational resilience.

5. **Culture and talent**: The Group has developed a common, performance-oriented culture with the aim of ensuring that the Group's optimised organisational structure is capable of achieving its vision and implementing key tasks. We will strive to remain an employer of choice with satisfied employees who are motivated to perform their work in accordance with the Group's objectives. With such an environment, the Group will continue to attract the most capable candidates based on a true meritocracy, without staff shortages in key positions.

Metrics and milestones that allow the Group to monitor the implementation of its strategy have been defined for every strategic pillar and are reported against monthly and quarterly.

4.2 VALUES

Implementation of the strategy is based on common values, which have been co-created by employees in the Nova KBM Group. We are building and strengthening the corporate culture through positive values that determine our actions, decisions and good practice.

1. **Transparency and honesty**

We always comply with regulations in everything we do. People and the organisation as a whole do not hide or conceal important information, and we encourage everyone to speak up about any non-compliance. Honesty and integrity are an essential part of all our relationships and activities, and we expect the same from our partners.

2. **Best Talent Together**

We wish to be the employer of choice in the financial industry and therefore offer our employees tangible career and professional development opportunities. We recognise and reward good performance in more ways than just financially. We promote teamwork and cooperation between staff and departments across different hierarchical levels and business lines, and we take decisions by listening to and considering different opinions.

3. **Client Excellence**

Client excellence is our primary mission. We endeavour to provide our clients with the best possible experience and always look for solutions that allow our clients to satisfy all financial needs as easily as possible. We actively strive to understand their needs and provide them with the best products and services anytime, anywhere.

4. **Efficiency and Innovation**

We look for solutions and ways that enhance our efficiency all while optimising costs. We constantly search for ways to enhance our processes and business through innovation, improve products and services for our clients with a forward-thinking approach, and look for ways to shorten the path towards fulfilling the business and personal goals of our clients and our Bank. We are disciplined on costs and always look for better, more efficient ways to run our operations.

5. **We Deliver**

We carefully designed our organisation to ensure high efficiency that allows us to reach our business objectives faster. We are open to digital and innovative work methods. We always strive to do our work to the best of our abilities and do not leave it unfinished, and we take full responsibility for our actions. We create added value for our stakeholders through growth and profitability. We are goal-oriented and performance driven. We deliver solutions, on time and within budget constraints.

5 MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS

Over the years, the approach to managing social responsibility and sustainable operations has become increasingly strategic at the Group level. Nova KBM is one of the first institutions in Slovenia to subject itself to transparent non-financial reporting and has published an independent non-financial report since 2017.

The Group continued its **ESG transformation** in 2022, with the inclusion of environmental, social and governance factors in the Bank's comprehensive five-pillar business strategy. To that end, the Bank follows its adopted **ESG strategy**, which was upgraded in 2022 with even more ambitious objectives and represents the Bank's decisive and responsible answer to increasingly urgent questions as to what type of world we want to live in and leave for future generations. Other members of the Nova KBM Group are being gradually included in ESG-related activities.

The aforementioned strategy contributes to the fulfilment of the global sustainable development goals set by the United Nations. To that end, the Nova KBM Group included the following forward looking ESG principles in its business strategy:

Environmental

1. The Group recognises that **its business environment is and will be impacted by climate change**. Further the **transition to a low carbon** or carbon neutral economy brings with it ri**sks and opportunities for the Bank** (as well as other financial institutions). The **Bank recognises both physical** climate change **and transition risk as relevant drivers of its overall risk profile**.

2. **The Group operates in** a Member State of the **EU**. The EU has **committed to reduce its GHG emissions by 55% from levels recorded in 1990 by 2030**. The European Green Deal has committed to making Europe a climate neutral continent by 2050. In these contexts, Slovenia has made its own commitments in support of the EU's binding commitments.

3. The European **authorities**, including the **ECB, expect** that the **financial sector will play a key role** in this process and the **European Commission has set this out in its action plan for financing sustainable growth**.

4. **The Group** uses these **plans** in the drafting of its **business objectives** for the coming accounting periods.

5. The Group will take actions in the short and medium term to **adapt its current investment and loan portfolio** to one which is **aligned with the EU's NDCs to decarbonise** the economy and such that its **exposure to climate and transition risk is reduced over time**.

6. The Group is taking actions in the short and medium term to **increase its commitments to financing the economic transition towards a low carbon or carbon neutral economy**.

7. The Group is taking actions in the short and medium term to **further reduce its own Scope 1 and Scope 2** emissions, recognising the progress already made in this respect. The Group has set **2023** as the base year for the measurement of **Scope 3 emissions**. The definitions of Scope 1, 2 and 3 emissions are explained in more detail in the separate ESG report of the Nova KBM Group.

Social

8. The Group will remain a **socially responsible institution** and will continue in the future to build **sustainable, open and proactive relations with all our stakeholders**: employees, customers, business partners and others. Through our inclusion in socially responsible projects, we will contribute to the **development of the broader social and economic environment** in which we operate.

9. We will support national, regional and local communities as a **partner, sponsor or donator** of events, projects and initiatives. We will continue with **awareness programmes** in the areas of financial literacy, which includes providing knowledge about banking products and services, responsible investing and borrowing, digital literacy, safe banking, fraud prevention and security in online commerce.

Governance

10. The Group is committed to meeting **the highest corporate governance and compliance standards**. We have codified our shared values, the foundation of ethical standards and rules of conduct, in our **Code of Conduct** that is the primary **building block of our corporate culture**. We will continue to build an **inclusive work environment** and promote **equality and diversity**.

11. We will keep acting with full **transparency** and the highest level of **integrity** as well as continue to have a zero-tolerance policy toward any kind of corruption in all our business relationships and transactions.

Nova KBM upgraded its ESG strategy in 2022 with even more ambitious objectives and included it in all five pillars of its business strategy.

Key processes in which the Bank included ESG factors in 2022 are as follows:

- the **credit process**. It also began including ESG factors in the assessment of customers in the scope of the loan origination process in accordance with the EBA's Guidelines on loan origination and monitoring;
- integration of ESG considerations and objectives into its **investment strategy** and integration of ESG factors in the **investment decisions** through the general investment procedure to actively manage social and environmental risks associated with its investments;
- the **risk management framework and risk register**, such that it included threats and controls related to ESG risk (physical and transition risk of climate-related and environmental events: impact on business continuity and reputational and/or liability risks); and
- **procurement and outsourcing processes.** The Bank also began monitoring ESG factors in the supplier selection process in accordance with its bylaws.

Environmental pillar: Environmental programmes and products

We recognise that as one of the largest banking institutions in Slovenia, the Bank plays a key role in financing the sustainable growth for the Slovenian economy, and supports the transition to a low-carbon or carbon-neutral economy in line with EU's Nationally Determined Contributions (NDC) and Slovenia's own commitments. Through sustainable financing and other solutions, we aim to help Slovenian companies and individuals in their **green transition to more environmentally friendly, low-carbon operations**. We employ sustainable practices and environmentally friendly processes in our operations, including digitalisation and paperless operations. We dedicate a great deal of attention to the promotion of a sustainably oriented corporate culture and employee awareness. We organise numerous internal programmes, through which we conserve energy, reduce greenhouse gas emissions and reduce our carbon footprint.

Social pillar: Programmes for social development and improving the quality of life

We are a socially responsible bank, and build **sustainable, open and proactive relations with our stakeholders**: employees, customers, business partners and others. Our aim is to contribute to the development of the broader social and economic environment in which we operate. We participate in national, regional and local events, projects and initiatives as a **partner, sponsor or donator**. We organise special **awareness programmes** in the areas of financial literacy, responsible investing and borrowing, fraud prevention and security in online commerce. We ensure a positive organisational culture, and encourage employees to perform volunteer and charity work and to be active in ESG-related areas.

Governance pillar: Corporate governance programmes

Corporate responsibility is not merely prescribed in our bylaws; it is also practiced in our work and in relations with stakeholders. We are committed to meeting **high standards of corporate governance and compliance**. We have combined our common values, the bases of ethical standards and rules of conduct into the **Code of Conduct,** through which we build our corporate culture. We are committed to the principle of equality, respect diversity and create an inclusive environment. In all business relationships and transactions, we act in a transparent manner and with the highest level of integrity, and we do not tolerate the acquisition of real or potential benefits from unauthorized conduct. Nova KBM applies a zero-tolerance policy with respect to all forms of corruption, and the giving and receiving of bribes.

Professional cooperation in ESG-related areas and recognitions received

The linking and exchange of experiences, in the context of clear objectives and our committed work, are also crucial for the successful implementation of the ESG strategy. We are actively included in expert discussions and professional associations, and support ESG-related events and projects. The prominent organisations with which we cooperate include the **Bank Association of Slovenia, MCFI (Mainstreaming Climate in Financial Institutions Initiative), the CER Partnership for a Sustainable Economy, IRDO (Institute for the Development of Social Responsibility) and *Zeleno omrežje* (Green Network)**.

In 2022, Nova KBM became the first Slovenian bank to receive the Green Star certificate, which is awarded by the CER Partnership for a Sustainable Economy. That certificate serves as proof that the Bank has objectives and measures in place for sustainable development, as well as a climate action plan.

In its justification for the HORUS award, which the Bank received for the third year in a row for its overall strategic integrity in the areas of corporate social responsibility and sustainable development, the IRDO's expert jury stated that the Bank's participation in various institutions in the aforementioned areas is commendable.

Additional information regarding the implementation of the ESG strategy, the management of key risks in this area and measured performance indicators are available in the separate ESG report of the Nova KBM Group. The aforementioned report discloses non-financial data regarding the creation of added value for our stakeholders when we systematically introduce environmental and social factors in our operations, and ensure high-quality corporate governance. The report includes a description of standards according to the GRI (Global Reporting Initiative) framework, as well as disclosures in accordance with regulatory requirements (e.g., the Companies Act, EU taxonomy and the ECB Guide on climate-related and environmental risks) and the European Commission's guidelines regarding non-financial reporting.

The ESG report of the Nova KBM Group and Nova KBM d.d. for 2022 is accessible at www.nkbm.si..

6 PLANS FOR 2023

The achievement of established strategic objectives and the vision to be the best bank in Slovenia will continue to be the focus of the Group's efforts in 2023. We will continue to **implement numerous activities** that serve as the driver of the **ESG transformation**, systematically manage environmental and social aspects, and achieve high standards of corporate governance.

We will strengthen the Group's image through strategic partnerships, and ensure **brand recognition**. We will continue to build trust with stakeholders based on transparent, clear and timely communication.

In the area of retail banking and micro enterprises, the Group will continue to ensure **added value through high-quality services and products**, with an emphasis on further growth in the proportion of services delivered to customers remotely and via online and mobile channels and supported by the Contact centre. We will continue to **invest in the education and training** of sales staff in the future, as we are aware that they represent the first and thus most important contact between the customer and Bank. In light of our environmental responsibility, we will continue to raise awareness among clients about the use of environmentally friendly digital channels and promote that aspect of their green transformation through the appropriate products. The Group will make adjustments where necessary to its physical network, but it will remain the group with the **widest physical network** in Slovenia via its partnership with Pošta Slovenije.

In 2023, the Group will continue to **maintain** its wide market presence in the **corporate banking segment**, which is supported by its regional and local presence. The Group will continue its efforts to increase the presence of ALEJA finance, with factoring services via our subsidiary. Recognising the impact of climate change, the Group will also assist its customers with their plans regarding the transition to a low-carbon economy and the financing of the ESG transition.

In the area of human resource management, the Group will continue with various activities to promote a common culture and to improve employee satisfaction and commitment with the aim of making the Group an employer of choice.

We will continue to focus on the **security of our operations** and the responsible take-up of risks. We will develop and adjust its policies, methodologies and processes to recognise the potential impact of climate-related and environmental risks, as well as to other emerging risk typologies.

Our roots run deep.
Our clients' trust has been driven by experience, expertise and knowledge for 160 years.
From an exceptional tradition to a bright future.

7 BRIEF HISTORICAL OVERVIEW OF NOVA KBM AND THE NOVA KBM GROUP

1861	• Mestna hranilnica Maribor, the first predecessor of Nova KBM and one of the first savings banks in Slovenia, was established.
1955	• Komunalna banka was established and renamed Okrajna banka in the same year. • A branch of Jugoslovanska banka za zunanjo trgovino, the predecessor of Abanka, was established.
1962	• Mestna hranilnica Maribor and Okrajna banka were merged.
1965	• The merged savings bank and bank were renamed Kreditna banka Maribor and assumed the function of a commercial and investment bank.
1978	• Kreditna banka was merged with 22 other banks to create Ljubljanska banka – združena banka.
1990	• Kreditna banka Maribor (KBM) became a public limited company under the auspices of Ljubljanska banka. • Jugobanka – Temeljna banka Ljubljana (the successor of Jugoslovanska banka za zunanjo trgovino branch) was transformed into Abanka d.d.
1991	• The formation of the KBM Group began and, during the years that followed, the Group acquired ownership interests in several companies operating in the areas of banking, insurance, leasing, stock brokerage and real estate services, and in the area of mobile payment services.
1992	• On 1 July, Poštna banka Slovenije (PBS) began operating. The company was established by former Slovenian postal, telegraph and telephone organisations.
1993	• KBM exited Ljubljanska banka – združena banka. The restructuring of KBM Bank began.
1994	• The Bank and Group were given new names: Nova KBM and the Nova KBM Group.
1995	• Nova KBM acquired Komercialna banka Nova Gorica.
2002	• On 31 December 2002, Abanka acquired Banka Vipa. From that time on the bank operated under the name Abanka Vipa d.d. or the abbreviated name Abanka d.d. • The Raiffeisenbank International Financial Group acquired Krekova banka, previously under the majority ownership of the Archdiocese of Maribor and renamed it Raiffeisen banka.
2007	• Slovenia adopted the euro as legal tender. • The first step in the privatisation of Nova KBM was completed.

2013	• On 17 December, the Bank of Slovenia issued a decision on extraordinary measures, under which the state became the 100% owner of Nova KBM and the former Abanka. • The European Commission approved the restructuring plan of Nova KBM and the Nova KBM Group, under which the Nova KBM Group began, *inter alia*, multi-year disinvestment activities and the return to its core activities of banking and leasing.
2014	• On 22 May, the sale of Nova KBM began. That process was managed by Slovenian Sovereign Holding (SSH) on behalf of the Republic of Slovenia. • The European Commission approved the restructuring plan of the Abanka Group.
2015	• On 5 October 2015, in accordance with its commitment to the European Commission, Abanka Vipa d.d. acquired Banka Celje d.d., which was established in 1864 as Hranilnica mestne občine Celje. The merged bank was named Abanka d.d. • The supervisory boards of Nova KBM and PBS agreed on the merger of the two banks. • On 30 June, the Seller, SSH and the buyer, Biser Bidco S.à r.l., an investment firm owned by investment funds managed by subsidiaries of Apollo Global Management, Inc. (hereinafter jointly referred to as Apollo) and the EBRD signed an agreement on the sale and purchase of the Republic of Slovenia's 100% participating interest in Nova KBM.
2016	• On 21 April, Apollo and the EBRD met all the conditions, and Biser Bidco S.à r.l. acquired a 100% participating interest in Nova KBM for consideration in the amount of €250 million. • On 30 June, Biser Bidco S.à r.l. completed the acquisition of the former Raiffeisen banka Slovenije, which was renamed KBS following that acquisition. • On 1 September, the Maribor District Court issued a decision regarding the entry of the merger of PBS[10] with Nova KBM in the companies register.
2017	• On 3 January, the Maribor District Court issued a decision regarding the entry of the merger of KBS banka d.d. with Nova KBM d.d. in the companies register. • Nova KBM and the Nova KBM Group adopted their vision and development strategy for the period 2017 to 2020 (Strategy 2020). • In 2017, Nova KBM fulfilled its commitments to the European Commission from 2013, which were adopted on the basis of the restructuring plan. As a result, 2020 Strategy became the key document and strategic policy for the transformation of Nova KBM into the leading, best universal bank in Slovenia. • On 18 September, Nova KBM completed the acquisition of a 100% participating interest in Summit Leasing Slovenija (SLS), one of the leading leasing companies in Slovenia, which became part of the Nova KBM Group on that day.
2018	• Nova KBM published its first independent Report on Social Responsibility and Sustainable Development, which included reporting according to the GRI (Global Reporting Initiative) and ESG (Environmental, Social and Governance) guidelines. The Report includes information regarding the economic, environmental, social, and governance effects and results of the Bank's operations.
2019	• On 20 June, an agreement on the sale of the 100% interest of the Republic of Slovenia in Abanka d.d. was signed by Nova KBM d.d.

[10] Poštna banka Slovenije d.d. is also referred to as PBS in the Annual Report.

2020	• Following the receipt of the requisite regulatory authorisations, Nova KBM completed the purchase of 100% of Abanka d.d.'s shares, with the latter becoming a subsidiary of the Nova KBM Group. As a result, the Abanka Group's commitments to the European Commission in the restructuring plan approved in 2014 were suspended. • Following the receipt of authorisation from the competent banking regulators, Nova KBM d.d. and Abanka d.d. officially merged on 1 September into a strong bank, with a solid foundation and a comprehensive range of contemporary and high-quality financial services tailored to the needs of customers. • The merged Nova KBM updated its Code of Conduct, harmonised its new values, and began introducing a common organisational culture.
2021	• The operational merger of Abanka and Nova KBM was successfully completed, making it the largest merger in the history of the Slovenian banking sector. The merged bank presented its updated visual identity and launched a new Slovenia-wide advertising campaign. • The owner of Nova KBM and its subsidiaries, a special purpose entity under the ownership of funds managed by associates of Apollo Global Management Inc., and the European Bank for Reconstruction and Development (EBRD) signed a legally binding agreement with OTP Bank on the sale of the participating interest in Nova KBM. The completion of the transaction depends on obtaining all the required consents from the competent regulatory bodies which is expected during the second or third quarter of 2022. • Nova KBM adopted its first ESG strategy. • Nova KBM issued senior non-preferred bonds in the aggregate amount of €175 million. • Nova KBM completed the purchase of the entire amount of the issued share capital of ALEJA finance, a factoring company. • Daimler Mobility AG and Summit Leasing Slovenija signed an agreement on the sale of Mercedes-Benz Leasing Hrvatska d.o.o. to Summit Leasing Slovenija.
2022	• Nova KBM issued senior non-preferred bonds on the international market in the total nominal amount of €300 million. • Summit Leasing Slovenija d.o.o. successfully completed the purchase of Mercedes Benz Leasing Hrvatska d.o.o., which was subsequently renamed Mobil Leasing Hrvatska d.o.o. • Nova KBM received a bronze medal from the European Bank for Reconstruction and Development (EBRD) for its issue of subordinated Tier 2 bonds in the scope of the award for sustainable development and outstanding achievements in addressing the challenges of climate change, promoting the use of more sustainable forms of energy, and improving environmental and social effectiveness. • Nova KBM became the first bank in Slovenia to receive the Green Star certificate, which is the first Slovenian certificate that is awarded to companies that successfully introduce ESG aspects in their business processes.

8 PRESENTATION OF THE NOVA KBM GROUP AND NOVA KBM

8.1 SIGNIFICANT EVENTS AND ACHIEVEMENTS IN 2022

January

- Miha Kristl began his function as member of Nova KBM's Management Board and Chief Risk Officer.
- Sabina Župec Kranjc was appointed Vice-President of the Management Board.
- Nova KBM issued senior non-preferred bonds on the international market in the total nominal amount of €300 million. This marked the successful completion of the first senior non-preferred international bond issue by a Slovenian bank and the fourth such issue by a bank in CEE region.
- Nova KBM marked **160 years since the start of operations** of its predecessor, Mestna hranilnica in Maribor.
- The European Bank for Reconstruction and Development (EBRD) awarded Nova KBM a **bronze medal for sustainable financing** for its achievements in facing the challenges of climate change, promoting the use of more sustainable forms of energy, and improving environmental and social effectiveness. Independent assessors received 62 nominations. The issue of **subordinated Tier 2 bonds** received recognition in the financial institutions category.

February

- Aytac Aydin resigned from his function as member of Nova KBM's Management Board. Responsibilities for the Bank's operations were distributed amongst the existing members of the Bank's Management Board. Member of the Management Board Matej Falatov assumed responsibility for the Information Technology Sector and Information Technology Management Sector, member of the Management Board Sabina Župec Kranjc assumed responsibility for the Banking Operations Sector, and member of the Management Board Miha Kristl assumed responsibility for the Custody and Treasury Sector, and Investment Banking.
- The **National Assembly adopted the Act on the Mitigation and Allocation of Currency Risk Between Lenders and Borrowers in Swiss Francs** (ZOPVTKK), which entered into force in mid-February.

March

- On 1 March 2022, Nova KBM's Supervisory Board appointed Mojca Mak to serve as the Bank's procurator.
- The rating agency Fitch Ratings **confirmed the Bank's ratings** from 2021. This means that the Long-Term Issuer Default Rating (LT IDR) remains BBB- with a stable outlook and the Short-Term Issuer Default Rating (ST IDR) remains F3, while the Bank's Viability Rating remains bbb-.
- The **Constitutional Court of the Republic of Slovenia** issued a **ruling to stay the implementation of the ZOPVTKK**. The aforementioned court adopted its ruling to stay implementation based on a petition for a constitutional review filed by Nova KBM and a number of other Slovenian banks. The Bank of Slovenia filed a separate petition for a constitutional review of the ZOPVTKK.
- Nova KBM made it easy for **Ukrainian citizens** seeking temporary residence in Slovenia to open a bank account, and also **provided other benefits to make doing business easier**.

April

- With the completion of the purchase of Mercedes-Benz Leasing Hrvatska, Summit Leasing expanded its leasing activity in Croatia. The company was subsequently renamed Mobil Leasing Hrvatska d.o.o.
- Nova KBM facilitated the use of the **FLIK POS service** for clients in the micro enterprise and corporate banking segments. Merchants can access the FLIK service, while consumers can make payments using the FLIK service at POS terminals owned by Nova KBM.
- Nova KBM **extended its successful cooperation with the Bank's ambassadors, Primož Roglič and Lora Roglič Klinc**, who will continue to promote a healthy lifestyle among employees and clients, and will be included in the Bank's charitable activities in the future.

May

- Nova KBM facilitated the remote trading of mutual funds and financial instruments through the Bank@Net online bank and mBank@Net mobile bank, where clients can also monitor the status of their investments.
- The mDenarnic@ mobile wallet became mandatory for confirming online purchases using payment cards in the European Economic Area. Changes on the payment services market brought about by the European Payment Services Directive ensure a higher level of security for online payments through the use of strong authentication.

June

- We have summarised Nova KBM's efforts to make the world a better place on the Bank's website, where you can find an overview of all ESG-related activities carried out by the Bank.

July

- Nova KBM added the **Smart Start Package** to its wide range of products. The aforementioned package is intended for sole traders and private individuals, and combines basic business banking solutions. It is suitable for those starting out in business, or for sole traders and private individuals who require basic banking services for their operations.
- The **chatbot Niko** was made **accessible** to clients **in the Bank@Net bank and mBank@Net mobile bank**. This led to a sharp increase in the use of the aforementioned tool, which clients use more than 50,000 times a month.

August

- Nova KBM stopped charging custody fees to retail and corporate clients.
- Due to the growing number of identified online scams, we organised a digital campaign in which we warned clients about security in online commerce.
- An advertising campaign starring Lora Roglič Klinc presented the Bank's key environmental achievements, which serve as the basis for the implementation of our ambitious ESG strategy.

September

- According to a mobile banking survey in Slovenia carried out by E-laborat, Nova KBM's online and mobile banks were named the **Best online and mobile banks in Slovenia** for the third year in a row. In 2021, the Bank introduced a number of innovations in online and mobile banking to facilitate the digital functioning of those applications. These include the updating of an expired ID without visiting a branch office, the raising of consumer loans, the ordering of all payment cards, savings and deposits, and the settlement of deferred payment card transactions in two to 12 instalments.
- Nova KBM was the first bank in Slovenia to receive the **Green Star certificate**, which is issued by the CER Partnership for a Sustainable Economy.

October

- Nova KBM upgraded the Komplet and Smart Business packages with the aim of increasing customer satisfaction. We incorporated into the Komplet bundle an annual trading account management fee and lower entry and distribution fees for the mutual funds in the Bank's portfolio, while we added a fee for five monthly outflows to the existing benefits in the Smart Business Package.
- Together with the Primož Roglič Foundation, Nova KBM supported the unique event, Gold Circuit with Primož Roglič, at which we combined cycling with the Olympic Champion and charity. We raised more than €30,000 for the Primož Roglič Foundation, which supports the development of young cyclists.

November

- The Bank presented **two credit products** that will further help retail clients in their environmental protection efforts: special-purpose green consumer and housing loans that are **intended for investments in environmentally friendly solutions**.
- Nova KBM offered clients the possibility of raising a housing loan with a **government guarantee**. Clients who meet the legally prescribed conditions may raise a loan of up to €200,000 with a repayment period of up to 30 years.
- The best online bank received a new login page with the possibility of personalised, easier and more secure access.

December

- We opened the renovated Šentjur branch office, which is organised in accordance with contemporary banking trends.
- The Bank adopted a Diversity Policy, which entered into force on 1 January 2023.
- The Constitutional Court of the Republic of Slovenia **annulled the ZOPVTKK**. Nova KBM, which initiated the constitutional review, assessed that the Constitutional Court's decision is important for maintaining confidence in the legal framework.
- Nova KBM received the **HORUS award** for the third year in a row for strategic integrity in the areas of social responsibility and sustainable development. The aforementioned award is presented by the Institute for the Development of Social Responsibility (IRDO).

8.2 SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

January

- Member of Nova KBM d.d.'s Supervisory Board, Borut Jamnik tendered his resignation on 3 January 2023, effective 4 January 2023.
- Nova KBM participated in the issue of Slovenian government sustainability bonds. With this step, Slovenia further established itself as a country that takes ESG criteria into account in its strategy.

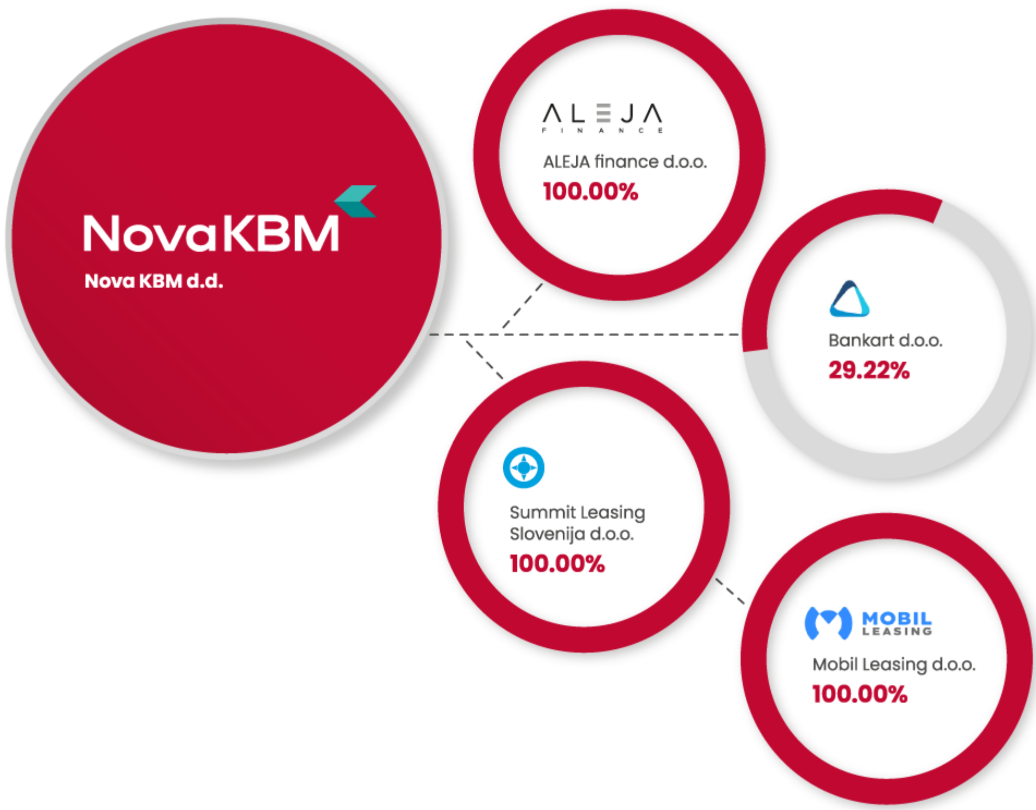
February

- Based on the relevant sale and purchase agreement, OTP Bank Nyrt.[11] and Biser Topco S.à r.l. completed the sale and purchase of the entire amount of issued share capital of Biser Bidco S.à r.l., which is the sole shareholder of Nova KBM d.d., on 6 February 2023.
- The name of Biser Bidco S.à r.l., the sole shareholder of Nova KBM d.d., was amended on 6 February 2023. The former Biser Bidco S.à r.l. has been named OTP Luxembourg S.à r.l. since 6 February 2023.
- On the day of the indirect sale of shares of Nova KBM d.d., Summit Leasing Slovenija ceased to be a member of the Nova KBM Group.
- On the day the indirect sale of shares of Nova KBM d.d. to OTP Bank Nyrt. was completed (i.e., 6 February 2023), the Bank's General Meeting of Shareholders adopted a resolution regarding the start of the term of office of **newly appointed members of the Supervisory Board**, who in 2022 were named candidates and were waiting for authorisation from the ECB to perform their supervisory functions. On 6 February 2023, the Bank's Supervisory Board comprised Imre Bertalan, Tünde Barabás, Sándor István Pataki, Marko Košak, Tamás Bernáth, and Dorothea Nikolaeva Nikolova-Iltcheva. On the day new members were appointed to the Supervisory Board, the terms of office of previous members ended. The exception was Andrej Fatur, whose term of office continues following the completion of the indirect sale of shares of Nova KBM d.d. to OTP Bank Nyrt. in accordance with the resolution of the General Meeting of shareholders.
- On 6 February 2023, the Supervisory Board appointed Imre Bertalan to serve as Chairman of that body. Andrej Fatur was appointed to serve as new Deputy Chairman.
- On 7 February 2023, the rating agency Moody's Investors Service **upgraded the long-term** local and foreign currency deposit ratings of Nova KBM to A3 from Baa1 and changed the outlook to stable from ratings under review. Concurrently, Moody's also upgraded Nova KBM's Baseline Credit Assessment (BCA) and Adjusted BCA to baa3 from ba1, and its junior unsecured debt rating to Baa3 from Ba1. The bank's short-term local and foreign currency deposit ratings were affirmed at P-2.

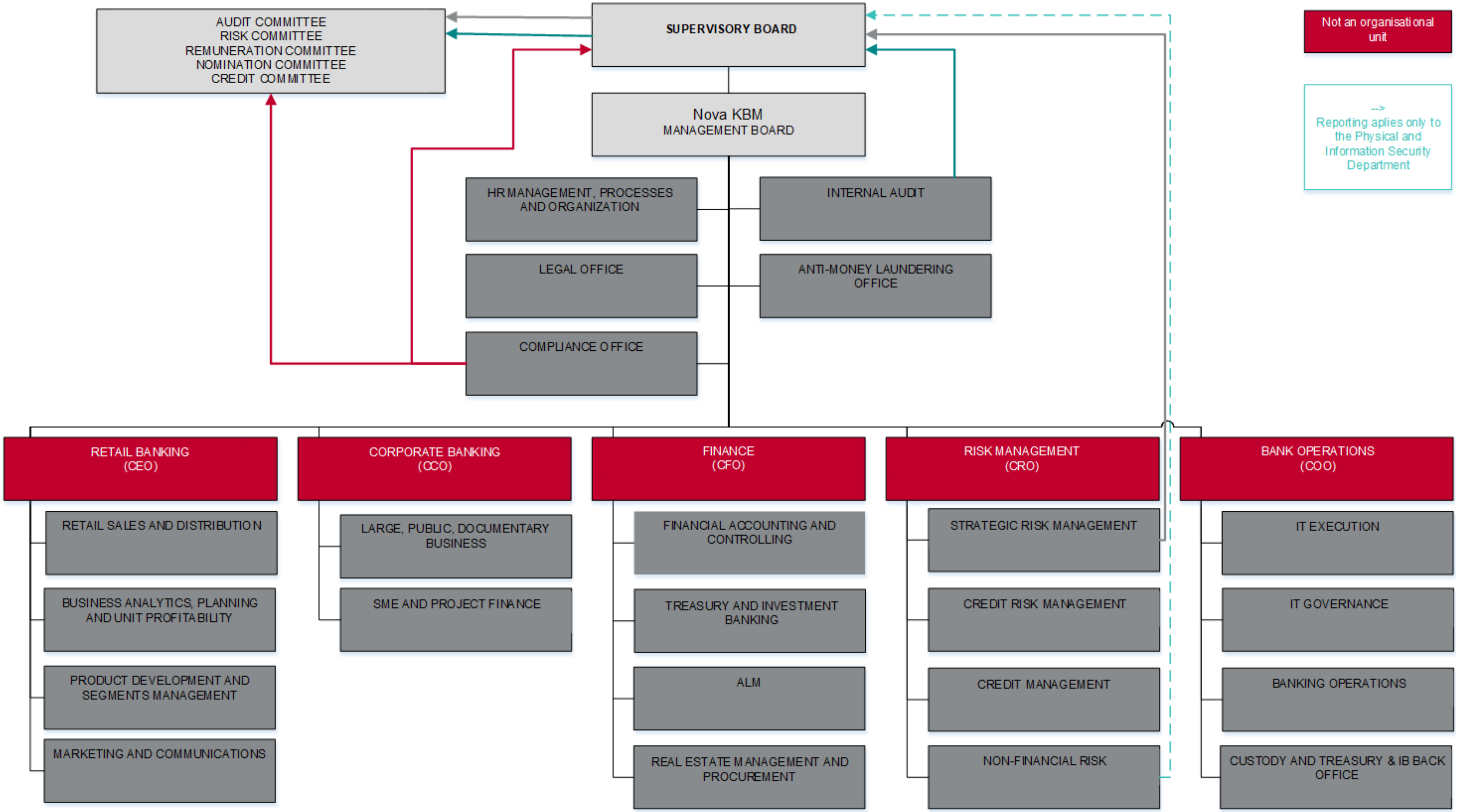
[11] OTP Bank Nyrt. is also referred to as OTP Bank or OTP in the Annual Report.

8.3 GOVERNANCE OF THE NOVA KBM GROUP AND NOVA KBM

8.3.1 ORGANISATIONAL CHART OF THE NOVA KBM GROUP AS OF 31 DECEMBER 2022



8.3.2 ORGANISATIONAL CHART OF NOVA KBM AS OF 31 DECEMBER 2022



8.3.3 CORPORATE GOVERNANCE OF NOVA KBM

The corporate governance of the Nova KBM Group is based on the applicable legislation, the Bank's Articles of Association and the rights and responsibilities of the Nova KBM Group's governance and management bodies, which pursue the mission of ensuring that responsible governance serves as the basis of all activities at the Bank and within the Nova KBM Group.

In accordance with Slovenian legislation, Nova KBM Group companies that are legally organised as joint stock companies (Nova KBM d.d.) have a two-tier management system under which the relations between individual bodies are based on the mutual segregation of rights and responsibilities.

On 30 May 2022, the Slovenian Government adopted a resolution repealing the Ordinance on temporary measures to prevent and control COVID-19 infections, which resulted in the repeal of all measures that were adopted with the aim of preventing and controlling the spread of COVID-19 infections.

From the beginning of the 2022 financial year until the repeal of restrictive measures, the Nova KBM Group complied with measures to prevent the spread of COVID-19.

The upgrading of automated and digital processes and channels has facilitated the reliable, effective and smooth remote performance of management and supervisory functions. The Group management and supervisory functions maintained direct contact through regular direct communication. Quarterly meetings of Supervisory Board members were organised with members present at the Bank's registered office, whenever health regulations allowed.

The economic situation and the Bank's operations began to improve gradually as the epidemiological situation improved and restrictive measures were lifted. Even after the lifting of measures, the Bank continues to closely monitor forecasts for the economic environment with regard to the impact of the coronavirus and thus the latter's impact on the Bank's financial performance, stability and liquidity.

Analyses of the impact of COVID-19 on digitalisation show that the pandemic has profoundly changed the operations and habits of clients, as well as the way the Bank functions in all areas of operations.

Taking into account the need to digitalise banking operations, the Bank has been implementing digital tools for several years to simplify the work of members of the management body and increase their efficiency.

Nova KBM organised General Meetings of Shareholders in January, April and July 2022 in the presence of a minimum number of participants and respecting the relevant health regulations.

Because 100% of the Bank's shares are held by a single shareholder, all General Meetings of Shareholders during the period of restrictive measures were held with the physical presence of that shareholder, taking into account all measures taken to contain the spread of COVID-19.

Nova KBM also fully complied with the guidelines and recommendations of the ECB and the Bank of Slovenia for the duration of restrictive measures to prevent the spread of COVID-19.

On 31 May 2021, OTP Bank Nyrt. and Biser Topco S.à r.l. concluded an agreement on the sale and purchase of all issued share capital of Biser Bidco S.à r.l., which is the sole shareholder of Nova KBM. For the completion of the sale and the actual transfer of shares of Biser Bidco S.à r.l., the buyer was obliged to obtain the necessary prior regulatory consents.

On 6 September 2022, the ECB issued OTP Bank Nyrt. authorisation for the indirect acquisition of a qualifying holding in Nova KBM d.d. The Slovenian Competition Protection Agency issued consent on 31 January 2023.

Following the acquisition of the necessary consents and completion of the sales process, Nova KBM d. d. became a subsidiary of OTP Bank under the latter's 100% ownership.

Nova KBM Bodies

As of 31 December 2022, Nova KBM's bodies included the Bank's Management Board (four members), Supervisory Board (seven members) and General Meeting of Shareholders.

Management Board

As of 31 December 2022, Nova KBM's Management Board comprised the following four members: John Denhof, President, Sabina Župec Kranjc, Vice-President, and members Miha Kristl and Matej Falatov.

Name and surname	Position	Term of office	Membership on the supervisory boards of companies
John Denhof	President of the Management Board	2017–28 February 2022, 1 March 2022– 31 December 2022 and 1 January 2023– 31 December 2023	Summit Leasing Slovenija d.o.o. – Chairman
Sabina Župec Kranjc	Vice-President of the Management Board	2014–2019 17 November 2019– 16 November 2022, and 17 November 2022– 31 December 2023	Summit Leasing Slovenija d.o.o. – member Bank Association of Slovenia – member
Matej Falatov	Management Board member	6 July 2018–22 November 2021 and 23 November 2021– 31 December 2023	Summit Leasing Slovenija d.o.o. – member
Miha Kristl	Management Board member	1 January 2022– 31 December 2023	Summit Leasing Slovenija d.o.o. – member

The term of office of member of Nova KBM's Management Board and Chief Operating Officer, Aytac Aydin, ended on 11 February 2022 due to his resignation. His employment relationship with Nova KBM d.d. ended on the same day. Based on the resolution of the Bank's Management Board on the allocation of the management of individual business areas between the President and the members of Nova KBM d.d.'s Management Board, the management of the business area previously headed by Mr Aydin was assumed by the other members of the Bank's Management Board.

On 22 November 2021, Nova KBM's Supervisory Board reappointed John Denhof to serve as President of the Bank's Management Board for a period that ran from 1 March 2022 until 31 December 2022. John Denhof was originally appointed President of the Management Board with a term of office beginning on 1 March 2017 and ending on 28 February 2022.

On 16 November 2022, the Supervisory Board reappointed John Denhof to serve as President of Nova KBM's Management Board for a period that will run from 1 January 2023 until 31 December 2023.

On 21 November 2022, the Supervisory Board also reappointed Sabina Župec Kranjc to serve as member of Nova KBM's Management Board for a period that will run from 17 November 2022 until 31 December 2023. Sabina Župec

Kranjc was originally appointed to her function with a term of office beginning on 17 November 2019 and ending on 16 November 2022.

On 22 November 2021, the Supervisory Board also reappointed Matej Falatov to serve as a member of Nova KBM's Management Board for a period that will run from 23 November 2021 until 31 December 2023. Matej Falatov was originally appointed to his function with a term of office beginning on 6 July 2018 and ending on 5 July 2023.

The Supervisory Board reappointed the President and members of the Management Board of the bank at this point for a shorter mandate than given in the AoA's due to the pending sales process of Biser Bidco, as the sole holder of all shares of Nova KBM d.d, and the commitments relating to the operations of Nova KBM d.d. in the transitional period until the completion of the sale.

The remuneration of Management Board members is in line with their powers, tasks, knowledge and responsibilities. Remuneration for work, the reimbursement of costs and the benefits of the Management Board members are defined in the individual employment contract of each member.

The remuneration system for employees whose professional activities have a material impact on the Bank's risk profile is implemented in line with the Remuneration Policy of Nova KBM.

The Remuneration Policy was updated in October 2022 and entered into force on 1 November 2022. Nova KBM discloses the remuneration of its Management Board in accordance with the relevant regulations and is disclosed in the notes to the consolidated financial statements.

Additional information about the work and powers of the Management Board is presented in the section 'Corporate governance statement of Nova KBM'.

Other Nova KBM committees

Credit Committee

The Bank's Credit Committee makes decisions within its powers regarding all loans to customers, in accordance with the competencies, procedures and decision-making methods in place at the Bank with respect to loan origination.

The committee has four members. The committee's chair is the member of the Management Board and Chief Corporate Banking Officer. Meetings of the committee are convened once a week.

Investment and International Lending Committee

The Investment and International Lending Committee makes decisions regarding international investments in accordance with the Bank's investment strategy and lending policy. The committee makes decisions regarding international lending activities (syndicated loans, direct lending and other instruments) on foreign markets, and regarding the deployment of the Bank's banking and liquidity portfolios. The committee comprises four members from the areas of finance and risk management and meets on a weekly basis. It is chaired by the Chief Financial Officer.

Problem Loan Committee

The Bank's Problem Loan Committee makes decisions in respect of its non-performing loans. The committee comprises four members and is chaired by the member of the Management Board responsible for risk management.

Liquidity Commission

The Liquidity Commission monitors the situation and adopts measures to ensure short-term liquidity. It comprises nine members. The chair of the commission is the Chief Financial Officer.
The Liquidity Commission meets daily.

Asset-Liability Committee (ALCO)

The ALCO assesses and monitors the structure of the statement of financial position, capital adequacy, interest rate risk, structural liquidity, market risks, currency risks, the profitability and results of profit centres, financial plans, aggregate credit risk, regulatory requirements, the tax aspects of operations, and other risks associated with new products and services. The committee comprises ten members. It is chaired by the Chief Financial Officer.
The ALCO meets once a month.

Operational Risk Committee

The Operational Risk Committee is responsible for monitoring, measuring, assessing, and managing operational risks. The committee comprises seven members. It is chaired by the Chief Risk Officer.
The committee meets at a minimum quarterly.

Crisis Committee

The Crisis Committee is a decision-making body responsible for managing crises. The committee considers and makes decisions in respect of proposals for immediate action when a crisis is called. It is chaired by the President of the Management Board.

Model Risk Committee of the Nova KBM Group

The committee is responsible for reviewing and assessing model risk management, the register of models, model risk appetite and risk take-up, and the model risk management statement. It is responsible for approval and the submission of final decisions to the Bank's Management Board in connection with new risk models, changes to existing models, the adoption of the Bank's bylaws regarding model risk management, the results of the assessment of materiality of risk models and plans and reports in connection with model validation.
The committee comprises eight members. It is chaired by the Chief Risk Officer.
The committee typically meets once a month.

IT Steering Committee

The committee is tasked with making decisions regarding all current IT requirements in connection with personnel, risk- and finance-related issues, external suppliers of IT services, new projects and planning and budgeting requirements for the IT function.

It comprises all members of the Management Board. Because the function of member of the Management Board responsible for the Bank's operations (COO) is vacant, the committee is chaired by the Bank's procurator, who coordinates activities in connection with the management of the Bank's operational organisational units.

It typically meets once a month.

Climate Change and Sustainability Committee

The Climate Change and Sustainability Committee is responsible for the comprehensive and effective implementation of the ESG strategy with the objective of managing the associated risks and opportunities.

The committee makes decisions regarding strategy, policy, methodologies and processes, the design and delivery of actions plans related to environmental and climate related risks. It monitors of the work of the internal working group and action plans and all internal and external reporting requirements.

Committee members include all members of the Bank's Management Board, each of which take accountability and ownership of an area related to their functional responsibility, directors responsible for areas most closely related to ESG and the ESG coordinator. The committee is chaired by the member of the Management Board responsible for Risk Management.

Supervisory Board

In accordance with the Articles of Association, the Supervisory Board comprises a minimum of six and a maximum of 11 members who are appointed by the Bank's General Meeting of Shareholders.

Due to the expiry of the term of office of Andrzej Piotr Klesyk, member and Deputy Chairman of the Supervisory Board (31 August 2022), the Bank's General Meeting of Shareholders reappointed Mr Klesyk, on 23 August 2022, to a five-year term of office as member of Nova KBM d.d.'s Supervisory Board, beginning on 1 September 2022, in order to ensure the smooth functioning of the Bank's management body and to maintain the high professional coherence and level of the Supervisory Board as a whole, in particular during the lead-up to the imminent completion of the sale of the participating interest in Nova KBM d.d. to a new owner.

In accordance with Article 56 of the ZBan-3, based on which the function of a member of a bank's supervisory board may only be performed by persons who have obtained authorisation from the Bank of Slovenia and ECB, the Bank's General Meeting of Shareholders named the following candidates as new members of the Supervisory Board in January 2022:

- Tünde Barabás,
- Sándor István Pataki,
- Marko Košak, and
- Tamás Bernáth.

In April 2022 and July 2022, the General Meeting of Shareholders appointed Imre Bertalan and Dorothea Nikolaeva Nikolova-Iltcheva as new members of the Supervisory Board.

The new members of the Supervisory Board were appointed to a five-year term of office beginning on the day the sale of shares of Nova KBM d.d. to OTP Bank Nyrt. is completed and under the condition that they receive authorisation from the ECB to perform the function of member of the Bank's Supervisory Board.

On 6 May 2022, candidates Tünde Barabás, Sándor István Pataki, Marko Košak and Tamás Bernáth received authorisation from the ECB to serve as members of Nova KBM d.d.'s Supervisory Board.

Candidate Imre Bertalan received authorisation from the ECB on 4 August 2022, while candidate Dorothea Nikolaeva Nikolova-Iltcheva received authorisation on 3 November 2022.

The terms of office of previous members of the Supervisory Board were terminated on the day new Supervisory Board members were appointed. The exception was Andrej Fatur whose term of office continues following the completion of the sale of shares of Nova KBM d.d. to OTP Bank Nyrt.

The Supervisory Board comprised the following members as of 31 December 2022: Andrej Fatur, Chairman, Andrzej Klesyk, Deputy Chairman, and members Manfred Puffer, Michele Rabà, Andrea Moneta, Kristina Žagar and Borut Jamnik.

Andrej Fatur holds a doctorate in law from the School of Law at King's College London, and has many years of domestic and international experience (Legal Adviser at the Court of Justice of the European Union, occasional lecturer at the School of Law at King's College London, and director and occasional consultant at NEOS Business Consulting Ltd., London). After completing his judicial clerkship, he began his career as a lawyer, returned to that profession after a few years abroad, and now works at his own law firm as a commercial lawyer. In the interim period, he served as a legal consultant for several months at the Bank of Slovenia in the areas of banking supervision and banking regulation. He is the author of numerous professional articles in the field of commercial law, in particular competition law. He has lectured on this subject at several conferences at home and abroad.

He has served continuously as a member of Nova KBM's Supervisory Board since 2012. As member and Chairman of the Supervisory Board, he also served as a member of the latter's Audit Committee and as Chair of the Nomination Committee.

Andrzej Klesyk is the Deputy Chair of the Supervisory Board and he also serves as a member of the Nomination Committee, the Chair of the Audit Committee and the Chair of the Remuneration Committee of the Supervisory Board. Mr. Klesyk is an expert in financial services and has been working as a senior advisor mainly for financial companies that consult investors, banks and international companies on their business strategy in Europe. Between 2007 and 2015, he was the Chief Executive Officer of PZU SA.

Manfred Puffer serves as a member of the Risk Committee. Mr. Puffer has more than 30 years of experience in the banking and insurance sectors. Since 2008, he has been working as an Operating Partner and consultant to certain affiliates of Apollo Global Management, Inc., focusing primarily on the banking sector in Europe. Mr. Puffer also serves as the director of Infineon Technologies, Munich, Athene Holding Ltd., Bermuda, Athene Lebensversicherung AG and Oldenburgische Landesbank AG (formerly Bremer Kreditbank AG).

Michele Rabà serves as a member of the Remuneration Committee and Risk Committee of the Supervisory Board. Mr. Rabà is a partner in Apollo Management International, LLP, focusing on Private Equity. He previously worked at the Investment Banking Division of Goldman Sachs International. Mr. Rabà currently holds directorship positions, *inter alia*, at Biser Holdings Limited, Biser Topco, Biser Bidco, Lottomatica Group, Oldenburgische Landesbank AG, Alwyn AG and Reno de Medici.

Andrea Moneta is the Deputy Chair of the Risk Committee and a member of the Audit Committee of the Supervisory Board. He serves as a senior adviser in Italy and an Operating Partner (PE FS) for Apollo Global Management. Before joining Apollo Global Management, Inc., he served in management positions at several companies in the banking and insurance sectors. He was Executive Director at Aviva Plc and CEO for Central and Eastern Europe at UniCredit Bank. He is currently Chairman of the Board of Directors at Amissima Group and Lottomatica Group. He also serves as a Non-Executive Director at Floow**.**

Kristina Žagar is the Chair of the Risk Committee, the Deputy Chair of the Nomination Committee and Remuneration Committee of the Supervisory Board. Ms. Žagar is a Senior Banker/Associate Director, Financial Institutions, EU Banks & Structured Finance Team at the EBRD with 15 years of experience in banking. She developed her skills and experience by holding various functions at the EBRD and, previously, at Merrill Lynch International, London. She began her professional career at Raiffeisenbank, Zagreb. Ms. Žagar currently holds directorship positions at Biser Bidco and Biser Topco.

Borut Jamnik is a member of the Audit Committee of the Supervisory Board. Mr. Jamnik is currently President of the Management Board of Modra zavarovalnica d.d. In December 2022, the Supervisory Board of SID – Slovenska izvozna in razvojna banka d.d. appointed him to serve as new member of that company's Management Board. His five-year term of office will begin following the receipt of authorisation to perform the function of member of a bank's management board. During his career, he has held numerous executive and non-executive positions in the banking, insurance and financial sectors (including at Kapitalska družba d.d. – Capital Fund, Probanka Asset Management Company, HIT d.d., Securities Market Agency of the Republic of Slovenia, Restructuring and Privatisation Agency of the Republic of Slovenia, etc.). In addition, Mr. Jamnik has performed several supervisory functions in other sectors, including at Krka d.d. (member of the Supervisory Board), Telekom Slovenije d.d. (President of the Supervisory Board) and Pivovarna Laško d.d. (member of the Supervisory Board). He is also the Chair of the Council of the Slovenian Insurance Association (non-profit).

In accordance with the resolution adopted by the General Meeting of Shareholders, Supervisory Board members are entitled to receive basic remuneration for their work and the reimbursement of costs incurred in connection with their work and the work of the Supervisory Board's committees.

Composition of the Supervisory Board as of 31 December 2022

Name and surname	Position	Term of office	Audit Committee	Nominations Committee	Remuneration Committee	Risk Committee	Credit Committee
Andrej Fatur	Chair	2021–2026	Member	Chair			
Andrzej Klesyk	Deputy chair	2017–2022 2022–2027	Chair	Member	Chair		
Manfred Puffer	Member	2021–2026				Member	Chair
Michele Rabà	Member	2021–2026			Member	Member	Member
Andrea Moneta	Member	2021–2026	Member			Deputy chair	Deputy chair
Kristina Žagar	Member	2021–2026		Deputy chair	Deputy chair	Chair	Member
Borut Jamnik*	Member	2019–2024	Member				

* Resigned from his function, effective 4 January 2023.

Detailed information regarding the work and competencies of the Supervisory Board is presented in the section 'Corporate governance statement of Nova KBM'.

Committees of the Supervisory Board

The following committees performed their work in accordance with the Companies Act (ZGD-1) and Banking Act (ZBan-3) during the 2022 financial year: the Audit Committee, Remuneration Committee, Nomination Committee, Risk Committee and Credit Committee.

In addition to Supervisory Board committees established on the basis of the ZGD-1 and ZBan-3, the Supervisory Board also has a Credit Committee in accordance with the bank's Articles of Association. The Credit Committee is responsible for giving consent to the Management Board for the conclusion of loan transactions for which the Supervisory Board has adopted a special resolution.

Detailed information regarding the work and powers of the Supervisory Board's committees is presented in the section 'Corporate governance statement of Nova KBM'.

General Meeting of Shareholders of the Bank

The General Meeting of Shareholders is the body of the Bank through which shareholders exercise their rights, i.e., make decisions regarding all legally defined matters, in particular matters relating to personnel decisions (e.g., the appointment of Supervisory Board members and the appointment of an auditor), decisions regarding the use of distributable profit, and decisions regarding corporate changes (e.g., amendments to the Articles of Association, and increases or decreases in share capital) and legal restructuring (e.g., mergers, acquisitions and demergers), with the aim of achieving the underlying economic objective to maximise the value of the Bank.

Information in connection with the convening of and participation at the General Meeting of Shareholders, and the decision-making method is presented in the section 'Corporate governance statement of Nova KBM'.

Nova KBM's General Meeting of Shareholders met four times in 2022.

On 27 January 2022, the General Meeting of Shareholders appointed new members to the Company's Supervisory Board, as follows:

- Zoltán Kaszás,
- Rózsa Dévényi,
- Balázs Létay,
- Tünde Barabás,
- Sándor István Pataki,
- Marko Košak, and
- Tamás Bernáth.

It also adopted a resolution on the termination of the functions of previous members of the Supervisory Board (Andrzej Klesyk, Michele Rabà, Andrea Moneta, Manfred Puffer, Borut Jamnik and Kristina Žagar). The appointment of candidates for new members of the Supervisory Board by the General Meeting of Shareholders marked the fulfilment of the condition to initiate the procedure to obtain authorisation for those persons to perform their functions.

On 15 April 2022, the General Meeting of Shareholders was briefed on the annual internal audit report of the Nova KBM Group for 2021, together with the opinion of the Supervisory Board, on the Annual Report of the Nova KBM Group and Nova KBM for 2021, and on the auditor's report and report of Supervisory Board on the verification of the Annual Report of the Nova KBM Group and Nova KBM for 2021.

The General Meeting of Shareholders adopted a resolution on the use of distributable profit for 2021, and on the granting of discharge to Nova KBM d.d.'s Management Board and Supervisory Board for the 2021 financial year. The General Meeting of Shareholders appointed an independent external auditor for the mandatory audit of the financial statements and other audits and reviews of Nova KBM d.d. and the Nova KBM Group and its subsidiaries for the three-year period 2022–2024, and was also briefed on the Group's revised Policy on the Selection of Suitable Candidates for Management Body Members.

Due to the withdrawal of Zoltán Kaszás as candidate for member of Nova KBM d.d.'s Supervisory Board during the procedure to obtain authorisation from the ECB, the General Meeting of Shareholders appointed Imre Bertalan as candidate for new member of the Supervisory Board on 15 April 2022.

On 11 July 2022, the General Meeting of Shareholders appointed Dorothea Nikolaeva Nikolova-Iltcheva to serve as new member of Nova KBM d.d.'s Supervisory Board due to the resignation of two members from that body (Rózsa Dévényi and Balázs Létay). In accordance with paragraph 6 of Article 293 of the ZGD-1, the General Meeting of Shareholders adopted a resolution on the conclusion of an agreement on the sale and purchase of all participating interests in Summit Leasing Slovenija d.o.o. based on the request of the Bank's Management Board.

It also adopted a decision amending the resolution of the 42nd General Meeting of Shareholders of Nova KBM d.d., as well as a change to the text of the explanation of the expansion of the agenda and resolution of the 43rd General Meeting of Shareholders of Nova KBM d.d.

Due to the expiry of his term of office (31 August 2022), the General Meeting of Shareholders reappointed Andrzej Piotr Klesyk to the function of member of Nova KBM d.d.'s Supervisory Board on 23 August 2022. Mr Klesyk's five-year term of office began on 1 September 2022.

8.3.4 ENSURING COMPLIANCE

The sustainable and profitable growth of the Bank is based on the development of new products, effective solutions and superior services on the one hand, and on reputable and regulatory-compliant business practices on the other. In that respect, the Nova KBM Group is exposed to numerous risks both in the external and internal environment, and in its operations, including risks deriving from non-compliance and the loss of its reputation. The level and nature of risks change over time, while new risks arise in conjunction with the development of and changes at the Bank and the environment in which it operates.

The compliance risk management function is performed at the Bank by the Compliance Office, while this function is the responsibility of compliance risk owners at each Group subsidiary.

The compliance risk management function, the second line of defence at the Bank, is performed by the Compliance Office, while responsibility for this function in each subsidiary of the Group is assumed by compliance risk managers. The Compliance Office is a centralised, independent function that is segregated in functional and organisational terms from other functions where conflicts of interest may arise. The department reports directly to the Bank's Management Board and has unlimited access to all information required for the performance of its tasks and responsibilities, as well as direct access to both the Supervisory Board, including the Audit Committee. The Compliance Office manages the compliance risk to which the Nova KBM Group is or could be exposed in its operations due to breaches of applicable regulations or requirements of the Bank of Slovenia or the European Central Bank, valid agreements, and prescribed practices or ethical standards that may affect its income, capital or reputation. To that end, it works proactively with other control functions or specific organisational units within the Nova KBM Group, in particular with internal audit, product development, marketing and corporate communications, employee development, the Legal Office, and with risk management, information security, prevention of money laundering, and external fraud functions.

In accordance with its adopted mission statement, the Compliance Office works with all organisational units of the Bank to support the achievement of the latter's strategic, business and financial objectives, while at the same time protecting the Bank through the establishment and promotion of ethical conduct and commitment to compliance with the law, and by strengthening the values of trust, responsibility, excellence, honesty, loyalty and integrity, all of which are important components of the Code of Conduct. The Compliance Office also advises the Bank in the identification of compliance risks, in the search for regulatory solutions and in the strengthening of institutional compliance through effective training programmes, and thus contributes to the preservation of the Bank's reputation. The department encourages anyone who suspects that a law, regulation, the Code of Conduct or any other policy or procedure has been breached to immediately report what they know or suspect. At the same time, the department ensures that whistleblowers can act without the fear of retaliatory measures. The Compliance Office helps ensure that there is no leakage of information or data from the Bank, and that a culture of compliance is adopted at the Bank.

In the scope of their responsibility to ensure the compliance of the Nova KBM Group, individual organisational units, responsible persons and all employees report to the Compliance Office with regard to prepared assessments, identified risks, incidents of non-compliance and findings in connection with the compliance of work content. The Compliance Office then defines measures and sets priorities depending on the identified level of risk, and continuously monitors, assesses and supervises the implementation of those measures and the implementation of potential action plans or recommendations whilst also providing guidance and advice.

The Compliance Office defines and implements the Compliance Policy with the help of the Compliance Programme and the Compliance Monitoring Programme.

The Compliance Programme serves as the basis for ensuring compliance, using the slogan 'I Live Compliance' in all required areas of the Compliance Policy. The Compliance Monitoring Programme is an implementing document of the Bank's Compliance Programme and Compliance Policy. The programme focuses on risks, is proactive, specific, measurable, attainable, effective, realistic and timely, and provides answers to the questions 'Why it will be done?', 'What will be done?', 'Who will be responsible?' and 'When will it be completed?'.

The Bank updated the Code of Conduct of Nova KBM and the Nova KBM Group in 2020 with the aim of strengthening the corporate culture and awareness among employees. The Bank upgraded its existing technological solutions for the purpose of managing risks associated with ethics, integrity and conflicts of interest.

The Bank performed a general annual assessment of compliance risk, and specific risk assessments by area and product. With the aim of more effective risk assessment and monitoring, and control, the Bank developed application support in 2021 and further upgraded that support in 2022.

Due to the growing number of regulatory requirements, there is an IT solution in place in the area of regulatory compliance for the purpose of monitoring and implementing those requirements at the Bank. The Bank also has an optimised IT solution for the management of documentary material addressed to the Bank's management body. That solution ensures that commercially sensitive data are up-to-date and that their integrity is preserved.

In terms of the management of prohibited employee behaviour, the Bank has in place application support for the management of reports received from whistleblowers. The Bank also has application support to assist in the management of clients' complaints regarding the protection of personal data and for the management of employees' complaints addressed to the Compliance Office.

The effective management of reputation risk events serves as a means for strengthening the Bank's reputation. For that purpose, the Bank regularly monitors monthly media reports and analyses negative articles, monitors customer complaints and implements the appropriate measures to prevent or mitigate reputation risk, as required.

The Bank continuously improves the compliance risk management system, regularly monitors and implements activities and updates the relevant bylaws, all with the aim of managing compliance risks in specific areas, such as ensuring the compliance of the management body, the functioning of the financial instruments and custody market, data protection, the prevention of cases of tax evasion, obligations arising from the automatic exchange of information regarding financial accounts, the prevention of the avoidance of tax payments and the transfer of profits into more favourable tax jurisdictions, and the management of the internal control system and the risks brought about by new legislation.

The Bank has been evaluating and monitoring the effectiveness of its operations since 2017 using an internally developed methodology. One of the key challenges is measuring the effectiveness of the Compliance Programme and the activities performed by the compliance function.

The Bank organises the regular training of all employees, and proposes appropriate measures, provides advisory services and raises employee awareness in different ways as a form of continuous support to the Bank's individual organisational units for the purpose of preventing or mitigating compliance risks at the Bank.

The Compliance Office includes the Compliance of the Management Body Department, which is responsible for performing tasks relating to corporate governance (i.e., corporate compliance) on the Bank's Management Board and Supervisory Board, and the bodies/committees appointed by them. The department therefore ensures the improvement of professional standards, the quality of management practices and organisational performance, all with the aim of ensuring compliance at the level of the Bank's management body. It is responsible for supervising and ensuring corporate compliance at the level of the entire Bank, for an effective corporate governance framework, and for the general compliance of the work performed by the Management Board and Supervisory Board.

For this purpose, the Bank provided application support and digitalised the work processes of the management body and the bodies/committees appointed by it. The latter facilitates the complete protection of the materials discussed by those bodies, as well as secure and traceable remote decision-making, which increases efficiency, eases the workload and increases transparency in the decision-making process.

The Bank has in place in this regard special signing rules (the Signature Book), which, as a core bylaw of the Bank, ensure effective corporate governance in the management and the granting of powers, with a traceable procedure for the transfer of those powers. In this way, the Bank promotes a transparent and responsible compliance culture at Nova KBM. The signing rules are in line with the Bank's organisational structure, business lines and positions.

We believe that an effective compliance programme, together with a generally accepted compliance culture, provides the Bank a competitive advantage in its operations.

8.3.5 ENSURING AN ANTI-MONEY LAUNDERING AND TERRORIST FINANCING FUNCTION AND COMPLIANCE IN THE AREA OF RESTRICTIVE MEASURES

The prevention of money laundering and terrorist financing and the prohibition on transacting with entities subject to restrictive measures are amongst the tasks performed by the Bank and the Group with special care and responsibility. The Group has a system for preventing money laundering and terrorist financing, and for the implementation of restrictive measures. Activities are carried out in the scope of that system with the aim of complying with legal requirements and managing risks in this area.

The Bank has a centralised Anti-Money Laundering Office, which is an autonomous and independent function that reports directly to the Bank's Management Board. The aforementioned office's priorities include the compliance of banking operations with legal requirements, the development and upgrading of a system for the prevention of money laundering and terrorist financing and the implementation of restrictive measures, an effective system of internal controls, the verification of established rules in day-to-day operations, and regular employee training and awareness-raising activities across the entire Group. The office has 13 employees. Operational tasks are performed centrally by a team of experts who deal exclusively with the implementation of measures in connection with the prevention of money laundering and terrorist financing, and restrictive measures.

A great deal of attention was given in 2022 to the replacement of the system for the ongoing monitoring of business activities, and the verification of restrictive measures and political exposure, through which the Bank now has in place modern and more sophisticated software for the implementation of the aforementioned activities. We also continued to update the system used to assess the risks to which the Bank and its clients are exposed in connection with the prevention of money laundering and terrorist financing, and the upgrading of information and documentation regarding clients, which provides the Group with a sound understanding of its clients, and thus leads to the higher-quality implementation of prescribed requirements and more effective risk management.

In 2022, we also updated the content of internal rules regarding the prevention of money laundering and terrorist financing and the implementation of restrictive measures, as well as criteria set out in the client acceptance policy. Through the regular monitoring of developments in the Slovenian and wider social and economic environment, by tracking new money laundering and terrorist financing trends and typologies, and through the coordination of internal policies, the Bank ensures more effective supervision and risk management in the areas of preventing money laundering and terrorist financing, and the implementation of restrictive measures.

9 SHAREHOLDERS' EQUITY OF NOVA KBM

9.1 STRUCTURE OF SHAREHOLDERS' EQUITY

The composition of Nova KBM's capital is presented in the table below:

	31 December 2022	31 December 2021
Share capital	150,000	150,000
Share premium	403,302	403,302
Accumulated other comprehensive income	-29,002	3,067
Profit reserves	20,228	20,228
Retained earnings	337,589	337,589
Net profit for the financial year	115,583	108,932
Total	**997,700**	**1,023,118**

Nova KBM's shareholders' equity as of 31 December 2022 was down by 2.5% or €25,418 thousand relative to 31 December 2021. Nova KBM's share capital was unchanged in 2022 and amounted to €150,000 thousand at the end of the year.

As of 31 December 2022, Biser Bidco S.à r.l. was the owner of 10,000,000 ordinary, registered no-par-value shares, with voting rights, which represent 100% of the Bank's share capital.

Based on the proposals of the Bank's Management Board and Supervisory Board, a resolution was passed at the 43rd General Meeting of Shareholders of Nova KBM held on 15 April 2022 to use distributable profit for 2021 in the amount of €446,520,896.06 as follows:

- a portion of distributable profit in the amount of €108,932,416.62 was approved as a dividend to its shareholder; and
- the remainder of distributable profit in the amount of €337,588,479.44 remained undistributed and represents retained earnings.

Information on Nova KBM's shares

	Nova KBM Group			Nova KBM		
	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2022	31 Dec 2021	31 Dec 2020
Book value of one share (in €)	99.30	102.80	99.13	99.77	102.31	99.00
Earnings per share/diluted earnings per share (in €)	10.61	11.26	21.08	11.56	10.89	20.89

9.2 INFORMATION REGARDING THE STRUCTURE OF THE SHARE CAPITAL, SHARES AND SHAREHOLDERS OF NOVA KBM D.D., AND AGREEMENTS BETWEEN THE BANK AND MEMBERS OF ITS MANAGEMENT AND SUPERVISORY BODIES AS OF 31 DECEMBER 2022

INFORMATION AND CLARIFICATIONS FROM COMPANIES BOUND TO APPLY THE ACT GOVERNING TAKEOVERS (INFORMATION FROM POINTS 1, 2, 5, 7, 10 and 11 OF THE SIXTH PARAGRAPH OF ARTICLE 70 OF THE ZGD-1)

Structure of share capital, including the securities set out in the Takeovers Act, with an indication of the rights and obligations attached to shares or the shares of a specific class, and whether there are several classes of shares and the proportion of share capital accounted for by a specific class (point 1 of the sixth paragraph of Article 70 of the ZGD-1)

The Bank has only issued ordinary registered no-par-value shares. Each share represents the same stake and corresponding amount in share capital. The stake of an individual no-par-value share in share capital is determined with respect to the total number of no-par-value shares issued. Shareholders have the right to participate in the management of the Bank, the right to a share in profits, the right to an appropriate share of residual assets after the liquidation or bankruptcy of the Bank, and the right to information. All shares constitute the same class and are issued in book-entry form and entered in the share register.

Information regarding the structure of Nova KBM's shareholders is presented in the section 'Corporate governance statement of Nova KBM'.

Data regarding shares is presented in the sub-section 'Structure of shareholders' equity'.

All restrictions on the transfer of shares, in particular restrictions on the ownership of securities and the need to obtain authorisation from the company or the other holders of securities for the transfer of shares (point 2 of the sixth paragraph of Article 70 of the ZGD-1)

The Bank's shares are freely transferable in accordance with its Articles of Association.

Employee share scheme, if the company has one, shares to which that scheme relates and how it is controlled if controlling rights are not exercised directly by employees (point 5 of the sixth paragraph of Article 70 of the ZGD-1)

Pursuant to Nova KBM's Remuneration Policy, the Bank has not established a share scheme for the remuneration of Management Board members. This means that shares are not part of the variable component of remuneration of Management Board members.

All agreements known to the company between shareholders that might result in restrictions on the transfer of securities or voting rights (point 7 of the sixth paragraph of Article 70 of the ZGD-1)

The Bank is not aware of any such agreements.

All major agreements to which the company is party and that come into effect, are amended or terminated on the basis of a change in control at the company as the result of a bid as defined by the act governing takeovers, and the effects of such agreements (point 10 of the sixth paragraph of Article 70 of the ZGD-1)

Major agreements to which the Bank is party and that come into effect, are amended or terminated on the basis of a change in control at the Bank as the result of a bid as defined by the Takeovers Act have not been entered into.

All agreements concluded between the company and the members of its management or supervisory body or employees that envisage compensation if those persons resign or are laid off without justification or if their employment is terminated on account of a bid as set out in the act governing takeovers (point 11 of the sixth paragraph of Article 70 of the ZGD-1)

The employment contracts of Management Board members include a provision regarding the right to severance pay in the event their employment contract is terminated, and specific cases when a Management Board member is not entitled to severance pay if their employment contract is terminated (recall due to a serious breach of obligations, employment within the Nova KBM Group, resignation from their function, etc.).

The remaining points of paragraph 6 of Article 70 of the ZGD-1 are explained in the section 'Corporate governance statement of Nova KBM d.d.'.

10 DECLARATION OF THE MANAGEMENT BODY REGARDING THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS

In accordance with Article 17 of the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks and Articles 435(1)(e) and 435(1)(f) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), the management body comprising the Management Board:

- **John Denhof, President,**
- **Sabina Župec Kranjc, Vice-President,**
- **Miha Kristl, member,**
- **Matej Falatov, member**

and the **Supervisory Board, Imre Bertalan, represented by its Chairman**,

hereby confirm, by signing this declaration, that the risk management function, which is an independent area within the Bank's organisational scheme, is adequately arranged. The risk management system is appropriate with respect to the Bank's risk profile and strategy, and its capacity to take-up risks.

Within the framework of its Governance Policy and its Internal Control System Policy, the Group has put in place an effective internal governance system based on the concept of three lines of defence, where the risk management function represents the second line of defence. The risk management function is an independent organisational unit.

Risk Management Function and Risk Appetite Framework

The risk management function is an important part of the overall governance of the Group and is based on the Nova KBM Group's Risk Appetite Strategy which defines the concepts, objectives and procedures in connection with the conscious acceptance of risks. The Risk Appetite Strategy is linked to the Group's business strategy, ICAAP, ILAAP, the implementation of stress tests, including sensitivity analyses, and other processes/strategies material for the governance of the Group. The main elements of the Risk Appetite Strategy are included in the risk appetite statement which serves as the basis for informing the Bank's organisational units about Nova KBM's risk appetite. This approach provides for the proper implementation of the Group's risk management strategy.

The basis for the drafting of the Risk Appetite Strategy is the identification of the risks associated with the Group's current and future operations. Risks are identified using the appropriate process, which is an integral part of the assessment of the Bank's risk profile in the scope of the ICAAP and ILAAP. The identification of risks is carried out with the help of quantitative and qualitative models and covers both the risks to which the Group is already exposed and the risks to which it might be exposed in the future. The result of the risk identification process is a list of risks that are subsequently assessed and managed in the scope of the ICAAP and ILAAP processes. Also defined is the materiality of individual types of risks is defined based on an assessment of each type of risk during the risk quantification process through the definition of the materiality of risks and the need to allocate capital or a liquidity buffer. This is performed with the help of an assessment of the probability of the realisation of risks and the occurrence of a loss event, an assessment of the appropriateness of controls established to mitigate individual risks and on the basis of the results of stress tests from the business plan and sensitivity analyses. The need to allocate capital or a liquidity buffer is assessed, and a limit system established for identified and assessed risks.

Risk Appetite Statement and Risk Bearing Capacity

In its risk appetite statement, the Group defines the overall scope and type of risks that it is willing to accept or avoid achieving its business objectives. Defined in that statement is the risk appetite framework which sets out a list of material and other risks, as well as key risk indicators relating to capital adequacy, liquidity, asset quality and profitability. Those indicators are monitored on a regular basis. For the purpose of defining its risk appetite, the Group has established threshold values for the aforementioned key risk indicators by acceptance level based on forward-looking assessments, as well as risk triggers. The established risk appetite is further integrated in the limit system, together with the early warning system. The limit system is defined in the Group's Operational Limits Handbook which is a separate document enclosed with the risk appetite statement.

In addition to the risk appetite statement, the Group has also defined its risk-bearing capacity. Risk-bearing capacity determines the maximum scope of risks that the Nova KBM Group is capable of taking-up and is defined by the amount of Common Equity Tier 1 capital (CET1) which is in line with the 'going concern' approach defined in the ICAAP framework. In the scope of the ILAAP, this is represented by available, highly liquid assets, and the definition of the minimum required liquidity buffer that must be ensured by the Bank for a three-month period of emergency liquidity conditions.

Risk-bearing capacity represents the starting point for the definition of the overall risk appetite, which is also defined for each type of risk by the need to allocate capital or a liquidity buffer, and by the total utilisation of the acceptable scope of risks with respect to the risk appetite. When determining its risk appetite, the Nova KBM Group takes into account the most recent list of risks, the utilisation of limits by individual type of risk, and by individual organisational unit, segment and product, where appropriate. The risk appetite is in line with the Group's business plan and the results of the internal stress tests. The Group regularly monitors the utilisation of risk-bearing capacity through key risk triggers and reports them to the Bank's bodies. The risks that the Group is willing to take-up do not exceed its risk-bearing capacity.

The performance of stress tests and sensitivity analyses is also an integral part of the overall risk management process within the Nova KBM Group. The results obtained from both processes are used in the decision-making process and in the adoption of strategic decisions. Stress tests and sensitivity analyses are performed in scope of the ICAAP, ILAAP and the Recovery Plan.

The Bank includes economic, social and governance risks in risk management and other internal processes, with an emphasis on environment and climate risks. That process is continuously updated to achieve the associated goals and commitments in connection with sustainable development and the transition to a low-carbon society. Effective risk management system, which is based on the business model put in place at the Group, and also effective corporate governance, have made a comprehensive contribution to reducing SREP requirements in recent years.

Resolution planning

The Group Resolution Plan is prepared by the resolution authorities, rather than by the Group itself. The Group works closely with the Single Resolution Board (SRB) and the Bank of Slovenia (BoS) which established the Group Resolution Plan. The Resolution Plan is based on a single point of entry (SPE) bail-in as the preferred resolution strategy. Under the SPE bail-in strategy, the Bank would be recapitalised through a write-down and/or conversion to equity of capital instruments and other eligible liabilities to stabilise the Bank.

To further support and improve resolvability the Group has established a **multi-annual resolvability work programme**, which defines resolution planning activities. The programme includes, *inter alia*:

- tasks aimed at improving business continuity in resolution, with the newly drafted, stand-alone document, "Succession planning and employee retention for resolution purposes", which describes NKBM's arrangements regarding the definition of the appropriate roles, staff retention and succession planning;
- the drafting of the stand-alone document, "Separability analysis report" (SAR), where the sale of the company is envisaged as an alternative strategy in the resolution of NKBM;
- the drafting of the stand-alone document "Business reorganisation report" (BRP), which defines minimal activities and business areas that NKBM must ensure in the event of resolution in the form of a bail-in;
- the drafting of the stand-alone report "Liquidity in resolution – mobilisation of collateral", which covers

roles and responsibilities in the management of assets pledged as collateral, access to assets pledged as collateral at the ECB and access to assets pledged as collateral on foreign markets; and
- the drafting of an updated Bail-In Playbook with two dry-run reports.

The Group's Management and Supervisory Boards regularly reviews progress with regard to the multi-annual resolvability work programme.

Minimum requirement for own funds and eligible liabilities (MREL)

The BRRD requires banks in EU member states to maintain the MREL in order to make resolution credible by establishing sufficient loss absorption and recapitalisation capacity. The MREL for the Group which is based on the Single Point of Entry (SPE) approach, is regularly analysed and monitored by the Group. The Group has fully integrated the MREL into its the overall risk management system.

The Group's MREL based on the total risk exposure amount (TREA), as issued by the Bank of Slovenia, is set at the level of 23.18% (without the combined buffer requirement (CBR), which is at the level of 3% for 2022), which must be met as of 1 January 2024 following the end of the transition period.

Maribor, 30 March 2023

Management Board of Nova KBM d.d.

Miha Kristl	**Matej Falatov**	**Sabina Župec Kranjc**	**John Denhof**
Member	Member	Vice-President	President

Supervisory Board of Nova KBM d.d.

Imre Bertalan
Chairman

11 RISK MANAGEMENT

The Group's mission is to ensure the security of its operations, to accept risks in a serious and responsible manner, and to achieve the highest standards of risk management. In the scope of the risk appetite framework, the Group defined the objectives of the future take-up and management of risks, taking into account its risk profile, the envisaged and expected development of the Group's operations, its business and investment strategies, the Asset and Liability Management (ALM) Strategy, including the security strategy, IT strategy, non-performing loan management strategy, the recovery plan and the external environment. The Group regularly identifies and measures various types of risks that arise in its operations.

The risk management process reflects the Group's comprehensive approach and includes the following:

- the identification of the risks to which the Group is exposed in its operations;
- the measurement of risks and risk factor monitoring methods, including validation and back-testing;
- continuous monitoring of exposure to a particular risk, and systematic and comprehensive reporting;
- the performance of stress tests, the results of which are used in the decision-making process and the making of strategic decisions;
- the established limit system, with an early warning system and a defined risk appetite; and
- adaptations to the changing business environment, which includes the re-assessment of established limits and methodologies for setting limits in order to ensure the stable and secure long-term operations of the Group.

The identification of risks is the task of every employee. The acceptable level of and method for measuring and monitoring individual types of risk are defined by experts who specialise in the management of such risks. The organisational unit responsible for defining the acceptable level of and method for measuring and monitoring risks is organisationally segregated from the units that take-up risks.

The monitoring and management of individual types of risk are defined in detail in the relevant risk management policy and the associated methodologies, which take into account the specific characteristics of individual types of risk. Each policy or methodology is the responsibility of one person who ensures the harmonisation of a specific bylaw with other bylaws, taking into account the applicable legislation, guidelines, recommendations and best banking practice.

Decisions regarding methodologies for measuring, monitoring and managing risks within the Group are made by the Bank as the parent credit institution in the Group. All Group companies manage risks in accordance with legal requirements and internal policies or methodologies that reflect their activities and the scope of operations. Group staff responsible for individual policies and methodologies must be familiar with the method used to manage the risks covered by those policies and methodologies at all Group companies and have the ability and responsibility to ensure the appropriate methods for managing and measuring individual risks at Group companies. Risk management procedures are carried out independently at the level of each individual company. The Group has defined reporting methods, report content, reporting frequency and report recipients for each individual type of risk.

At least once a year, the Group critically reviews its risk profile and appetite for individual types of risk in the scope of an integrated process, from the identification of risks to the performance of stress tests and the drafting of a recovery plan and the feedback process, which then affect regular processes and strategic decisions. In 2021, the Group began including environmental, social and governance (ESG) risks in all risk management processes in accordance with regulatory requirements and guidelines and, since that time, actively and systematically upgrades the advanced treatment of ESG risks in the scope of established risk management processes. The treatment of ESG risks is based on the inclusion of ESG factors in existing risk types where they are relevant, rather than as stand-alone risks. As a systemically important institution, the Group participated in the ECB's climate stress test in 2022, which showed that the Group's treatment of and exposure to this type of risk is comparable to other participating institutions. The greatest challenge at the moment is the availability and quality of the data required to accurately measure and monitor ESG risks. For this reason, the Group pays special attention to the collection of factual data from its clients and to developing valuation methodologies where data are not available. The Group's other initiatives in the area of ESG are explained in detail in Section 5.

The regulator's expectations regarding the management of climate and environmental risks are laid out in the ECB's Guide on climate-related and environmental risks (hereinafter: the ECB Guide) published in November 2020. Following the ECB's assessment in 2021 of NKBM's level of preparedness and the adequacy of its implementation plans to meet ECB Guide's expectations, the ECB performed further in-depth studies in 2022 of NKBM's C&E risk strategies, as well as its governance and risk management frameworks and processes as part of the 2022 thematic review of climate-related and environmental risk strategies, governance and risk management frameworks. As part of that thematic review, the ECB assessed and evaluated the soundness and comprehensiveness of NKBM's key policies and procedures, as well as its ability to effectively steer its C&E risk strategies and risk profiles. While the ECB's thematic review acknowledged NKBM's overall advancement in its implementation plans in this area, it also pointed out to areas where shortcomings in relation to expectations from the ECB Guide still exist. NKBM has upgraded its implementation plans to incorporate the ECB's feedback with activities aimed at remedying these shortcomings.

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

Detailed information regarding risk management and exposure to risks is disclosed by the Group in its Pillar 3 disclosures.

Credit risk

With the aim of minimising the expected negative consequences of the Russian military aggression, rising energy prices, supply-chain problems in certain sectors, and rising inflation and reference interest rates, the Group has adopted measures for the timely identification of entities that are or will be affected by the aforementioned crises, as well as measures to mitigate negative impacts on their operations or financial position, and thus the position of the Group.

Credit risk is the risk of loss arising from the failure of a debtor to settle its obligations to the Group and is the primary risk to which the Group is exposed in its activity in the scope of the credit portfolio.

Credit risk management includes the identification, measurement and reduction of risks to an acceptable level that is in line with the established business strategy, risk appetite framework, and risk appetite statement.

Credit risk management includes the following activities:

- the continuous monitoring and analysis of debtors' performance, and thus their classification to the appropriate credit rating grades;
- the periodic monitoring of key portfolio quality indicators;
- the monitoring of the concentration and quality of the portfolio in terms of its compliance with established limits;
- the monitoring of exposure to credit risk by each segment of the portfolio in terms of compliance with risk appetite and operating and transaction limits;
- the definition of rules for the identification of non-performing exposures and rules for the suspension of non-performing exposure status;
- the development and calibration of appropriate credit rating models;

- the monitoring of risks associated with the portfolio using risk parameters, such as probability of default (PD) and loss given default (LGD);
- the separate management of risks associated with the performing and non-performing elements of the portfolio;
- the assessment of expected losses arising from credit risk for the performing and non-performing elements of the portfolio;
- the monitoring of the collateralisation of individual financial assets and assumed liabilities;
- the limitation of exposure to individual customers and groups of connected clients;
- the systematic early identification of credit risk based on warning signals (EWS);
- the development of stress scenarios for the purpose of calculating the internal capital of the Group;
- the development of stress scenarios for the recovery plan, and reporting on the values of indicators as action plan triggers;
- participating in decisions regarding loan origination; and
- ensuring an appropriate credit process by providing an adequate assessment of the risks associated with individual loans.

The Group uses classification systems or mechanisms that are based on risk parameters, such as probability of default, loss given default, exposure at default and expected losses. Risk parameters are used to classify customers and form an integral part of the credit process and regular monitoring processes. The Group calculates expected credit losses and internal capital using models.

Individual Group companies have defined their own credit risk management policy adjusted to their activity, which is in line with the overall credit risk management policy of the Group. Due to the strategic importance of the subsidiary Summit Leasing Slovenija, the latter is explicitly integrated into all of the Group's key credit risk management documents, such as the risk appetite framework and the risk appetite statement, and into all credit risk management processes, including the ICAAP and the recovery plan. SLS is integrated with the Group's information system which facilitates the continuous and in-depth monitoring of the credit risk to which the Group as a whole is exposed. Summit Leasing expanded its leasing activity in Croatia in 2022 with the purchase of Mercedes-Benz Leasing Hrvatska (MBL), which was completed in April 2022.

The main objective of credit risk management is to ensure the stable and profitable operations of the Group, while accepting credit risk that arises due to the nature of its operations. The Group mitigates the consequences of assumed risks in alignment with:

- regulations of the European Central Bank, and instructions issued by the European Banking Authority and Bank of Slovenia, which are based on EU regulations and directives;
- its own Risk Management Strategy, which is defined in detail in the Nova KBM Group's risk management policies and methodologies; and
- best banking practices.

Prior to loan approval, the Group carries out a thorough review of a debtor's operations and classifies them to internal credit rating grades. The Risk Management function is involved in the loan approval process.

The Bank performs the following activities during the business relationship with a debtor:

- it verifies the appropriateness of the debtor's credit rating at least once a year, taking into account data from its financial statements and soft factors regarding its operations;
- it assesses the appropriateness of credit ratings on a daily basis following delays in the settlement of obligations, blockages of current accounts and the initiation of insolvency proceedings;
- it verifies adverse events on a daily basis in accordance with the early warning system (EWS); and
- it creates the necessary impairments and assesses expected credit losses on a monthly basis, depending on the risk classification of a customer and the associated investment.

In the middle of 2021, the Group updated its credit process, and began collecting, monitoring and assessing the ESG risks of its clients. The Bank continued to update that process in 2022. The Bank has defined the appropriate procedures for collecting and analysing data, and for monitoring ESG risks, and has defined decision-making powers based on assessed ESG risks in connection with activities and clients. ESG risks are currently assessed for large, medium-sized and small enterprises on the domestic and foreign markets, depending on the level of exposure.

The Bank closely monitors and assesses the ESG risks of its clients by collecting data from publicly available sources (e.g., annual reports, sustainability reports, clients' websites, and information published on Bloomberg and other public media), from external ESG data providers (Vigeo Eiris and MSCI), from national and international agencies and ministries, and by collecting data directly from clients (based on an internally developed questionnaire). The Bank classifies the activities of borrowers to low, medium and high ESG risk categories, while it classifies clients to low, low-medium, medium-high and high ESG risk categories. The Bank has also defined industries that it does not as a rule finance (i.e., excluded industries) or that it finances only exceptionally. As a general rule, investments are primarily approved for clients with low, low-medium and medium-high ESG risk, and selectively for clients with an assessed high ESG risk, mainly for the purpose of transition financing.

The Group classifies customers into the appropriate credit rating grades in accordance with an internal credit rating model. Special attention is given to the assignment and revocation of the statuses of 'default' and 'non-performing exposure'. When a debtor's operations improve, the Bank classifies it to cured status in accordance with the relevant rules.

In light of the COVID-19 crisis, the Group continued to implement measures and activities in 2022 to mitigate the negative consequences of the crisis. Primarily during the first half of 2022, the Group continued to assess the impact of the pandemic on individual borrowers in the corporate banking segment and, where necessary, took steps in terms of changes to ratings and restructuring statuses, and adjustments to expected credit losses.

In the area of credit risk management, the Group continuously monitors and controls its portfolio, which was characterised in 2022 primarily by the following uncertain impacts: the Russian military aggression, rising energy prices, supply chain problems in certain sectors, and rising inflation and benchmark interest rate hikes as an anti-inflationary measure.

All of these uncertainties may have been seen in the past, but the combination of the current circumstances is specific in that it follows an almost two-year pandemic accompanied by state support, while the economic situation is closely linked to political factors, making forecasts very uncertain and difficult to assess. The Group is dedicating a great deal of attention to the current economic-political situation. The Group is not directly or indirectly exposed to Russia and Ukraine, but is closely monitoring the impact of the Russian military aggression on the creditworthiness of its clients.

In this context, the Group has enhanced, in particular, the following activities in order to manage credit risk in the current conditions of uncertainty:

- the preparation of an analysis of the readiness of clients for negative changes in the business environment based on a set of specific surveys (the Group has performed the following analyses of possible negative effects on its portfolio due to (1) the Russian military aggression, (2) the increase of raw materials and energy prices, (3) potential gas supply shortages, and (4) rising variable interest rate. A combined list of clients exposed to the above identified risks is in place and is used by credit analysts in the underwriting process to help them identify clients where a more detailed analysis of a particular risk is needed. The Group also pays special attention to other risks arising from the current market situation when preparing risk assessments for its clients (inflation, potential decrease in demand, etc.);
- for the international lending segment, a list of clients potentially negatively affected directly or indirectly by the war in Ukraine was prepared and closely monitored throughout 2022;
- the monitoring of clients' key operating indicators in the EWS process;
- key operating indicators of the Group at the portfolio level;
- the active monitoring and definition of measures in connection with individual borrowers;

- the regular monitoring of individual clients and sectors where increased credit risk has been identified due to the potential impact of the Russian military aggression; and
- the monitoring of the financial position of the entire portfolio in terms of the impact of rising benchmark interest rates.

The Group also continued activities in the following areas of credit risk management: the updating of macroeconomic scenarios for the purpose of calculating expected credit losses, the improvement and automation of credit risk management and internal reporting processes, the upgrading and validation of PD and LGD models, extensive activities in the area of data quality improvement and assurance, and the periodic monitoring of key credit risk indicators at the level of the Group's portfolio and sub-portfolios.

The Group regularly updates macroeconomic scenarios for the purpose of calculating expected credit losses. The Group assesses that post model adjustment (PMA) assumptions are still necessary due to the existence of certain factors, which are not entirely evident from the macroeconomic picture, and the functioning of its internal models. Due to the continuous macroeconomic and geopolitical uncertainties, and the fact that the composition and correlation between macroeconomic parameters has changed, the probability of unexpected events has increased, and may not be fully captured by the current macroeconomic models.

The Group identified the following activities as uncertainties in 2022, and assesses that they will also affect the Group's operations in 2023:

- the Russian military aggression;
- a potential shortage of natural gas and/or the halting of the supply of natural gas;
- rising energy prices;
- supply chain issues in certain sectors; and
- general inflation and rising interest rates.

A post model adjustment (PMA) was made due to a quick rise in both the EURIBOR benchmark rate and Inflation, which might have a significant impact on clients' repayment capacities, especially in the retail segment. The non-retail post model adjustment (PMA) increased due to the high probability of a recession in several EU countries. Slovenian small and medium-sized and corporate clients are highly dependent on those countries (especially Germany and Austria), and a longer recession could have an immediate impact on the Bank's portfolio. For specific small and medium-sized industries, which have been identified as worse performing within NKBM's portfolio, the Bank assumes reclassification to Stage 2 IFRS9 for clients with a worse credit rating.

A more detailed presentation of individual types of credit risk is given in the financial report.

Liquidity risk

In 2022, the Nova KBM Group updated the ILAAP, drafted a long-term development plan for ILAAP stress tests, introduced intraday stress tests and stress tests in the area of ESG risks, established a framework for validating ILAAP methodologies, and implemented activities to improve IT support for the ILAAP.

Liquidity risk management is an integral element of the prudent and secure operations of the Bank. Liquidity risk is the risk of loss if the Group is unable to settle all mature liabilities or when it is forced to secure the necessary funds at significantly higher costs than normal. Liquidity risk arises due to maturity mismatches between assets and liabilities. It may result in the failure to fulfil obligations to customers in the repayment of deposits and in the drawdown of previously approved credit lines.

The Group has defined four key risk categories in the scope of liquidity risk, as follows:

- Liquidity risk in connection with funding is the risk that the Group will not be able to meet all of its outstanding obligations or will be forced to settle those obligations at significantly higher costs.
- Market liquidity risk is the risk of loss when a financial instrument cannot be sold or replaced in a shorter period of time without a significant impact on the market price. This may be the result of insufficient market depth or excessive concentration on the investment side (i.e., exposure to individual, joint or related parties bearing the same risk factors), or as the result of market imbalances and other causes.
- Intra-day liquidity risk is the risk that the Bank will not have sufficient funds to cover intra-day outflows or settle outstanding obligations due to major, unexpected intra-day outflows.
- Asset encumbrance risk is the risk of an excessively high proportion of pledged assets, for which reason the Group would not have a sufficient stock of unencumbered assets that it could pledge as collateral to secure the necessary funding and liquid assets should it encounter liquidity problems.

The ILAAP is an internal process which is aligned with the Group's business model, size, complexity, risk and market expectations. It includes all qualitative and quantitative information that serves as the basis of its risk appetite, including a description of the systems, processes and methodology used to measure and manage liquidity and funding risks.

The Group has in place methodologies for identifying, measuring, managing and monitoring liquidity, for which a validation framework is also in place. Those methodologies facilitate the matching of actual and potential sources of liquidity with the actual and potential use of liquid assets over the same time periods.

The Group regularly pursues the following main objectives of liquidity risk management and the ILAAP:

- the definition of the risk appetite and key risk triggers based on forward-looking estimates that are in line with the Group's business plan and other relevant strategies;
- the planning of actual and potential cash inflows and outflows, and the assessment of liquidity risk through the calculation of liquidity ratios;
- ensuring adequate amounts of liquid investments (liquidity buffer) or other forms of liquidity supply in relation to liquidity risk;
- the monitoring of the appropriate structure of liabilities and financial assets;
- the daily settlement of all on- and off-balance-sheet liabilities in various currencies;
- compliance with all regulatory requirements;
- the definition of the economic and normative perspectives of the ILAAP and their mutual impact;
- the definition of links between the ICAAP, ILAAP, recovery plan and planning process;
- the availability and maintenance of a liquidity contingency plan should liquidity problems arise;
- the monitoring of compliance with established limits, liquidity ratios and other elements of liquidity risk;
- the management of a sufficient stock of financial assets as collateral for the central bank's claims; and
- the regular performance of liquidity risk stress tests and reporting on the results thereof.

In accordance with the Capital Requirements Directive IV and the European Banking Authority (EBA) guidelines relating to the Supervisory Review and Evaluation Process (SREP), the Nova KBM Group carries out the Internal Liquidity Adequacy Assessing Process (ILAAP), which plays an important role in the SREP.

Despite facing a highly unpredictable operating environment with geopolitical instabilities, high inflation, and rapidly rising credit spreads and reference rates, the Group operated with a high liquidity surplus throughout 2022. The Group recorded a further inflow in client deposits and redeployed some of its liquidity from central bank balances to higher-yield investments to generate additional net interest income, while preserving liquidity ratios well above regulatory and internal requirements.

The Group managed liquidity risk in 2022 in accordance with the adopted policy and methodologies. It complied in full with regulations regarding the minimum requirements for ensuring an adequate liquidity position which define the regulatory LCR and NSFR as binding. These ratios are identified as key risk indicators and are defined in the *risk appetite statement*. From an internal economic perspective, the survival period in emergency conditions is defined in the statement as a key liquidity risk indicator.

The Group has a limit system in place as insurance against liquidity risk and the mitigation thereof. That system includes quantifiable risks and material liquidity risk factors. The limit system is intended for the management of liquidity risk and the definition of effective measures and activities to be applied to prevent and manage various liquidity crises, including appropriate measures to overcome and limit the consequences of liquidity crises, and to restore the Bank's normal liquidity position.

The Group has three types of stress scenarios, at two degrees of severity, that serve as a guide in the adoption of the appropriate measures to mitigate liquidity risk. Stress tests are carried out monthly with the primary objective of ensuring a sufficient stock of liquidity reserves for a predefined survival period. Stress scenarios based primarily on past trends are updated quarterly. In this way, circumstances that arise as the result of macroeconomic conditions and the COVID-19 pandemic are regularly identified and tested. The Group performs a stress test of its funding plan once a year to verify the sustainability of its business and financial plan. That stress test is performed according to both the normative and economic perspectives. In the scope of the normative perspective, the Group verifies the sustainability of its LCR and NSFR over the next three years, while it verifies the long-term sustainability of the liquidity buffer and the cumulative net liquidity position in the scope of the economic perspective. The results of stress scenarios are regularly discussed by the ALCO, and the Bank's Management Board and Supervisory Board in the scope of the regular report on the Group's risk exposure and during discussions of the funding plan.

The Group performs a climate risk sensitivity analysis in the scope of the funding plan liquidity stress test. Several expertly defined scenarios for the relevant clients were assessed taking into account physical and transitional risk.

The Group introduced intraday liquidity stress tests in 2022 based on four stress test scenarios, which take as the source the Group's own liquidity position, the position of a counterparty, the counterparty bank and a market scenario that derives from the behaviour of clients.

The Group has in place a plan for the implementation of measures in the event of liquidity problems, and a recovery plan with additional liquidity ratios that includes its liquidity position and the stock of unencumbered assets eligible as collateral at the ECB. It has a methodology in place and has performed a quantitative assessment of its liquidity position and the need to secure additional external liquidity in the event of recovery.

The Group reports daily to the Liquidity Commission regarding the implementation of the Bank's liquidity position plan and regarding the previous day's liquidity ratios and submits the Bank's liquidity position for the current day for approval. The causes of potential deviations from the liquidity position plan and liquidity ratios are also reported on a daily basis. The Bank's liquidity position for the following month is submitted to the Liquidity Commission on a monthly basis.

The Group regularly reports to the ALCO regarding the diversification of funding sources, liquidity ratios, the stability of sight deposits, the structure of inflows and outflows, liquidity gaps, the internal liquidity buffer, the internal liquidity indicator, the results of a dynamic liquidity gap analysis that takes into account the time component of cash flows, which is used for the timely identification of liquidity risk in the expected liquidity position, and regarding the results of stress tests.

Market risk

The Group upgraded its market risk management process in 2022, primarily with regard to credit spread risk and the upgrading of internal policies and reports regarding ESG risks.

Market risk is the risk of loss arising due to unfavourable adverse changes on the financial markets (the prices of securities, exchange rates, interest rates, etc.). The Bank monitors market risks in connection with trading book items and those associated with banking book items separately. The method of monitoring and reporting, and limits on exposure are set out in the Market Risk Management Policy of the Nova KBM Group.

The objective of that policy is the management of the market risks that the Group is willing and capable of assuming in its operations. The management process includes the identification, measurement, monitoring and reporting of market risks. The Market Risk Management Policy is part of the overall risk management strategy, where market risk is defined as acceptable.

The primary tool for market risk management is the limit system, which includes credit and position limits, maximum allowable loss limits, exchange rate marketability limits, value-at-risk limits and limits by individual authorised person. When setting trading book limits, the Group follows the principle of prudence and greater portfolio diversification in terms of market risk. The limit system is in line with the Bank's investment strategy. Limits and the early warning system are updated at least once a year and approved by the Bank's Management Board. Compliance with limits and the early warning system is monitored daily by the Strategic Risk Management Sector and published on the Bank's intranet site. Breaches are reported to the responsible persons in accordance with adopted documents.

Position risk is the risk of loss due to a change in the price of a financial instrument held by the Bank in its portfolio for the purpose of trading on own account. Position risk is mitigated through the use of trading limits defined by the Bank. The Nova KBM Group follows a policy of closed positions in the management of the trading book. The Group has three trading portfolios of debt securities that are segregated according to their purpose and content. The portfolio of equities in the banking book comprises investments required for the functioning of the Bank. The Bank's strategy does not envisage investments in equities held for trading. The Bank enters into currency and interest rate derivative transactions that are supported by the limit system.

Currency risk represents a potential loss arising from an open foreign exchange position and the volatility of foreign exchange rates. Currency risk is limited by the maximum allowable 10-day VaR for an individual currency and is further limited by the maximum allowable 10-day VaR for all currencies together. The Bank monitors on a daily basis whether individual foreign currency positions are successfully closed, while breaches are reported to the responsible persons in accordance with the relevant instructions.

Credit spread risk is the risk arising from potential changes in the market value of debt instruments held in the portfolios measured at fair value through profit or loss (FVTPL) and at fair value through other comprehensive income (FVTOCI) and is the result of changes in the credit quality of the debt instrument issuer. Due to the size of its portfolio at FVTOCI, the Bank has determined, through the ICAAP, that it is exposed to credit spread risk. Exposure to credit spread risk is limited by the investment policy, as the Bank invests almost exclusively in investment-grade debt instruments issued primarily by euro area issuers.

The assessment of internal capital for credit spread risk is based on the CRR II. Based on that assessment, a calculation is made of the impact of a shock on the fair value of debt instruments held in the portfolio at FVTOCI. The method used to calculate and report on credit spread risk is described in detail in the ICAAP methodology for measuring the risks to which the Group is exposed.

The Group upgraded its market risk management process in 2022, primarily with regard to credit spread risk. The credit spread calculation is automated in an internally developed application. Internal policies were updated in accordance with audit requirements and best practices. The Group also upgraded internal reports on exposure to market risks with the inclusion of ESG factors.

Interest rate risk in the banking book (IRRBB)

The Group improved the monitoring and management of interest rate risk in 2022 via micro hedging and through the inclusion of the impact of a change in the market value of instruments on risks in connection with net interest income, which can arise as the result of the accounting treatment of instruments in the banking book (FVTOCI), in the calculation of capital requirements. It also upgraded the monitoring and assessment of option risk, primarily in connection with prepayments and refinancing.

Interest rate risk is the risk of loss in the event of sudden and unexpected changes in market interest rates and is the result of maturity mismatches between interest-sensitive assets and liabilities. The Bank identifies, measures, manages, controls and monitors interest rate risk in accordance with the Interest Rate Risk Management Policy of the Nova KBM Group and the Interest Rate Risk Measuring Methodology of the Nova KBM Group.

The Group has in place an effective interest rate risk management process which ensures that the level of risk remains within acceptable limits. When measuring risk, the Bank takes into account the basis risk that arises from different benchmark interest rates, and the option risk that arises from the possibility of the early repayment or rescheduling of loans, as well as the early call of bonds and deposits, in addition to the interest gap risk and the shift in the yield curve. For the purpose of managing interest rate risk, the Group measures the impact of various shifts in the yield curve on the economic value of equity (EVE) and net interest income (NII) on a monthly basis. For its internal needs and to calculate capital requirements for interest rate risk, the Group implements various interest rate scenarios for the continuous management of interest rate risk taking into account an interest rate floor for individual products. The result of the continuous internal management scenario with the most adverse impact represents the capital requirement for interest rate risk. In all scenarios, the Group also takes into account the distribution of sight deposits by maturity bucket in accordance with internal models.

The Group carries out regular stress testing (internal and regulatory) with the aim of measuring vulnerability in stressful market conditions. In addition to a standardised stress test in the form of a parallel shift in the yield curve of +/−200 basis points, the Group also performs six other shifts in the yield curve of various dimensions that were summarised in line with the Guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02). When calculating EVE in the event of a downward shift in market interest rates, the Group takes into account the interest rate floor prescribed in the aforementioned guidelines, in addition to an interest rate floor by individual product. The result with the largest negative change in the economic value of equity may not exceed 15% of the Bank's Tier 1 capital.

The Group limits its exposure to the interest rate risk associated with its portfolio through a limit system that is approved by the Bank's Management Board and updated at least once a year. Compliance with limits is monitored monthly by the Strategic Risk Management Department. Breaches are reported to the responsible persons in accordance with adopted documents.

The Group has limited its exposure to interest rate risk by time bucket for the three most important currencies: EUR, USD and CHF.

The year 2022 brought historically high shifts in market interest rates, to which the Group responded with the strict monitoring of its exposure to interest rate risk and by adjusting interest rate scenarios for the continuous management of interest rate risk, in order to reflect market developments and the volatility of interest rates. In addition, the Group implemented micro fair value hedges, where the Group enters 'plain-vanilla' interest rate swaps to hedge the fair value of bonds in the portfolio at FVTOCI to reduce its exposure to interest rate risk and limit capital volatility. The Group's balance sheet was positioned to benefit from rising interest rates due to the relatively short duration of the bond and loan portfolio, as well as a high level of surplus liquidity available for new investments, and could thus compensate for the negative impact from changes in market values in the FVTOCI portfolio. The Group thus remained within all internal IRRBB limits and regulatory benchmarks, despite the volatile environment.

The Group upgraded the limit system in 2022, where the defined appetite to take-up interest rate risk in the banking book is transferred directly to the limit system. The Group also improved the monitoring of interest rate risk in 2022, in terms of monitoring and assessing option risk in connection with prepayments and refinancing, and the early call of bonds and deposits, made adjustments to model percentages for the classification of core demand deposits to maturity buckets, updated interest rate scenarios for the continuous management of interest rate risk, and included the impact of risks in connection with net interest income, which can arise as the result of the accounting treatment of instruments in the banking book (FVTOCI), in the calculation of capital requirements.

A more detailed presentation of interest rate risk is given in the financial report.

Operational risk

The Group continued to upgrade its comprehensive operational risk management framework in 2022, through improved analyses, controls, measures, training and the strengthening of the culture.

Operational risk is the risk of loss arising from inappropriate or failed internal processes, people and systems or external events. This definition includes legal risk (in accordance with the CRR), but excludes strategic risk and the risk of reputation loss. The Nova KBM Group thus addresses the following risks in the scope of general operational risk: reputation risk, model risk, risks in connection with employee conduct, system/IT risk, project risk, compliance risk, the risk of fraud (external and internal), the risk of cybercrime, human resource risk, legal risk, risk associated with data quality, and outsourcing risk.

The Operational Risk Management Policy defines interrelated components that are important in the identification, measurement, monitoring and control of operational risk, in accordance with the approved operational risk appetite. Those components include documented processes and procedures, measurement techniques, reporting mechanisms and risk management arrangements.

The Outsourcing Policy describes components of the outsourcing framework in accordance with comprehensive operational risk management in the scope of the Bank's appetite to take-up outsourcing risk. It defines requirements, management, roles and responsibilities, and components of the framework for identifying, monitoring and managing risks associated with the outsourcing of services. The policy covers outsourcing agreements including the subcontracting of services. It also defines the process, roles and responsibilities to complete the questionnaire that the Group receives from third parties vis-à-vis which it acts as an external service provider.

The Group regularly monitors and upgrades the outsourcing management framework, in part with the aim of increasing the level of automation and improving risk management. The outsourcing risk framework was significantly upgraded in 2022, with a focus on management, strengthened roles and responsibilities, and cooperation between the roles in the process, internal control improvements, process optimisation, and the upgrading of application support for the process. With the upgraded framework, the Group will achieve improved monitoring quality, with respect to SLA provisions, a timely response when needed, the increased involvement of control functions and better data quality.

It also includes the ESG aspect in operational risk management.

The Group systematically records operational risk events. All Group employees are included in the recording of operational risk events. Operational risk events are reported monthly to senior management via a risk report for the Supervisory Board, and quarterly at meetings of the Operational Risk Committee. Nova KBM classifies operational risk events as (i) legal risk events, (ii) loss events, (iii) non-financial events and (iv) potential operational risk events.

The Group analyses operational risk and scenarios, and has operational risk indicators in place. Using management tools, it thus identifies increased risk in a timely manner with the aim of taking fast and effective action.

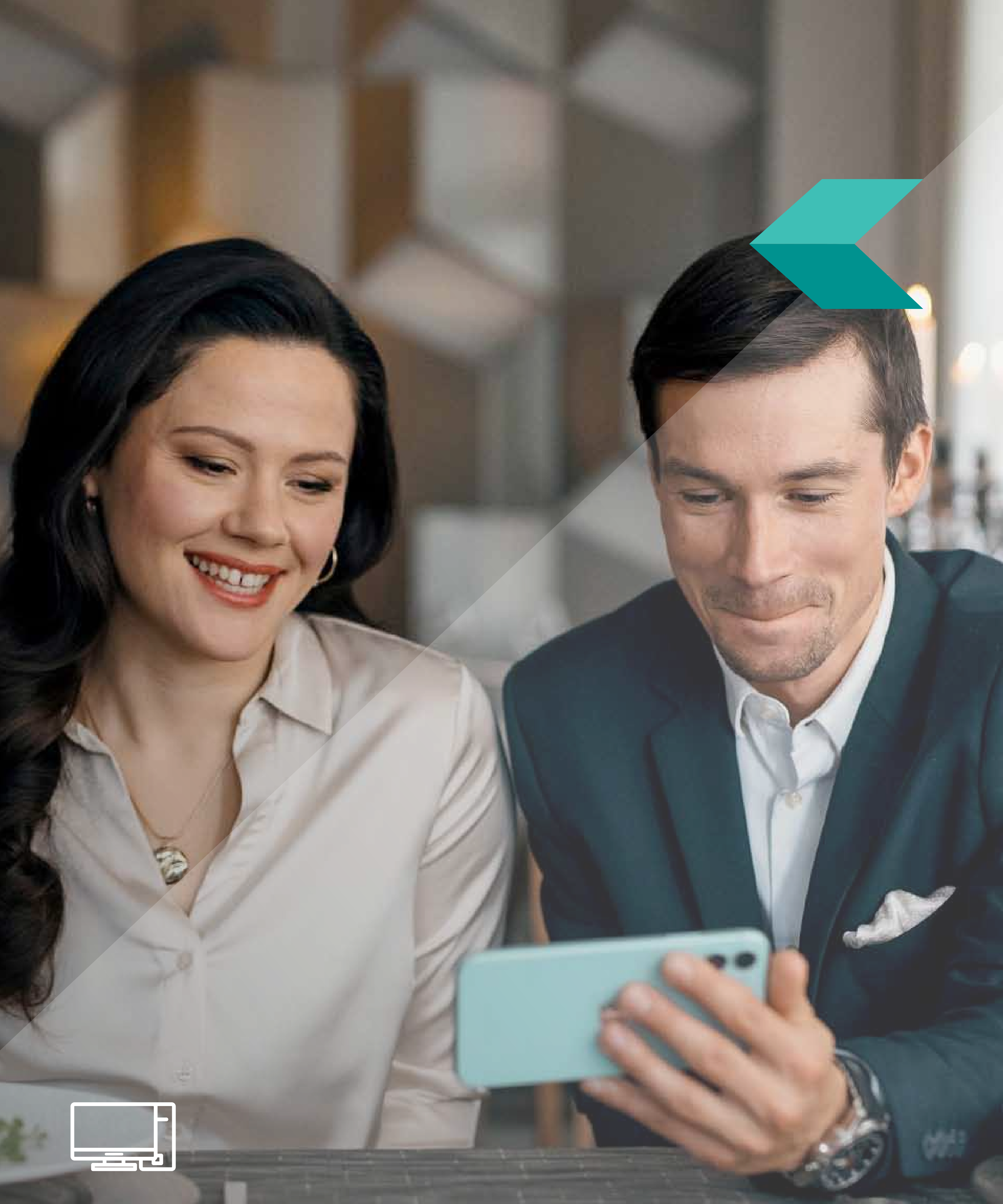
The Group organises training regarding operational risk and outsourcing, and implements activities to improve the risk management culture. Nova KBM also dedicates special attention to the management of insurance claims.

The Group calculates capital requirements for operational risk in accordance with Pillar I, using the basic indicator approach (BIA), and in accordance with Pillar 2 using internal models that take into account data regarding loss events, non-financial and potential events, the results of the self-analysis of operational risk and the status of operational risk indicators. The Nova KBM Group classifies all the events, threats in connection with the self-analysis of operational risk and operational risk indicators in accordance with the standard categorisation set out in the Basel II Capital Accord, and by business area, which facilitates the linking thereof.

Operational risk reports for the entire Group are discussed by the Operational Risk Committee, which is an advisory body to the Bank's Management Board with the role of studying, discussing and making decisions regarding operational risk issues. The presence of the Management Board and the directors of sectors and departments that play an important role in the management of operational risks also ensures that appropriate measures can be taken when higher-level risks are identified.

The Group continued investing in information security in 2022. It regularly reviews and identifies risks, ensures protection against and the detection of threats, and responds to attacks or intrusions as necessary. For example, focus in 2022 was on growing cyber threats, in particular phishing attacks that target the clients of Nova KBM and its employees. As a result, the proactive identification of websites used to phish customers was introduced in 2022, together with the automatic removal of these sites. The Group is also upgrading mechanisms to detect potential leaks of information. These include the automated classification of data and improved detection. A Security Operations Centre (SOC), which functions 24/7, has been in place since early 2022. Incident response procedures were also adjusted to changes due to the increasing diversity of threats. In 2022, the Group renewed its cyber insurance contract. The Group has achieved substantial improvement in resilience by introducing a secondary data centre in Ljubljana and improving business continuity plans (BCP) and disaster recovery plans (DRP).

The Nova KBM Group has a system in place for identifying, detecting and managing fraud risk. Nova KBM uses analytical and other tools for effective fraud management. The Group is aware of the exceptional importance of raising awareness among clients and employees (information provided via social networks, the website, the online bank, training and education programmes for employees, etc.), as this is crucial for preventing fraud. The Group focuses on prevention, detection and protection, and has established reporting mechanisms to enable management to understand trends and to design appropriate and effective responses.



We are not just in step with the times; we are one step ahead. We are aware that digitality is crucial today. That is why our mobile and online banking applications have been named the best in Slovenia for the third year in a row.

12 PERFORMANCE OF THE NOVA KBM GROUP AND NOVA KBM

12.1 MACROECONOMIC ENVIRONMENT

The global economy faced exceptional challenges in 2022. Economic growth slowed, and high inflation spread to the majority of countries and across a range of products and services, and is therefore likely to remain high for an extended period. The Russian military aggression has led to relatively more challenging conditions in the euro area and Slovenia due to its impact on natural gas, electricity and food prices. Composite leading indicators[12] slowed synchronously in all three major economies throughout 2022, but at their current values point considerably more to below-average economic growth in 2023 than to a possible deeper recession, as they did at the start of the first wave of the COVID-19 pandemic between March and May 2020. The value of the composite PMI[13] in the euro area was below 50 throughout the first half of the year, meaning below-average growth and even a contraction in industrial output. However, sound statistical data countered these trends, with new orders recording the most significant decline.

The OECD estimates that the world will earmark 18% of GDP for energy costs in 2022, which is comparable to the second wave of the oil crisis in 1981.[14] Here, account should also be taken of the fact that these circumstances are more manageable in developed countries, as the administrative capacity and ability to exercise expansionary fiscal policy through cheap borrowing are greater. According to initial estimates, global economic growth is expected to be 3.1% in 2022, which is nearly half the growth recorded in 2021 (5.9%), when the growth was the result of the sharp decline in 2020. Economic growth was lower than expected in the US (2.1%)[15] and China (3.0%)[16], while growth in the euro area (3.5%)[17] was in line with expectations. Also contributing to low growth in China was that country's policy of zero- or low-tolerance for COVID-19 infections, which was necessary due to low vaccination rates amongst the elderly population. Growth in global merchandise trade remained historically above average in 2022 (5.4% in real terms and 10% in real terms expressed in USD), but was close to half of the growth recorded in 2021 (10%). Ocean container freight prices fell significantly during the second half of the year[18] (by three-quarters in December relative to the previous year), as a reflection of lower growth in merchandise trade. Shipping prices were thus down by one-fifth relative to the 10-year average. Growth in trade in services was higher, at around 15% (in nominal terms and expressed in USD), and is an expression of strengthening logistics flows and, above all, the tourism sector.

Growth in average prices in OECD countries is expected to be 9.4% in 2022.[19] Facing high growth in prices were both the euro area (8.4%) and US (8.0%), while price growth was lower in China (2.0%). The structure of price growth was different in the first two major economies, with energy and food prices contributing considerably more to price growth in the euro area than in the US, where inflation factors are more closely linked to rising core inflation. This also contributed to the faster tightening of monetary policy in the US. High inflation contributed to a sharp deterioration in consumer sentiment, which was similar to or even lower than the sentiment at the outbreak of the pandemic, but slowly improved, particularly in the fourth quarter when annual inflation began to decline.

The general government deficit in OECD countries narrowed significantly in 2022 (to 3.7% of GDP), primarily due to fewer support measures in connection with the COVID-19 pandemic and also as the result of higher inflation, which

[12] OECD composite leading indicators
[13] Purchasing managers' index
[14] That figure was 17% during the first wave.
[15] Bureau of Economic Analysis
[16] National Bureau of Statistics of China
[17] Eurostat
[18] Drewry Supply Chain Advisors
[19] OECD Economic Outlook, Volume 2022, Issue 2

reduces the nominal deficit as a proportion of GDP and contributes to faster growth in general government revenue than expenditure.

According to the first estimates, economic growth in the euro area was 3.5% in 2022, with certain Mediterranean countries (Greece, Cyprus, Malta and Portugal), Ireland and Slovenia recording growth of more than 5%. GDP in Estonia is actually expected to contract slightly, primarily due to adverse indirect effects in connection with the Russian military aggression.

According to data regarding the quarterly change in GDP (seasonally and annually adjusted), GDP growth in the euro area accelerated in the first and second quarters, and slowed in the third and fourth quarters. Growth was actually negative in Slovenia in the first and third quarters, in the first quarter of 2022 due to the high base effect from the fourth quarter of 2021 and a sharp drop in inventories in the trade sector, which was mainly present in the third quarter of 2022. Amongst Slovenia’s main trading partners, household consumption was only higher in Croatia. Contributing significantly to this were favourable tourism trends and the slightly higher importance of tourism in the economies of these two countries.

Economic sentiment reached its peak in Slovenia in February 2022 (6.6), just before the Russian military aggression, when it reached its highest level since May 2019. It then deteriorated until October 2022, when it reached its lowest level at -5.3, which is not comparable with 2020 (-31 in the second quarter of 2020). The main contributors to the deterioration in the economic sentiment indicator were a decline in the consumer confidence indicator and in confidence in the manufacturing sector, while confidence in the retail, services and construction sectors did not change significantly, and remained historically above the average. Economic sentiment began to improve during the last two months of the year, primarily due to falling energy prices on the markets.

According to initial estimates, industrial production in Slovenia rose by 1.7% in 2022, which is significantly higher than the euro area average (+0.9%). Year-on-year growth in Slovenia was particularly strong in January (at more than 15%), and in March, June, July and August when it exceeded 4%, while it was negative in the final quarter (-4.8%). Growth in industrial output in the mining and quarrying sector was 19%, while higher growth was prevented by a mining accident in October, which resulted in lower production by the Velenje coal mine in the final quarter of the year. Growth in manufacturing was 4.1%, while the generation of electricity was down by one-quarter as the result of poor hydrological conditions and the reduced extraction of lignite, which affected production at the Šoštanj Thermal Power Plant in the final quarter of the year. Manufacturing recorded a difficult final quarter, primarily due to a sharp drop in the production of materials (-15%), which contributed to a 1% contraction in industrial output in the final quarter of the year. High-tech manufacturing recorded the highest increase in output (+17%), while other sectors (low-tech, medium-high-tech and medium-low-tech) recorded growth in output of between 1.1% and 1.9%.

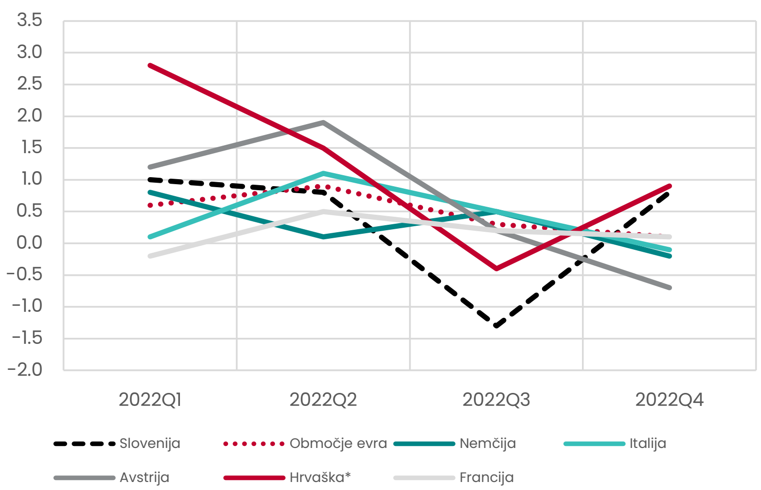
Sales were up by one tenth in 2022 in real terms in the service and trade sectors, which was very similar to 2021. Growth in service activities (+12%) exceeded growth in motor vehicle trade and repair (+7%). Retail trade in food, beverages and tobacco contracted slightly (-2%), while trade in non-food products rose (+7%). Motor vehicle trade and repair contracted by 5%, primarily due to major delays in deliveries of cars as the result of delays in deliveries of semiconductors from Asia. Growth in sales in retail trade at specialist outlets for motor fuels reached 57%. Contributing most to that growth were price regulation, which was in place for two and half months, the increased mobility of the population and rising demand in the tourism sector, as well as the increased need for fuel in commerce. Standing out in service activities was growth in accommodation and food services (+55%), professional, scientific and technical activities (+10%), transportation and storage (+9%), ICT services (+9%), and administrative and support service activities (+9%). The decline in real estate activities was symbolic (-2%).

Real growth in the value of construction works was significantly higher than expected in 2022 and up by one-third relative to 2021. Contributing significantly to that growth were three separate elections during the year, warm weather and the accelerated completion of projects from the expiring financial framework. Standing out was growth in building construction (+84%), as the result of high price growth in previous years, which accelerated construction. Growth in civil engineering works was lower (+12%), while growth in specialised construction works was actually negative (-13%).

The workforce in employment reached its highest level in 2022, and exceeded 935 thousand workers, a record number. There were thus 2% or 18 thousand more active workers in December 2022 than a year earlier. Nominal growth in gross wages was 6.2% in the private sector and was down 2.5% in the public sector, primarily due to the absence of crisis bonuses paid mainly to government sector employees.[20] Due to the favourable effect of the Income Tax Act, growth in net wages exceeded growth in gross wages by close to one percent.

Based on provisional data, the Fiscal Council of the Republic of Slovenia estimates that the state budget deficit was €1.4 billion in 2022, primarily due to significantly lower COVID-related expenditure than in 2021, when the deficit was €3.1 billion. State budget expenditure for COVID-related measures was €964 million in 2022 (1.4% of GDP; 2021: 5.1% of GDP). Accounting for the highest portion of expenditure amongst individual measures was the financing of the Health Insurance Institute (€211 million), with the majority of that amount earmarked for labour costs at public institutions. A higher portion of expenditure in 2022 was also earmarked for individual measures in connection with vaccination and testing (€235 million), the payment of holiday vouchers (€113 million) and various solidarity bonuses (€77 million). The direct financial impact of the measures taken to mitigate the effects of rising prices on the national budget is estimated at around €470 million in 2022.

GDP and Slovenia's main trading partners, quarterly change (real, and seasonally and annually adjusted data)



Source: Eurostat
*provisional data

The required yield on 10-year Slovenian government bonds was 0.1% at the beginning of the year and then skyrocketed until the middle of June, when it reached 2.6%. It then fell to 1.8% until August, when it began to spike again and reached a new local high of 3.7% in October. Somewhat lower inflation in the US mitigated expectations of a rise in interest rates, which again led to a drop in the yield to maturity to 3% (beginning of December). The yield rose again at the end of the year to around 3.7%.

Annual inflation (CPI) was 10.3% in 2022, while average annual inflation was 8.8%. That price growth was the result of the carry-over effect (prices were up by 5.8% already in January following sharp growth primarily during the second half of 2021) and due to exceptionally high price growth during the second quarter when prices rose by an average of 2.4% every month relative to the previous month. Annual inflation reached its peak in July and August at 11%. Inflation remained at close to 10% during the last four months of the year. Contributing significantly to this were measures to rein in energy prices (the IMAD estimates that those measures contributed to a 2.3 percentage point reduction in inflation) and falling prices of oil and petroleum derivatives on the relevant international exchanges during the final month of 2022. The prices of merchandise and services were up by 11.5% and 7.7%,

[20] This contributed to high growth in public sector wages in 2021, when wages were up by 6.5%.

respectively. Contributing significantly to price growth were the prices of food and non-alcoholic beverages (+18.6%), housing, water, electricity, natural gas and other fuels (+13.3%), furniture and household equipment (+12.9%) and transport services (+9.3%). The lowest growth was recorded by communication prices, which rose by 1.2%.

Selected macroeconomic indicators for Slovenia

Indicator	2018	2019	2020	2021	2022	2023 forecast	2024 forecast
Real GDP growth (in %)	4.4	3.3	-4.3	8.2	5.4	1.3	2.8
Inflation (HICP, annual average in %)	1.9	1.7	-0.3	2.0	9.3	6.2	3.1
ILO unemployment rate (in %)	5.1	4.4	5.0	4.8	4.3	4.3	4.2
Exports of goods and services (real growth in %)	6.2	4.5	-8.6	14.5	6.5	3.2	4.2
Imports of goods and services (real growth in %)	7.1	4.7	-9.6	17.6	9.8	1.2	4.0

Source: Statistical Office of the Republic of Slovenia, forecasts: Focus Economics, December 2022

High inflation was a global phenomenon and the majority of central banks opted to tighten monetary policy, which was a reflected in a reduction in bond purchases and rising benchmark interest rates. An important factor in such decisions was the strength of the labour market, i.e., the structural shortage of workers, which increases the potential for high prices to spill over into wages. The US Federal Reserve Board (FED) had unanimously raised its benchmark rate to between 4 ¼ and 4 ½ by December 2022, an indication that rate hikes will continue in 2023. This was accompanied by a reduction in holdings of treasury bills, agency debt and mortgage loans. Rate hikes began in March 2022, when the benchmark interest rate was raised by 0.25 percentage points, which was followed by six hikes until the end of the year.

The Governing Council of the ECB raised its benchmark rates from its July meeting until the end of the year, and is expected to further raise those rates significantly, as inflation is much too high and will remain above the target level for too long according to projections. On 21 December 2022, it raised the rates on main refinancing operations and the marginal lending facility to 2.50% and 2.75% respectively, while it raised the rate on the deposit facility to 2.00%. The Governing Council of the ECB will continue to reinvest the entire amount of principal on maturing securities purchased under the APP[21] until the end of February 2023, while it stopped making net purchases back on 1 July 2022. The principal on securities purchased under the PEPP[22] will be reinvested until the end of 2024. The Governing Council of the ECB assessed that the creation of a TPI was urgent for the effective transmission of monetary policy. As the normalisation of monetary policy continues (withdrawal of the emergency monetary policy measures of bond purchases and interest rate hikes), the TPI will ensure that the monetary policy stance is transmitted smoothly to all euro area countries. In other words, the ECB has sufficient flexibility to prevent potential major differences in borrowing costs between euro area economies through the purchase of government bonds. The scope of purchases under the TPI[23] will depend on the severity of risks in connection with monetary policy transmission. There are no pre-set limits on purchases.

Slovenian banking system

The Slovenian banking system's total assets were up by 4.9% (€2.4 billion) in 2022 to stand at approximately €50.6 billion. Year-on-year growth in bank loans to the domestic non-banking sector was 10% in December, with that growth slowing since September. Overall growth was the result of growth in loans to non-financial corporations

[21] Asset Purchase Programme
[22] Pandemic Emergency Purchase Programme
[23] Transmission Protection Instrument

(+12.8%) and growth in loans to households (+7.8%). Growth in loans was below average in the context of 13% nominal growth in GDP.

Non-financial corporations accounted for close to one half of total growth in loans (+€1.2 billion). The energy sector's increased needs for liquidity contributed significantly to growth in corporate loans, with those needs diminishing in December. Growth in loans to households began to slow towards the end of the year (+7.8%), with growth in housing loans standing at 9.9%, while the stock of consumer loans was similar to the previous year or up by 0.9%.

Deposits by the non-banking sector were up by 6.9% or €2.6 billion (€2.9 billion in 2021), with household deposits rising by €1.8 billion, corporate deposits by €0.7 billion and the deposits of other entities by €0.4 billion. Growth in household deposits was higher than in 2021, when it stood at €1.5 billion, which was the result of a strengthening labour market, and growth in wages and social transfers. The savings rate was lower in that context, primarily due to the lifting of containment measures and a general rise in prices, which reduced households' savings capacity, particularly in weaker income groups, where food and energy expenditure accounts for an above-average proportion of total expenditure. Lower growth in corporate deposits (+€970 million in 2021 compared with +€710 million in 2022) was the result of higher needs for the financing of working capital and growth in investments.

The proportion of non-performing claims remained low in December, at 1.1%. That proportion was 1.8% at non-financial corporations, a decline relative to the previous year (2.3%), primarily as the result of high economic growth and excellent business results in 2022. In the household segment, that proportion was 1.7%, broken down as follows: 3.5% for consumer loans and 1.2% for housing loans.

In the income statement, interest income was up by one fifth, while interest expenses were up 22%, which resulted in an increase in growth in net interest to 19.6%. Contributing most to growth in net interest was faster growth in asset interest rates than liability interest rates. As a result, the net interest margin rose to 1.61% in 2022 after falling for three years. Non-interest income was down by 2.3%, despite growth in net fee and commission income (+5.5%). Gross income was up by 9.1% or €110 million, while operating costs were up by 5.7%. Higher nominal and relative growth in gross income than operating costs led to high growth in net income of 14%. Net impairments and provisions were created in the amount of €17 million, which contributed to somewhat lower pre-tax profit (-4%) than in 2021. After the calculation of tax, which was up by one-tenth, profit after tax fell by 5% to half a billion euros. Pre-tax ROE amounted to 10.7%.

The total capital ratio and CET1 ratio on a consolidated basis stood at 17.5% and 16.1% respectively in the third quarter of 2022. The former was slightly lower than the euro area average, while the latter was slightly higher. At more than 290%, the liquidity coverage ratio (LCR) remained well above the regulatory requirement of 100%, and reflects a high capacity at the banking system level to cover net liquidity outflows over a short-term stress period.

12.2 COVID-19

Operations were still characterised by the COVID-19 pandemic during the first third of 2022. Despite the gradual lifting of protective measures, clients continued to use banking services for the most part via digital channels such as the online and mobile banks. We consistently complied with prescribed measures to prevent the spread of COVID-19 when transacting with customers at branch offices. Employees at branch offices performed their work with an extremely high level of professionalism and a high degree of commitment to the Bank. The Group regularly communicated containment measures and health recommendations to its customers and employees via external and internal channels.

Adjustments to conditions during the recovery following the COVID-19 pandemic required increased investments in the replacement of IT equipment. We are proud of the fact that the Bank successfully equipped all workplace with laptop computers that also facilitate remote work.

The Group organised all events for clients online until the beginning of June, and their response confirmed that the hybrid organisation of events is convenient, especially for events related to professional topics. We therefore continued to employ this form of events going forward.

Pandemic-related and recovery risk management

In 2022, the first half of which was still characterised by the COVID-19 pandemic, the Group continued with measures and activities to mitigate the negative consequences of the pandemic, which related primarily to individual borrowers in the corporate banking segment and, where necessary, took steps in terms of changes to ratings and restructuring statuses, and adjustments to expected credit losses.

The economic situation and the Bank's operations began to improve gradually as the epidemiological situation improved and restrictive measures were lifted. Even after the lifting of measures, the Bank continues to closely monitor forecasts for the economic environment with regard to the impact of the coronavirus on its financial performance, stability and liquidity.

The Group closely monitors and controls its portfolio, which was characterised in 2022 primarily by negative impacts that were identified in the past, but were set in the new context of the Russian military aggression in 2022. For this reason, the Group is closely monitoring the current economic and political situation.
More information about risk management in connection with the pandemic is presented in the financial report in the section 'Risk management'.

Measures to prevent the spread of infections at the level of the entire Nova KBM Group

Still characteristic of the first half of 2022 was the implementation of numerous measures to prevent the spread of COVID-19 infections:

- compliance with ordinances and measures in connection with the wearing of protective masks, hygiene and the disinfection of hands, social distancing, careful handling of food and drinks, remaining in closed spaces and cars, ventilation, fulfilment of RVT conditions and self-testing;
- care for employees with chronic diseases, by informing them of their rights and ensuring the proper organisation of their work;
- the self-testing of employees in accordance with government measures;
- the purchase of protective equipment (disinfectants, masks, protective glass, self-tests, etc.), and the provision of the necessary stocks and rapid delivery of protective equipment to the Bank's locations throughout Slovenia, and the monitoring of the use and adequacy of stocks;
- ensuring the simple, rapid and confidential reporting of infections and the immediate implementation of measures in accordance with the instructions of the NIJZ;

- encouraging work from home where feasible, depending on the specific nature of work, and the organisation of occasional work from home in accordance with internal rules; and
- the promotion of work-life balance through the preparation of a handbook with advice, and the organisation of various online workshops.

Adaptation of the Group's work environment, processes, and projects

At the outbreak of the pandemic in the spring of 2020, the Group quickly, decisively and effectively adapted its work organisation and the implementation of processes to the emergency conditions. We continued with the implementation of the following key measures again in 2022:

- where possible, employees performed their work for the most part from home and received support via contemporary communications technology;
- as a responsible employer, the Group, in cooperation with the occupational safety and health officer, ensured the continuous verification of conditions for safe work from home and prepared advice and recommendations for the arrangement of home work-stations;
- we continued to upgrade and update information support for smooth work from home;
- we introduced hybrid form of meetings at all organisational levels. We communicated remotely via secure platforms (MS Teams and others); and
- we also employed hybrid forms in the organisation of events for the internal and external public and training.

Changes due to the outbreak of the COVID-19 pandemic affected the implementation of key strategic projects again in 2022. The Group continued to respond proactively in 2022 through the remote functioning of project teams and thus the smooth implementation of key projects on the one hand, and through the continuous monitoring of risks in connection with COVID-19 and the timely adoption of measures to mitigate the associated impacts on the other hand. As a result, key projects did not encounter delays in meeting planned deadlines.

Services and measures for customers and employees

The impact of the epidemic continued to be reflected in the retail banking sector as an increase in the use of remote banking services. The use of digital services by clients continues to grow, and clients execute approximately 96% of all transactions via digital channels.

We consistently and continuously complied with prescribed measures to prevent the spread of COVID-19 when transacting with customers at branch offices.

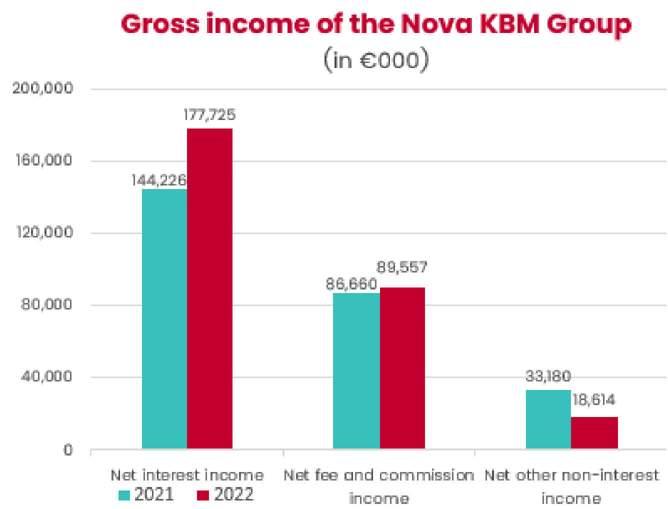
The Group regularly communicated containment measures and health recommendations to its customers and employees via external and internal channels.

12.3 ANALYSIS OF THE OPERATIONS OF THE GROUP AND NOVA KBM

The Group performed well in challenging business conditions, marked by rising inflation and interest rates, as it increased the main revenues generated from its operations and improved cost efficiency. Detailed income statement and balance sheet data are presented in the notes to the financial statements.

Income statement

The Group generated a net profit of €106,086 thousand in 2022 (2021: €112,594 thousand), while Nova KBM generated a net profit of €115,583 thousand (2021: €108,932 thousand). Return on equity after tax was 10.96% at the Group level in 2022, compared with 11.04% in 2021.



The Group generated gross income of €285,896 thousand in 2022 (2021: €264,066 thousand). Net revenues primarily comprised net interest income and net fee and commission income. The higher gross income in 2022 relative to 2021 was primarily the result of growth in net interest income, while net fee and commission income was also up slightly.

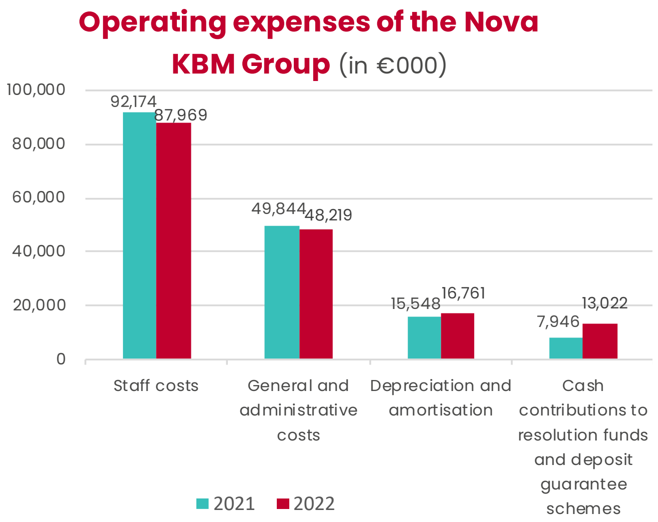
Net interest income

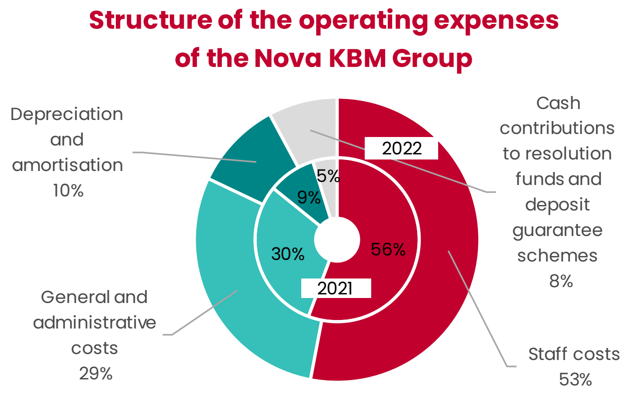
Net interest income amounted to €177,725 thousand at the Group level in 2022, an increase of 23.2% relative to 2021, while net interest income amounted to €152,204 thousand at the Bank level, an increase of 22.9% relative to 2021. The net interest margin of the Nova KBM Group was 1.75% in 2022 (2021: 1.50%). The interest income generated by the Group was up by 22.8%, while interest expenses were up by 19.7% relative to 2021. As in 2021, the Group generated the majority of its interest income from its lending activities in 2022. The majority of the Group's interest expenses comprised interest on financial liabilities measured at amortised cost, and interest on financial assets as the result of negative interest rates.

Non-interest income

The Group generated non-interest income of €108,171 thousand in 2022 (2021: €119,840 thousand). Net fee and commission income at the Group level amounted to €89,557 thousand in 2022, an increase of 3.3% relative to 2021 when they totalled €86,660 thousand.

Operating expenses





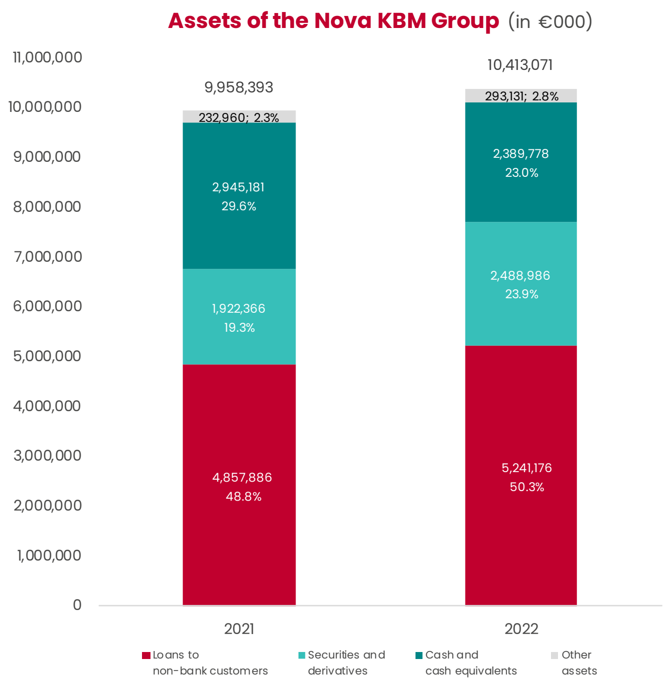
The Group's operating costs, which include staff, general and administrative costs, together with depreciation and amortisation, and cash contributions to resolution funds and deposit guarantee schemes, amounted to €165,971 thousand in 2022 (2021: €165,512 thousand). The Group's staff, general and administrative costs, together with depreciation and amortisation totalled €152,949 thousand in 2022, a decrease of 2.9% relative to 2021. The cost-to-income ratio stood at 58.05% (2021: 62.68%). If certain extraordinary costs and certain extraordinary revenues are excluded, the cost-to-income ratio at Group level amounted to 52.09% (2021: 59.67%). Administrative restructuring costs at Group level amounted to €2,485 thousand (2021: €5,317 thousand).

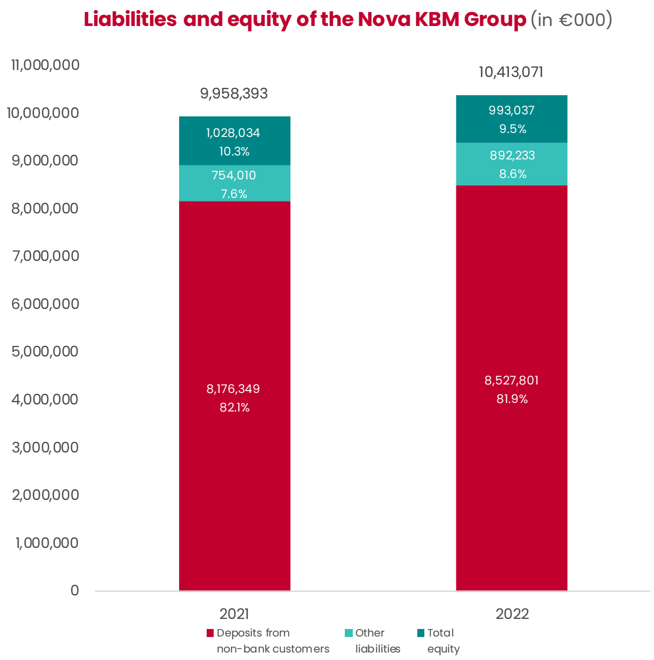
Net impairments and provisions

The Group created net impairments and provisions in the amount of €14,072 thousand in 2022, compared with the release of net provisions and impairments in the amount of €14,585 thousand in 2021.

Financial position

The Group's total assets amounted to €10,413,071 thousand as of 31 December 2022, representing an increase of €454,678 thousand or 4.6% in 2022, primarily due to the higher balance of debt securities and loans to non-bank clients on the asset side, and due to higher stocks of deposits from non-bank customers and debt securities on the liability side. The Group's total equity amounted to €993,037 thousand at the end of 2022, a decrease of 3.4% relative to the end of 2021. The Bank's total assets amounted to €10,414,447 thousand at the end of 2022.





Cash and cash equivalents

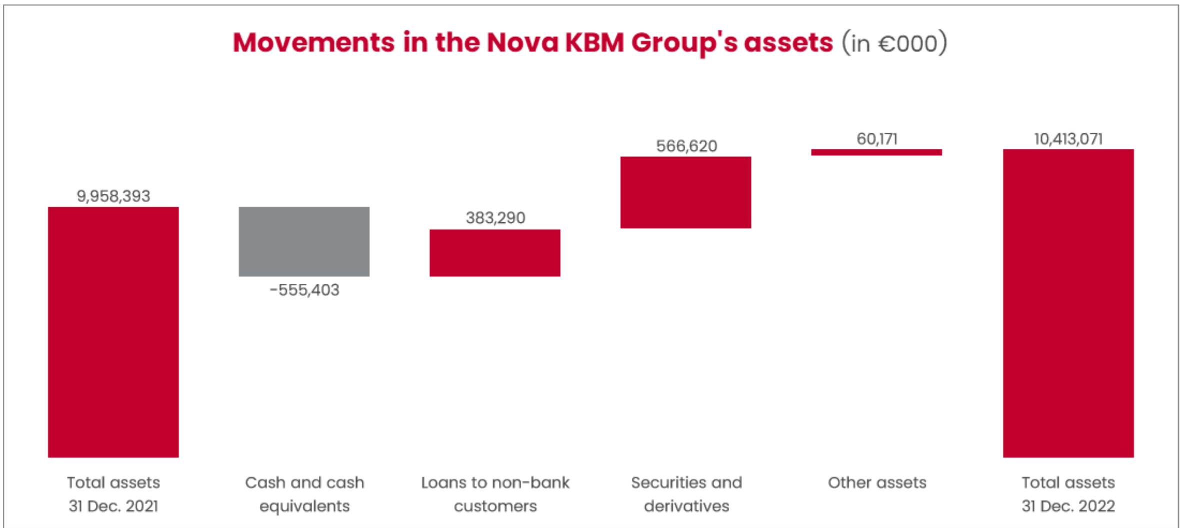
The Group had cash in hand, cash balances at the central bank and demand deposits at banks in the amount of €2,370,815 thousand as of 31 December 2022, a decrease of 17.8% relative to the end of 2021. Loans to banks (with an original maturity of up to three months) amounted to €18,963 thousand at the end of 2022 (end of 2021: €60,345 thousand).

Loans to non-bank customers

Loans to non-bank customers amounted to €5,241,176 thousand at the end 2022 (end of 2021: €4,857,886 thousand). Corporate loans accounted for 61% of the Bank's total loans to the non-bank sector, which totalled €5,168,000 thousand at the end of 2022 (end of 2021: 59%), while retail loans accounted for 39% of that amount (end of 2021: 41%).

Investments in equity and debt securities, and derivatives

The Group's investments in equity and debt securities, and derivatives amounted to €2,488,986 thousand at the end of 2022, an increase of 29.5% relative to the end of 2021. These investments account for 24% of total assets, an increase of 5 percentage points relative to the end of 2021.



The Group's **total liabilities and equity** at the end of 2022 comprised total liabilities in the amount of €9,420,034 thousand (end of 2021: €8,930,359 thousand) and total equity in the amount of €993,037 thousand (end of 2021: €1,028,034 thousand).

Deposits from non-bank customers

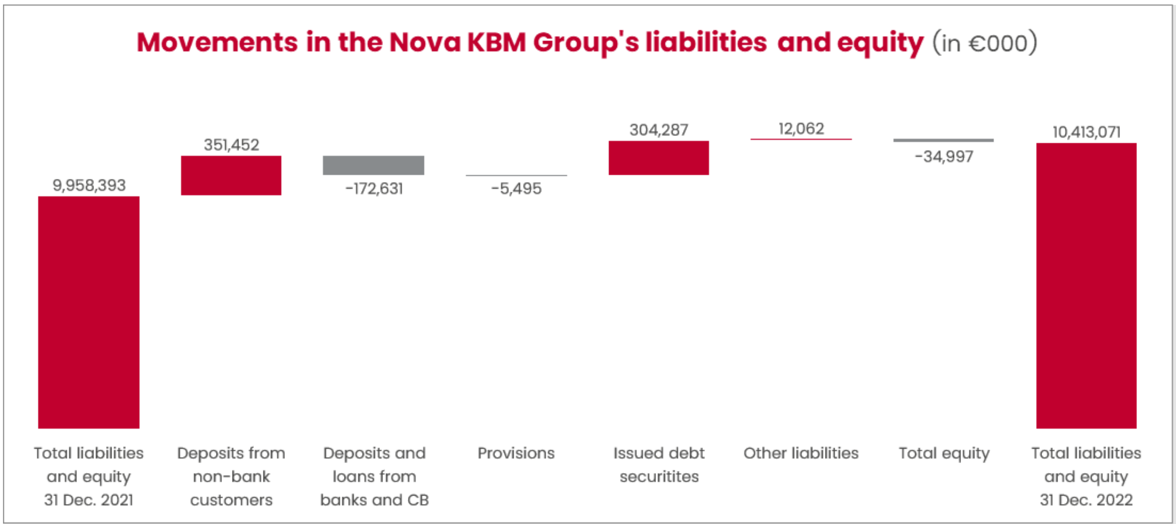
Deposits from non-bank customers amounted to €8,527,801 thousand at the Group level at the end of 2022. Although deposits from non-bank customers were up by 4.3% relative to the end of 2021, the proportion of total liabilities (and equity) that they account for was unchanged and stood at 82% at the end of 2022. Deposits from non-bank customers amounted to €8,547,087 thousand at the Bank level at the end of 2022, with retail deposits accounting for 71% of that amount (end of 2021: 70%) and corporate deposits accounting for 29% (end of 2021: 30%).

Deposits and loans from banks and the central bank

The Group held deposits and loans from banks and the central bank in the amount of €178,710 thousand at the end of 2022 (end of 2021: €351,341 thousand), with those deposits and loans accounting for 2% of total liabilities (and equity).

Debt securities issued

Debt securities issued by the Bank amounted to €571,782 thousand at the end of 2022 (end of 2021: €267,495 thousand). In October 2019, Nova KBM issued subordinated Tier 2 KBM11 bonds in the nominal amount of €90,400 thousand. In May 2021, the Bank issued senior non-preferred bonds KBM12 in the nominal amount of €125,700 thousand and increased that issue in October 2021 by an additional €50,000 thousand. In January 2022, the Bank issued senior non-preferred bonds in the total nominal amount of €300 million.



12.4 PRESENTATION OF GROUP COMPANIES

SUMMIT LEASING SLOVENIJA D.O.O.

Established: 1999
Website: www.summit-leasing.si
Email: info@summit-leasing.si
Participating interest of Nova KBM as of 31 December 2022: 100%
Management bodies as of 31 December 2022:
Director: Mitja Otorepec; Deputy Directors: Maja Kebe, Tina Filipan and Janez Kokalj
Supervisory Board members as of 31 December 2022:
Chairman: John Denhof; members: Miha Kristl, Sabina Župec Kranjc, Matej Falatov and Rok Zupančič

Activity

The company's main activity is financing the purchase of passenger cars, and light and heavy commercial vehicles, buses and equipment for end-customers, and the financing of inventories, and test and replacement vehicles for car dealers.

The portfolio of products includes: finance leasing, operating leasing and consumer loans. The company also offers the option of underwriting insurance policies for compulsory and comprehensive car insurance.

Analysis of operations in 2022

The company reported an after-tax profit of €3,574 thousand and equity of €103,165 thousand. The company's total assets amounted to €857,541 thousand as of 31 December 2022, an increase of €250,942 thousand or 41% relative to 31 December 2021. The company had 177 employees at the end of 2022, with that number rising by seven during the year.

The company has its registered office in Ljubljana, and organisational units in Maribor, Koper, Celje and Novo mesto, as well as a field representative for the Kranj area.

On 1 April 2022, the company completed the takeover of Mercedes Benz Leasing Hrvatska d.o.o., which was later renamed Mobil Leasing d.o.o. Summit Leasing Slovenija thus continued to pursue its strategy of expanding its business model to Croatia. The company generated an after-tax profit of €764 thousand. Its total assets amounted to €98,494 thousand as of 31 December 2022.

ALEJA FINANCE D.O.O.

Established: 26 April 2011
Website: www.aleja-finance.si
Email: info@aleja-finance.si
Participating interest of Nova KBM as of 31 December 2022: 100%
Management bodies as of 31 December 2022:
Directors: Roman Gomboc and Danijel Mitrović
Supervisory Board members as of 31 December 2022:
Chairman: Matej Falatov; members: Urban Palčnik, Denis Mulalić, Davorin Okorn and Simon Tantegel

Activity

The company's core activity is factoring. For the purpose of **financing sales** to business customers, the company offers the one-time purchase of receivables, selective factoring and continuous factoring, all with and without recourse. The company offers business customers supplier factoring for the purpose of **financing purchases**.

Analysis of operations in 2022

The company purchased receivables in the amount of €212,066 thousand in 2022, an increase of 106.5% relative to 2021. Trade receivables rose by 57.0% in 2022 to stand at €52,399 thousand, while the company's total assets rose by 54.0% to €53,749 thousand. Net operating income was up by 14.0% relative to the previous year to stand at €1,869 thousand. The company moved into the renovated premises of Nova KBM, strengthened its risk management department and front office support, implemented all relevant guidelines, policies and rules of the parent company Nova KBM d.d., expanded its offer with continuous factoring, harmonised and improved key processes, and invested in new IT equipment to ensure planned long-term growth in the scope and profitability of operations. The company ended 2022 with an after-tax profit of €120 thousand and equity of €18,201 thousand. The main reason for the drop in profit despite significant growth in the scope of operations lies in the charging and allocation of revenues, lower margins in major transactions and increased costs due to the introduction of regulation, integration with the parent bank and the transformation of the company. The company had 17 employees at the end of 2022.

ALEJA finance is planning further growth in trade receivables and profitability in 2023.

Business policies

The company's business policies for 2023 are as follows:

- to upgrade cooperation with existing business partners in the area of factoring;
- to accelerate the attraction of new clients via Nova KBM's sales network;
- to implement a new information system with a wide range of products;
- to introduce an on-line factoring application to improve the user experience;
- to continue optimising and automating processes; and
- to optimise operating costs.

13 BUSINESS SEGMENTS

13.1 CORPORATE BANKING

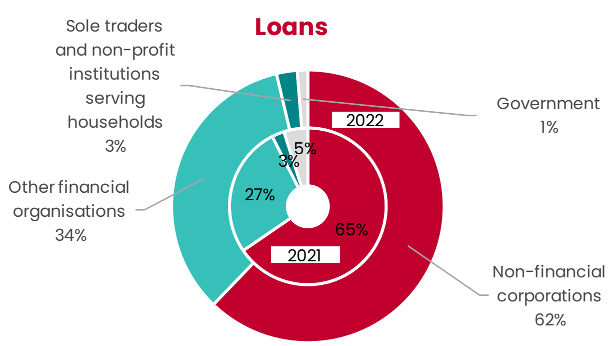
The Group provided strong support to the Slovenian economy and facilitated the growth and development of companies again in 2022. Very good mutual cooperation is reflected in satisfied customers and even better Net Promoter Score results, which is a key element of our core mission.

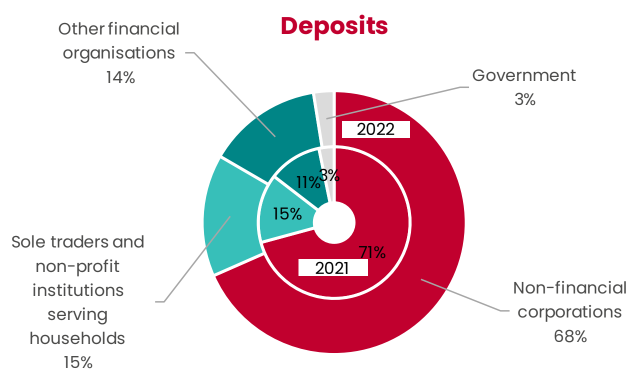
The Bank offers corporate customers a comprehensive set of banking products, ranging from the provision of customary corporate bank accounts, deposits, and foreign and local payments to customised transactional banking products. The suite of products offered to corporate customers also includes a full range of lending products, including short-term overdraft and working capital facilities, medium-term and long-term investment loans and guarantees, and performance and warranty bonds. The Group also provides deposit services, local and cross-border payment services and documentary operations. The Bank made a significant step forward in raising the visibility and awareness of ESG criteria among its portfolio clients.

The Group cooperates, *inter alia*, with SID banka d.d. to obtain long-term funding and with the Slovenian Enterprise Fund, where primarily SMEs secure funds with our help to finance their fixed assets and medium-term working capital.

The corporate customer network is divided into east and west regions, and covers large corporations, transactions with the public sector, SMEs, project financing and sales support. Large corporate borrowers represent the main customer group in the corporate banking segment, with more than 1,700 clients served. Services are also provided to approximately 6,300 SMEs.

The graphs below illustrate the structure of corporate loans and corporate deposits (including the micro enterprise segment) by segment at Nova KBM at the end of 2022, relative to the end of 2021.





Demand for **loans** was up again slightly in 2022 relative to the previous year. This is primarily true for short-term loans to finance working capital. Similar to the previous two years, demand for major investments was down slightly, while certain previously planned major investments were postponed to a later period. The Group has been actively involved in meeting the corporate sector's financing needs over the entire period. In cooperation and regular communication with our clients, we find that companies are fully aware of the changed market conditions and economic situation. The COVID-19 pandemic did not have a significant impact on the operations of our clients in 2022. The Russian military aggression has, however, led to new problems and challenges in their operations. Here, we are referring in particular to the sharp increase in energy prices (electricity, gas, fuels, etc.), problems in clients' supply chains, higher other operating costs and a sharp rise in the EURIBOR towards the end of 2022, which has made it more expensive for companies to obtain basic financing for all the products they use to keep their business running smoothly. The Bank is closely monitoring the aforementioned challenges, and adjusting to the current situation, together with its clients.

The Group has maintained its significant share of the Slovenian **project financing** market. **Project finance** remains a more important element of the corporate banking sector, both in terms of volume of lending and profitability. We continued to improve our range of specialised services to investors and project finance partners in residential housing, commercial, infrastructure, tourism and trade. In 2022, we successfully financed a number of new projects with a total value of more than €420 million in recent years.

Successful cooperation continued in 2022 with both **Summit Leasing Slovenija** and **ALEJA finance** d.o.o., with whom the Group has upgraded its sales activity in the area of factoring. Joint sales and cross-selling programmes were in place throughout 2022.

Given its size, market coverage and knowledge, the Group is able to participate in and provide financing all major projects in Slovenia. We also organised various business events for the purpose of training and strengthening business ties with our long-standing customers and partners. We will continue organising such events in the future, as they will be extremely important for establishing positive and professional relationships with our customers.

13.2 RETAIL BANKING

Nova KBM is the most accessible bank in Slovenia, with a network of 61 own branch offices, four specialised banking counters, 363 ATMs and 456 service-sales points in Pošta Slovenije's network.

Retail banking segment contributes the highest amount of income to NKBM's results. The retail banking portfolio comprises 656,731 clients with whom the Bank transacts via various sales channels, including a network of 61 own branch offices, four specialised banking counters at post offices, 291 post offices and 165 contractual post offices, and via digital channels.

Retail banking is split into three segments: (i) the affluent clients, including the Premium segment, with higher income, (ii) the Individual (mass) segment for other natural persons with standard services, and (iii) the Micro segment for micro enterprises. The range of products and services for all three segments is simple and transparent, of high quality and sustainably profitable.

The Bank provides a full range of retail banking services, including transactional accounts, lending (consumer and housing loans for individuals and loans for micro-enterprises), savings, card operations, brokerage services and additional third-party products (insurance products and mutual funds).

Premium customer banking services

We continued the success story of premium personal banking, where we strive for excellence in all aspects of our relationship with premium customers. The personal banker remains the first line and main point of contact with these clients, who have at their disposal a team of experts, who link their knowledge with the client's objectives to find the most appropriate solution for each individual.

We are aware that the professionalism and dedication of employees are the most important factors in working with the Premium personal banking segment. For this reason, we introduced the following in 2022:

- Permanent support of a team of experts for mutual funds and brokerage services;
- remote signing using the BetrSign tool for the remote conclusion of transactions for clients with the Premium bundle; and
- Acquisition of authorisation to provide brokerage services, as well as brokerage licences.

We brought premium culinary events closer to our valued clients by hosting Premium Brunches. We also offered our clients special culinary masterclass workshops, where they can enjoy food preparation under the guidance of the most prestigious Slovenian chefs. The workshops are organised by JRE (Jeunes Restaurateurs d'Europe) Slovenija.

Nova KBM successfully ended the year with close to 14,000 premium personal banking clients, who rated the service as an excellent experience, and again emphasised the commitment of their personal banker who is available from 8 am until 8 pm, priority treatment, the provision of remote services and accessibility for clients through previously agreed meetings.

Everyday banking services / mass customer banking services

The Bank offers retail banking products on a stand-alone basis and actively offers bundled product packages to incentivise customers to increase their use of products and develop the depth of the customer relationship.

The Komplete bundle has been developed to simplify the use of banking services by providing a single package that satisfies all day-to-day banking needs of an ordinary retail customer. Typically, in the Slovenian retail banking industry, customers pay a specified fee for each service. In contrast, a customer who has signed up for a "bundle" product will pay a fixed fee per month for certain basic banking services, including free online payment services as well as lower interest rates for loan products. The number of clients who are using the Komplet bundle and paying a monthly fee exceeded 220,000 as of 31 December 2022.

In November, we added to the Komplet bundle access for clients to investment functionalities: clients can now trade mutual funds and brokered financial instruments via the mobile app, at a discounted price.

As a large portion of the Bank's retail clients are employed by its corporate clients, the Nova KBM Group also provides the Bank@Work programme, which is available to the employees of selected corporate clients. Under this programme, a range of products are available at a discount, while participating employees have access to financial education seminars organised by the Nova KBM Group.

Smart Business

We continuously pursued our established strategy of accessible, simple and transparent operations in the micro enterprise segment.

We introduced paperless operations related to commercial transaction accounts in 2022. For newly established sole traders, we introduced the Start Smart bundle, which includes the basic services that a newcomer needs to embark on their entrepreneurial path.

We also upgraded the existing Smart Business bundle with the aim of increasing the cost-effectiveness of our clients. Close to 27,000 users serve as evidence of the excellence of the Smart Business bundle.

We optimised the approval process for our standardised products to ensure faster and easier access to funding.

Custody services in the micro enterprise segment remain a key advantage, as we ensure the presence and accessibility of account managers at Nova KBM branch offices at all times.

The excellent results of customer satisfaction surveys demonstrate our ability to recognise the financial needs of our business clients and continuously support them as a reliable business partner.

Retail lending

The Bank's retail lending activities are primarily focused on the provision of a wide range of consumer finance products, including personal unsecured loans, deferred payment cards and current accounts with overdraft facilities. The Bank serves primarily low- and medium-risk customers.

The Bank approved a record number and scope of housing loans in 2022, representing an increase of 32% relative to the previous year.

The graphs below illustrate the structure of retail loans by product and retail (only natural persons) deposits by maturity in Nova KBM at the end of 2022 relative to the end of 2021.

More about the paperless operations project is presented in the ESG report of the Group.

The retail segment continued improvements in the area of paperless operations, and once again reduced the number of printed documents at branch offices to an average of 151,000 a month in 2022, a reduction of 6.2% relative to 2021.

13.3 ASSET AND LIABILITY MANAGEMENT, AND TREASURY OPERATIONS

Asset and liability management

The Group monitored and managed its liquidity, interest rate and currency position, taking into account the macroeconomic environment and expectations on the financial markets. In accordance with the relevant policies, the Group monitors and manages exposure to individual risks and reports to the Asset-Liability Committee (ALCO).

The Group's total assets amounted to €10,413,071 thousand as of 31 December 2022. Total liquid assets accounted for 41.1% of total assets, and included cash and balances with central banks, loans and deposits at banks, debt securities and ECB-eligible loans.

Liquidity management

The Group managed its liquidity in such a way as to ensure the settlement of all due obligations under normal business and different stress scenarios. In addition to adequate level of primary liquidity, the Bank also maintained an adequate secondary liquidity reserve, comprising eligible securities, eligible claims from loans and eligible bank loans (ECB eligible). The Bank may use these instruments as collateral when borrowing via ECB instruments.

Unencumbered liquid assets (in € thousand)	31 December 2021	31 December 2022
Cash and cash equivalents	2,732,450	2,228,794
Highly liquid bonds[24]	1,142,634	1,789,873
Additional ECB-eligible bonds	399,884	501,519
Total	**4,274,968**	**4,520,186**

Deposits by non-bank customers represent the main source of funding for the Group. Those deposits accounted for 81.9% of total liabilities as of 31 December 2022. Wholesale funding comprised deposits and loans from banks and the central bank, and issued securities. The Bank repaid TLTROs in the nominal amount of €150,000 thousand in March 2022.

In order to meet binding minimum eligible liability requirements set by the SRB, the Bank issued three-year senior non-preferred bonds on the international market in January 2022 in the amount of €300,000 thousand with a call option after two years.

Type of bond	Designation	ISIN code	Date of issue	Date of final maturity	Interest rate	Amount (in €000)
Tier 2	KBM11	SI0022103897	9 October 2019	9 October 2029*	4% p.a.	90,400
Senior non-preferred (SNP)	KBM12	SI0022104176	25 May 2021 and 12 October 2021	25 May 2027*	1.625% p.a.	175,700
Senior non-preferred (SNP)	NOVAKR 01/27/25	XS2430442868	27 January 2022	27 January 2025*	1.875% p.a.	300,000

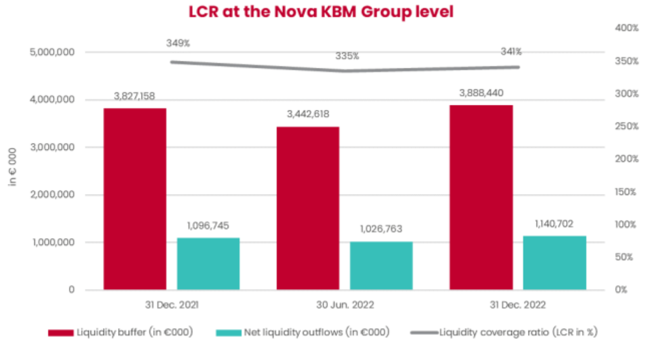
* The bond is callable by Nova KBM d.d.

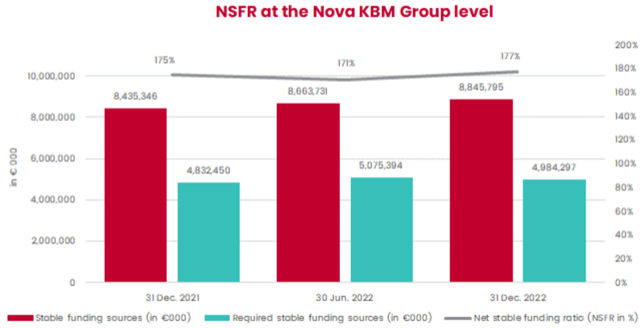
Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

The Group managed its balance sheet in terms of liquidity, interest rate and currency risks in 2022, in accordance with internal and regulatory requirements. In its operations, the Bank complied in full with regulators' requirements regarding minimum reserves, liquidity ratios and the liquidity coverage ratio.

The LCR was 341% at the Nova KBM Group level as of 31 December 2022, while the minimum LCR under Commission Delegated Regulation (EU) 2015/61 is 100%.

[24] In accordance with Commission Delegated Regulation (EU) 2015/61 and Commission Delegated Regulation (EU) 2018/1620.





The fulfilment of the NSFR has been a regulatory requirement in accordance with Regulation (EU) No 2019/876 since 30 June 2021. The NSFR was 177% at the Group level as of 31 December 2022.

Portfolio of debt securities held in the banking book

The securities held in the banking book are intended primarily for ensuring an adequate liquidity reserve and for managing interest rate risk. The Group manages the portfolio of debt securities in accordance with its investment policy and internal regulations. The total stock of debt securities held in the banking book was €2,414,996 thousand as of 31 December 2022.

Government debt securities and government-backed securities accounted for 65% of the banking book portfolio, with the remainder held in the form of the securities of investment-grade financial institutions and international companies. The portfolio is sufficiently diversified with an average duration of less than three years. The average yield on the portfolio of debt securities held in the banking book is 1.00%.

Composition of the portfolio of debt securities held in the banking book of the Nova KBM Group

Item (in €000)	31 December 2021	31 December 2022
Financial assets measured at amortised cost	600,925	1,761,967
Financial assets measured at fair value through other comprehensive income	1,243,822	653,029
Total	**1,844,747**	**2,414,996**

The tables illustrate the portfolio of debt securities in the Nova KBM Group's banking book by sector, rating and geographical distribution as of 31 December 2022.

Sectoral breakdown of securities	Item (in €000)	Item (in %)	Weighted return (in %)	Weighted duration (in years)
Government bonds	1,559,938	65%	1.10%	2.4
Bonds of financial institutions	499,068	21%	0.71%	2.7
Corporate bonds	355,990	15%	0.96%	2.9
Total	**2,414,996**	**100%**	**1.00%**	**2.5**

Rating of securities	Item (in €000)	Item (in %)
Aaa – Aa3	1,119,476	46%
A1 – A3	776,598	32%
Baa1 – Baa3	446,816	19%
Other	72,106	3%
Total	**2,414,996**	**100%**

Geographical breakdown of securities	Item (in €000)	Item (in %)
Slovenia	316,409	13%
EU	1,881,232	78%
USA	96,073	4%
Other countries (total)	121,282	5%
Total	**2,414,996**	**100%**

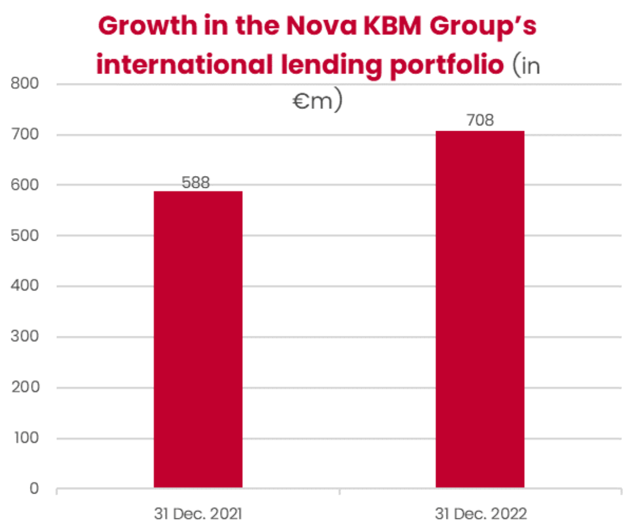
International lending portfolio

In line with its investment strategy, the Group introduced a new business line of international lending (syndicated loans, direct lending and SSD) in 2017.

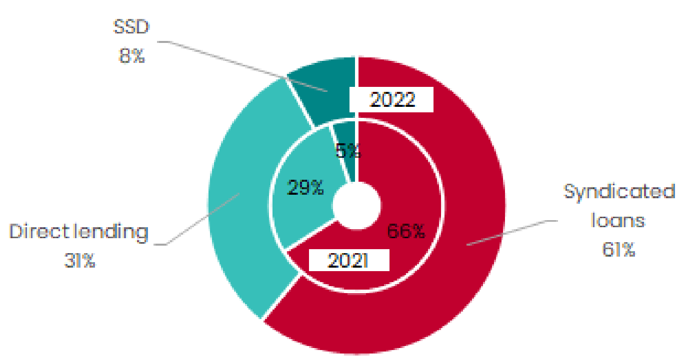
The Group invested part of its surplus liquidity in corporate loans primarily in EU jurisdictions outside Slovenia. The size of the international lending portfolio has increased in recent years, particularly in 2020 and 2021, reflecting the limited growth in credit in Slovenia and the liquidity accumulated by the Group arising from its presence on the domestic market. Growth in international lending slowed in 2022, but remains solid and higher than growth in domestic lending.

The international lending portfolio amounted to €707,525 thousand at the end of 2022, which was in line with the Group's investment strategy. The international lending portfolio increased by 20% or €119,567 thousand relative to 2021, with 61% of the portfolio accounted for by investments in syndicated loans and 31% by investments in direct lending, followed by investments in SSD. The majority of loans have an external rating of BB.

The graphs illustrate growth in the Nova KBM Group's international lending portfolio by volume (in € million) and product type (in %)



Nova KBM Group's international lending portfolio by product type



Trading on financial and capital markets

The Group maintains an important role in the domestic bond markets, as it increases the turnover and number of counterparties (financial institutions) from year to year.

Trading on the financial and capital markets was in line with established objectives. The Bank continued to provide services in the scope of foreign currency spot, forward and derivative transactions. Due to sanctions against Russia and the resulting difficulties in transacting with the Russian ruble (RUB), the Group withdrew the RUB from its exchange rate list and has prevented payment, trading and swap transactions in the RUB until further notice. The exception in terms of exchange transactions are the Bank's clients who have a balance in RUB on their accounts, which the Bank allows them to convert into EUR. Increased volatility on the financial markets as a result of the Russian military aggression and the European Commission's measures against Russia, combined with an increase in the general price level, have driven interest rates sharply up from historically low levels and the EUR/USD exchange rate below parity, resulting in increased demand from clients for derivatives to hedge currency and interest rate risk.

The Group maintains its important role as primary dealer for Slovenian government bonds and treasury bills and performs the role of official liquidity provider for Slovenian government bonds on the MTS Slovenia platform.[25] The Group has increased turnover on the primary and secondary Slovenian government bond market in recent years, through which the importance of its role on the local and international markets is likewise increasing. Due to the limited size of the local market, the Group's activities in recent years have focused increasingly on attracting new suitable counterparties and increasing the volume of trading in bonds from abroad.

Nova KBM is therefore recognised amongst domestic and foreign institutional investors as an important partner in ensuring the liquidity of Slovenian government securities.

Investment banking

The Group concluded transactions in the amount of €286,695 thousand on the domestic and foreign markets in 2022, primarily as the result of dynamic conditions on the capital markets. In May 2022, we also introduced the on-line trading of financial instruments for our clients via the online and mobile banks, which allows us as a bank to take an important step towards digitalisation in this area. We thus offer clients easy and transparent trading in mutual funds and shares on the Ljubljana Stock Exchange and most of the world's capital markets via the online and mobile banks – anywhere, anytime.

In 2022, the Group concluded transactions in the amount of €49,717 thousand on the Ljubljana Stock Exchange, in the amount of €163,634 thousand on international stock markets through an IPO in the amount of €74,671 thousand, and in the amount of €34 thousand on the unregulated capital market.

The volume of trading in the investment banking was up slightly in 2022 relative to 2021.

Distribution of investment funds

The Group was active in the distribution of mutual funds in 2022 via its partnership agreements with Sava Infond, Raiffeisen Capital Management and Triglav Skladi. The Group provides this service to its clients under MIFID regulations.

[25] MTS is one of the leading platforms for trading bonds in the EU.

Investors' holdings of mutual funds increased significantly in 2022. The Bank recorded sales of mutual funds in the amount of €89,546 thousand, with clients' assets under management in mutual funds amounting to €553,052 thousand at the end of 2022.

Operations with banks

The Bank strengthened cooperation with partner banks with the aim of providing services to clients who do business abroad.

The Bank also worked actively with international rating agencies that issue independent ratings. Those ratings reflect the creditworthiness of the Group and are based on a review of the Bank's performance and financial attributes, such as capital adequacy, profitability, funding, liquidity, asset quality, strategy and governance.

Ratings of Nova KBM as of 31 December 2022

Moody's Investors Service:	Baa1/P-2 (Ratings Under Review from Stable)
Fitch Ratings:	BBB-/F3 (Stable Outlook)

13.4 CUSTODY AND ADMINISTRATION SERVICES

We offer clients comprehensive solutions in the area of custody and administrative services. Nova KBM maintains a leading position in the area of custody services for investment and pension funds. We provide domestic and foreign institutional investors with custody account management services.

The Bank maintains a leading position on the Slovenian custody services market for mutual and pension funds. We also provide custody services for alternative funds and the internal funds of insurance companies. In addition to custody services, we provide administration services for both investment and pension funds, and for the internal funds of insurance companies. We thus provide clients a comprehensive service that gives us a competitive advantage.

The Bank also provides custody services for domestic and foreign institutional investors based on the Financial Instruments Market Act. Nova KBM remains a settlement member for three of the four members of Ljubljana Stock Exchange with remote access.

In February 2022, we successfully implemented into our processes Commission Delegated Regulation (EU) 2018/1229 regarding regulatory technical standards on settlement discipline. That regulation defines in detail measures to prevent and handle failed settlements, the monitoring and reporting of failed settlements, and fines for failed settlements.

At the beginning of 2022, we successfully switched software providers for the custody services we provide based on the Financial Instruments Market Act.

We continuously ensure the optimisation of processes and environmental protection, as evidenced by the introduction of paperless operations in this area.

We work responsibly and cooperate conscientiously with the environment in which we operate.
We are reducing the consumption of natural resources, care for the natural and social environment, and are aware that we are an important part of this world.

14 DEVELOPMENT OF THE BANK

Client excellence programme

Client excellence remains one of Nova KBM's strategic priorities. Focusing on the client is at the forefront of the **Client Excellence Programme**, the activities of which have a significant impact on increasing customer satisfaction and loyalty.

With the help of various market surveys, we listen to customers' experiences, needs and expectations from the Bank, while we also monitor customer satisfaction through various products offered by the Bank and the number of banking outlets where we provide banking services to customers. The numerous experiences and suggestions, as well as complaints, that our clients have shared with us have contributed significantly to **rounding off our offer**, while their feedback has helped us to upgrade our digital solutions, in particular, to make them **even more user-friendly**.

Trend of improving customer satisfaction continued in 2022

Active customer care helped ensure that customer satisfaction continued to improve in various segments in 2022. In addition to improving satisfaction, we also increased clients' willingness to recommend the Bank to their family, friends and acquaintances. We are particularly proud of the **high ratings and positive feedback given to employees in branch offices** by clients following their visits to branch offices across Slovenia. We also recorded very high ratings amongst the **users of the online and mobile banks, and the users of the Komplet and Premium bundles**.

In addition to a higher level of customer satisfaction, the willingness of clients to recommend the Bank to members of their social circle improved in 2022.

All employees are committed to striving for excellence. With the aim of building on our excellent results in the future, we also organised several employee training courses on this topic in 2022.

We believe that the successful internal **Champions Forum** programme, which fosters commitment to clients, teamwork and healthy competition amongst employees, has also helped to strengthen the focus on clients and loyalty.

We will continue with client-oriented activities in the future to increase the number of positive experiences with Nova KBM, strengthen long-term cooperation and deepen trust between clients and the Bank.

14.1 DEVELOPMENT OF PRODUCTS AND SERVICES

14.1.1 DEVELOPMENT OF NEW PRODUCTS AND SERVICES

The Group seeks to improve its portfolio of services, focusing on lean processes and digitalization in all key groups of financial products, such as basic banking services for day-to-day operations, and related financial products, such as insurance and asset management products. The Group remains focused on providing traditional banking services, not only in branch offices but also via modern channels (mobile/online bank, Contact centre). It ensures its competitive position through digitalization, by improving processes and adjusting its pricing policy, and through tactical and innovative offers tailored to customers' needs. Also, in 2022, Nova KBM focused on card and instant payment acquiring processes for micro, SME and LC merchants in order to stay competitive on the market.

In addition, Summit Leasing Slovenija, which is 100% owned by Nova KBM, offers a range of products, such as finance leasing, operating leasing and consumer loans.

The table presents new features, upgrades and improvements in the area of new products and services.

Area	New products and services, upgrades and improvements
New sales channel for products and services	• We continued with the digital inclusion of new customers in 2022, and continued to adapt products, services and processes with the aim of serving customers remotely. • targeted display of offers with push notifications and communication with the AI-equipped chatbot, Niko; • Secure, trusted login to financial services platforms for everyday use, with a 'remember me' option in the browser for improved fraud prevention and the personalisation of digital channels;
Retail (including premium) accounts	• Improved Komplet bundle and conclusion thereof via mobile/online banking applications (mutual funds and securities); • Launched special offers to support Ukrainian citizens; • adaption of the range of NKBM's products on the liability side through tactical initiatives in the area of savings and deposits, and the elimination of custody fees; • improved procedures for updating personal documents without visiting a branch office using the mobile bank; • additional benefits of the Premium bundle with more events and experiences, including through cooperation with JRE – results are tangible in the form of an increased NPS for the Premium segment; • increased emphasis on financial education and wealth planning for the Premium segment through recurring seminars; • monitoring of clients' trading accounts/portfolio, including the use of mutual funds
Card (issuing and acquiring) and payment services	• Great emphasis on exclusive offers and benefits at various retail outlets when paying with NKBM payment cards, which increased sales and the use of cards; • repositioning of credit cards across NKBM's entire portfolio through targeted and recurring campaigns (customer behaviour is monitored in order to develop a targeted offer); • termination of the issuing of Karanta credit cards; • changes to card delivery process to improve the customer experience; • expanded acceptance of cards at post offices via mobile POS terminals for parcel delivery – improved customer experience for Slovenian clients; • simplification of procedure for the inclusion of retailers (fast-track procedure for signing documentation);

	• launch of the SOFT POS application; • Launched FLIK for merchants for the acceptance of instant payments, together with card payments; • Joined the TIPS payment system and enabled the receipt of cross-border instant payments; and • introduction of the automated approval and acquisition of credit cards via the mobile bank
Loans	• Secured market share on housing loan market through tactical campaigns; • Successfully applied for a quota in the Housing Guarantee Scheme for young families (Stanovanjska jamstvena shema za mlade) and prepared the processes for such loans; and • Launched green consumer and housing loans in line with climate change taxonomy.
Insurance	• Introduction of PPI for the micro enterprise segment for overdraft facilities, and Smart and long-term loans; • optimisation of the conclusion of PPI for housing loans; • submission of applications for the insurance of cards and personal items, together with the acquisition of Visa credit cards via the mobile bank (remote); • focus on the definition of recurring processes for CRM campaigns, which led to improved sales results; • Launched referral program between SME and LC relationship managers and insurance companies (property, liability insurance, etc).
Micro enterprises	• Revamped Micro segment offer by changing processes, offers and market positioning, including a proper customer onboarding journey via tactical newsletters; • Continued the digitalization of processes by launching paperless account opening; • Launched marketing campaigns covering social media and local newspapers to promote NKBM capabilities for the Micro segment; • introduction of Smart Start services intended for start-ups and sole traders to help them at the beginning of their journey; • improved Smart Business bundle with additional functions with the aim of improving the NPS; • focus on legal requirements in the prevention of money laundering.
Documentary operations	• We achieved important milestones in documentary operations in 2022, supporting clients with: ○ Ordering documentary letters of credit via Bank@Net com, ○ Automatization of payments on nostro letter of credit. ○ An increased number of cash management product and services.

14.1.2 DEVELOPMENT OF DIGITAL CHANNELS AND E-SERVICES

The Bank offers numerous digital solutions: the Bank@Net online bank and mBank@Net mobile bank, which are intended for retail clients, and Poslovni Bank@Net, Bank@Net com, eBank@Net com and mBank@Net com, which are intended for corporate clients. Digital channels facilitate the use of many services that are otherwise available in the Bank's branch offices, thus eliminating the need for personal visits to branch offices.

Clients who wish to become users of the Bank@Net and mBank@Net online and mobile banks do not need to visit branch offices, as online registration is simple and only takes a minute. Clients can execute almost all daily transactions and payments, and reset forgotten passwords in both applications.

Even non-customers can open a Nova KBM personal account in just 10 minutes via mBank@Net, without visiting a branch office. They can choose between different types of personal accounts: Personal Plus, Net and student accounts. The Bank also offers bundled services in the Komplet bundle. The Bank does not charge a monthly management fee for Net and student accounts.

In 2022, we again on focused on improving the user experience by updating the login page to the online bank with the aim of preventing fraud and personalising services, and obtaining new products without visiting a branch office: viewing balances and making additional payments into mutual funds and securities, obtaining credit cards and prepaid cards, splitting instalments for credit cards, changing card limits and receiving SMS notifications for payment cards, approval of consumer loans, integration of FLIK option for immediate cash transfers via contacts, conclusion of Komplet bundle, and the raising of overdraft facilities entirely online using Bank@Net or mBank@Net. Similar to previous years, the proportion of payment transactions and retail sales executed via digital channels was up sharply in 2022.

Our users can chat with the AI-equipped chatbot, Niko, who was introduced on both platforms in 2022.

The Bank continues to improve its digital channels in order to facilitate clients' access to financial services. We also offer clients the targeted display of offers with push notifications on the mobile application, which led to a notable increase in the sale of products with the possibility of the immediate conclusion of the necessary paperwork (E2E) via digital platforms. Again in 2022, telephone sales contributed significantly to product sales, with the handling of enquiries submitted via the web, and the online and mobile banks. The new telephone sale service, the process of opening new personal accounts for non-customers via mBank@Net and the updating of personal documents for mobile bank users without visiting a branch office were important again in 2022 for clients who are unable to visit a branch office or who are more skilled in digital operations.

The active use of digital services increased by 18% in 2022.

Clients can easily enter into travel insurance via the website www.nkbm.si. Website users can find all the information they need about the Bank's products and services for both retail and corporate clients. Using the Bank's website, clients can submit requests for new products, pose questions about products and services, and submit proposals for improving the user experience.
Customer satisfaction in connection with digital services has been improving steadily and is currently at the highest level ever recorded. The active use of digital services was up by 18% in 2022.

The table presents new features, upgrades and improvements in the development of digital channels and e-services.

Area	New products and services, upgrades and improvements
Bank@Net online bank and mBank@Net mobile application	• Secure, easy to register and used on a daily basis; with "remember me" option on a browser (to prevent fraud and personalization) • monthly updates with development through Agile; • new user interface and user experience, and continuous improvement based on customer feedback; • registration and the unlocking/resetting of forgotten passwords without visiting a branch office; • new packages and account opening with mobile phone for new customers; maximum registration time of 10 minutes;

	• updating of expired ID without visiting a branch office; • SMS token auto pre-fill; • personalisation of dashboard; • targeted display of offers with push notifications; • hide/show balance and improved fraud prevention messages before payments; • card acquisition procedure; • approval of basic overdraft facilities; • conclusion of deposits and savings, and many other products without visiting a branch office (E2E); • acquisition of PIN, card number and CVV (only bank in Slovenia); • option of instalment payments for credit cards; • introduction of temporary blocking/unblocking of payment cards, and activation/deactivation of card purchases at points of sale, ATMs and online (card limits); • raising of consumer loan; • portfolio for loans, Summit Leasing and include 'Pay to' option; • trade options for investments (buy/sell/exchange mutual funds and open new funds; securities portfolio display and buy/sell stocks) and risk profile display; • request payment via the 'Pay Me' function, and send request with one click to a link or QR code via text message, WhatsApp, Viber, Messenger, etc.; • the possibility of payments via FLIK using contact and a simplified form; • scanning of QR code and payment with the option of uploading QR code via pdf or Gallery (.jpg); • inclusion/ordering of e-invoices and use of e-invoice payment function; • secure, PSD2-compliant confirmation of online card payments in the Bank@Net online application; • on-line chat/help with AI-equipped chatbot Niko; • versions of both platforms in Slovene and English; • prestigious award as the best online and mobile bank in Slovenia for third year in a row, as well as four WEBSI awards for our digital solutions for customers.
Poslovni Bank@Net	• secure, easy to register and used on a daily basis.
Bank@Net com and mBank@Net com	• In June we introduced the possibility of temporarily blocking and unblocking credit cards in online and mobile bank. • Users can order new letter of credit via the E2E process in the online bank, simplified receipt/payment of e-invoices and push notifications in mobile bank, and accelerated inclusion of new users and authorised persons, and changes relating to existing users and authorised person. Fully automated preparation of application forms for relationship managers, and possibility of signing forms via a signature pad. • Simplified and automated process of registration to digital channels for our back office. • Our Halcom platform users can connect their Nova KBM business account with third-party platforms simply by using the same authentication methods that they use for Halcom platforms.
mDenarnic@ mobile wallet	• introduction of the option of instant FLIK payments in mDenarnic@ at points of sale (P2M) at retailers; only P2P payments and requests for P2P payments were previously possible.

nkbm.si website	• Webpage makeover – new modern layout of all pages. • Redesign of 'PERSONAL' and 'CORPORATE' menu for a better user experience. • Increase in digital sales by using Push GO option since 2021.
ATMs	• 363 ATMs throughout Slovenia: 191 facilitate the instant payment of invoices, while 61 facilitate the instant depositing of cash. • We increased the use of cash withdrawal and deposit functions at ATMs (through regular communication with our users).
Contact centre	• Nova KBM uses an automated response system, video calls and an online chat function as user-friendly forms of communication with the Bank every day of the week. • The chatbot Niko is equipped with artificial intelligence and successfully responds to customers' questions regarding more than 900 topics in more than 90% of cases.

Contact centre

The Contact centre enhanced support for the remote provision of services to clients in 2022.

We paid special attention to the security of our clients' operations, primarily in the areas of payments with debit and credit cards, online shopping, the use of the online and mobile banks and payment transactions.

Clients can obtain five types of banking products via the Contact centre (loans, overdraft facilities, payment cards, simplified insurance products and the Komplet bundle), while we also provide 48 different additional services for clients as well as authorised account users. We provide support to not only retail but also corporate clients, primarily in the area of card operations and the use of electronic banking solutions.

We facilitate access to information by clients through conversations with advisers, voicemail, video calls or by chatting with our AI-equipped online chatbot, Niko. During the summer of 2022, we made chatting with Niko possible in the Bank@Net online bank and mBank@Net mobile bank, which led to a boost in the use of the chatbot, resulting in more than 50,000 chats per month.

The average monthly number of client calls and enquiries to the Contact centre increased by 9.8% in 2022, with almost 50% of clients obtaining the information they wanted through the use of automated services and the chatbot Niko.

In the area of complaints, we upgraded the internal reporting system, which gives the Bank's employees an even better overview of the progress of the resolution of each complaint and a more transparent history. The average monthly number of complaints was down by 25.1% in 2022 relative to the previous year.

14.1.3 SERVICES AT POST OFFICES

The Bank and Pošta Slovenije, as an important strategic partner, cooperate in various areas, one of the most important being the provision of payment and banking services for customers at postal counters.

The Bank's customers and non-customers can cooperate with Nova KBM at 456 post offices, including 291 regular post offices and 165 contracted post offices.

Through its extensive network of post offices, Pošta Slovenije provides payment and banking services to individuals and legal entities who are both customers and non-customers of the Bank. The Bank's customers can make cash withdrawals and deposits, conclude deposit agreements or submit requests for a range of banking services at 291 regular post offices. Even those who are not yet customers of the Bank but who wish to become customers, can open an account at post offices. The Bank's customers and non-customers can also make use of the most urgent banking and payment services at 165 contracted post offices.

The Bank and Pošta Slovenije improve their services and together address the needs of their customers. We therefore focused on changes and improvements to certain processes again in 2022. In the sale of services, we have simplified and automated the collection and processing of consumer loan requests, which makes it possible for clients to complete the process of raising consumer loans via telephone sales after identification at a post office.

The Bank continued to optimise its branch network in 2022 and reduced the total number of specialised bank counters at post offices to four. Specialised bank counters supplement cooperation in retail banking, and are intended for non-cash transactions with customers, while cash transactions are available at a nearby postal counter.

14.2 DEVELOPMENT OF INFORMATION TECHNOLOGY

Following the successful and seamless operational merger with Abanka, the Bank continued with the intensive pursuit of all strategic objectives aimed at strengthening the resilience, security, availability, scalability and cost-effectiveness of its ICT infrastructure. The Bank is thus achieving its medium-term, multi-year vision of the digital transformation of ICT, which began with the replacement of its core IT system. ICT, as one of the key factors that facilitates the achievement of high-level business objectives, is the subject of carefully considered and well-planned annual investments in modern technologies, in the areas of both hardware and software. The guiding principle of these investments is to build secure, highly available, user-friendly business solutions, tailored to the actual needs of clients, which is reflected in the understandability and ease of use of such solutions. As confirmation of the correctness of past decisions regarding the digital transformation, the Bank received an award for the best electronic and mobile bank for the third year in a row. At the same time, the Bank does not lag behind in the modernisation of other solutions offered to clients, such as the Contact centre platform, the user experience of which was upgraded with the virtual banking expert, Niko, and other services available to clients without the interaction of Contact centre agents. These solutions are developed on modern software platforms and supported by state-of-the-art technologies, such as robotic process automation or other types of artificial intelligence.

Nova KBM continued with the intensive pursuit of all strategic objectives aimed at strengthening the resilience, security, availability, scalability and cost-effectiveness of its ICT infrastructure. The Bank is thus achieving its medium-term, multi-year vision of the digital transformation of ICT through the inclusion of modern technologies (e.g., artificial intelligence) and the development of solutions tailored to clients, some of which are cloud services. Due to growing IT security threats, the Bank strengthened its capacity for the early detection of security events and increased its resilience to them. All planned investments for 2022 were implemented. There were no major organisational changes in the area of IT. The Bank continued to optimise key IT processes.

Due to the spike in cybercrime as the result of the mass shift of clients to digital channels, which was partly accelerated by the COVID-19 pandemic, the Bank strengthened and improved its early detection capabilities and increased its resilience to cyber-attacks. Another important factor in addressing this problem is the close involvement of the Security Operations Centre (SOC), which functions 24/7. Activities related to IT security do not focus solely on strengthening the security and resilience of the Bank's ICT infrastructure, but also on helping users prevent various online scams. Through its active role and proactive approach, the Bank aims to achieve an improved level of customer awareness of cyber threats and best practices in the use of digital channels. The Bank regularly tests its ability to respond to various IT security threats through various simulation exercises.

All investments planned for 2022 in the area of hardware and software were implemented, and will enable the Nova KBM Group to continue with the modernisation and consolidation of ICT. Due to the Bank's commitment to follow ESG initiatives, this has become one of the additional criteria when deciding on the actual implementation of an investment. In this way, the Bank demonstrated its responsibility in this area to the environment, not only in investments, but also in regular day-to-day IT operations, by successfully consolidating data centres and virtual platforms without any complications. On the end-user side, the equipping of workstations with laptops that facilitate remote work was completed.

There were no major organisational changes in the area of IT in 2022. Only regular activities aimed at optimising key IT processes continued, with the primary objective remaining the excellence of the end-user experience. The primary focus of optimisation was on simplicity, understandability, efficiency and transparency. All key IT processes are supported by a single platform that facilitates a simple mutual link between various requests. The result is a clear, transparent and in-depth overview of IT performance and actual efficiency. The latter applies in particular to the optimal use of available human resources and the resulting high level of deliverability of established tasks.

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

Investments in information technology

The Nova KBM Group continues to invest in its key IT systems and the infrastructure mentioned below. The main investments in hardware in 2022 were made in the consolidation of the virtual platform and the Bank's ability to recover quickly from unplanned events. A major investment was also made in the replacement of fully depreciated end-user IT equipment and with the aim of adapting to conditions associated with the COVID-19 pandemic. In the last two years, the Bank successfully equipped all workplace with laptop computers that facilitate remote work.

The Bank’s investments in IT systems and solutions for clients included improvements and the development of new functionalities in digital sales or communication channels (e.g., mBank@Net, Bank@Net, Contact centre, etc.). To that end, investments in the central banking information system and in support for anti-money laundering followed. Investments were also made in further robotisation and other types of artificial intelligence, a document management platform, an automated software testing system, a user identification and privileged user management system and tools for ensuring data quality.

Investments in buildings and upgrading of the vehicle fleet

The Bank continued with activities in the scope of ESG initiatives and modernised its vehicle fleet in 2022.

In 2022, the Bank carried out the complete renovation of the Šentjur branch office, renovated and modernised the technical security systems at nine branch offices, replaced the existing worn-out glass façade at the Nova Gorica branch office and partially renovated the roof.

In the scope of ESG initiatives, the existing cooling, ventilation and heating system at the Ruše branch office was completely replaced with a more environmentally friendly and energy-efficient system.

In 2022, the Bank renovated and leased office space in Ljubljana to its subsidiary ALEJA finance.

As part of ESG initiatives, we installed 14 electric vehicle charging stations at the Central Maribor, Slovenska 58 (Ljubljana) and RCA Tezno (Maribor) locations, and replaced part of the fleet with electric vehicles. A total of 13 electric vehicles were ordered, with six of those vehicles delivered and put into service in 2022.

At the RCA Tezno facility, ESG initiatives for the data centre included the rehabilitation and replacement of worn-out cooling system verticals to ensure the more efficient consumption of energy and thus ensure the necessary reliability of the system. Also, as part of planned ESG initiatives to ensure more efficient energy consumption at the RCA Tezno facility, we replaced existing worn-out blinds, fully replaced existing lighting with more energy efficient LED technology, and implemented a system to monitor the consumption of energy for heating and cooling purposes.

Together with our employees and business partners, we create stories that resonate and put smiles on faces. Including through charitable activities, as demonstrated by the outstanding Gold Circuit campaign with Primož Roglič.

15 HUMAN RESOURCE MANAGEMENT

The Bank had 1,539 employees as of 31 December 2022, with 98% of employees under permanent employment contracts and 2% under temporary contracts. A total of 96 new employees were hired in 2022 and 188 employees left the Bank.

	2022	2021
As of 31 December		
Total number of employees	1,539	1,631
Number of permanent employees	1,504	1,593
Number of temporary employees	35	38
Number of employees with disabilities	37	46
During the year	2022	2021
Average number of employees	1,559	1,733
Number of new employees	96	56
Number of departures during the year	188	328

Proportion of employees by gender	As of 31 December 2022	
	% of women	% of men
Total employees	73%	27%
Level B-1 directors	33%	67%
Management Board	25%	75%

The HR Department dedicated a great deal of attention to continuing activities to foster a common culture and increasing employee satisfaction and engagement.

Two major new features in 2022 were the adoption of a bylaw regarding the People Strategy, and the drafting of a Diversity, Equality, Inclusion and Belonging Policy, which will enter into force in 2023.

Non-monetary remuneration

One of the important innovations introduced last year was non-monetary remuneration, which we continued again in 2022. This method of remuneration gives employees the feeling that their work and effort is recognised by their superiors, and has generally been very well received. It differs from existing performance-related remuneration in that employees choose their form of remuneration. Those receiving such recognition may choose between additional paid time off from work, training or coaching of their choice, or even a leisure-time experience in the company of a loved one.

Renewal of the onboarding process

With the awareness that starting a new job is an important moment in every employee's career, and in order to make that process as stress-free as possible for all concerned, the Bank provides future employees with the most important information to help them settle into their new work environment from the moment they accept a job offer until their first day on the job at the Bank. We also added a welcome package that every future employee receives by post. The package includes a letter addressed to the new employee, the most relevant information about the Bank and helpful office supplies. We also motivate future employees to lead a healthy lifestyle, as we include in the package a water bottle and a book of motivational thoughts from a well-known author. In this way, we make an important connection with each new employee, reinforce trust and create an employee-friendly work environment before they even start their job.

Promotion of employee innovation

As an important step in promoting employee innovation, the Bank introduced application support back in 2021 for the collection of their ideas. The '**Idejomat**' was named by employees themselves. The aim of the Idejomat is to promote the values of innovation and effectiveness and include in the idea management process all employees who wish to improve the operations, efficiency and performance of the Bank through their ideas. A total of 77 different ideas were submitted to the Idejomat by 55 employees in 2022.

The Bank organised an Idea Challenge again in 2022 in form of the 'Robotisation of Processes', in the scope of which 18 ideas were submitted. Submitted ideas were studied, and an assessment of the feasibility of the idea, the impact of the robot on the Bank's operations and the speed of the robot's deployment was prepared together with the proposers. Ideas approved by process owners are in the process of implementation.

Internal coaching

Experienced external coaches have been available to senior management and management staff at Nova KBM for some time. We began an internal coaching programme in 2021 with the aim of making this support available to a wider range of employees. Through intensive training, the Bank gained 16 internal coaches, who acquired the skills and basic coaching competences that they began using in 2022 to support the personal and professional development of their colleagues via a structured coaching process within the organisation.

Promotion of the information flow between employees

In 2022, a great deal of emphasis was again placed on promoting the information flow between employees, in the scope of which we continued implementing the **Brown Bag Lunch**, **Weekly Takeaway** and **internal career interviews**. During the year, the **Brown Bag Lunch** activity was intended for online presentations of the work of individual sectors and the main responsibilities of employees. The aim of these events to familiarise all Bank employees with the work of their colleagues in a simple and understandable way. Following presentations of all sectors, the remaining time is used to focus on free time activities and personal interest. Both the Brown Bag Lunch and Weekly Takeaway activities present opportunities for employees to learn something new about subjects that interest them. While the Brown Bag Lunch activity was initially intended for the presentation of sectors and later for leisure-time activities, the **Weekly Takeaway** is intended for technical topics from various areas in the Bank. As the name itself implies, the activity takes place at the end of the working week via MS Teams and is intended as a one-hour internal training course on topics from technical areas in the Bank. All employees may register for the training. Through the implementation of **internal career interviews**, we present employees the interesting career paths of their co-workers in the scope of monthly newsletters.

Recruiting young talent

Special attention was given again during the year to **recruiting young talent**. With the aim of linking the academic and business worlds, and recruiting talented individuals, we have been working with educational institutions in the preparation of various projects for several years. We also attend various career fairs and other events organised by such institutions. In cooperation with the School of Economics and Business at the University of Ljubljana, we organised a multi-day educational event for students in 2022. To date, the Banking School has been attended by more than 20 students from various faculties and study programmes. We are particularly pleased that such forms of networking are developing into long-term cooperation and potential jobs for young people entering the labour market.
We also participated in two **career fairs** in 2022, where our HR representatives were available to answer jobseekers' questions regarding employment opportunities at the Bank.

Safety and health at work

The Bank dedicates special attention to the area of safety and health at work, as providing safe and healthy work conditions is one of the employer's most important tasks. We regularly refer employees for preventive and periodic medical examinations and ensure the ergonomic arrangement of workstations in accordance with their needs. We regularly organise various training courses for employees. In 2022, we provided employees advice regarding health and safety when working from home. In 2022, we organised several internal e-training courses for employees, vaccinations against tick-borne encephalitis and active breaks as part of our efforts to promote health. Our objective is to prevent workplace injuries, reduce the sick leave rate and raise employee awareness about the importance of health through the implementation of various measures and by taking a preventive approach.

Employee engagement and satisfaction

The opinions of our employees are very important to us. For this reason, the Group has been conducting employee satisfaction and engagement surveys (VoE – Voice of Employees) twice a year for several years. Two surveys were conducted again in 2022. The results of the most recent survey, carried out at the Group level at the end of 2022, show unchanged employee engagement and satisfaction rates relative to the results of the survey conducted at the end of 2021. The latter is a reflection of the active implementation of measures to promote a common culture and improve employee satisfaction and engagement.

Family-Friendly Company certificate

Nova KBM has been a proud holder of the full Family-Friendly Company certificate since 2015. We offer employees a total of 16 family-friendly measures. Amongst the most popular are flexible working hours, the giving of gifts to employees' children, additional days of paid leave to care for hospitalised children, and additional hours for doctors' visits for employees over the age of 50. In the scope of measures, a work-life balance team meets regularly to seek out and discuss suggestions for new, improved work methods that focus on the balancing of employees' professional and private life. We also organised e-training in 2022 for all management staff at the Bank on the topic of work-life balance with the aim of recognising the importance of achieving that balance, presenting the advantages of the Family-Friendly Company certificate and briefing employees on the actual measures of a family-friendly company.

Training and education

Our employees participated in 304 different training programmes in 2022 for a total of 53,523.5 hours which translates to an average of 34.8 hours per employee. In 2022, internal and external training programmes were organised live in the form of workshops and via contemporary digital channels, which as a response to COVID-19-related conditions from the previous year proved to be an effective way to organise those programmes. Training is organised for both employees and students who perform work at the Bank via student services. Students participated in 11 different programmes covering a total of 228 hours.

Development of managers

The Group is aware of the importance of investing in the development of managers. For this reason, we organised **workshops** for all managers again in 2022 **on leadership skills** linked primarily to practical guidelines in the area of promoting employee engagement, how to lead in conjunction with coaching, and how to adapt communication styles to the situation. In 2022, we continued with the **Lead Programme** that we revived at the end of 2021. It is a one-year development programme intended for potential managers from various levels and areas at the Bank. It is based on the use of teamwork to address challenges, with the direct cooperation and support of the Bank's senior managers. Additional workshops were organised for managers on the topic of personal development. To ensure a relaxed atmosphere, we also organised teambuilding events. The programme was implemented throughout 2022 with the aim of finding the most original and effective solutions for the real challenges that the Bank faces, while connecting managers from various levels and areas. At the end of the event, we awarded a short trip abroad to the winning team with the most original solution. Additional information regarding human resource management is presented in the ESG report of the Nova KBM Group.

REGULATORY SECTION

16 CORPORATE GOVERNANCE STATEMENT OF NOVA KBM

In accordance with the fifth paragraph of Article 70 of the Companies Act, Nova KBM hereby issues the following corporate governance statement, which is part of the business report included in the Annual Report.

1. INFORMATION REGARDING THE EXTENT OF DEVIATIONS FROM CORPORATE GOVERNANCE CODES IN ACCORDANCE WITH THE FIRST AND SECOND INDENTS OF POINT 1 OF PARAGRAPH 5 OF ARTICLE 70 OF THE ZGD-1

Nova KBM was a company with capital investment by foreign investors as of 31 December 2022.

Nova KBM was not a public company as of 31 December 2022 in terms of the provisions of the Financial Instruments Market Act, as it has no financial instruments listed for organised trading or listed on a stock exchange.

Nova KBM complies with the regulations cited in the fifth paragraph of point 1 of this statement. Given that Nova KBM is not a public undertaking, it is not required to comply with the Slovenian Corporate Governance Code. Nova KBM also makes no use of any other corporate governance codes, as the Bank's corporate governance is already largely regulated by Slovenian regulations (statute law and secondary regulations), by EU regulations, and by standards, resolutions and recommendations issued by its banking regulators.

The Bank's own bylaws, namely the Code of Conduct of Nova KBM and the Nova KBM Group, and the code of ethics of the Bank Association of Slovenia are also of great importance to its governance and operations.

In 2022, Nova KBM pursued its internal governance arrangements, including corporate governance, in accordance with applicable legislation in Slovenia, taking into account its own bylaws.

With the aim of strengthening internal governance arrangements, the Bank took into account, particularly, the following in its operations:

1. the provisions of the applicable Banking Act (ZBan-3), which define internal governance arrangements, in particular the provisions of Chapter 3.4 (Banking management system) and Chapter 6 (Internal governance arrangements and internal capital adequacy), in the part of the requirements applicable to the Bank or members of its governing body, taking into account the acts referred to in the second paragraph of Article 9 of the Banking Act;

2. the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks;

3. EBA guidelines that govern internal governance and the assessment of the suitability of members of the management body and key function holders, and remuneration policies and practices, based on the relevant Bank of Slovenia regulations regarding the application of these guidelines.

Nova KBM takes into account, to the greatest extent possible, the non-binding recommendations of the Bank of Slovenia.

Nova KBM does and will proactively strengthen and promote the appropriate internal governance arrangements and corporate integrity in the wider professional, financial, economic and public environment.

The Group followed the Governance Policy of Nova KBM and Nova KBM Group companies. The most recent updated policy has been in effect since 15 October 2021.

2. DESCRIPTION OF THE MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

Internal controls ensure the appropriate management of risks, appropriate accounting and internal and external financial reporting and communication, and the lawful and ethical operations of the Bank. Internal controls are in place in all processes and organisational units, at all organisational levels of the operations of the Bank and Group.

Risk management is an important part of the management and governance system, and relates to the systematic identification, measurement and assessment of risks arising from operations of the Group and the environment in which it operates. Procedures for measuring and managing risks by individual type of risk are set out in individual risk management policies. Procedures for assessing the design and effectiveness of internal controls at the process level are defined in the Internal Control System Policy. Every Group company is responsible for identifying, measuring and managing all risks that affect their operations.

Assessing and managing risks have a significant impact on the formulation of the business and strategic plan of the Bank and Group, and on the decision-making process in commercial transactions, individual agreements, investments and other activities.

The system for monitoring risk management is based on monthly reports that are discussed by the Bank's competent bodies responsible for monitoring exposure to individual risks.

For the needs of a comprehensive overview of the risks to which the Group is exposed, the Bank prepares a risk profile once a year. That document contains an assessment of all types of risks to which the Bank is or could be exposed in its operations, and an assessment of the associated controls. The document is discussed and approved by the Bank's Management Board.

Both the Bank and the Group seek to ensure an appropriate system of internal controls that includes precisely defined accounting procedures (competences and responsibilities for individual tasks, automated and manual controls in all phases of the accounting process, reporting, etc.).

The Internal Audit Department assesses the adequacy and effectiveness of:

- the governance system,
- the risk management system, and
- the Bank's system of internal controls,

and contributes to the improvement of those systems.

The Internal Audit Department provides support and assistance to the governing body in the achievement of the long-term objectives of the Bank and protects its reputation. It reports regularly to the Bank's Management Board, Audit Committee and Supervisory Board on the results of its work.

When auditing the financial statements, the external auditor examines, at its discretion, internal controls as they relate to the compilation and fair presentation of the financial statements. In its letter to the Audit Committee, the auditor summarises its findings regarding deficiencies and potential areas for improvement that it identifies during the audit of the financial statements and reports those findings to the Management Board and Audit Committee.

3. INFORMATION AND CLARIFICATIONS FROM COMPANIES BOUND TO APPLY THE ACT GOVERNING TAKEOVERS (INFORMATION FROM POINTS 3, 4, 6, 8 AND 9 OF THE SIXTH PARAGRAPH OF ARTICLE 70 OF THE ZGD-1)

Significant direct and indirect ownership of the Company's securities in terms of achieving a qualifying holding as set out in the act governing takeovers (point 3 of the sixth paragraph of Article 70 of the ZGD-1)

As of 31 December 2022, Biser Bidco S.à r.l. was the owner of 10,000,000 ordinary, registered no-par-value shares, with voting rights, which represent 100% of the Bank's share capital.

On 31 May 2021, OTP Bank Nyrt. and Biser Topco S.à r.l. concluded an agreement on the sale and purchase of all issued share capital of Biser Bidco S.à r.l., which is the sole shareholder of Nova KBM.For the completion of the sale and the actual transfer of shares of Biser Bidco S.à r.l., the buyer was obliged to obtain the necessary prior regulatory consents.

On 6 September 2022, OTP Bank Nyrt. received consent from the ECB for the indirect acquisition of a qualifying holding in Nova KBM d.d. The Slovenian Competition Protection Agency issued consent on 31 January 2023.

Ownership of 100% of Nova KBM d.d.'s shares did not change on the day of the indirect transfer of those shares to OTP Bank Nyrt. The sole shareholder, whose name was changed on 6 February 2023, remained Biser Bidco S.à r.l. following the indirect transfer of shares of Nova KBM d.d. to OTP Bank Nyrt. The former Biser Bidco S.à r.l. has been named OTP Luxembourg S.à r.l. since 6 February 2023.

Holders of securities that provide special controlling rights (point 4 of the sixth paragraph of Article 70 of the ZGD-1)

Shareholders have no special control rights arising from the ownership of Nova KBM shares.

Restrictions on voting rights, in particular: (–) restrictions on voting rights to a certain stake or certain number of votes, (–) deadlines for the exercising of voting rights, and (–) agreements where, based on the company's cooperation, the financial rights arising from securities are segregated from the ownership of those securities (point 6 of the sixth paragraph of Article 70 of the ZGD-1)

In accordance with the Bank's Articles of Association, there are no restrictions on voting rights.

The Bank's rules on the appointment and replacement of members of management and supervisory bodies, and changes to the articles of association (point 8 of the sixth paragraph of Article 70 of the ZGD-1)

Bank's Management Board

In accordance with the provisions of the Articles of Association, the Supervisory Board appoints and recalls the President and other members of the Management Board, where the President of the Management Board may appoint one of the other members of the Management Board to serve as Vice-President.

Members of the Management Board are appointed for a period of up to five years and may be reappointed.

The Supervisory Board may recall members of the Management Board for the reasons stipulated in the applicable regulations and the Bank's bylaws and rules.

Members of the Management Board may also resign voluntarily.

Supervisory Board

In accordance with the Articles of Association, the members of the Supervisory Board are elected by the General Meeting of Shareholders for a period of five years.

The appointment of Supervisory Board members ends with the expiry of the aforementioned period or based on a resolution to recall a member adopted by the Bank's General Meeting of Shareholders. Members of the Supervisory Board may resign at any time.

In accordance with the provisions of the ZGD-1 and Article 14 of the Bank's Articles of Association, the General Meeting of Shareholders adopts decisions regarding amendments to the Articles of Association. In accordance with the provisions of the ZGD-1 and the Bank's Articles of Association, a majority of at least three-quarters of represented share capital is required to pass a General Meeting of Shareholders resolution.

Powers of senior management, in particular powers to issue or purchase treasury shares (point 9 of the sixth paragraph of Article 70 of the ZGD-1)

In accordance with the Bank's Articles of Association and its other bylaws, the powers of the Management Board members to issue or purchase treasury shares are not limited. Members of the Management Board may issue and purchase treasury shares in accordance with the law.

4. INFORMATION REGARDING THE FUNCTIONING OF THE BANK'S GENERAL MEETING OF SHAREHOLDERS AND ITS KEY COMPETENCES, AND A DESCRIPTION OF THE RIGHTS OF SHAREHOLDERS AND HOW THOSE RIGHTS ARE EXERCISED

The General Meeting of Shareholders has the powers set out in the applicable regulations.

The General Meeting of Shareholders is convened by the Management Board or Supervisory Board.

The General Meeting of Shareholders is convened in the circumstances defined by valid regulations and when the convening of the General Meeting of Shareholders is in the Bank's interest.

The General Meeting of Shareholders may also be convened by the Supervisory Board, in particular when the Management Board fails to convene the General Meeting of Shareholders in a timely manner or when the convening of the General Meeting of Shareholders is required for the smooth functioning of the Bank.

As a rule, the General Meeting of Shareholders is held at the Bank's registered office or at another location defined in the notification of the convening of the General Meeting of Shareholders.

The General Meeting of Shareholders adopts resolutions with a simple majority of votes cast, unless a different majority is specified in the law or the Bank's Articles of Association.

The voting rights of shareholders are exercised in accordance with their stake in share capital. Each ordinary no-par value share with voting rights is entitled to one vote.

5. INFORMATION REGARDING THE COMPOSITION AND FUNCTIONING OF MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

Management Board

Nova KBM's Management Board comprised the following four members as of 31 December 2022: John Denhof, President, Sabina Župec Kranjc, Vice-President, and members Miha Kristl and Matej Falatov.

Work of the Management Board

Pursuant to the law and the Bank's Articles of Association, the Management Board manages transactions independently and at its own risk.

The Management Board comprises at least two members. Members of the Bank's Management Board are appointed by the Supervisory Board. One of the members of the Management Board is appointed President of the Management Board. The President of the Management Board appoints one member to serve as Vice-President. The number of members of the Management Board is determined by the Supervisory Board by means of a resolution. Members of the Management Board are appointed for a period of five years and may be reappointed.

The Supervisory Board recalls members of the Management Board for the reasons stipulated in the applicable regulations and the Bank's bylaws and rules. Members of the Management Board may also resign voluntarily.

The Management Board decides on all company matters, except those matters on which the General Meeting of Shareholders or Supervisory Board decides in accordance with valid regulations and/or the Articles of Association.

The Bank's Management Board must obtain the prior consent of the Supervisory Board for legal transactions that require such consent in accordance with the law. For the conclusion of legal transactions that require a special resolution of the Supervisory Board, the Management Board must obtain the prior consent of the Supervisory Board or its competent commissions or committees that were created by the Supervisory Board for that purpose. The method and process of issuing consent is determined by the Supervisory Board by means of a special resolution.

The Management Board performs its work in accordance with its rules of procedure, which shall be approved by the Supervisory Board. The rules of procedure are approved by the Supervisory Board.

The Management Board makes decisions by a majority of votes cast. In the event of an equal number of votes, the President of the Management Board casts the deciding vote.

The Management Board adopts decisions at ordinary, extraordinary and correspondence sessions (by electronic means). Minutes are drawn up for sessions of the Management Board.

The Management Board informs the Supervisory Board with regard to all matters requiring such notification according to valid regulations. The Management Board also informs the Supervisory Board with regard to all other matters that the latter deems necessary by means of a resolution.

Detailed information regarding the composition and powers of the commissions and committees of management bodies is presented in the section 'Corporate governance'.

Supervisory Board

The management of Nova KBM's operations is supervised by the Supervisory Board which, in accordance with the Bank's Articles of Association, comprises a minimum of six and a maximum of 11 members.

The Supervisory Board comprised the following members as of 31 December 2022:
Andrej Fatur, Chairman, Andrzej Klesyk, Deputy Chairman, and members Manfred Puffer, Michele Rabà, Andrea Moneta, Kristina Žagar and Borut Jamnik.

Work of the Supervisory Board

The members of the Supervisory Board are appointed by the Bank's General Meeting of Shareholders.

The Supervisory Board elects a Chairman and at least one Deputy-Chairman from among its members.

Members of the Supervisory Board are appointed for a period of five years, and may be reappointed. The appointment of Supervisory Board members ends with the expiry of the aforementioned period or based on a resolution to recall a member adopted by the Bank's General Meeting of Shareholders. Members of the Supervisory Board may resign at any time.

The work of the Supervisory Board may be governed by rules of procedure.

Members of the Supervisory Board are entitled to remuneration that is determined by the Bank's General Meeting of Shareholders.

Decisions of the Supervisory Board are deemed valid if the majority of that body's members are present. The Supervisory Board adopts resolutions by a majority of votes cast. In the event of an equal number of votes, the Chairman of the Supervisory Board casts the deciding vote.

The Supervisory Board adopts decisions at ordinary, extraordinary and correspondence sessions (by electronic means). Minutes are drawn up for sessions of the Supervisory Board.

Sessions of the Supervisory Board are convened at least four times a year. Sessions are convened by the Chairman or Deputy Chairman of the Supervisory Board.

The Supervisory Board may appoint other commissions, the appointment of which was not envisaged or mandatory based on valid regulations. The competences of other commissions are to be defined in a resolution adopted by the Supervisory Board, as required.

Detailed information regarding the composition of the Supervisory Board as of 31 December 2022 and other information regarding the functioning of the Supervisory Board is presented in the section 'Corporate governance of Nova KBM'.

Information regarding the functioning of the Supervisory Board is presented in the section 'Report of the Chairman of the Supervisory Board'.

Supervisory Board committees

The following committees performed their work in accordance with the Companies Act (ZGD-1) and Banking Act (ZBan-3) during the 2022 financial year: the Audit Committee, Remuneration Committee, Nomination Committee, Risk Committee and Credit Committee.

Information regarding the composition of the Supervisory Board and its committees is presented in the section 'Corporate governance of Nova KBM'.

Audit Committee
The Audit Committee provides the Supervisory Board expert support in the supervision of the management of the Bank and Group companies regarding matters within its powers, in particular the assessment of the internal control and risk management systems, the assessment of accounting and financial reporting, the lawfulness and ethics of the Bank's operations and the assessment of internal and external auditing at the Bank and Group companies.

The Audit Committee performs its activities in accordance with the law (ZGD-1), the Bank's Articles of Association and the internal audit charter, which defines the purpose and composition of the Audit Committee, the conditions and methods of its work, and the competences and responsibilities of its members. The area and method of work of the Audit Committee, its decision-making process and all other matters deemed important for its functioning are regulated by the rules of procedure of the Audit Committee.

Nomination Committee
The Nomination Committee provides the Supervisory Board expert bases for decision-making, particularly in connection with personnel issues relating to the performance of the function of the Management Board and Supervisory Board member.

The area and method of work of the Nomination Committee, its decision-making process and all other matters deemed important for its functioning are regulated by the rules of procedure of the Nomination Committee.

Remuneration Committee

The main purpose of the Remuneration Committee is to assist the Supervisory Board in the performance of its supervisory function in connection with remuneration that affects risks and risk management.

The area and the method of work of the Remuneration Committee, its decision-making process, and all other issues deemed important for its work are regulated by the rules of procedure of the Remuneration Committee.

Risk Committee

The main purpose of the Risk Committee is to provide the Supervisory Board with expert assistance in the performance of its supervisory functions in connection with the preparation of decisions relating to risk management and the risk profile, and the implementation of the Risk Management Strategy. The area and the method of work of the Risk Committee, its decision-making process, and all other issues deemed important for its work are regulated by the rules of procedure of the Risk Committee.

Credit Committee

The Credit Committee is an expert advisory body to Nova KBM's Supervisory Board. Its primary mission is to provide a prior written consent for transactions, as defined by a Supervisory Board resolution. The Bank's Management Board must thus obtain the prior consent (approval) of the Credit Committee for the conclusion of legal transactions for which a special resolution is adopted by the Supervisory Board (so-called list of transactions).

6. DESCRIPTION OF THE DIVERSITY POLICY THAT IS IMPLEMENTED IN CONNECTION WITH REPRESENTATION ON MANAGEMENT AND SUPERVISORY BODIES, IN TERMS OF GENDER, AGE OR EDUCATION

The Bank did not have a separate policy in 2022 for the selection of members of its management bodies, as this area is covered in full, in substantive terms, by the Group's Policy on the Selection of Suitable Candidates for Management Body Members. That policy was last updated by the Bank in September 2021. In addition to the expansion of the policy's validity and the expansion of implementation to Nova KBM Group companies, the policy also envisages, in accordance with the provisions of paragraph 2 of Article 35 of the Banking Act (ZBan-3), the establishment and implementation of an appropriate selection policy for suitable candidates, which ensures:

- that the management body, as a whole, takes into account the wide range of knowledge, skills and experience of its members, which facilitates an in-depth understanding of the Bank's business activities and the risks to which it is exposed;
- initiatives to achieve diversity within the management body, including the appropriate representation of both genders and policies to achieve these objectives by increasing the number of members of an under-represented gender on the management body; and
- the definition of conditions for the performance of a specific function, including the required profile of members of the management body before they are appointed.

The criterion of experience is thus defined for members of the management body (the education, work experience and knowledge of individual members or candidates in key areas are assessed in this regard), as well as the criterion of personal reliability and reputation, and the criterion of management.

In accordance with EBA Guidelines on internal governance, and the supervisory guidelines and recommendations of regulatory authorities (the Bank of Slovenia and ECB), the section 'Criterion of experience' also defines other related matters that could have a decisive effect on the Bank's future operations. This concerns, in particular, the fulfilment of the condition regarding knowledge and experience in the areas of sustainable financing and associated ESG risks, IT risks, cyber risks, sustainable business models and digitalisation. Candidates for members and members of the management body must fulfil these criteria, both individually and at the level of the entire body.

In accordance with the revised EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, the policy now includes knowledge of the prevention of money laundering and terrorist financing as a condition for the fulfilment of conditions covering knowledge, skills and experience.

In accordance with the new EBA guidelines on the assessment of suitability, the policy was supplemented with a provision that requires the Bank to take into account additional requirements and/or introduce additional measures to ensure diversity in terms of gender, and to respect the principle of equal opportunities with the aim of enhancing the positive impact on the decision-making process at individual levels of management.

On this basis, the Bank also adopted a Diversity, Equality, Inclusion and Commitment Policy at the end of 2022. That policy will enter into force in 2023.

Diversity in terms of gender represents a key component of all levels of the organisation. The Employee Development Strategy defines, *inter alia*, objectives relating to the representation of the under-represented gender, which promotes diversity in the Bank's two-tier system of governance. The Bank strives to ensure that governing bodies are diverse in terms of age, gender, geographic origin, education and profession, that they represent various views and experiences, and that they facilitate independent opinions and critical thinking.

We are committed to promoting equal opportunities for everyone, and to ensuring that no individual or group is discriminated against in the process of planning or implementing the Bank's activities. We believe that a culture which embraces equality and the diversity of values will ensure that each individual feels equally included and has the opportunity to participate in our plans, programmes and activities.

In accordance with the competences of the Supervisory Board's Nomination Committee as set out in the ZBan-3, the aforementioned committee is striving to improve the representation of both genders on the management body over the next five years by pursuing the objective of increasing the number of members of the under-represented gender on the Management Board and Supervisory Board.

In practice, diversity is ensured through procedures for proposing and appointing members to management and supervisory bodies. Diversity criteria (professional experience, age, education and expertise) were met, except for the criteria regarding representation by gender, which can be achieved by increasing the number of members of the under-represented gender.

The representation of women on the seven-member Supervisory Board was 14% in 2022.

The representation of women on the Bank's Management Board was 20% until 11 February 2022 (five-member Management Board). The representation of women on the Bank's four-member Management Board after 11 February 2022 improved slightly, to 25%. As of 31 December 2022, the Management Board comprised four members: one woman and three men. The female member of the Management Board has performed her function since 2014, which further contributes to the continuity and quality of the Management Board's decision-making process.

More regarding the policy is presented in the document 'Pillar 3 disclosures at the level of the Biser Topco Group', which is/will be published on Nova KBM's website.

The corporate governance statement is an integral part of the Bank's Annual Report for 2022, which is published on its website.

Maribor, 30 March 2023

Management Board of Nova KBM d.d.

Miha Kristl	**Matej Falatov**	**Sabina Župec Kranjc**	**John Denhof**
Member	Member	Vice-President	President

Supervisory Board of Nova KBM d.d.

Imre Bertalan
Chairman

17 STATEMENT OF RESPONSIBILITY OF NOVA KBM'S MANAGEMENT BOARD FOR THE COMPILATION OF THE ANNUAL REPORT FOR 2022

In accordance with the provisions of paragraph 2 of Article 134 of the Financial Instruments Market Act, by signing this statement, the Bank's Management Board, comprising John Denhof, President, Sabina Župec Kranjc, Vice-President, and members Miha Kristl and Matej Falatov, hereby declares, to the best of its knowledge that the business report includes a fair presentation of the development and operating results of the Bank and of its financial position, together with a description of the principal types of risk to which the Bank and companies included in consolidation are exposed.

The Management Board of Nova KBM also declares that the Bank did not, pursuant to Article 545 of the Companies Act (ZGD-1), engage in or conclude any legal transactions with the controlling company or its affiliates at the initiative or in interest of those companies during the 2022 financial year, nor did it perform or omit any other acts at the initiative or in interests of those companies that would result in detriment to or the deprivation of the Bank.

Maribor, 30 March 2023

Management Board of Nova KBM d.d.

Miha Kristl	**Matej Falatov**	**Sabina Župec Kranjc**	**John Denhof**
Member	Member	Vice-President	President

18 TYPES OF SERVICES FOR WHICH NOVA KBM HOLDS BANK OF SLOVENIA AUTHORISATION

Nova Kreditna banka Maribor d.d. holds authorisation to provide banking services pursuant to Article 5 of the Banking Act (Official Gazette of the Republic of Slovenia, No. 92/2021 with amendments; hereinafter: the ZBan-3). Banking services comprise the acceptance of deposits and other repayable funds from the public, and lending for own account.

The Bank holds authorisation to provide mutually recognised financial services and ancillary financial services.

It holds authorisation to provide the following mutually recognised financial services in accordance with Article 5 of the ZBan-3:

1. the acceptance of deposits and other repayable funds;
2. the granting of loans, including:

- consumer loans,
- mortgage loans,
- the purchase of receivables with or without recourse (factoring),
- the financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting);

3. financial leasing (lease or rent) of assets, where all material risks and rewards arising from ownership of the leased asset are transferred to the lessee, and where the transfer of ownership rights to the lessee is possible but not necessarily exercised;
4. payment services;
5. the issuance and management of other payment instruments (e.g., travellers' cheques and bankers' drafts), insofar as such services are not included in the services referred to in the previous point;
6. the issuing of guarantees and other sureties;
7. trading on own account or for the account of customers:

- in money-market instruments,
- in foreign legal tender, including currency exchange transactions,
- in standardised futures and options,
- in currency and interest-rate instruments,
- in transferable securities;

8. participation in securities issuance and related services;
9. advice and services in connection with mergers and acquisitions;
11. advice in connection with investments (investment advice);
12. safekeeping of securities and other related services;
14. leasing of safe deposit boxes; and
15. investment services and transactions, and ancillary investment services in accordance with the ZTFI.

The Bank may perform the following ancillary financial services in accordance with Article 6 of the ZBan-3:

1. insurance agency or brokerage services pursuant to the law governing the insurance industry;
4. custody and administrative services pursuant to the law governing investment funds and management companies;
5. the purchase of receivables with or without recourse (factoring); and
6. the marketing of investment funds and the sale of investment coupons or shares in investment funds.

The Bank may also provide services in connection with voluntary supplementary pension insurance in accordance with point 6 of the first paragraph of Article 6 of the ZBan-3.

19 BRANCH OFFICE NETWORK OF NOVA KBM

Nova KBM d.d.
Branch Office Network Sector
Ulica Vita Kraigherja 4
2000 Maribor

Branch East Region

Central Branch Office
Ulica Vita Kraigherja 4
2000 Maribor
Telephone: +386 2 229 21 40

Melje Branch Office
Partizanska cesta 42
2000 Maribor
Telephone: +386 2 229 15 70

Ljubljanska Branch Office
Ljubljanska ulica 1–3
2000 Maribor
Telephone: +386 2 229 15 20

Europark Branch Office
Pobreška cesta 18
2000 Maribor
Telephone: +386 2 229 15 10

Koroška vrata Branch Office
Turnerjeva ulica 17a
2000 Maribor
Telephone: +386 2 229 16 60

Pobrežje Branch Office
Cesta XIV. divizije 34
2000 Maribor
Telephone: +386 2 229 15 30

Murska Sobota Branch Office
Kocljeva ulica 16
9000 Murska Sobota
Telephone: +386 2 530 43 10

Lendava Branch Office
Trg ljudske pravice 11
9220 Lendava
Telephone: +386 2 229 16 30

Lenart Branch Office
Partizanska cesta 3
2230 Lenart v Slovenskih goricah
Telephone: +386 2 229 15 80

Ruše Branch Office
Jamnikova ulica 2
2342 Ruše
Telephone: +386 2 229 17 50

Hoče Branch Office
Miklavška cesta 63
2311 Hoče
Telephone: +386 2 229 17 40

Novi trg Branch Office
Novi trg 1
2250 Ptuj
Telephone: +386 2 229 19 45

Breg Branch Office
Zagrebška cesta 4a
2250 Ptuj
Telephone: +386 2 229 18 90

Kidričevo Branch Office
Mladinska ulica 10
2325 Kidričevo
Telephone: +386 2 229 18 65

Rogoznica Branch Office
Špindlerjeva ulica 3
2250 Ptuj
Telephone: +386 2 229 17 35

Ormož Branch Office
Ptujska cesta 2
2270 Ormož
Telephone: +386 2 229 18 70

Titova Branch Office
Ljubljanska cesta 11
2310 Slovenska Bistrica
Telephone: +386 2 229 18 15

Tezno Branch Office
Ptujska cesta 105
2000 Maribor
Telephone: +386 2 229 16 90

Gornja Radgona Branch Office
Partizanska cesta 26
9250 Gornja Radgona
Telephone: +386 2 229 19 70

Premium Branch Office
Razlagova ulica 4
2000 Maribor
Telephone: +386 2 229 21 20

Tabor Branch Office
Kardeljeva cesta 61
2000 Maribor
Telephone: +386 2 320 74 80

Branch Central Region

Novo mesto Branch Office
Rozmanova 16
8000 Novo mesto
Telephone: +386 7 620 31 61

Brežice Branch Office
Cesta prvih borcev 29
8250 Brežice
Telephone: +386 7 620 31 47

Ljubljana Centre Branch Office
Stritarjeva ulica 2
1000 Ljubljana
Telephone: +386 1 620 30 30

Aleja Branch Office
Rakuševa ulica 1
1000 Ljubljana
Telephone: +386 1 620 30 20

Bežigrad Branch Office
Dunajska cesta 48
1000 Ljubljana
Telephone: +386 1 300 46 80

Jesenice Branch Office
Cesta maršala Tita 39a
4270 Jesenice
Telephone: +386 4 581 19 10

Kranj Branch Office
Nazorjeva ulica 1
4000 Kranj
Telephone: +386 2 281 07 00

Logatec Branch Office
Tržaška cesta 50a
1370 Logatec
Telephone: +386 1 759 19 74

Njegoševa Branch Office
Njegoševa cesta 8
1000 Ljubljana
Telephone: +386 1 471 80 40

Slovenska Branch Office
Slovenska cesta 50
1000 Ljubljana
Telephone: +386 1 300 15 00

Smelt Branch Office
Dunajska cesta 160
1000 Ljubljana
Telephone: +386 1 589 65 63

Šiška Branch Office
Celovška cesta 106
1000 Ljubljana
Telephone: +386 1 583 73 50

Šmartinska Branch Office
Šmartinska cesta 102–104
1000 Ljubljana
Telephone: +386 1 547 88 80

Trnovo Branch Office
Ziherlova ulica 4
1000 Ljubljana
Telephone: +386 1 244 29 69

Tržič Branch Office
Cankarjeva cesta 1a
4290 Tržič
Telephone: +386 4 598 17 00

Vič Branch Office
Tržaška cesta 87
1000 Ljubljana
Telephone: +386 1 244 29 00

Branch West Region

Central Branch Office
Kidričeva ulica 11
5000 Nova Gorica
Telephone: +386 5 331 70 00

Šempeter Branch Office
Cesta Prekomorskih
brigad 9
5290 Šempeter pri Gorici
Telephone: +386 5 331 70 60

Brda Branch Office
Trg 25. maja 5
5212 Dobrovo v Brdih
Telephone: +386 5 331 74 85

Ajdovščina Branch Office
Goriška cesta 25
5270 Ajdovščina
Telephone: +386 5 331 70 14

Idrija Branch Office
Lapajnetova ulica 41
5280 Idrija
Telephone: +386 5 331 71 00

Tolmin Branch Office
Trg maršala Tita 14
5220 Tolmin
Telephone: +386 5 331 71 47

Kobarid Branch Office
Trg svobode 2
5222 Kobarid
Telephone: +386 5 331 71 70

Koper Branch Office
Ferrarska ulica 12
6000 Koper
Telephone: +386 5 611 68 30

Izola Branch Office
Sončno nabrežje 6
6310 Izola – Isola
Telephone: +386 5 611 68 80

Sežana Branch Office
Partizanska cesta 41
6210 Sežana
Telephone: +386 5 707 43 50

Branch Celje Region

Ravne Branch Office
Prežihova ulica 5
2390 Ravne na Koroškem
Telephone: +386 2 229 16 40

Poljčane Branch Office
Bistriška cesta 60
2319 Poljčane
Telephone: +386 2 229 18 30

Aškerčeva Branch Office
Aškerčeva ulica 10
3000 Celje
Telephone: +386 3 425 81 40

CMH Branch Office
Krekov trg 6
3000 Celje
Telephone: +386 3 422 15 10

Laško Branch Office
Valvasorjev trg 5
3270 Laško
Telephone: +386 3 733 81 00

Radeče Branch Office
Ulica OF 4a
1433 Radeče
Telephone: +386 3 568 00 08

Rogaška Slatina Branch Office
Kidričeva ulica 5
3250 Rogaška Slatina
Telephone: +386 3 818 43 02

Slovenj Gradec Branch Office
Ronkova ulica 4a
2380 Slovenj Gradec
Telephone: +386 2 883 91 85

Slovenske Konjice Branch Office
Oplotniška cesta 1a
3210 Slovenske Konjice
Telephone: +386 3 758 02 04

Šentjur Branch Office
Mestni trg 8
3230 Šentjur
Telephone: +386 3 746 36 00

Šmarje Branch Office
Aškerčev trg 13
3240 Šmarje pri Jelšah
Telephone: +386 3 818 43 68

TUŠ Celje Branch Office
Mariborska cesta 128
3000 Celje
Telephone: +386 3 422 25 10

Velenje Branch Office
Kersnikova cesta 1
3320 Velenje
Telephone: +386 3 898 82 50

Žalec Branch Office
Savinjska cesta 20
3310 Žalec
Telephone: +386 3 713 44 12

Operations at post offices

Specialised Bank Counter –
Dravograd
Trg 4. julija 1
2370 Dravograd
Telephone: +386 40 249 456

Specialised Bank Counter – Postojna
Ulica 1. maja 2a
6230 Postojna
Telephone: +386 51 692 986

Specialised Bank Counter –
Ljutomer
Rajh Nade ulica 2
9240 Ljutomer
Telephone: +386 31 371 068

Specialised Bank Counter –
Domžale
Ljubljanska cesta 74
1230 Domžale
Telephone: +386 51 489 578

20 STATEMENT REGARDING NON-FINANCIAL OPERATIONS

The Bank's Management Board, comprising John Denhof, President, Sabina Župec Kranjc, Vice-President, and members Miha Kristl and Matej Falatov, hereby declares:

- in accordance with paragraphs 1 and 5 of Article 70c of the Companies Act (ZGD-1), the Bank has drawn up the statement on non-financial operations as a complete and comprehensive document that helps interested parties to understand essential dimensions of the Bank's development, performance and position, and the impact of its activities, as a separate, yet complementary report referred to as the ESG report of Nova KBM Group and Nova KBM d.d. for 2022.
- The ESG report of Nova KBM Group and Nova KBM d.d. for 2022 (previously referred to as the report on sustainable development and social responsibility until 2020, inclusive) contains information regarding the social responsibility and sustainable development of the Nova KBM Group, and will be published as a separate report on Nova KBM's website.

Maribor, 30 March 2023

Management Board of Nova KBM d.d.

Miha Kristl	**Matej Falatov**	**Sabina Župec Kranjc**	**John Denhof**
Member	Member	Vice-President	President

List of abbreviations

ALCO – Assets and Liabilities Committee
BAS – Bank Association of Slovenia
BS – Bank of Slovenia
CEE – Central and Eastern Europe
CIR – cost-to-income ratio
CRR – Regulation (EU) No. No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms
EBA – European Banking Authority
EBRD – European Bank for Reconstruction and Development
ECB – European Central Bank
ESG – Environmental, Social and Governance
EWS – Early Warning System
FVTOCI – Fair value through other comprehensive income
(e.g., financial assets at fair value through other comprehensive income)
FVTPL – Fair value through profit or loss
(e.g., financial assets measured at fair value through profit or loss)
GDP – gross domestic product
GRI – Global Reporting Initiative
ICAAP – Internal Capital Adequacy Assessment Process
ICT – information and communications technology
ILAAP – Internal Liquidity Adequacy Assessment Process
IMAD – Institute of Macroeconomic Analysis and Development of the Republic of Slovenia
LCR – Liquidity Coverage Ratio
LGD – Loss Given Default
MIFID - Markets in Financial Instruments Directive (2004/39/EC)
NII – Net Interest Income
NIJZ – National Institute of Public Health
NPE – Non-Performing Exposure
NPS – Net promoter score
NSFR – net stable funding ratio
NS – Supervisory Board
PD – Probability of Default
PPI – payment protection insurance
PSD2 – Payment Services Directive 2
SBC – Specialised Bank Counter
SLA – Service Level Agreement
SLS – Summit Leasing Slovenija d.o.o.
SMEs – small and medium-sized enterprises
SREP – Supervisory Review and Evaluation Process
TLTRO – targeted longer-term refinancing operations
VOE – Voice of Employees
ZIUOPOK – Emergency Deferral of Borrowers' Liabilities Act
ZTFI – Financial Instruments Market Act

FINANCIAL REPORT

Our clients remain at the forefront of everything we do. Their objectives, wishes and plans. As well as our efforts to help them achieve all of that, and to stand by them with superior products and services – because we can and we do.

FINANCIAL REPORT

All amounts in EUR thousand unless otherwise stated.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

OF THE NOVA KBM GROUP AND NOVA KBM

All amounts in EUR thousand unless otherwise stated.

This is a translation of the original report in Slovene language

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Nova KBM, d.d.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of Nova KBM, d.d. ("the Bank") and the consolidated financial statements of the NKBM Group ("the Group"), which comprise the separate statement of financial position and consolidated statement of financial position as at 31 December 2022, the separate income statement and consolidated income statement, the separate statement of other comprehensive income and consolidated statement of other comprehensive income, the separate statement of changes in equity and consolidated statement of changes in equity, the separate statement of cash flows and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2022 and its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report. We are independent of the Bank and Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters. For the matters below, our description of how our audit addressed the matters is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Credit risk and impairment of loans and advances to customers including impact of uncertain macroeconomic environment

The carrying amount of loans and advances to customers at amortized cost amounts to EUR 5,168 million (or 50% of total assets) at the Bank and EUR 5,241 million (or 50% of total assets) at the Group as of 31 December 2022. As of 31 December 2022, total impairments of the Bank amounted to EUR 76,8 million and of the Group to EUR 98,8 million. Impairment allowances on Loans and advances to customers represent management's best estimate of	We understood and evaluated the impairment assessment processes for loans as well as the processes for identifying default events within the loan portfolios, including design and operating effectiveness of controls relevant to our audit. In addition to analytical procedures, we tested a sample of performing loans with characteristics that might imply a default event had occurred to assess whether default event had been identified by management and therefore whether there was a

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the expected credit losses within the loan portfolios at the reporting date.

For defaulted loans that are considered to be individually significant the impairment assessment is based on the knowledge of each individual debtor, taking into consideration the fair value of the related collateral as well as expected recovery based on going concern principle. Related impairment allowances are determined on an individual basis by means of a discounted cash flows forecasts based on scenarios and their likelihood of happening. Scenarios are based on 'going' and 'gone' assumption of debt repayment containing high level of complexity and subjectivity.

The Bank's Stage 3 gross balance of loans and advances to customers is EUR 79 million as of 31 December 2022 (Group: EUR 144 million) and total impairments EUR 38 million (Group: EUR 56 million).

Impairments for loans and advances to customers in Stage 1 and Stage 2 are determined based on complex models and parameters used in those models (i.e. life time probability of default ("PD") and loss given default ("LGD")), identification of significant changes in credit risk, inclusion of forward-looking elements and segmentation of exposures, which all involve significant management's assumptions and estimates. The Bank's Stage 1 and Stage 2 combined gross balance of loans and advances to customers was EUR 5,156 million (Group: EUR 5,187 million) as of 31 December 2022 and total impairments EUR 40 million (Group: EUR 44 million).

The Group retains a PD PMA first introduced in December 2020 and partly adjusted in December 2021 and December 2022, due to remaining current uncertainties in the macroeconomic environment and geopolitical situation, as a result of the conflict in Ukraine, which internal models cannot capture. Furthermore, for specific SME and Micro industries which have been identified as worse performing within NKBM Group, the bank assumed restaging to stage 2 for all clients with rating 5 and worse. The estimated impact on impairments related to post model adjustments is EUR 16 million (or 20% of total impairments per 31.12.2022).

As impairments for loans and advances to customers are significant to understanding the separate and consolidated financial statements as a whole and bear significant judgements, we conclude this to be a significant item for our audit and a key auditing matter. For further information, refer to Note 9.1. Credit risk of the separate and consolidated financial statements.

requirement to calculate an impairment allowance using Stage 3 methodology.

For a selected sample of non-performing loans where impairment allowance is assessed on individual basis, we assessed the models, assumptions related to debt repayment based on going or gone principle and data underlying the impairment identification and quantification. We understood the latest developments at the borrower and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation for mathematical accuracy. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose. We engaged EY internal specialists to review a sample of valuations of underlying collateral.

In respect of statistical models that are used for the estimation of credit risk related impairment losses of Stage 1 and Stage 2 exposures, we involved EY internal credit risk specialists in evaluation of the model documentation and other related evidence such as models' governance, segmentation policy, expected credit loss estimation process and assessment of their compliance with IFRS 9. We also reviewed changes in risk models implemented in the current period. We evaluated the application of the models through the recalculation for mathematical accuracy of credit risk related impairment losses, allowances and provisions defined by IFRS 9. We tested the days past due counter and consistent application of staging criteria in relation to the effect on the staging classification of the exposures.

In connection with the Group's post model adjustments, we evaluated the Bank's and the Group's argumentation for the use of post model adjustments and assessed specific disclosure included in the separate and consolidated financial statements.

Furthermore, we assessed how the Bank and Group incorporated uncertainties related to the macroeconomic environment (rising energy prices, inflation, interest rates and supply chain disruptions) and conflict in Ukraine, on parameters used for the calculation of collective impairments. Our credit risk specialists reviewed forward looking information ("FLI") and input parameters used and assess if the uncertainty related to the macroeconomic situation was adequately reflected on the PD.

We assessed the adequacy of the Bank's and the Group's disclosures included in Note 9.1. Credit risk, 29.3. Loans to customers and 22. Impairments of the separate and consolidated financial statements.

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Information technology (IT) systems and controls over revenue recognition

A significant part of the Bank's and the Group's interest and fee revenue recognition process is reliant on IT systems with automated processes and controls over the capture, storage, and extraction of information. A fundamental component of these processes and controls is ensuring that appropriate user access and change management protocols exist and are being adhered to.

These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner.

As our audit sought to place a high level of reliance on IT systems and application controls related to interest and fee revenue recognition, a high proportion of the overall audit effort was in this area. Furthermore, the complexity of IT systems and nature of application controls requires special expertise to be involved in the audit. We therefore consider this to be a key audit matter.

We focused our audit on those IT systems and controls that are significant for the Bank's and the Group's interest and fee revenue recognition processes. As audit procedures over the IT systems and application controls require specific expertise, we involved IT audit specialists in our audit procedures. This includes among other procedures, testing of IT dependent and application controls specific to interest and fee revenue recognition in the Bank's and Group's IT systems. We have tested algorithms used to calculate interest and fee income using banks pricing tables for different products.

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We adjusted our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

As part of our audit procedures, we tested the operating effectiveness of controls over appropriate access rights to assess whether only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorized, developed and implemented. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

We assessed the adequacy of the disclosures related to interest and fee revenue included in Notes 12. Interest income and interest expenses 14. Fee and commission income and fee and commission expenses of the separate and the consolidated financial statements.

Other matter

The separate and consolidated financial statements for the financial year ending 31 December 2021 were audited by another auditor who issued an unmodified opinion on those statements on 18 March 2022.

Other information

Other information comprises the information included in the Annual Report other than the separate and consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of

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materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate and consolidated financial statements is, in all material respects, consistent with the separate and consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank and the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of Management and those in charge with governance for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as Management determine is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, Management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intend to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

Those in charge with governance are responsible for overseeing the Bank's and the Group's financial reporting process and to approve the annual report.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 and the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- conclude on the appropriateness of Management' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

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- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those in charge with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those in charge with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those in charge with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Bank and the Group at the general meeting of shareholders on 15 April 2022, the president of the Supervisory Board has signed the audit agreement on 16 June 2022. The agreement was signed for the period of 3 years.

Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for one year. Janez Uranič and Nena Cvetkovska are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o.

Consistence with Additional Report to Audit Committee

Our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on the same date as the issue date of this report.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and its controlled undertakings and we remain independent from the Bank and its controlled undertakings in conducting the audit.

In addition to statutory audit services and services disclosed in the Annual Report and in the separate and consolidated financial statements, there are no other services which were provided by us to the Bank and its controlled undertakings.

Ljubljana, 30 March 2023

Janez Uranič
Director/Certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Nena Cvetkovska
Certified auditor

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 3

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All amounts in EUR thousand unless otherwise stated.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of the Bank has approved the financial statements of Nova KBM d.d. and the consolidated financial statements of the Nova KBM Group for the year ended 31 December 2022 (pages 137 to 145 of the Annual Report), the applied accounting policies, and the notes to the financial statements (pages 146 to 327 of the Annual Report).

The Management Board is responsible for preparing the Annual Report, which gives a true and fair presentation of the financial position of the Bank and the Group as at 31 December 2022, and the results of their operations for the year then ended.

The Management Board confirms that accepted accounting policies have been applied consistently, and that accounting estimates have been made in accordance with the principles of prudence and good management. The Management Board also confirms that the financial statements and the accompanying notes have been prepared on a going concern basis for the Bank and the Group and in accordance with the relevant legislation and the International Financial Reporting Standards, as adopted by the EU.

The Management Board is also responsible for the proper management of accounting, taking appropriate measures to protect the Group's assets, and for preventing and detecting fraud and other irregularities or illegal acts.

Nova KBM d.d. did not execute any related party transactions under unusual market conditions in the year ended 31 December 2022.

Maribor, 30 March 2023

Management Board of Nova KBM d.d.

Miha Kristl	**Matej Falatov**	**Sabina Župec Kranjc**	**John Denhof**
Member	Member	Vice-President	President

All amounts in EUR thousand unless otherwise stated.

FINANCIAL STATEMENTS

OF THE NOVA KBM GROUP AND NOVA KBM

All amounts in EUR thousand unless otherwise stated.

1 INCOME STATEMENT

			Nova KBM Group		Nova KBM
ITEM DESCRIPTION	Notes	1/1–31/12/2022	1/1–31/12/2021	1/1–31/12/2022	1/1–31/12/2021
Interest income and similar income	12	202,307	164,764	176,668	144,365
– Income on financial assets at amortised cost and at fair value through other comprehensive income	12.2	200,639	162,215	175,000	141,816
– Other interest income	12.2	1,668	2,549	1,668	2,549
Interest expenses	12	(24,582)	(20,538)	(24,464)	(20,479)
Net interest income	**12**	**177,725**	**144,226**	**152,204**	**123,886**
Dividend income	**13**	**1,085**	**813**	**15,988**	**1,135**
Fee and commission income	14	143,090	134,390	135,118	128,092
Fee and commission expenses	14	(53,533)	(47,730)	(47,073)	(42,588)
Net fee and commission income	**14**	**89,557**	**86,660**	**88,045**	**85,504**
Net gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	15	(271)	1,029	(271)	1,029
Net gains on financial assets and liabilities held for trading	16	9,132	3,740	9,132	3,740
Net gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss	17	(1,936)	16,058	(1,936)	16,058
Fair value adjustments in hedge accounting	30.1	(1)	0	(1)	0
Net exchange differences		(758)	(1,156)	(741)	(1,156)
Net gains/(losses) on derecognition of non-financial assets		88	(422)	96	(518)
Other net operating income	18	10,616	10,906	5,673	6,706
Administrative expenses	19	(136,188)	(142,018)	(120,368)	(130,662)
Cash contributions to resolution funds and deposit guarantee schemes	19	(13,022)	(7,946)	(13,022)	(7,946)
Depreciation and amortisation	20	(16,761)	(15,548)	(11,043)	(10,722)
Net gains on modification of financial assets		0	1	0	1
Provisions	21	1,078	4,722	1,049	4,802
Impairments of financial assets	22	(15,150)	10,045	(11,390)	14,798
Impairments of equity investment in subsidiaries, associates and joint ventures	22	0	0	0	0
Impairments of non-financial assets	22	0	(182)	0	(182)
Share of the profit of investments in associates and joint ventures		514	815	0	0
Net profit from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations		145	1,396	145	1,491
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**105,853**	**113,139**	**113,560**	**107,964**
Tax (expense)/income related to profit from continuing operations	23	233	(545)	2,023	968
PROFIT AFTER TAX FROM CONTINUING OPERATIONS		**106,086**	**112,594**	**115,583**	**108,932**
NET PROFIT FOR THE FINANCIAL YEAR		**106,086**	**112,594**	**115,583**	**108,932**
Basic earnings per share/diluted earnings per share (in € per share)	24	10.61	11.26	11.56	10.89

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

All amounts in EUR thousand unless otherwise stated.

2 STATEMENT OF OTHER COMPREHENSIVE INCOME

ITEM DESCRIPTION	Nova KBM Group 1/1–31/12/2022	1/1–31/12/2021	Nova KBM 1/1–31/12/2022	1/1–31/12/2021
NET PROFIT FOR THE FINANCIAL YEAR	**106,086**	**112,594**	**115,583**	**108,932**
OTHER COMPREHENSIVE INCOME	**(31,781)**	**(8,431)**	**(32,069)**	**(8,427)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**1,045**	**336**	**850**	**340**
Actuarial gains on defined benefit pension plans	3,048	681	2,903	686
Share of other comprehensive income of entities accounted for using the equity method	50	0	0	0
Fair value changes of equity instruments measured at fair value through other comprehensive income	(2,194)	(408)	(2,194)	(408)
Income tax relating to items that will not be reclassified	141	63	141	62
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(32,826)**	**(8,767)**	**(32,919)**	**(8,767)**
Foreign currency translation	93	0	0	0
– Translation gains taken to equity	93	0	0	0
Debt instruments at fair value through other comprehensive income	(40,640)	(10,824)	(40,640)	(10,824)
– Valuation (losses) taken to equity	(47,981)	(10,471)	(47,981)	(10,471)
– Transfer of (gains)/losses to profit or loss	7,341	(353)	7,341	(353)
Income tax relating to items that may be reclassified to profit or loss	7,721	2,057	7,721	2,057
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**74,305**	**104,163**	**83,514**	**100,505**

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

All amounts in EUR thousand unless otherwise stated.

3 STATEMENT OF FINANCIAL POSITION

			Nova KBM Group		Nova KBM
ITEM DESCRIPTION	Notes	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Cash in hand, cash balances at the central bank and demand deposits at banks	25	2,370,815	2,884,836	2,361,829	2,884,479
Financial assets held for trading	26	8,988	3,717	8,988	3,717
Non-trading financial assets mandatorily at fair value through profit or loss	27	11,177	23,876	11,161	23,876
Financial assets at fair value through other comprehensive income	28	700,871	1,293,858	700,871	1,293,858
Financial assets at amortised cost	29	7,099,827	5,562,529	7,026,177	5,475,606
– debt securities	29.1	1,761,967	600,925	1,761,967	600,925
– loans to banks	29.2	45,148	78,325	45,148	78,325
– loans to customers	29.3	5,241,176	4,857,886	5,168,000	4,771,122
– other financial assets	29.4	51,536	25,393	51,062	25,234
Derivatives – hedge accounting	30.2	5,983	0	5,983	0
Investments in subsidiaries, associates and joint ventures	31	5,529	11,668	143,546	120,546
Tangible assets	32	102,643	99,027	81,017	82,972
– property, plant and equipment	32.1	77,200	73,584	55,574	57,529
– investment property	32.2	25,443	25,443	25,443	25,443
Intangible assets	33	38,920	33,909	24,934	25,656
Income tax assets	34	51,669	29,772	47,043	27,420
– current tax assets		726	0	496	0
– deferred tax assets	34	50,943	29,772	46,547	27,420
Other assets	35	16,649	13,333	2,898	5,051
Non-current assets and disposal groups classified as held for sale		0	1,868	0	1,868
TOTAL ASSETS		**10,413,071**	**9,958,393**	**10,414,447**	**9,945,049**
Financial liabilities held for trading	37	8,535	4,727	8,535	4,727
Financial liabilities measured at amortised cost	38	9,344,864	8,869,523	9,353,350	8,865,702
– deposits from banks and the central bank	38.1	13,677	4,976	13,677	4,976
– deposits from customers	38.1	8,527,801	8,176,349	8,547,087	8,179,518
– loans from banks and the central bank	38.2	165,033	346,365	164,996	346,301
– debt securities	38.4	571,782	267,495	571,782	267,495
– other financial liabilities	38.5	66,571	74,338	55,808	67,412
Provisions	39	30,526	36,021	29,199	35,247
Income tax liabilities		906	6,849	0	6,763
– current tax liabilities		906	6,849	0	6,763
Other liabilities	40	35,203	13,239	25,663	9,492
TOTAL LIABILITIES		**9,420,034**	**8,930,359**	**9,416,747**	**8,921,931**
Share capital	42	150,000	150,000	150,000	150,000
Share premium	42	403,302	403,302	403,302	403,302
Accumulated other comprehensive income	42.1	(29,039)	2,742	(29,002)	3,067
Reserves from profit	42.2	20,228	20,228	20,228	20,228
Retained earnings (including net profit for the financial year)	42.3	448,546	451,762	453,172	446,521
TOTAL EQUITY		**993,037**	**1,028,034**	**997,700**	**1,023,118**
TOTAL LIABILITIES AND EQUITY		**10,413,071**	**9,958,393**	**10,414,447**	**9,945,049**

All amounts in EUR thousand unless otherwise stated.

4 STATEMENT OF CASH FLOWS

			Nova KBM Group		Nova KBM	
Label	ITEM DESCRIPTION	Notes	1/1–31/12/2022	1/1–31/12/2021	1/1–31/12/2022	1/1–31/12/2021
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**					
a)	**Total profit or loss before tax**		**105,853**	**113,139**	**113,560**	**107,964**
	Depreciation and amortisation	20	16,761	15,548	11,043	10,722
	Impairments/(reversal of impairments) of investments in debt securities measured at fair value through other comprehensive income	22.1	24	(270)	24	(270)
	Impairments/(reversal of impairments) of loans and other financial assets measured at amortised cost	22.1	14,896	(1,420)	12,009	(5,634)
	Impairments of tangible assets (including investment property), intangible assets and other assets	22.2	0	182	0	182
	Net (gains)/losses from exchange differences		758	1,156	741	1,156
	Net (gains)/losses from sale of tangible assets		(88)	422	(96)	518
	Net (gains)/losses from sale of intangible assets		0	0	0	0
	Other (gains)/losses from investing activities		(8,514)	(5,648)	(22,902)	(5,250)
	Other (gains)/losses from financing activities		3,691	3,699	3,691	3,699
	Other adjustments to total profit or loss before tax		11,276	(9,354)	10,345	(9,683)
	Cash flow from operating activities before changes in operating assets and liabilities		**144,657**	**117,454**	**128,415**	**103,404**
b)	**(Increases)/decreases in operating assets (excluding cash & cash equivalents)**		**199,086**	**355,438**	**114,704**	**362,674**
	Net (increase)/decrease in financial assets held for trading		(5,270)	3,813	(5,270)	3,813
	Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss		11,203	45,236	11,203	45,236
	Net (increase)/decrease in financial assets measured at fair value through other comprehensive income		550,506	538,884	550,506	538,884
	Net (increase)/decrease in loans and receivables measured at amortised cost		(352,617)	(236,297)	(441,966)	(226,040)
	Net (increase)/decrease in other assets		(4,736)	3,802	231	781
c)	**Increases/(decreases) in operating liabilities**		**405,032**	**729,874**	**487,159**	**728,142**
	Net increase/(decrease) in financial liabilities held for trading		3,808	(2,611)	3,808	(2,611)
	Net increase/(decrease) in deposits, loans and receivables measured at amortised cost		107,696	560,358	194,231	559,320
	Net increase/(decrease) in debt instruments issued measured at amortised cost		297,919	175,700	297,919	175,700
	Net increase/(decrease) in other liabilities		(4,391)	(3,573)	(8,799)	(4,267)
d)	**Cash flow from operating activities (a+b+c)**		**748,775**	**1,202,766**	**730,278**	**1,194,220**
e)	**Income taxes (paid)/refunded**		**(18,321)**	**(2,775)**	**(16,135)**	**(216)**
f)	**Net cash flow from operating activities (d+e)**		**730,454**	**1,199,991**	**714,143**	**1,194,004**

All amounts in EUR thousand unless otherwise stated.

Label	ITEM DESCRIPTION	Notes	Nova KBM Group 1/1–31/12/2022	Nova KBM Group 1/1–31/12/2021	Nova KBM 1/1–31/12/2022	Nova KBM 1/1–31/12/2021
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**					
a)	**Receipts from investing activities**		**121,729**	**113,924**	**138,819**	**89,213**
	Receipts from the sale of tangible assets and investment property		31,362	25,609	2,033	576
	Receipts from the disposal and maturity of investments in debt securities measured at amortised cost		87,898	68,177	87,898	68,177
	Receipts from non-current assets and related liabilities held for sale		1,986	20,138	1,986	20,138
	Other receipts from investing activities		483	0	46,902	322
b)	**Cash payments on investing activities**		**(1,297,429)**	**(427,252)**	**(1,306,821)**	**(395,992)**
	(Cash payments to acquire tangible assets and investment property)		(42,794)	(33,458)	(2,913)	(2,795)
	(Cash payments to acquire intangible assets)		(5,762)	(5,677)	(4,757)	(5,080)
	(Cash payments for the investment in subsidiaries, associates and joint ventures, net of cash aquired)		(4,722)	(6,220)	(55,000)	(6,220)
	(Cash payments to acquire debt securities measured at amortised cost)		(1,244,140)	(381,833)	(1,244,140)	(381,833)
	(Cash outflow to non-current assets or related liabilities held for sale)		(11)	(64)	(11)	(64)
c)	**Net cash flow from investing activities (a+b)**		**(1,175,700)**	**(313,328)**	**(1,168,002)**	**(306,779)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**					
a)	**Cash proceeds from financing activities**		**0**	**0**	**0**	**0**
b)	**Cash payments on financing activities**		**(112,548)**	**(71,032)**	**(112,548)**	**(71,032)**
	(Dividends and shares in profits paid)		(108,932)	(67,416)	(108,932)	(67,416)
	(Cash repayments of subordinated liabilities)	12.2	(3,616)	(3,616)	(3,616)	(3,616)
c)	**Net cash flow from financing activities (a+b)**		**(112,548)**	**(71,032)**	**(112,548)**	**(71,032)**
D.	**Effects of change in exchange rates on cash and cash equivalents**		**2,391**	**1,932**	**2,375**	**1,932**
E.	**Net increase/(decrease) in cash and cash equivalents (Af+Bc+Cc)**		**(557,794)**	**815,631**	**(566,407)**	**816,193**
F.	**Opening balance of cash and cash equivalents**		**2,945,181**	**2,127,618**	**2,944,824**	**2,126,699**
G.	**Closing balance of cash and cash equivalents (D+E+F)**	**25.1**	**2,389,778**	**2,945,181**	**2,380,792**	**2,944,824**

The cash flow statement is prepared using the indirect method.

Cash flows from interest, dividends and shares in profits

ITEM DESCRIPTION	Nova KBM Group 1/1–31/12/2022	Nova KBM Group 1/1–31/12/2021	Nova KBM 1/1–31/12/2022	Nova KBM 1/1–31/12/2021
Interest paid	(27,345)	(6,411)	(27,280)	(6,405)
Interest received	214,623	183,648	177,502	160,330
Dividends and shares in profits paid	(108,932)	(67,416)	(108,932)	(67,416)
Dividends and shares in profits received	1,568	795	15,988	1,117

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

All amounts in EUR thousand unless otherwise stated.

5 STATEMENT OF CHANGES IN EQUITY

Nova KBM Group for the period of 1 January to 31 December 2022

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including net profit)	Total equity
Opening balance for the reporting period	**150,000**	**403,302**	**2,742**	**20,228**	**451,762**	**1,028,034**
Comprehensive income for the financial year after tax	0	0	(31,781)	0	106,086	74,305
– Net profit for the year	0	0	0	0	106,086	106,086
– Other comprehensive income	0	0	(31,781)	0	0	(31,781)
Dividends	0	0	0	0	(108,932)	(108,932)
Other	0	0	0	0	(370)	(370)
Closing balance for the reporting period	**150,000**	**403,302**	**(29,039)**	**20,228**	**448,546**	**993,037**

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group for the period of 1 January to 31 December 2021

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including net profit)	Total equity
Opening balance for the reporting period	**150,000**	**403,302**	**11,185**	**20,228**	**406,570**	**991,285**
Comprehensive income for the financial year after tax	0	0	(8,431)	0	112,594	104,163
– Net profit for the year	0	0	0	0	112,594	112,594
– Other comprehensive income	0	0	(8,431)	0	0	(8,431)
Dividends	0	0	0	0	(67,416)	(67,416)
Other	0	0	(12)	0	14	2
Closing balance for the reporting period	**150,000**	**403,302**	**2,742**	**20,228**	**451,762**	**1,028,034**

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

All amounts in EUR thousand unless otherwise stated.

Nova KBM for the period of 1 January to 31 December 2022

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including net profit)	Total equity
Opening balance for the reporting period	**150,000**	**403,302**	**3,067**	**20,228**	**446,521**	**1,023,118**
Comprehensive income for the financial year after tax	0	0	(32,069)	0	115,583	83,514
– Net profit for the year	0	0	0	0	115,583	115,583
– Other comprehensive income	0	0	(32,069)	0	0	(32,069)
Dividends	0	0	0	0	(108,932)	(108,932)
Other	0	0	0	0	0	0
Closing balance for the reporting period	**150,000**	**403,302**	**(29,002)**	**20,228**	**453,172**	**997,700**
Distributable profit					**453,172**	

Nova KBM for the period of 1 January to 31 December 2021

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including net profit)	Total equity
Opening balance for the reporting period	**150,000**	**403,302**	**11,494**	**20,228**	**404,991**	**990,015**
Comprehensive income for the financial year after tax	0	0	(8,427)	0	108,932	100,505
– Net profit for the year	0	0	0	0	108,932	108,932
– Other comprehensive income	0	0	(8,427)	0	0	(8,427)
Dividends	0	0	0	0	(67,416)	(67,416)
Other	0	0	0	0	14	14
Closing balance for the reporting period	**150,000**	**403,302**	**3,067**	**20,228**	**446,521**	**1,023,118**
Distributable profit					**446,521**	

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

NOTES TO THE FINANCIAL STATEMENTS

OF THE NOVA KBM GROUP AND NOVA KBM

All amounts in EUR thousand unless otherwise stated.

6 GENERAL INFORMATION

Nova KBM d.d.[1] is the parent company of the Nova KBM Group[2], which comprised the parent company and four companies as at 31 December 2022.

Nova KBM is a commercial bank with tradition, focusing on providing its retail and corporate customers with standard banking products. Its registered office is in Ulica Vita Kraigherja 4, 2000 Maribor, Republic of Slovenia.

As at 31 December 2022, the Parent Bank's share capital amounted to €150,000,000; it was split into 10,000,000 ordinary no-par-value shares.

On 21 April 2016, a 100-percent owner of Nova KBM shares became Biser Bidco S.à r.l. The company, through which the purchase of shares was performed is managed by certain investment funds, affiliates of Apollo Global Management, Inc., and the European Bank for Reconstruction and Development.

The Parent Bank is required to prepare consolidated financial statements at the level of the Nova KBM Group.

6.1 DEFINITION OF THE GROUP

The Group comprises the Parent Bank, its subsidiary companies and an associated company.

As at 31 December 2022

Company	Position in the Nova KBM Group	Group's voting rights (%)	Place of business (or country of incorporation)
Nova KBM d.d.	parent bank		Maribor, Slovenia
Summit Leasing Slovenija d.o.o.	subsidiary company	100.00	Ljubljana, Slovenia
Mobil Leasing d.o.o.*	subsidiary company	100.00	Zagreb, Croatia
ALEJA finance d.o.o.	subsidiary company	100.00	Ljubljana, Slovenia
Bankart d.o.o.	associated company	29.22	Ljubljana, Slovenia

* The subsidiary Summit Leasing Slovenija completed the purchase of the subsidiary Mobil Leasing in April 2022.

[1] In the Financial Report, Nova KBM d.d. is also referred to as the Parent Bank, the Bank, or Nova KBM.

[2] In the Financial Report, the Nova KBM Group is also referred to as the Group.

All amounts in EUR thousand unless otherwise stated.

As at 31 December 2021

Company	Position in the Nova KBM Group	Group's voting rights (%)	Place of business (or country of incorporation)
Nova KBM d.d.	parent bank		Maribor, Slovenia
Summit Leasing Slovenija d.o.o.	subsidiary company	100.00	Ljubljana, Slovenia
ALEJA finance d.o.o.*	subsidiary company	100.00	Ljubljana, Slovenia
Bankart d.o.o.	associated company	29.22	Ljubljana, Slovenia

* The Bank completed the purchase of subsidiary company ALEJA finance d.o.o. in October 2021.

6.2 ACQUISITION OF ALEJA FINANCE

In October 2021, Nova KBM completed the purchase of a 100% participating interest in ALEJA finance d.o.o., one of the leading companies in Slovenia in the area of factoring, and thus expanded its activity to the aforementioned area. The company was temporarily excluded from consolidation for accounting purposes in 2021, as it has no material impact on the true and fair presentation of the Group's financial position. Based on ECB authorisation and in accordance with paragraph 2(b) of Article 19 of Regulation (EU) 575/2013 (CRR), the aforementioned company was temporarily excluded from consolidation for regulatory purposes. The company was included in consolidation for accounting and regulatory purposes, effective 1 January 2022.

In accordance with the legislation of the Republic of Slovenia, ALEJA finance is established as a limited liability company, with its registered office in Slovenska cesta 58, Ljubljana. By acquisition of ALEJA finance, Nova KBM pursues its strategic goal of becoming the leading universal bank in Slovenia, both in terms of its competitive position and its market share, while providing its customers with a full range of financial services.

All amounts in EUR thousand unless otherwise stated.

The table below shows recognised amounts of acquired assets and liabilities of ALEJA finance as at the acquisition date, 31 October 2021, when the balance sheet total of the company amounted to €26 million and on the date of the first consolidation, 1 January 2022, when the balance sheet total of the company amounted to €35 million.

	Fair values of assets and liabilities on the date of goodwill recognition 31/10/2021	Assets and liabilities upon inclusion of ALEJA finance in in the Nova KBM Group's financial statements 1/1/2022
Cash balances at banks	2,359	1,266
Tangible assets	61	98
Intangible assets	7	6
Deferred tax assets	62	23
Short-term operating receivables	23,374	33,558
Short-term deferred costs	0	5
Total assets	**25,863**	**34,956**
Provisions	0	32
Long-term financial liabilities	1,000	31,004
Short-term financial liabilities	21,008	0
Short-term operating liabilities	412	788
Short-term accrued costs	7	65
Total liabilities	**22,427**	**31,889**
Total identifiable net assets acquired	**3,436**	**3,067**

The table below presents the compensation paid for ALEJA finance, together with the amounts of assets acquired and liabilities assumed, which were recognised as at the date of the business combination:

Purchase Price Arrangement (PPA)	31/10/2021
Transferred compensation at fair value	
Cash	6,220
Total transferred compensation at fair value	**6,220**
Acquired identifiable assets	25,863
Assumed liabilities	(22,427)
Net acquired identifiable assets	**3,436**
Proportion for non-controlling interests	0
Goodwill	2,784
Total acquired assets at fair value	**6,220**

On the date of acquisition, commitments were not recognised. The acquisition of ALEJA finance contributed to the recognition of goodwill in the amount of €2,784 thousand, which is recognised in the consolidated statement of financial position under the item "Intangible assets".

Recognition of goodwill results from expected synergy effects due to combined business (transfer of knowledge and experience, increased operational efficiency), strengthening of market share and competitive position that will result from a high-quality and diversified range of the Group's financial services. These expected benefits do not meet the criteria to be recognised as an identifiable intangible asset; therefore, they are recognised as goodwill. The costs related to business combination with ALEJA finance amounted to €7 thousand and are recognised in the consolidated income statement as expenses under item "Administration costs".

All amounts in EUR thousand unless otherwise stated.

As at 1 January 2022, the balance sheet total of the company amounted to €35 million.

6.3 ACQUISITION OF MOBIL LEASING

In November 2021, Daimler Mobility AG and Summit Leasing Slovenija d.o.o. signed an agreement on the sale of Mercedes-Benz Leasing Hrvatska d.o.o. to Summit Leasing Slovenija. With the acquisition of Mercedes-Benz Leasing Hrvatska, Summit Leasing Slovenija, a member of the Nova KBM Group and the largest provider of solutions for the financing of car purchases in Slovenia, entered the Croatian market on the back of established operations.

Mercedes-Benz Leasing Hrvatska provides private and business customers a range of comprehensive financing services for the purchase of Daimler Group cars, delivery vehicles, trucks and buses on the Croatian market.

The company was included in consolidation for regulatory and accounting purposes following the completion of the transaction and the acquisition of control, i.e from 1 April 2022, when Summit Leasing Slovenia completed the acquisition of 100% stake in Mobil Leasing d.o.o. (previously known as Mercedes-Benz Leasing Hrvatska d.o.o.).

In accordance with the legislation of the Republic of Croatia, Mobil Leasing is established as a limited liability company, with its registered office in Kovinska ulica 5, Zagreb, Croatia.

The table below shows recognised amounts of acquired assets and liabilities as at the acquisition date, 1 April 2022, when the balance sheet total of the company amounted to €99,5 million:

	Fair values of assets and liabilities on the date of goodwill recognition and the inclusion of Mobil Leasing in the Nova KBM Group's financial statements
Cash balances at banks and other assets	11,426
Loans	86,509
- loans to non-bank customers	86,493
- other financial assets	16
Tangible assets	298
Intangible assets	134
Income tax assets	1,149
- current tax assets	133
- deferred tax assets	1,016
Total assets	**99,516**
Financial liabilities measured at amortised cost	75,009
- loans from non-bank customets	72,393
- other financial liabilities	2,616
Provisions	669
Other liabilities	1,254
Total liabilities	**76,932**
Total identifiable net assets aquired	**22,584**

All amounts in EUR thousand unless otherwise stated.

The table below presents the compensation paid for Mobil Leasing, together with the amounts of assets acquired and liabilities assumed, which were recognised as at the date of the business combination:

Purchase Price Arrangement (PPA)	1/4/2022
Transferred compensation at fair value	
Cash	24,946
Total transferred compensation at fair value	**24,946**
Acquired identifiable assets	99,516
Assumed liabilities	(76,932)
Net acquired identifiable assets	**22,584**
Proportion for non-controlling interests	0
Goodwill	2,362
Total acquired assets at fair value	**24,946**

On the date of acquisition, commitments were not recognised. The acquisition of Mobil Leasing contributed to the recognition of goodwill in the amount of €2,362 thousand, which is recognised in the consolidated statement of financial position under the item “Intangible assets”.

Recognition of goodwill results from expected synergy effects due to combined business (transfer of knowledge and experience, increased operational efficiency), strengthening of market share and competitive position that will result from a high-quality and diversified range of the Group’s financial services. These expected benefits do not meet the criteria to be recognised as an identifiable intangible asset; therefore, they are recognised as goodwill.

The costs related to business combination with Mobil Leasing amounted to €15 thousand and are recognised in the consolidated income statement as expenses under item “Administration costs”.

Revenues of Mobil Leasing are included in the consolidated income statement of the Nova KBM Group from the date of acquisition to the reporting date (31 December 2022) and amounted to €3,430 thousand.

Profit of Mobil Leasing is included in the consolidated income statement of the Nova KBM Group from the date of acquisition to the reporting date (31 December 2022) and amounted to €1,089 thousand.

In case the acquisition of Mobil Leasing was made at the beginning of 2022, revenues of Mobil Leasing included in the consolidated income statement of the Nova KBM Group would amount to €4,334 thousand.

If Mobil Leasing was included in the consolidated financial statements from the beginning of the financial year 2022, the profit of Mobil Leasing included in Nova KBM Group’s income statement would amount to €1,754 thousand. The business result was calculated upon the assumption that Nova KBM has financed Mobil Leasing from the assumed control date (i.e. 1 January 2022).

All amounts in EUR thousand unless otherwise stated.

7 BASIS FOR THE PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Nova KBM Group and Nova KBM for the year ending 31 December 2022 were approved by the Bank's Management Board on 30 March 2023.

The financial statements have been prepared in accordance with regulatory requirements and on the assumption that both the Bank and the Group will continue as going concerns in the foreseeable future and that they will be able to meet their liabilities when due.

7.1 STATEMENT OF COMPLIANCE AND THE PURPOSE OF FINANCIAL STATEMENTS

The separate and consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the European Union.

Financial statements included in this Report are prepared in accordance with legal requirements. The Group is legally required to obtain an independent audit of these financial statements. The scope of that audit is limited to an audit of general purpose statutory financial statements to fulfil the legal requirement for audit of statutory financial statements. The audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction.

7.2 BASIS FOR VALUATION

The financial statements have been prepared under the historical cost convention, except for the following items for which the fair value has been used:

- Non-trading financial assets mandatorily at fair value through profit or loss
- Financial assets held for trading
- Financial assets at fair value through other comprehensive income
- Investment property
- Financial liabilities at fair value through profit or loss.

The fair value assessment methods are set out below.

7.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with the IFRSs requires the use of certain accounting estimates, judgements and assumptions which affect the value of reported assets and liabilities and of potential assets and liabilities as of the reporting date, and income and expenses for the period then ended. Estimates and assumptions are based on the going concern basis, historical experience and other factors, including expectations of future events.

Estimates are used for: impairments of financial assets, fair value of financial assets and liabilities, provisions for off-balance sheet risks, depreciation period of property, plant and equipment and intangible assets, potential tax items, provisions for liabilities to employees, and provisions for pending legal issues.

Changes in estimates of impairments have an especially important impact on the financial position and results of operations. These estimates are subject to adjustment in the future as a result of changes in economic conditions, customers' repayment capabilities, changes in macroeconomic forecasts used in assessment of expected loss for impairment, and the change in collateral values for defaulted loans at their realisation. The most important estimates under impairments of financial assets relate to an assessment of when a significant increase in credit risk occurs, incorporation of forward-looking information into the calculation of the expected loss for impairment, and the key assumptions used in estimating future cash flows. These estimates are detailed in Chapter 9.

Disruptions in supply chains, increases in commodity and energy prices, inflation, increases in benchmark interest rates and Russian military aggression

Nova KBM Group closely follows the uncertain impacts of the rise in commodity, energy and transport prices, the increase in interest rates and inflation following the two-year COVID-19 pandemic (with state aids) and the Russian military aggression, updates the estimates and recognises the effects in the financial statements on an ongoing basis.

All of these negative impacts increase uncertainty, as they relate to accounting estimates and assumptions, and increases the need to use judgements in assessing economic and market environments and their impact on key estimates. This affects especially estimates and assumptions regarding value adjustments for impairments, valuation of financial instruments, and impairment of assets.

a) Loan impairments
The uncertainty and deterioration of the macroeconomic environment and the geopolitical situation as a result of the Russian military aggression, have increased the level of accounting judgements used in estimating value adjustments for impairments. While the Group has no direct or indirect exposure to Russia and Ukraine, it closely monitors the impact of military aggression on the creditworthiness of its customers. Uncertain impacts, assumptions, scenarios and measures taken in the field of lending are detailed in Chapter 9.

b) Fair values of financial instruments
When estimating fair value, it is necessary to use judgements. Judgement type and level significantly depend on the size of the market concerned and the availability of market information. The military aggression in Ukraine has led to significant fluctuations in financial markets, in particular changes in credit mark-ups, rising interest rates and fluctuations in exchange rates. Used assumptions are detailed in Chapter 10.

c) Impairments of goodwill and other non-financial assets
Considering disruptions in economic and market activities caused by rising energy prices, supply chain issues in certain industries, rising inflation and increases in benchmark interest rates, the Group assessed and checked in detail whether there are any indicators requiring goodwill or other non-financial assets to be impaired. The Group has not detected any indicators requiring impairment of goodwill or other non-financial assets.

d) Taxes
The Group recognises deferred taxes on the basis of estimated taxable income in a foreseeable future period (a period of five years). Estimates are updated on a yearly basis according to expected future profits and identified relevant factors for developing assumptions that represent management's judgment when preparing and estimate. Therefore, the Group estimates that deferred tax assets are established in an appropriate amount given adopted future plans used in estimate.

7.4 PRESENTATION AND FUNCTIONAL CURRENCY

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

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros, unless stated otherwise. Slight discrepancies in the totals may occur due to rounding adjustments.

All amounts in EUR thousand unless otherwise stated.

8 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted were used consistently in the two reporting periods presented in these financial statements.

8.1 CONSOLIDATION

Basis for consolidation

The consolidated financial statements comprise the financial statements of the Parent Bank, its subsidiaries and an associate.

Subsidiaries are fully consolidated from the date on which the Group obtains control. Subsidiaries are excluded from the Group at the moment when the controlling impact of the parent company or company in the Group ceases. The financial statements of the Group's companies are prepared for the same reporting period as the parent company's, using the same accounting policies. All intra-group transactions, balances, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full in preparing the consolidated financial statements.

Losses within a subsidiary are attributed to non-controlling interests even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the book value of any non-controlling interest
- Derecognises cumulative translation differences 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/gain on a bargain purchase

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in "Administrative expenses".

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances, and pertinent conditions as at the acquisition date.

If 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 either in profit or loss or as a change in 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 fair value recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the identifiable net assets of the acquire, the difference is recognised in profit or loss (gain from the bargain purchase).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the book value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on relative values of the operation disposed of and the portion of the cash-generating unit retained by the Group.

Business combinations of entities under common control

Business combinations of entities under common control that form an economic whole are accounted for using the predecessor values method, according to which the book values of the acquiree's assets and liabilities, as presented in the consolidated financial statements of its immediate parent company that is required to prepare consolidated financial statements, are recognised in the separate financial statements of the acquirer on the day the business combination takes place (acquisition date). Business combination of entities under common control is treated as a reorganisation (of an economic whole) if the acquiree was already accounted for using the acquisition method, as provided for under IFRS 3, at the time it was included in the consolidated financial statements of its parent company for the first time (at the time when control of the acquiree was obtained).

The effects of business combination (as recognised on the acquisition date) are recognised in the acquirer's equity (as retained earnings or losses), without having an impact on its profit or loss unless the acquisition and merger happens within the same reporting period, and are calculated as the difference between:

- The book value of the acquirer's equity investment in the acquiree, and
- The amount of transferred assets, liabilities and accumulated other comprehensive income of the acquiree, as presented in the consolidated financial statements of its immediate parent company that is required to prepare consolidated financial statements.

In the case of business combinations of entities under common control, the comparable financial data is not restated in the financial statements of the acquirer.

Subsidiaries

Subsidiary entities are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its interests in an entity and has the ability to affect those returns through its power over the entity.

Financial statements of subsidiary entities are included in the consolidated financial statements from the date on which effective control is transferred to the Group, and are no longer consolidated from the date of disposal. Business combinations achieved in stages are accounted for as separate steps. Any additional acquired share of interest does not affect previously recognised goodwill.

When necessary, accounting policies of subsidiary entities have been changed to ensure consistency with the policies adopted by the Group. The reporting dates are unified across the entire Group. Subsidiary entities, as disclosed in Note 31.1, are fully consolidated.

In the consolidated statement of financial position, non-controlling interests are reported as a separate item within equity. Shares of non-controlling interests are eliminated from equity items in proportion to the share of non-controlling interests in the share capital of subsidiaries.

Transactions eliminated on consolidation
Intra-group balances, transactions, income, expenses and dividends are eliminated in full. 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.

Equity investments in subsidiaries presented in the separate financial statements of the Parent Bank
In making decisions on whether it has control over an entity, the Management Board takes into consideration the pre-determined criteria regarding the definition of subsidiaries.

In the separate financial statements of Nova KBM, equity investments in subsidiaries are presented at cost in line with IAS 27, less any adjustment for impairment in line with IAS 36.

Associates
Associates are all entities over which the Group has significant influence but does not control them. Significant influence is normally indicated when the Group has between 20% and 50% of the voting rights. In the consolidated financial statements, investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

In the separate financial statements of the Bank, investments in associates are measured at cost.

8.2 FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Exchange differences are recognised in profit or loss.

Asset and liability items denominated in foreign currency are translated and disclosed in the consolidated financial statements by applying the ECB's reference exchange rates in effect on the reporting date. The effects of translating foreign currency into the euro are recognised in profit or loss as net translation gains or losses.

Translation differences on non-monetary items, such as equity instruments classified as financial assets measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equity instruments classified as financial assets measured at fair value through other comprehensive income are included in other comprehensive income, together with the fair value measurement effect.

8.3 CASH EQUIVALENTS

Cash equivalents are current, highly liquid investments that can be quickly converted into a known amount of cash and for which the risk of changes in value is negligible.

The Group regards the following items as cash equivalents:

- Cash in hand and balances in settlement and current accounts
- Loans to banks with an original maturity of up to three months
- Investments in debt securities with the original maturity of up to three months, eligible as collateral at the ECB.

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

8.4 FINANCIAL ASSETS

8.4.1 CLASSIFICATION OF FINANCIAL ASSETS

At initial recognition, a financial asset shall be classified in one of the following classification categories: measurement at amortised cost, measurement at fair value through other comprehensive income (hereinafter also FVOCI), or measurement at fair value through profit and loss account (hereinafter also FVTPL).

Financial asset shall be measured at amortised cost, if the following two criteria are met:

- Financial asset is held to collect contractual cash flows
- Contractual cash flows represent solely the payment of principal and interest on an outstanding principal amount at specified dates.

The category of financial assets designated at fair value through other comprehensive income includes debt financial instruments not to be designated at FVTPL and fulfilling the two criteria listed below:

- Financial asset is held to collect contractual cash flows and for sale
- Contractual cash flows of the financial asset represent solely the payment of principal and interest on an outstanding principal amount at specified dates.

Investments in equity instruments (non-monetary items) that are not held for trading and for which an irrevocable option of recognising subsequent changes in fair value in other comprehensive income is selected at initial recognition are also measured at fair value through other comprehensive income.

Other financial instruments are classified in the category of measurement at FVTPL. They include either financial assets that do not pass a SPPI test or equity securities that do not qualify for measurement at fair value through other comprehensive income or are not held for trading (e.g., equity securities acquired to repay bank's receivables, to be sold by the bank as soon as possible).

Business model assessment
The Group assesses the purpose of the business model in which a financial asset is held on a portfolio basis. When defining a business model, the Group takes into account the following information:

- Policies and objectives for the financial assets portfolio, and functioning of these policies in practice
- The method of evaluating performance of the business model and the financial assets managed accordingly, and the method of reporting it to the Bank's management
- The risks affecting performance of the business model (and the financial assets managed accordingly), and the method of managing such risks
- Frequency, volume and timing of sales in previous periods, reasons for sales, and expectations of future sales activities
- The method of remunerating the manager responsible for these transactions (for example, whether their receipts are based on fair value of the managed assets or the volume of contractual cash flows received), based on the reward criteria set out in the Group's internal rules.

Financial assets that are held for trading and the performance of which is measured at fair value are classified in the classification category measured at FVTPL, as they are held neither for the purpose of collecting contractual cash flows nor for the purpose of collecting contractual cash flows and sale.

Assessment of whether contractual cash flows constitute solely payment of principal and interest (SPPI test)
For the purpose of a SPPI test, the principal is defined as the fair value of a financial asset on initial recognition. Interest is defined as compensation for the time value of money, credit risk associated with the outstanding principal and other basic credit risks and costs (liquidity risk and administrative costs) and a profit margin.

In assessing the condition of whether contractual cash flows constitute solely principal and interest payments, the Group assesses the contractual characteristics of a financial instrument. This assessment also includes an assessment of whether a financial asset contains contractual provisions, which may change the time and amount of contractual cash flows in such a way that this condition is no longer met. In doing so, the Group takes into account:

- Any events that could change the time and amount of contractual cash flows
- An option of early repayment or extension of repayment time
- The facts restricting the Group in cash flows of certain funds (e.g., subordinate payments)
- Features that change the concept of the time value of money (e.g., periodic interest rate adjustment).

Financial assets that do not pass the SPPI test are mandatorily measured at FVTPL.

The Group uses derivative financial instruments to economically hedge against risks arising from other financial instruments. The Group's derivative financial instruments are classified as assets and liabilities held for trading. In its accounting, the Group also applies the rules of hedge accounting because gains and losses resulting from the hedged item and the hedging instrument are recognised simultaneously in profit or loss. The rules of hedge accounting are explained in more detail in Note 8.6 Derivative financial instruments and hedge accounting.

8.4.2 RECOGNITION, DERECOGNITION AND MODIFICATION OF THE CONTRACTUAL TERMS APPLICABLE TO AN EXISTING FINANCIAL ASSET

Purchases and sales of financial assets other than loans and advances are recognised on the trading date (the day when the contract is made). Loans and advances are recognised when funds are advanced to borrowers.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition (the Group has transferred all rights and risks under the financial asset) or by writing off. Should the Group transfer the financial asset, but retain practically all risks and rights, derecognition of the asset is not carried out.

If a financial asset is derecognised in full, the difference between the book value of the asset and the sum of any consideration received (including any new assets obtained less any new liabilities assumed), together with any cumulative gain or loss that had been recognised directly in other comprehensive income, is recognised in profit or loss. However, this does not apply to equity securities for which the irrevocable option to classify them into assets measured at FVOCI was chosen, in which the difference between the carrying amount and the sum of any consideration received and any cumulative gain or loss that had been recognised directly in other comprehensive income shall not be recognised in profit or loss.

In the event where the cash flows of a modified financial asset measured at amortised cost are not significantly different (a change of less than 10%), such a modification does not result in derecognition. In such a case, gross book value of this financial asset is recalculated by discounting the modified cash flows using the effective interest rate. A difference that occurs is recognised in profit or loss as net profit or loss resulting from a change in the conditions of financial asset repayment. If the conditions have changed due to financial difficulties of the counterparty, the gain or loss arising thereon is recognised in losses due to impairment.

If the basis for determining the contractual cash flows of a financial asset measured at amortised cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial asset to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately before the change).

If changes are made to a financial asset in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Group first updates the effective interest rate of the financial asset to reflect the change that is required by interest rate benchmark reform. After that, the Group applies the policy on accounting for modifications set out above to the additional changes.

8.4.3 MEASUREMENT OF FINANCIAL ASSETS

Financial assets not carried at fair value through profit or loss, are initially measured at fair value plus any transaction costs.

Financial assets carried at fair value through profit or loss are initially measured at fair value, and the transaction costs are expensed in profit or loss on the purchase date.

After they are initially recognised, financial assets held for trading and financial assets measured at FVOCI 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 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 purposes and 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.

Financial assets at amortised cost are measured at amortised cost using the effective interest rate method. They are recognised at their outstanding principal balances plus any accrued interest and fees and reduced by appropriate impairments.

8.4.4 GAINS AND LOSSES

Gains and losses arising from the change in fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss in the period in which they incur.

Gains and losses arising from a change in fair value of debt financial assets measured at FVOCI are recognised directly in other comprehensive income, except for losses due to impairment and foreign exchange gains and losses, until the financial asset is derecognised, at which time the effect previously included in other comprehensive income is recognised in profit or loss. Interest calculated using the effective interest rate method is recognised directly in profit or loss. In case of equity securities for which the option of irrevocable election of measurement at FVOCI is selected at initial recognition, any gains and losses arising from changes in fair value are recognised in the statement of other comprehensive income, while at equity instrument derecognition, any accumulated gains and losses are transferred to retained earnings or loss. Dividends on these equity financial instruments are recognised in profit and loss.

8.4.5 RECLASSIFICATION OF FINANCIAL ASSETS

As a rule, financial assets are not reclassified after initial recognition, unless the Group modifies its business model in which financial assets are held. Such changes are expected to be very infrequent, and none occurred during the presented periods. Financial liabilities shall not be reclassified.

8.4.6 IMPAIRMENTS OF FINANCIAL ASSETS AND OTHER CREDIT EXPOSURES

Impairments for expected credit losses are recognised for the following items:

- Financial assets measured at amortised cost (including operating receivables)
- Financial assets measured at fair value through other comprehensive income (debt financial instruments)
- Loan commitments (if a current contractual commitment exists to draw up a loan and commitments are not measured at fair value through profit or loss)
- Financial guarantees (which are the subject to IFRS 9 and not measured at fair value through profit or loss)
- Claims arising from leases, contract assets, issued financial guarantees.

Expected credit loss is a probability–weighted estimate of credit losses (i.e., present value of all cash flow losses) over the expected period of a financial instrument (Stage 2 and Stage 3) or within a period of 12 months after the reporting date (Stage 1).

Credit loss is a difference between discounted contractual cash flows and discounted expected cash flows, whereby the effective interest rate is used as a discount factor.

An estimate of expected credit losses of a financial asset is made at least on each reporting day. It is based on a symmetric three-stage model allowing for a financial asset to transfer between groups depending on the intensity of a change (increase or decrease) in credit risk held by the financial asset on the reporting day compared to the credit risk held by that financial asset at initial recognition. If the credit risk is significantly reduced in the reporting periods following the period in which lifetime credit losses were recognised for the financial asset, re-adjustments are made to reflect the 12-month expected credit losses.

Upon initial recognition, all financial assets (other than financial assets impaired at initial recognition – POCIs) are classified to Stage 1, for which 12-month expected credit losses are made. The Stage 1 also includes financial assets in which no significant increase in credit risk has been identified since their initial recognition, or financial assets having low credit risk on the reporting date. Exposures with low credit risk are financial assets where at least one of the following conditions is met:

- current long-term rating is 0, 1, 2 or 3 OR
- current life-time PIT PD is lower than 0.5% OR
- 1-year PIT PD change since origination is not greater than 25bps (an absolute change of PD).

With low credit risk, internal segments Banks (BA), Financial institutions (FI), Public sector (PS) and International lending (IL) are taken into account. 12-month expected credit losses represent the part of lifetime expected credit losses relating to the possibility of default within the next 12 months following the reporting date. Interest income for financial assets classified to Stage 1 is calculated from their gross carrying amount (i.e., excluding expected credit losses) using the effective interest method, and is recognised in profit or loss.

Stage 2 includes financial assets subject to a significant increase in credit risk compared to the credit risk held by the financial asset at initial recognition (except in cases where credit risk of a financial asset is still low on the reporting date), while not yet showing objective signs of impairment. For financial assets included in Stage 2, lifetime expected credit losses are made. Lifetime expected credit losses represent expected credit losses resulting from any default events throughout the lifetime of the financial asset. Interest income is calculated in the same way as for Stage 1 using the effective interest method from the financial asset's gross carrying amount, and recognised in profit or loss.

Financial assets not purchased or issued as financial assets impaired at initial recognition (POCIs) and showing signs of objective impairment at the reporting date are included in Stage 3. For such financial assets, lifetime expected credit losses are made, and interest income is recognised from the financial asset's net carrying amount (i.e., including impairments due to expected credit losses) using the effective interest method.

The general three-stage model of expected credit losses does not apply to purchased or issued financial assets impaired at initial recognition (POCIs). Impairments at initial recognition of POCI assets do not affect profit or loss, because lifetime credit losses are included in estimated cash flows when calculating the credit–adjusted effective interest rate. Interest income is recognised in profit or loss on the basis of credit–adjusted effective interest rate on the financial asset’s net carrying amount.

Allowances relating to impairment of financial assets are detailed in Chapter 9.

Presentation of expected credit losses in the statement of financial position:

- Financial assets measured at amortised cost: as a decrease in gross carrying amount of the asset
- Undrawn portion of loan commitments, and financial guarantees: as provisions
- Debt financial assets measured at fair value through other comprehensive income: expected loss due to credit risk as impairment is not recognised in the statement of financial position, because these assets are carried at fair value. However, the related value adjustment is disclosed and included in the item accumulated other comprehensive income.

8.5 WRITE-OFFS

A financial asset measured at amortised cost is written off (in part or in whole) if, during the recovery proceedings, the Group establishes that it cannot realistically expect to recover the outstanding amount by liquidating collateral.

The amount to be written off is determined as the difference between the net present value of the expected cash flows generated (including liquidation of collateral) and the book value of the respective asset. A write-off reduces the gross carrying amount of a financial asset and allowance for the impairment. Any subsequent recoveries are credited to credit loss expense.

A write-off is regarded as the financial asset being derecognised.

8.6 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

For hedge accounting purposes, the Group applies IFRS 9.

The purpose of hedge in economic terms is to offset profits and losses from two transactions which, when exposed to the risk, respond by moving into opposite directions. The purpose of hedge accounting is to ensure that profits and losses arising from the hedge instrument are recognised in the income statement for the same period as profit and losses arising from the hedged item. The hedged item can be a future transaction, or a balance sheet item not valuated at fair price, whereas the hedge instrument is usually a derived instrument, which is valuated as a balance sheet item at fair value. Without using the hedge accounting, the hedged items and the hedge instruments would be addressed separately and independently, which would, despite the effectiveness of hedging in economic terms, cause income statement fluctuations.

For the purposes of hedge accounting, the Group hedge fair value when it comes to hedging exposure to changes in the fair value of a recognized asset or liability.

At inception of the hedge relationship, the Group formally document the relationship between the hedged item and the hedging instrument, including the nature of the risk. The Group also documents an assessment of the performance of hedging instruments in offsetting changes in fair values of hedged items. The Group assesses the effectiveness of hedging at the hedge inception and during the hedging relationship. To comply with the risk management policy, the hedge ratio is based on an interest rate swap which matches the hedged item with notional amount, currency, maturity date and other basic characteristics. This results in a hedge ratio of 1:1 or 100%.

Derivative financial instruments, including forward and futures contracts, swaps and options, are initially recognized in the statement of financial position at fair value. Derivative financial instruments are measured at fair value, which is appropriately determined based on the quoted market prices, the discounted cash flow model or pricing models. Derivatives are recognised in the statement of financial position as an asset if the fair value is positive or as a liability if the fair value is negative.

The method of recognising gains or losses from changes in fair values depends on whether the derivative financial instrument is accounted for as a hedging instrument and on the type of hedging. The Nova KBM Group uses derivative financial instruments only to hedge fair value.

Fair value hedge

In the fair value hedge relationship, hedge accounting can be used when the derivative may be associated with a specific known exposure of the fair value. This can be carried out on individual (micro) basis for hedging exposure of the asset or obligation against the risk of a change in interest rate.

The effects (gain/loss) from a change in fair value in fair value hedging on an individual (micro) basis in:

- the hedging instrument are recognised directly in the income statement
- the hedged item measured at cost in the share that can be attributed to the hedged risk are recognised as an adjustment of the carrying amount of the hedged item using the counter-entry in the income statement (i.e. "hedge accounting entry"). If the hedged item is a financial asset measured at fair value through other comprehensive income, gains/losses recognised in the equity are recognised in the income statement in the share relating to the hedged risk.

If the hedging relationship no longer meets the hedge accounting criteria, the adjustment to the carrying amount of the hedged financial instrument, for which the effective interest method is used, is amortised to profit or loss in the remaining period until maturity. The adjustment to the carrying amount of a hedged equity security is included in the income statement upon sale.

8.7 FORBEARANCE

A forborne financial asset is a financial asset that is created as a result of the debtor’s inability to repay a debt under the originally agreed terms, either by modifying the terms of the original agreement or by signing a new agreement.

The definition of forborne loans is in line with the definition of the European Banking Authority (EBA). The definition aims at comprehensive coverage of exposures for which restructuring measures have been introduced.

Accounting treatment of forborne financial assets depends on the type of restructuring. If the restructuring is carried out by way of changing the contractual terms applicable to a financial asset, such an asset is not derecognised, but its book value is adjusted on the basis of the discounted value of future cash flows that the financial asset is expected to generate after its restructuring. The difference in the book value of the financial asset before and after its restructuring is recognised in profit or loss (as impairment). Where a restructuring is made by way of signing a new agreement, the respective financial asset is derecognised and a new financial asset is recognised.

If the restructuring of a financial asset is carried out by taking over other assets and/or by debt-to-equity swap, the Group derecognises the portion of the financial asset that is subject to restructuring, while the assets taken over are recognised in its statement of financial position at their fair value. The difference between the book value of the derecognised financial asset and the fair value of the acquired assets is recognised in profit or loss.

All amounts in EUR thousand unless otherwise stated.

8.8 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.

8.9 SALE AND REPURCHASE AGREEMENTS

Securities purchased under agreements to resell (repurchase agreements – repos) are recognised as loans to customers. Under such agreements, the Group does not assume risks and benefits arising from security ownership. The contractual relationship has the characteristics of loans collateralised with securities that are subject of reverse repo agreements. The difference between the purchase and selling price is recognised as interest income and is accrued over the contract period using the effective interest method.

8.10 LEASES

The accounting policies described below relate to lease accounting in accordance with IFRS 16.

A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Control is conveyed where the client has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

An asset is typically identified by being explicitly specified in a contract, but an asset can also be identified by being implicitly specified at the time it is made available for use by the client.

Lessee's incremental borrowing rate
It is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group defined this rate as an internal opportunity interest rate.

Lease term
A non-cancellable period for which a lessee has the right to use an underlying asset, plus:

- Periods covered by an extension option if exercise of that option by the lessee is reasonably certain; and
- Periods covered by a termination option if the lessee is reasonably certain not to exercise that option.

The Group defines lease term as the term defined in contract. In case where lease term is not defined or is indefinite, the Group considers a period of five years. The lease term is extended annually, unless there are indications that the lease will be shorter.

Recognition exemptions
The Group chose not to use IFRS recognition requirements in case of:

- Short-term leases (with the lease term of less than 12 months and the contract with no purchase option); and
- Leases where the underlying asset has a low value. The Group defined the small value as the amount lower than €5 thousand.

The Group as a lessee
Upon the lease commencement date, the lessee recognises the asset representing a right-to-use, and the lease liability.

The right-to use asset value includes: the amount of the initially measured lease liability, lease payment made on or before the lease commencement date less any lease incentives received, initial direct costs incurred by the lessee, and estimated costs expected to incur with the lessee relating to the leased asset dismantling or removing, renovating the asset, or returning the leased asset to the condition required under the lease terms. The value of the right-to-use asset is amortised on a straight-line basis over the lease term.

The Group measures lease liabilities at the present value of lease payments payable over the lease term, discounted at the interest rate indicated above.

The Group as a lessor
Lessors shall classify each lease as an operating lease or a finance lease.

A lease is classified as a finance lease if it transfers substantially all the risks and benefits of an underlying asset resulting from ownership. Otherwise, a lease is classified as an operating lease.

When assets are the subject of a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is treated as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term. Costs, including depreciation incurred in earning the lease income, are recognised as costs. Initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as costs over the lease term on the same basis as the lease income.

8.11 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. Transaction costs directly attributable to the acquisition of an asset are included in the initial cost recognition.

Subsequent costs are included in the asset's book value only when it is probable that future economic benefits associated with the item will flow to the Nova KBM Group and the cost of the item can be measured reliably. All other investments, repairs and maintenance are charged to profit or loss in the financial period in which they incurred.

The Group starts to depreciate items of property, plant and equipment when these assets are available for use. Depreciation of assets is provided individually on a straight-line basis over their estimated useful lives.

The following depreciation rates were applied by the Group in both 2022 and 2021:

	Nova KBM Group
Buildings	1.5 to 3%
Investments in third-party buildings	10%
Computer equipment	10 to 50%
Motor vehicles	20%
Other equipment	5 to 25%

Land is recognised separately from buildings and, as it generally has an unlimited beneficial life, is not depreciated. The Group stops amortising property, plant and equipment when they are defined as non-current assets held for sale, or when they are derecognised as the Group no longer expects any further economic benefits.

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 indications that the book value of an asset may not be recovered, but at least once a year. If the estimated recoverable value of an asset is lower than its book value, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in profit or loss. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

An asset is derecognised upon disposal or if the future economic benefits are no longer expected from its use.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the book value of an item of property, plant and equipment, and are recognised net in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

8.12 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.

Gains or losses arising from changes in fair value are included in profit or loss in the period to which they relate.

8.13 INTANGIBLE ASSETS

The Nova KBM Group possesses only intangible assets with a determinable period of useful life.

Initial recognition of an acquisition cost includes costs, which are directly linked to the acquisition of an asset and are necessary for the asset to be put into use. The Group depreciates intangible assets on a straight-line basis over their estimated useful lives.

The following amortisation rates were applied by the Group in both 2022 and 2021:

	Nova KBM Group
Licences	10 to 25%
Other long-term property rights	10 to 20%

The Group stops amortising intangible assets when they are defined as non-current assets held for sale, or when they are derecognised as the Group no longer expects any further economic benefits.

The value of intangible assets is assessed due to possible impairment each time when there are indications that the book value of an asset may not be recovered, but at least once a year. If the estimated recoverable value of an asset is lower than its book value, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in profit or loss. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

In accordance with IAS 38, capitalisation of an intra-group completed intangible asset is only allowed in the development stage. An intangible asset completed within the Group is recognised at its cost, including all costs (staff costs, costs incurred by external consultants, costs of IT platforms, and software acquired from external suppliers) having occurred from the date when all the conditions for recognition were met, namely:

- Conditions that meet the criteria for the purpose of completing the asset, and the professional feasibility criteria (both technical and financial) for the development and use of an intangible asset
- Conditions that meet the criteria of usefulness of IT software development in terms of likely future economic benefits
- The condition of the ability to measure costs attributable to the intangible asset in its development.

The Group enables recognition of an in-company completed intangible asset only in the event of internal development of IT software, namely in the case of major projects.

8.14 INVENTORY (ASSETS SEIZED FOR DEBT REPAYMENT)

Inventory (assets seized for debt repayment) comprises real estate received in settlement of receivables and inventory items seized under lease agreements.

Upon initial recognition, the Nova KBM Group measures inventory items seized for debt repayment based on an appraiser's report. Subsequently, the inventory items seized for debt repayment are measured at the lower of cost (book value) and net realisable value. Net realisable value is fair value less estimated costs of sale.

The Group holds inventory items seized for debt repayment with the intention of selling them.

8.15 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their book value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable (i.e., non-binding and binding offers exist) and assets are 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.

During subsequent measurement, certain assets and liabilities of a disposal group that are not measured in accordance with IFRS 5 measurement requirements are measured in accordance with the applicable standards (e.g., financial instruments). The effects of sale and valuation are included in the income statement as net profit/(loss) from non-current assets held for sale.

Liabilities directly associated with disposal groups are reclassified and presented separately in the statement of financial position.

8.16 FINANCIAL LIABILITIES

Financial liabilities include 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 (including the central bank) and customers, liabilities arising from debt securities issued, subordinated debt, and other financial liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After they are initially recognised, the liabilities are measured at amortised cost, and any difference between net proceeds and the redemption value is recognised in profit or loss using the effective interest rate method.

A financial liability is derecognised only when it is extinguished – i.e., when the obligation specified in the contract is discharged or cancelled or expires. The difference between the book value of a financial liability that is cancelled or transferred to another party, and the compensation paid is recognised in profit or loss.

8.17 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 will be required to settle the obligation and a reasonable estimate of the obligation can be made. The Group creates provisions for pensions and similar liabilities, for off-balance sheet liabilities, for pending legal issues, for the costs of restructuring, and other provisions.

The Group recognises provisions for pensions and similar liabilities that reflect the present value of liabilities for severance benefits and loyalty bonuses. When calculating the present value, a discount interest rate is used that is equal to the market rate of return on 10-year euro area corporate bonds; in 2022, 10-year corporate bond rate of return was 4.57% (in 2021: 0.94%). The Group recognises provisions for each employee by taking into account severance benefits at retirement provided for by the employment contract, as well as the costs of expected loyalty bonuses for the total years of service at the company until retirement. Among other factors, the Group also considers its employee turnover rate in the range of 0.0% to 6% (in 2021: 0.0% to 6%) and the projected salary increase of 1.28% (in 2021: 1.28%). The calculation of these liabilities is carried out by a certified actuary. Establishment and reversal of provisions for employee benefits are recognised in profit or loss, except for actuarial gains or losses related to severance benefits that are recognised in comprehensive income.

The Group recognises provisions for off-balance sheet liabilities on the basis of risk classification of the client and transaction concerned taking into consideration similar criteria as for the impairment of loans. More information on provisions for off-balance sheet liabilities is provided in Chapter 9.

The level of provisions for pending legal issues is determined on the basis of a reliable assessment of liabilities arising from these issues at the reporting date. These provisions are estimated based on known facts of the legal proceeding, previous experience with similar proceedings, and opinions provided by legal experts.

Provisions for the costs of the Group's restructuring have been recognised based on the adopted Restructuring Programme. These provisions cover only expenses that are directly attributable to the restructuring of the Nova KBM Group.

All amounts in EUR thousand unless otherwise stated.

8.18 EQUITY

Share capital of Nova KBM is split into ordinary no-par-value shares.

The shares are freely transferable and have been issued in book-entry form. All shares issued by Nova KBM are of the same class. Holders of Nova KBM shares have the following rights: participation in the voting at the Shareholders' Meetings in proportion to their interest in the share capital, participation in profits appropriated for dividends, and pro-rata distribution of residual assets in case of bankruptcy or liquidation of the Bank, as stipulated by the applicable legislation. All Nova KBM shares have been fully paid for.

In accordance with Nova KBM's Articles of Association, regulatory reserves are established until the aggregate amount of regulatory reserves and share premium equals 10% of the Bank's share capital.

Share premium cannot be paid out to shareholders, but can only be used for the purposes and under the conditions as laid down in the Companies Act.

The Bank does not create statutory reserves.

Other reserves from profit may be formed and used in accordance with the provisions of the Companies Act.

Accumulated other comprehensive income reflects accumulated gains and losses from changes in fair value of equity and debt financial instruments, which are measured at FVOCI, as well as actuarial gains and losses decreased/increased for any deferred tax, and impairments of debt financial instruments measured at FVOCI.

Dividends on shares are recognised as a financial liability in the period in which the Shareholders' Meeting approves appropriation of dividends.

8.19 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 other contingent liabilities and commitments.

Financial and service guarantees
Off-balance sheet commitments under guarantees represent irrevocable obligations that the Group will make payments in the event a customer cannot fulfil its obligations vis-à-vis third parties.

Fees received are amortised to profit or loss using the straight-line method during the period of transaction.

Risks associated with off-balance sheet financial commitments and contingent liabilities are assessed similarly as for loans (in accordance with IFRS 9). Any increase in liability as a result of estimated expenses required for the settlement of contractual obligations is taken account of in the creation of provisions.

Letters of credit
Documentary and standby letters of credit represent a written and irrevocable obligation of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline.

Other contingent liabilities and commitments
Other contingent liabilities and commitments represent approved and undrawn loans, approved and undrawn overdrafts, and approved credit lines.

8.20 INTEREST INCOME AND INTEREST EXPENSES

Interest income and expenses from operations in financial assets and financial liabilities are recognised in profit or loss using the effective interest rate method. As indicated in Note 8.4.6, interest income on financial assets classified to Stage 1 and Stage 2 is calculated from the financial asset's gross carrying amount (i.e., excluding expected credit losses) using the effective interest method. Interest income on Stage 3 financial assets are recognised by using the effective interest method on the financial asset's net carrying amount (i.e., including impairments due to expected credit losses). In case of POCIs, interest income is recognised in profit or loss on the basis of credit-adjusted effective interest rate on the financial asset's net carrying amount. The calculation of interest income does not change even if the credit risk of the asset has improved.

The calculation of effective interest rate includes all fees and points paid or received between contractual parties that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. These fees are transferred to profit or loss 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.

Interest expenses include all interest paid on deposits, securities issued, and loans received as well as other expenses on financial liabilities.

8.21 DIVIDEND INCOME

Dividend income comprises dividends and shares in profits received by the Group from its equity investments in companies. Dividend income is recognised in profit or loss when the right to receive payment is established.

8.22 FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSES

Fee and commission income is recognised in accordance with the provisions set out in the contracts concluded with customers. Income is recognised when control is transferred to the customer and the performance obligation is fulfilled. The transfer of control can take place at a particular moment or gradually over a certain period. Fees and commissions received are generally recognised when the service has been provided.

Fees and commissions included in the calculation of the effective interest rate of a financial asset or financial liability are presented within interest income or expenses.

Fees received include mainly fees that are recognised at the point in time when the service is provided, namely fees from card and ATM operations, payment transactions, lending operations, brokerage services, transactions in securities for customers and other services.

Fees for current transaction account management and for the management of the daily and average monthly balance of funds, calculated collectively for all of the products of an individual customer, are charged to customers on a monthly basis.

Fees and commissions for guarantees given are recognised in the income statement as income using the straight-line method over the period of the guarantee's validity.

The Group does not disclose the value of any open performance obligations, as its contracts with customers generally have a fixed term that is less than one year or an open term with a cancellation period that is less than one year.

Paid fees and commissions that primarily relate to payment transactions are recognised as the Group's expenses as they arise.

8.23 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Realised gains and losses on financial assets measured at amortised cost, and debt securities measured at FVOCI, are recognised in profit or loss upon disposing the asset, at maturity, or upon other derecognition of the financial asset.

8.24 NET GAINS AND LOSSES ON FINANCIAL ASSETS HELD FOR TRADING

Net gains and losses from trading include realised and unrealised gains and losses on financial assets held for trading, including derivatives, and net gains from buying and selling foreign currency.

8.25 NET GAINS AND LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gains and losses on non-trading financial assets mandatorily at fair value through profit or loss include realised and unrealised effects on equity securities, as well as effects of measurement and realised effects related to debt securities, and loans and other financial assets that do not qualify for measurement at amortised cost.

8.26 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gains and losses on financial assets and liabilities designated at fair value through profit or loss include measurement effects as well as realised effects associated with financial instruments that qualify for measurement at amortised cost, but were initially irrevocably designated as measured at fair value through profit or loss.

8.27 OTHER NET OPERATING INCOME OR LOSS

Other net operating income or loss includes realised gains and losses from non-banking activities (income from leases, effects from the sale of real estate inventories, expenses for donations).

8.28 IMPAIRMENTS

Impairments comprise impairments of financial assets (Note 8.4.6), impairments of property, plant and equipment (Note 8.11) and impairments of intangible assets (Note 8.13).

All amounts in EUR thousand unless otherwise stated.

8.29 TAXES

Income tax is recognised at the amount as reported by the Group companies on the basis of the applicable local legislation. Deferred taxes are calculated for all temporary differences between the value of assets and liabilities for tax purposes and their book value. Deferred taxes are calculated at the 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 tax losses, valuation of financial instruments and provisions.

Deferred taxes are recognised for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which temporary differences can be utilised (in a foreseeable future – a period of five years).

Deferred taxes associated with measurement of securities measured at FVOCI are recognised directly in other comprehensive income.

8.30 STANDARDS AND INTERPRETATIONS

A) Changes in accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU

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 issued by the IASB or the IFRS Interpretations Committee and adopted by the EU, as presented below.

In the current period, the following amendments to the existing standards apply:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
  - IAS 16 Property, Plant and Equipment (Amendments) prohibit the Group from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, the Group recognizes such sales proceeds and related cost in profit or loss.
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
  - Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.
- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**
  The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The amendments had no impact on the financial statements of the Group.

B) Standards and interpretations issued by the IASB and adopted by the EU, but not yet effective

- **IFRS 17: Insurance Contracts**
  The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the Group also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The Group does not issue contracts in scope of IFRS 17; therefore its application does not have an impact on the Group's financial performance, financial position or cash flows.
- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**
  The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.
- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**
  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.
- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**
  The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

Amendments to the existing standards that are not yet effective have not been early adopted by the Group. The Group estimates that the adoption of these amendments will have no material impact on its financial statements in the period of initial application.

C) Standards and interpretations issued by the IASB, but not yet adopted by the EU

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the Group's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which The Group must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.
- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which the Group first applied IFRS 16.
- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

The Group anticipates that the adoption of these amendments to the existing standards will have no material impact on the financial statements in the period of initial application.

9 EXPOSURE TO VARIOUS TYPES OF RISK

The Group has adopted its Risk Appetite Framework (hereinafter: the Framework) under which it has defined the objectives of forward-looking risk appetite and risk management, taking into account the business environment in which it operates, the expected development of the Group's commercial operations, its risk profile, internally established strategies and other relevant plans. The Group's Risk Appetite Statement expresses the risks accepted in order to generate its planned commercial returns. The Group has established a system of limits (together with early warning indicators) in order to be able to allocate capital and liquidity and to manage, monitor and measure the delivery of its commercial targets. These limits are established in the Group's Operating Limits Handbook. Both the Risk Appetite Statement and the Operating Limits Handbook are revised annually.

The Risk Appetite Framework is based on the following key steps:

- Risk identification and measurement process;
- Development and revision of Risk strategy, linked to the previous step;
- Revision of the Risk Appetite Statement;
- Establishment and revision of the system of limits (with early warning indicators) and the allocation of internal capital across risk types;
- Regular measurement and monitoring of limits and allocated and absorbed capital; and
- Definition of roles and responsibilities

The objectives of risk management defined in the Framework include:

- Moderate, stable and sustainable profitability;
- Generating the majority of Group profits via taking moderate credit risk;
- Assuming a larger yet diversified risk from the exposure to investment grade sovereigns, financial institutions and corporates in order to ensure adequate liquidity;
- Maintaining lower levels of market, exchange rate and liquidity risk;
- Embedding ESG risk, specifically that climate related and environmental risk, into governance and management processes;
- Maintaining a moderate level of other risks to which the Group is exposed.

The Group uses a systematic approach in measuring risks. First, the risks are identified and assessed, then materiality thresholds and capital allocation determined. If appropriate, actions are taken to adjust risk exposures such that they are compatible with commercial objectives and limit structures. The Group actively monitors and measures all risk types and adjusts limits over time as appropriate.

The risk management process reflects the Group's comprehensive approach:

- Identification and definition of each type of risk;
- Definition of materiality for each type of risk;
- Definition of measurement methodology for each type of risk;
- Definition of the methodology for monitoring of risk types;
- Definition of exposure limits for each risk type;
- Definition of thresholds for key risk indicators;
- Regular monitoring of individual risk types and key risk indicators;
- Regular reporting of risk exposures to relevant decision-making bodies;
- Regular reporting of risk exposures to relevant decision-making bodies within the Group;
- Adapting risk management policies, methodologies, rules, and processes to changes in business and operating environment.

For each material risk type, the Group has adopted the following:

- Risk type management policy;
- Risk measurement methodology;
- Risk Appetite Statement defining the appetite for a particular type of risk;
- The system of limits, including operating limits and the system of early warning indicators.

Environmental, Social and Governance (ESG) risk, focusing on climate related and environmental risks

The Group recognizes that its business environment is and will be impacted by transition to low-carbon economy and climate change. This will also bring with impacts on the physical and macro-economic environment in which the Group operates. Further the transition to a low carbon or carbon neutral economy brings with it risks and opportunities for the Group (as other financial institutions). The Group recognizes both physical climate change and transition risk as relevant drivers of its overall risk profile.

The Group operates in a country which is a signatory to the Paris Agreement and is a participant in the European Green Deal which has committed to making Europe a climate neutral continent by 2050. The European authorities expects that the financial sector plays a key role in this process and the European Commission has set this out in its action plan for financing sustainable growth. Slovenia itself has set out its own strategy and its nationally determined contribution to meeting the wider EU targets. The Bank has familiarized itself with these plans and will utilize them within the development of its commercial objectives for coming accounting periods.

The regulators have set out clear expectations in respect of the above in its Guide on climate related and environmental risks which was published in November 2020. The Guide sets out supervisory expectations in respect of risk management and disclosure.

In accordance with the above, the Group aims to achieve the following in the short and medium term:

- adapt in the short and medium term its current portfolio to one which is aligned with the EU's NDCs which require a reduction of 55% of GHGs from those recorded in 1990 by 2030 (and Slovenia's commitments consistent with them); and
- will take actions in the short and medium term to increase its commitments to financing the economic transition towards a lower carbon or carbon neutral economy.

The Group has identified the ESG risks and ESG factors as material to its business environment and its business model. As the assessment of ESG risks is an ongoing process, the Group will continue to identify ESG risk factors and incorporate them into existing risk types rather than into a single, standalone ESG risk type. The Group will remain focused on the implementation of ESG into internal processes to address ESG regulatory requirements and to improve the availability of data on which to base future actions and targets.

The Group monitors material ESG risks and assesses the impact on the different business and risk areas. The Group's focus is on the implementation of ESG risk drivers into relevant risk types. The Group takes the approach of the progressive integration of ESG into the risk management framework:

- short-term: focus on implementation of acute physical risk and transition risk (i.e. policy changes driven by zero emissions target);
- mid-term: focus on implementation of chronical physical and transition risk in technology and policy changes focused mainly on water consumption and waste and energy consumption;
- long-term: focus on implementation of transition risk represented by behavioural changes and social and governance risks.

Derivatives for hedging purposes

The Group is exposed to financial risks arising from many aspects of its business (exchange rates, interest rates). The bank is managing risk exposure through relevant Risk Appetite Framework, Asset and Liability Management Strategy of the Bank, Operative Limit Handbook and Interest rate risk policy.

All amounts in EUR thousand unless otherwise stated.

The Group applies hedge accounting to interest rate risk as micro fair value hedge. The Group is hedging positions to protect future volatility of OCI from risk free rate and impact on capital position of the bank coming from FVOCI portfolio.

The purpose of hedging is to reduce the negative impact from FVOCI portfolio due to market volatilities on pillar 1 and pillar 2 capital and to limit the exposure of the Group to interest rate risk in the banking book (IRRBB).

The hedged item is bond with fixed rate coupon and the hedging instrument is an interest rate swap, where the bank is paying fixed interest and receiving the six-month EURIBOR rate.

A hedging relationship is effective if it meets all the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument. This means that the hedged item and the hedging instrument have values that, due to the same risk, i.e. the risks being hedged against, in this case the interest rate risk, generally move in the opposite direction. Therefore, there must be an expectation that the values of the hedging instrument and the hedged item would move in the opposite direction in response to changes in the same underlying. An assessment of whether an economic relationship exists includes potential sources of ineffectiveness of the hedging relationship over its lifetime to determine whether it can be expected to meet the risk management objective;
- the effect of credit risk does not dominate the value changes that result from that economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. In the case of hedging the fair value of a fixed rate bond due to an interest rate change with an interest rate swap, the hedge ratio is usually 1:1.

The Group performs an assessment of hedge effectiveness at inception and on an on-going basis at each reporting date or on a significant change in circumstances, whichever comes first.

As of 31 December 2022, the Group estimates that all its hedge relationships are effective. The assessment is qualitative and refers to expectations regarding the effectiveness of hedging therefore it is forward-looking. In addition to all three points above the Group also performs an assessment that captures the relevant characteristics of the hedging relationship in the assessment, including the sources of hedging ineffectiveness that are expected to affect the hedging relationship during its lifetime. Sources of hedging ineffectiveness can come from small differences in payment dates, different day counts, or mismatched maturity dates.

The table shows the scope and effects of the hedging.

Nova KBM Group				31/12/2022
	Notional amount	Change in fair value of hedging instrument	Change in fair value of hedged item	Hedge ineffectiveness
Interest rate risk				
Micro fair value hedges	88.920	5.983	5.983	0

Nova KBM				31/12/2022
	Notional amount	Change in fair value of hedging instrument	Change in fair value of hedged item	Hedge ineffectiveness
Interest rate risk				
Micro fair value hedges	88.920	5.983	5.983	0

Interest rate benchmark reform – IBOR

The Group regularly monitors developments on the market with respect to potential changes to interest rate benchmarks. If an event triggers the cessation of or significant changes to an interest rate benchmark, the Group has in place a selection of measures and plans that it follows where feasible and appropriate. Those plans and measures take into account scenarios involving the legally prescribed replacement of an interest rate, at either the EU or national level, as well as scenarios when a legally prescribed replacement interest rate is not available.

As part of its Benchmark Change and Cessation Policy with Action Plan, the Group drafted a detailed action plan that includes activities that the Bank carries out when an event would trigger the cessation of or change to interest rate benchmarks. Those activities include, *inter alia*, the appointment or establishment of a working group or project team with representatives of included organisational units; the identification and confirmation of risks and exposure to financial and non-financial risks; the drafting of a notification plan; the review and development of the product strategy that also includes a strategy for adapting and migrating the existing portfolio; risk management, including the identification, measurement, monitoring and management of financial and non-financial risks in connection with such a migration, including the valuation of financial instruments and the effects on modelling; an assessment of the effect of measures to eliminate contractual consequences and the drafting of a plan that includes an inventory of existing agreements, the identification of the legal effects of potential terminations on existing and new transactions, and the planning of mechanisms for the implementation of back-up plans and a plan for potential negotiations regarding changes to existing agreements; the adaptation of the existing infrastructure and technological support for changes; an analysis of accounting and ratings-related effects, and the drafting of a detailed action plan that includes all of the above-described activities and describes in detail the steps and tasks required for the timely and precise implementation of changes.

As a response to interest rate benchmark reform, the Group established a project team in 2021 for the implementation of activities in accordance with the Benchmark Change and Cessation Policy with Action Plan.

As part of project activities, the Group identified potential risks due to the cessation of the CHF and GBP LIBOR and EONIA, and determined the following:

- Financial risks (interest rate, liquidity and market risks) are immaterial in this regard, as the volume of transactions is small. The Group monitors and manages risks in connection with reform via a project team.
- Credit risk is assessed as immaterial, as there is no indication of an increase in probability of default, while the majority of active transactions are well collateralised.

The Group did not hold any derivatives linked to the LIBOR in 2022. The Group did not apply hedge accounting in relation to the LIBOR in 2022. Despite the fact that it does not have any open transactions in derivatives subject to reform, the Group has in place the appropriate application infrastructure. In accordance with changes, the Group updated its derivative valuation models for EUR (replacement of EONIA with ESTR), USD, CHF, GBP and JPY on 1 January 2022. The Group also replaced the USD and CHF discount curves used in the management of IRRBB on 1 January 2022. None of the before mentioned updates had a material impact on risk management.

The necessary changes to non-derivative financial instruments that mature after 2021 were made as a response to interest rate benchmark reform. Details of the non-derivative financial instruments affected by the interest rate benchmark reform, together with a summary of the measures taken by the Group to manage the risks associated with the reform, are presented in the table below. All contracts derive from the portfolio of the parent bank. The Group has no liabilities that are tied to the LIBOR or that are the subject of reform.

All amounts in EUR thousand unless otherwise stated.

Non-derivative financial assets

Nova KBM Group		31/12/2022
Variable interest rate	Gross carrying amount	Comments regarding implemented activities
SARON	18,026	The Bank completed activities to replace the CHF LIBOR benchmark in accordance with Commission Implementing Regulation (EU) 2021/1847. The replacement interest rate benchmark is the compounded SARON of the relevant maturity. That change was automatically reflected at the first reset in 2022.
USD LIBOR	5,478	Corporate transactions mature before the cessation of the benchmark rate, or the last reset of the benchmark rate will take place before the cessation thereof. Contracts covering transactions in the international lending segment were supplemented with the appropriate clauses in cooperation with agents. Based on those clauses, existing interest rate benchmarks will be replaced at the latest by new interest rate benchmarks at the first reset following the cessation of the USD LIBOR. Synthetic interest rate benchmarks will not be used in this segment either.
SONIA	9,802	Transition from GBP LIBOR completed
SOFR	817	Transition from USD LIBOR completed
Total	**34,123**	

In the international lending segment, where the Group plays the role of client, all transactions linked to the GBP LIBOR or USD LIBOR, as the only transactions (denominated in other currencies), were supplemented with the appropriate clauses. Based on additional clauses, interest rate benchmarks on certain transactions have already been changed into newly valid replacement interest rate benchmarks. For remaining transactions this will happen at the lates by the first reset following the cessation of existing interest rate benchmarks. The use of a so-called synthetic LIBOR benchmarks is not envisaged. No contracts are linked to the LIBOR benchmark on the interbank lending market.

In the areas of retail and corporate banking, replacement with the SARON Compound Rate benchmark of the appropriate maturity has been carried out for all transactions that are tied to the CHF LIBOR interest rate benchmark in accordance with Commission Implementing Regulation (EU) 2021/1847. That change was seen with the first reset in 2022.

When changes to contractual provisions governing non-derivative financial instruments were the direct effect of interest rate benchmark reform, the Group treated changes in accounting terms as the modification of contractual cash flows.

It was not necessary to repeat the SPPI test, as no changes arose that would lead to derecognition.

The Group has not concluded any lease agreements treated in accordance with IFRS 16 that would be affected by interest rate benchmark reform.

9.1 CREDIT RISK

Credit risk is a risk of loss arising from the failure of counterparty to meet its obligations to the Group's company, and it is the basic risk to which the Group is exposed in carrying out its activity. In the scope of the Nova KBM Group's Risk Appetite Framework, which is the umbrella document, the Group has quantified its strategic objectives for assuming credit risk.

Credit risk management includes risk identification, measurement, and risk reduction to an acceptable level, which complies with the business strategy, the Risk Appetite Framework, and the Risk Appetite Statement. The management of credit risk is carried out at the customer level, by each Group company as well as at the level of the entire Group.

The Group manages, assesses and monitors credit risk:

- by defining the risks associated with an obligor and assessing expected credit losses in accordance with the International Financial Reporting Standards;
- by maintaining lending policies that apply to all products and segments in which the Group operates;
- by maintaining a credit risk model that is used in the lending cycle and in calculations of impairments and internal capital;
- by ensuring sufficient capital to cover credit risks;
- by establishing a detailed limit system that is integrated in the Risk Appetite Strategy and ICAAP;
- by establishing appropriate policies and procedures for financial and non-financial collateral to mitigate losses in the event of default;
- through the continuous monitoring and analysis of debtors' performance, and thus their classification to the appropriate rating grades;
- through the periodic monitoring of key portfolio quality indicators;
- the definition of rules for the identification of non-performing exposures and rules for the suspension of non-performing exposure status; and
- through the monitoring of risks associated with the portfolio using risk parameters, such as probability of default (PD) and loss given default (LGD).

The Group's underwriting function ensures the proper application of policy, process and procedure during the credit cycle in accordance with approved competencies.

In the middle of 2021, the Bank updated its credit process, and began collecting, monitoring and assessing the ESG risks of its clients. The Bank continued to update that process in 2022. The Bank has defined the appropriate procedures for collecting and analysing data, and for monitoring ESG risks, and has defined decision-making powers based on assessed ESG risks in connection with activities and clients. ESG risks are currently assessed for large, medium-sized and small enterprises on the domestic and foreign markets, depending on the level of exposure.

The Bank closely monitors and assesses the ESG risks of its clients by collecting data from publicly available sources (e.g., annual reports, sustainability reports, clients' websites, and information published on Bloomberg and other public media), from external ESG data providers (Vigeo Eiris and MSCI), from national and international agencies and ministries, and by collecting data directly from clients (based on an internally developed questionnaire). The Bank classifies the activities of borrowers to low, medium and high ESG risk categories, while it classifies clients to low, low-medium, medium-high and high ESG risk categories. The Bank has also defined industries that it does not as a rule finance (i.e., excluded industries) or that it finances only exceptionally. As a general rule, investments are primarily approved for clients with low, low-medium and medium-high ESG risk, and selectively for clients with an assessed high ESG risk, mainly for the purpose of transition financing.

With respect to the russion military aggression the Bank carried out a detailed portfolio review to identify clients whose business is closely linked to the Russian and/or Ukrainian market (either in terms of ownership or economic links). The Bank has no direct exposure to Russia and Ukraine or entities in those countries. The Bank has not restructured any client/exposure as a result of russion military aggression. All banking operations are operating normally and are stable. In addition, the Bank carried out an analysis of the impact of rising raw material and energy prices and an analysis of the impact of increasing natural gas prices and potential natural gas reduction. The Bank has an adequate EWS process in place to identify increased credit risk and to take appropriate measures to mitigate it.

9.1.1 NON-PERFORMING EXPOSURES

The Group defines as non-performing exposures (NPEs) such exposures for which it reasonably considers that the borrower will not discharge all of its liabilities within the contractual period or expects them not to be paid without taking measures by the Group, such as the restructuring of obligations, the liquidation of collateral and the sale of the loan receivable.

The Group considers as NPEs those exposures that satisfy any of the following criteria:

- Exposure is classified as "defaulted" or included in the Stage 3 in line with IFRS 9 and the Methodology for Assessing Expected Credit Risk Losses in the Group (including material exposure more than 90 days past due, in line with Article 178 of the Regulation (EU) No. 575/2013 (the Capital Requirements Regulation - CRR) and with regulatory technical standards on the materiality threshold for credit obligations past due under Article 178 of the Regulation (EU) No 575/2013;
- Exposures, which have been subject to restructuring that caused the Group to recognise a significant economic loss, or estimates that debtor's obligations are unlikely to be repaid – restructuring with a low repayment probability;
- The exposure is already considered a NPE and does not meet the exit criteria; and
- The borrower is in insolvency proceedings.

For defaulted customers, the Group has established precisely defined criteria, the fulfilment of which indicates that the borrower's risk level has decreased and its defaulted status can be removed. When the borrower returns to a performing credit rating category, it's exposures during the given observation period is reclassified to Stage 2.

When the reasons that had led to a significant increase in credit risk of a particular financial asset no longer exist and the Group reasonably expects that no significant increase in the borrower's credit risk is to be expected for it in the short-term, such a financial asset is classified to Stage 1 and subject to calculation of the expected losses for a period of 12 months.

The sum of credit obligations past due of an individual borrower to the Group is considered material under the definition of default in line with the Capital Requirements Regulation when this exposure exceeds 1% of the exposure to this borrower and exceeds €100 or €500, depending on the calculated exposure category.

The Group uses a revised definition of default that it implemented in November 2020 for all companies in the Nova KBM Group. In use is a method that counts days past due if the amount in arrears exceeds the materiality threshold, regardless of which instalment a client is paying. Days past due are counted when the amount in arrears exceeds the materiality threshold. The counting of days past due continues without interruption until the amount in arrears falls below the materiality threshold. Exposure is defined as current exposure to a client, which includes excluded income and written-off receivables.

The return to non-performing exposures after forbearance is carried out if, during the two-year probation period, a debtor is 30 days in arrears with respect to any exposure or if forbearance is repeated.

The portfolio of borrowers that have a defaulted status and are classified in a defaulted credit rating is managed by the Group's Workout functions and, where appropriate the Group's Legal Office.

9.1.2 INTEREST RATES AND LOAN APPROVAL FEES

The Bank has in place a system for setting interest rates based on an internal process and methodology in accordance with its adopted strategy and plan for the financial year. To that end, its policy is continuously adapted to current conditions in the internal and external environments based on the monitoring and analyses of the current situation. Proposals for setting and amending interest rates are put forth on the basis of a review and analysis of the current situation at the Bank and its immediate and wider environments, and an assessment of various factors that impact the level of proposed interest rates at the moment interest rates change.

Factors taken into account in the setting of interest rates on corporate loans include the base interest rate in the currency in which the loan is denominated, the purpose of the loan, credit rating, the credit history of the borrower, loan maturity, type of collateral, cooperation with the Bank and the competition aspect. Costs are defined based on the valid list of fees/resolution of the decision-making body, taking into account product and lending policies, an analysis of the competition and profitability calculations.

The prices of retail loans (approval costs, interest rates, etc.) are prepared or set on the basis of an analysis of competition in the banking sector and a calculation of the profitability of a specific product, which is performed according to an internal methodology. Interest rates are set on the basis of the valid resolution of the ALCO, while approval costs are set on the basis of the valid resolution of Nova KBM's Management Board.

After migration to it's new corporate banking system as of 1 September 2019 the Bank is using EIR for financial instruments recognized after that date. For financial instruments recognized before that date the EIR is not available and the Bank uses the latest valid interest rate. This interest rate is applied to discount expected future cash flows or payments in the full expected lifetime of a financial asset to the exact gross carrying amount of the financial asset. In assessing ECL for POCI financial assets, cash flows are discounted by applying the EIR determined at initial recognition.

9.1.3 LARGE EXPOSURE LIMITS

The Group complies with all regulatory requirements setting out that the exposure to a single customer or to a group of related customers which shall not exceed 25 % of the Group's Tier 1 capital. The above limit excludes the Bank's exposure to its subsidiary Summit Leasing Slovenija (SLS) in accordance with relevant regulations.

The Group monitors credit risk exposure under the comprehensive credit portfolio limit system complemented with an early warning system including relevant indicators.

9.1.4 LOAN COLLATERAL POLICY

The Group's loan collateral policy governs:

- the types of loan collateral that the Bank receives and that it deems acceptable and/or eligible;
- the minimum requirements that must be met by every acceptable form of loan collateral in approval, recordkeeping and monitoring processes to the liquidation process;
- the maximum loan-to-value (LTV) ratio for a specific type of collateral;
- the documentation required by individual type of collateral to ensure the legal certainty of the collateral;
- the recordkeeping, monitoring (method and frequency of valuation) and reporting of collateral that the Group receives;
- the process of determining the level of correlation between (i) the value of collateral and the debtor's credit quality; and (ii) the existence of a correlation between the risks associated with a debtor and the return on pledged property;
- the procedures and processes for the prompt enforceability of each type of loan collateral;
- the responsibilities of individual organisational units in the establishment of loan collateral and the monitoring of collateral until the liquidation thereof; and
- the types of collateral that require a physical inspection of assets pledged as collateral.

9.1.5 ASSESSMENT OF EXPECTED CREDIT RISK LOSSES

9.1.5.1 Exposure classification for the purpose of calculating expected credit losses

The assessment of expected credit loss covers the following: financial instruments measured at amortised cost (AC) including trade receivables, those at fair value through other comprehensive income (FVOCI) which relate to debt securities and similar financial instruments, non-trading financial assets mandatorily held at fair value through profit or loss, which do not pass SPPI test and for which there is a market price, lease receivables and off-balance sheet exposures from loan commitments and financial guarantees.

In accordance with IFRS 9 the Group classifies financial assets for which it assesses expected credit losses into three groups:

- Stage 1 – exposures in which no significant increase in credit risk has been identified since their initial recognition and low-risk exposures
- Stage 2 – exposures for which credit risk has increased significantly from the time of their initial recognition, and exposures from accounts receivables for which credit losses are calculated using a simplified approach; there are also POCI exposures if the client holds a performing rating
- Stage 3 – exposures in default status, and exposures defined as POCI.

9.1.5.2 Significant increase in credit risk

When determining whether the credit risk has increased significantly since the initial recognition for a particular asset, in addition to complying with regulatory established criteria, such as a 30-day delay (materiality threshold per contract) and 90-day delay (materiality threshold per borrower) the Group has implemented it’s Methodology for Classifying Customers in Credit Rating Categories and takes into account relevant changes in official valid internal borrowers’ credit rating which is based on the long-term probability of default (through-the-cycle PD or TTC PD). In doing so, the Group presumes that a significant increase in credit risk is primarily reflected in the relative change in remaining life-time PIT PD since its origination.

In classifying its borrower, the Bank uses all available quantitative data from the analysis of financial statements and projections by using a model and an expert assessment based on clearly defined criteria as well as qualitative or soft data relating to a particular borrower, industrial or commercial segment and the general macroeconomic environment. The Group, on a systematic basis, includes forward looking soft information relevant for the respective borrower and, which may impact the creditworthiness of the borrower and potentially lead to the loss of cash flows. In monitoring credit risks, the Group also uses its Early Warning System (EWS) and related indicators.

If the credit risk has increased significantly and the exposure is not yet in default, the exposure is reclassified from Stage 1 into Stage 2. Criteria considered include: change in remaining life-time PIT PD since origination, days past due, internal credit rating, EWS status, months since re-aging, forbearance status and assessment approach.

Exposures are reclassified from Stage 2 into Stage 3 if a borrower is in default status or a borrower is not in default and days past due exceed 90 (materiality threshold per borrower).

In June 2022, the Group introduced new models for determining EAD and LGD for all segments, except international lending. As a result, the Bank created additional impairments in the amount of €0.7 million. In December 2022, the Bank introduced new models in the international lending segment for PD and LGD parameters. Impairments in the amount of €237 thousand were released in the before mentioned segment.

In December 2022, the Bank amended the criteria for classification to Stage 2, taking a more conservative approach. As an exception, only banks, financial and public institutions and the international lending segment are deemed low-risk. At the same time, the Bank tightened criteria in the calculation of the average threshold of a change from through-the-cycle to PIT PD as the threshold for transitioning to Stage 2. The Bank also defined the conditions under which financial assets approved for small and medium-sized enterprises from certain sectors are classified to Stage 2.

Between August and November 2022, the Group amended the methodology used for the calculation of the minimum required coverage for the purpose of harmonisation with supervisory reporting. The minimum required coverage may thus be applied to individually impaired clients, as well. It also increased the basis for the calculation of minimum coverage, which includes all off-balance-sheet items, for all financial assets, with the exception of performance bonds.

9.1.5.3 Impact of the COVID-19 pandemic and macroeconomic conditions on the assessment of credit risk

Actions of the Group in response to the pandemic

On 15 June 2022, the Slovenian government officially announced the end of the second wave of the epidemic. In the scope of anti-coronavirus packages, the government adopted several laws and measures in 2021 and 2022 to prevent the spread of the virus and to mitigate the impact of the COVID-19 pandemic on the economy.

In terms of borrowers, the Group responded with legislative and non-legislative (bilateral) moratoria, and upgraded methodologies used in the decision-making process and instructions for identifying borrowers' financial difficulties. It responded to the pandemic with a coordinated programme of activities that it continues to implement in order to ensure the appropriate management of credit risk. The Group maintains regular contact with regulatory bodies, which it informs about its response to the pandemic, and drafts all required reports in connection with COVID-19.

In light of the COVID-19 crisis, the Group continued to implement measures and activities in the area of credit risk in 2022 to mitigate the negative consequences of the crisis. It regularly reviews the assessment of the impact of the COVID-19 pandemic on the current and future economic and business environment.

In the retail segment, the Group regularly reviews its retail portfolio in order to assess whether retail borrowers may encounter payment issues once moratoriums offered by the intervention acts in Slovenia under PKP1, PKP6 and PKP7 expire. As of 31 December 2022 the Group no longer reports legislative and non-legislative no expired moratoria on retail household segment from the intervention law. As of 31 December 2022, the Group reports only EUR 64 thousand of the gross book value of unexpired newly approved loans and other financial assets covered by public guarantee schemes, which represents 0.001% of the entire portfolio.

As of the date of this report, the Group did not identify a significant increase in defaults or other specific patterns that would indicate a material increase in credit risk due to the pandemic. It likewise determined that the government adopted targeted support measures that allowed employees in sectors directly affected by containment measures to maintain income levels, and that those measures contributed to the fact that retail clients continue to service their debt.

According to the Group's analysis of the entire portfolio, the vast majority of borrowers resumed payments when their legislative or non-legislative moratoria expired, and only a limited number of customers are facing payment difficulties. As of 31 December 2022, approved moratoriums (legislative and non-legislative), newly approved credits and other financial resources within the newly valid public guarantee schemes introduced in response to the covid-19 crisis amounted to €328,625 thousand, of which €311,948 thousand € already expired. The latter represent only newly approved credits and other financial assests that are subject to public guarantee schemes.

The table below shows the number and value of approved moratoriums according to maturity in NKBM Group and Nova KBM as of 31 December 2022.

Loans with moratoria	Number of approved (client)	Number of expired (client)	%	Number of not expired (client)	%
Retail	1,870	1,870	100%	0	0%
Corporate	919	909	99%	10	1%
LC	42	39	93%	3	7%
SME	423	417	99%	6	1%
Micro	454	453	100%	1	0%
Financial institutions	2	2	100%	0	0%
Total	**2,791**	**2,781**	**100%**	**10**	**0%**

Loans with moratoria	Number of approved (contracts)	Number of expired (contracts)	%	Number of not expired (contracts)	%
Retail	2,230	2,230	100%	0	0%
Corporate	1,983	1,973	99%	10	1%
LC	196	193	98%	3	2%
SME	1,156	1,150	99%	6	1%
Micro	631	630	100%	1	0%
Financial institutions	2	2	100%	0	0%
Total	**4,215**	**4,205**	**100%**	**10**	**0%**

Amount in €000	Approved	Expired	%	Not expired	%
Retail	50,184	50,184	100%	0	0%
Corporate	278,419	261,742	94%	16,676	6%
LC	166,918	150,649	90%	16,269	10%
SME	99,976	99,595	100%	381	0%
Micro	11,525	11,498	100%	26	0%
Financial institutions	22	22	100%	0	0%
Total	**328,625**	**311,948**	**95%**	**16,676**	**5%**

The Management Board and Supervisory Board assess the Group's response to the pandemic as appropriate and remains so, and that the Bank met supervisory expectations.

Supply chain disruption, increased commodity and energy prices, inflation, rising benchmark interest rates and Russian military aggression

Despite uncertainties in connection with the pandemic and the Russion military aggression, the strong recovery in demand in 2022 caused or brought to the fore supply chain issues in several sectors, and resulted in a steep rise in the prices of commodities, energy, transportation and certain food and services, a shortage of fuel and rising interest rates.

There were price increases in the manufacturing, construction and food processing sectors in Slovenia during 2022 due to shortages of certain raw materials and components linked to supply chain and transportation pressures.

Due to the uncertain economic conditions, the Bank performed a detailed review of the corporate and international lending portfolios in 2022, with the following elements:

- analysis of the impact of the Russian military aggression;
- analysis of the impact of rising raw material and energy prices;
- analysis of the impact of rising natural gas prices and the potentially reduced supply thereof; and
- analysis of the impact of rising variable interest rates.

With the aim of ensuring sufficient information, the Bank also prepared a survey that facilitates the assessment of clients' dependence, their response and the adoption of measures, costs and additional investments required to mitigate the situation. On this basis, the Bank assessed the risks associated with clients and adopted certain measures in connection with continued detailed monitoring and potential limits on financing. The results of the analysis were taken into account in determining clients' credit ratings. The Bank thus ensured the appropriate risk-weighted calculation of impairments.

In the retail segment, the Bank assessed the impact of changing economic conditions using the portfolio-based approach, with analyses based on stress tests. The retail segment feels an immediate effect from macroeconomic conditions that derives from higher consumer prices and rising interest rates on their loans. This has a direct impact on their debt servicing ability and can quickly lead to deteriorating payment discipline. Consequently, the Bank analyzed, in the scope of stress tests, the impact of a potential rise in the EURIBOR and thus increased loan instalments, as well as an increase in the minimum wage (as an additional adjustment due to inflation) on creditworthiness, and in this way identified clients with increased risk. The results of stress tests were taken into account in the calculation of impairments.

Due to the uncertain macroeconomic and geopolitical conditions, the Group monitors probability of default for individual corporate clients. In that respect, major clients are not automatically classified. The latter is carried out based on the Group's existing rules, which cover the identification of defaults, and on financial data regarding clients and forward-looking indicators provided by the early warning system and the COVID-19 control system. To summarise, the Group uses an approach based on an expert opinion and takes into account all available reliable information in connection with (i) a client's current and likely future financial and liquidity positions; and (ii) various support measures (borrower, state and Bank) that are in place and affect the creditworthiness of a borrower.

Since the beginning of the pandemic, the Group regularly updates macroeconomic scenarios for the purpose of calculating expected credit losses. The most recent update was carried out on 31 December 2022. To that end, the Group uses forecasts published by the relevant bodies (e.g. SORS, Bank of Slovenia and ECB). Changes reflect corrections to macroeconomic and risk-weighted scenarios, and post-model adjustment (PMA). The Group assesses that PMA assumptions are still necessary due to the existence of certain factors, which are not entirely evident from the macroeconomic picture, and the functioning of its internal models. The Group identified the following activities as uncertainties in 2022, and assesses that they will also affect the Group's operations in 2023:

- the Russian military aggression;
- a potential shortage of natural gas and/or the halting of the supply of natural gas;
- rising energy prices;

- supply chain issues in certain sectors; and
- General inflation and rising interest rates.

The Group use in year 2022 80% general PD PMA for the retail and non-retail segments. In the retail segment, uncertainties mainly related to general inflation as well as quick rise in the EURIBOR benchmark. The non-retail PMA increased due to the high probability of a recession in several EU countries. Slovenian small and medium-sized and corporate clients are highly dependent on those countries (especially Germany and Austria), and a longer recession could have an immediate impact on the Bank's portfolio. For specific small and medium-sized industries and for clients, which have been identified as worse performing within NKBM's portfolio, the Bank assumes reclassification to Stage 2 IFRS9. The estimated impact on impairments related to post model adjustments is € 15,8 million, of which € 6,5 million on retail segment and € 9,3 million on non-retail segment, while the additional impact of the change for specific industries into the stage 2 is € 1 million.

Summary assessment

In the area of credit risk management, the Group continuously monitors and controls its portfolio, which was characterised in 2022 primarily by the following uncertain impacts: the Russian military aggression, rising energy prices, supply chain issues in certain sectors, and rising inflation and benchmark interest rate as a measure against inflation. High inflation and significant increases in interest rates increase the pressure on the repayment capacity of primarily retail clients, and micro, small and medium-sized enterprises.

All of these uncertainties may have been seen in the past, but the combination of the current circumstances is specific in that it follows an almost two-year pandemic accompanied by state support, while the economic situation is closely linked to political factors, making forecasts very uncertain and difficult to assess. The Group is dedicating a great deal of attention to the current economic-political situation. It is not directly or indirectly exposed to Russia and Ukraine, but is closely monitoring the impact of the conflict between those two countries on the creditworthiness of its clients.

9.1.5.4 Measuring expected credit loss (ECL)

The Group has developed its own models for calculating key measuring parameters for credit loss:

- Exposure at default (EAD)
- Probability of default (PD)
- Loss given default (LGD).

Expected credit losses equal the product of expected probability of default, expected loss in case of default, and expected exposure at default.

Expected credit losses are an estimate of credit losses over a certain period of time weighted by the probability of a particular macroeconomic scenario. For Stage 1 exposures, the Group estimates 12-month expected losses, while for exposures included in the other two stages, the Group estimates lifetime losses or losses expected over the entire period of contractual obligations.

Exposures in Stage 3, where total exposure to an individual customer or to narrow group of related parties exceeds €300 thousand, are impaired individually based on an assessment of sustainability of the business plan and the Group's strategy to the respective customer and, consequently, on all possible expected cash flows both from operations and from liquidation of collateral. For other Stage 3 exposures, the Group uses a portfolio based automated calculation of expected credit losses.

In the fourth quarter of 2022, the Group updated post-model adjustments (PMA) in its expected credit loss models. As described in Note 9.1.5.3, the Group believes that significant uncertainties exist with regard to rising raw material and energy prices, fuel shortages, supply chain issues, rising inflation, interest rate hikes and the Russian military aggression.

The Group used the following assumptions in the recalculation of defaulters in the target scenario in order to update PMA:

- clients with poor credit ratings were taken into account,, as they represent a poorer financial performance of the clients and whose payment discipline may represent the most affacted part of the portfolio in the event of a worsening of macroeconomic conditions in 2023. That deterioration in payment discipline is the result of expectations of a recession in 2023;
- uncertainties in the current macroeconomic environment due to supply chain issues, rising raw material and energy prices, inflation and increasing of interest rate;
- Given the current macroeconomic and geopolitical environment, developments on the energy and raw material markets, and general inflationary pressures, the Bank expects certain sectors to be more vulnerable. For the portfolio of large corporate clients, it selected an individual approach, while assessment of risks in connection with the portfolio is based on a review of individual clients, where risks are reflected through an internal credit rating. For small and medium-sized enterprises it selected a portfolio-based approach. The Bank assessed risks in connection with individual industries within its portfolio by assessing key risk parameters and the quality of the portfolio in specific industries. Industries with increased risk with regard to the Bank's existing portfolio also indicate increased sensitivity to a potential deterioration in economic conditions in the future; and
- A rapidly rising EURIBOR benchmark rate and inflation has a significant impact on the repayment capability of retail clients. The retail portfolio feels an immediate effect in unstable macroeconomic conditions that derives from higher consumer prices and rising interest rates on their loans. The Bank performed certain analyses on the entire retail portfolio based on stress tests, in the scope of which it took into account changes in the creditworthiness of clients due to a potential rise in variable interest rates, and an increase in the minimum wage (as an additional adjustment due to inflation). The high-risk portfolio comprises clients whose creditworthiness is calculated below the minimum wage in stress tests and who are assigned to rating grades with increased risk (7, 8 or 9).

The result of changes in macroeconomic scenarios, PMA and other adjustments as of 31 December 2022 was an increase in ECL of €0.5 million.

9.1.5.5 Exposure at default (EAD)

In 2022, the Group updated EAD models based on combined historical data from its predecessor banks. Calculation of exposure at default differs depending on the type and features of a financial product. For assets held at amortised cost, the basis is the current exposure that varies according to contractual cash flows over the period of the contractual relationship. In case of off-balance exposures, the EAD is considered to be the future amount for which the Group expects to be drawn in the future on the basis of historical data. For assets carried at FVOCI, the basis is the cost including a deferred discount/premium up to the instrument's maturity with the accrued interest.

For exposures in Stage 1 and Stage 3, only one EAD is taken into account, whereas for exposures in Stage 2, EAD is determined for each year up to maturity.

Exposure at default is calculated as the sum of the balance-sheet exposure corrected by the factor of on-balance exposure change and off-balance sheet exposures multiplied by the conversion factor (CCF). The exposure increase factor is the expected change in the current balance sheet exposure that will occur upon the (possible) occurrence of a default event. Conversion factor (CCF) represents the expected drawdown of the currently undrawn amount, which could be drawn down and, in the event of default, would represent the Group's exposure to the counterparty.

For representative product groups, the Group calculates the conversion factors by itself, while using regulatory values for non-representative products.

For revolving products, such as overdrafts on transaction accounts, credit cards and charge cards, that have no effective maturity, the Group considers the effective maturity estimated on the basis of characteristics in individual products.

9.1.5.6 Probability of default (PD)

The Group uses three credit rating models for corporate clients (large, medium-sized, small and micro enterprises, and sole traders) and one credit rating model for retail clients. Through-the-cycle (TTC) PD is used to classify clients to rating grades. TTC PD represents the average probability of default for a customer during a period of 12 months over the entire economic cycle and is stable over time, as it is not affected by current macroeconomic conditions. That probability serves as the basis for determining a client's internal credit rating. The Group has developed a separate model for the international lending (IL) segment, which it updated in 2022.

Calculation of expected credit losses is based on short-term point-in-time (PIT) probability of default, based on assigned credit grades using the TTC PD.

When calculating PIT PD, the Group takes into account all relevant available information about the customer, i.e., financial and behavioural data that differ according to the type of customer. Current macroeconomic environment and expected changes in this environment are taken into account.

9.1.5.7 Expected loss given default (LGD)

The Group updated LGD parameter models for the entire portfolio in 2022. It uses an LGD that reflects current and expected economic conditions. Due to the homogeneity of individual segments, the Group uses LGD models by business segment, i.e. corporate clients, sole traders, retail clients and international lending, by category of collateral, i.e. real estate, insurance companies, other forms of collateral and unsecured transactions, and by product, i.e. guarantees, leasing and other products. A special model has been developed for the international lending (IL) segment.

The LGD used to calculate losses is based on historical loss rates for each segment. Affecting the historical loss rate in each segment are macroeconomic conditions and expectations regarding future economic developments, and whether an exposure is already in default and, if so, for how long.

9.1.5.8 Inclusion of forward-looking information into the expected credit loss model

In accordance with IFRS 9 and the Guidelines for Managing Credit Risk and Accounting for Expected Credit Losses, the Group uses forward-looking information (FLI) which has been identified as material in assessing expected credit losses on the basis of reasonable judgement, generally adopted methods for economic analysis and forecasting and supported by an adequate set of data. In risk parameter modelling, the Group uses past realised values of macroeconomic variables, as well as the latest macroeconomic forecasts across its macroeconomic scenarios.

The Group examines FLI models on an annual basis (or more frequently where appropriate) and updates all models. The Group also regularly reviews which macroeconomic variables have discriminatory predictive power and includes these in its models.

In the process of calculating expected credit losses, the Group uses four macroeconomic scenarios: optimistic, target, conservative and severe. Scenarios and weights are set based on the prevailing economic conditions and the current position in the economic cycle and reviewed regularly to reflect latest developments.

The Group uses forecasts provided by the Bank of Slovenia (BoS) and the Institute for Macroeconomic Analysis and Development (IMAD) as the underlying basis for its macroeconomic forecasts. The source for Macroeconomic forecasts for sources for other areas are:

- European Commission for Europe;
- European Central Bank for the Euro Area;
- Federal Reserve for the US.

The Group calculates expected credit losses for each macroeconomic scenario by using the value of forecasted macroeconomic variables which are incorporated into model-based risk parameters pertinent to each scenario.

All amounts in EUR thousand unless otherwise stated.

The Group then calculates expected credit losses as a weighted average of ECL under all four macroeconomic scenarios.

The Group updates macroeconomic assumptions and forecasts regularly in accordance with the most recent publications of the relevant institutions, as stated above. It also regularly updates the weights in specific scenarios. The most recent update of scenarios and weights was carried out according to the situation as of 31 December 2022.

Scenario weights in the calculation

	Target	Optimistic	Conservative	Severe
31.12.2021	60%	10%	10%	20%
31.12.2022	50%	5%	15%	30%

All amounts in EUR thousand unless otherwise stated.

Forecasts of macroeconomic variables in the calculation

Country	Indicator description	Baseline scenario				Optimistic scenario				Conservative scenario				Severe scenario			
		2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
SI	GDP SI (% growth)	1.90	2.60	2.50	2.42	2.90	3.60	3.33	3.11	0.90	1.60	1.67	1.72	(1.50)	(0.50)	0.00	1.00
EU	GDP EU (% growth)	1.25	1.95	1.77	1.62	2.25	2.95	2.61	2.32	0.25	0.95	0.94	0.93	(2.00)	(1.50)	0.00	1.00
US	GDP US (% growth)	1.65	1.75	1.75	1.74	2.65	2.75	2.58	2.44	0.65	0.75	0.91	1.05	(1.50)	(1.00)	0.00	1.00
SI	Final consumption (% growth)	1.25	2.00	1.92	1.86	1.91	2.77	2.56	2.39	0.59	1.23	1.28	1.32	(0.99)	(0.38)	0.00	0.77
SI	Unemployment (%)	4.00	3.80	4.29	4.69	2.75	2.20	2.95	3.58	5.25	5.40	5.62	5.80	6.50	7.00	7.00	6.50
SI	Consumer price index (% growth)	5.30	2.60	2.60	2.61	4.65	2.30	2.35	2.40	5.95	2.90	2.85	2.82	6.60	3.20	3.10	3.02
EA	Consumer price index, excluding energy, food and beverage (% growth)	2.80	2.30	2.14	2.01	2.46	2.03	1.92	1.82	3.14	2.57	2.36	2.19	3.20	2.00	1.89	1.80
SI	Housing real estate price index (% growth)	0.00	0.00	0.18	0.33	5.00	0.00	0.18	0.33	(5.00)	0.00	0.18	0.33	(10.00)	0.00	0.18	0.33
EA	3-month EURIBOR (%)	2.25	2.17	2.11	2.00	1.88	1.86	1.79	1.73	2.63	2.49	2.31	2.17	3.00	2.80	2.57	2.39
US	3-month T-bill (%)	5.00	4.50	3.98	3.54	4.50	4.25	3.77	3.37	5.50	4.75	4.18	3.71	6.00	5.00	4.39	3.89
SI	10-year SI government bond yield (%)	4.00	4.50	4.36	4.25	3.00	4.25	4.15	4.07	5.00	4.75	4.57	4.42	6.00	5.00	4.78	4.59
DE	10-year DE government bond yield (%)	3.00	3.50	3.30	3.14	2.50	3.25	3.09	2.97	3.50	3.75	3.51	3.31	4.00	4.00	3.72	3.49
EA	10-year EA government bond yield (%)	3.75	4.25	4.05	3.89	3.25	4.00	3.83	3.69	4.25	4.50	4.25	4.04	4.75	4.75	4.46	4.21

All amounts in EUR thousand unless otherwise stated.

Country	Indicator description	Baseline scenario				Optimistic scenario				Conservative scenario				Severe scenario			
		2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
US	10-year US government bond yield (T-bond, %)	5.00	5.50	5.11	4.79	4.50	5.25	4.90	4.62	5.50	5.75	5.32	4.96	6.00	6.00	5.53	5.14
US	Baa-rating US corporate bond (%)	6.85	7.35	7.09	6.88	6.35	7.10	6.89	6.71	7.35	7.60	7.30	7.05	7.85	7.85	7.51	7.23

In the customer classification and individual exposure assessment of expected credit losses, the Group considers available forward-looking information.

All amounts in EUR thousand unless otherwise stated.

Sensitivity analysis – the impact of macroeconomic variables and scenario weights on PD, LGD and ECL
The sensitivity analysis demonstrates the impact of change in scenario weighting on the current values of PDs, LGDs and the calculation of expected credit losses as of 31 December 2022. Scenarios present 100% weight on optimistic or severe scenario.

Nova KBM Group	Optimistic scenario			Pesimistic scenario		
Segment	Change in PD (bp)	Change in LGD (bp)	Change in P&L (000€)	Change in PD (bp)	Change in LGD (bp)	Change in P&L (000€)
Retail	(73.00)	27.00	(3,131)	59.23	20.53	3,100
Micro enterprises	(135.59)	(308.96)	(617)	132.16	281.19	647
Small enterprises	(140.94)	(376.58)	(3,250)	141.92	389.89	3,681
Large corporates	(99.87)	(498.27)	(4,731)	101.86	504.33	6,766
International lending	(33.13)	126.70	(1,966)	37.16	87.02	2,519
Financial institutions	(11.29)	(142.99)	(116)	12.55	188.72	150
Banks	(2.21)	93.30	(67)	3.04	64.06	105
Public sector	(1.86)	(0.09)	(124)	1.74	0.48	130
Total			**(14,002)**			**17,097**

Nova KBM	Optimistic scenario			Pesimistic scenario		
Segment	Change in PD (bp)	Change in LGD (bp)	Change in P&L (000€)	Change in PD (bp)	Change in LGD (bp)	Change in P&L (000€)
Retail	(48.18)	33.70	(2,568)	39.85	25.62	2,652
Micro enterprises	(100.24)	(746.31)	(453)	99.69	679.23	4,89
Small enterprises	(118.24)	(457.99)	(3,029)	120.51	474.18	3,465
Large corporates	(97.60)	(512.32)	(4,707)	99.71	518.55	6,742
International lending	(33.13)	126.70	(1,966)	37.16	87.02	2,519
Financial institutions	(16.83)	(1,060.67)	(734)	19.48	937.37	962
Banks	(2.21)	93.30	(67)	3.04	64.06	105
Public sector	(1.80)	(0.09)	(123)	1.69	0.48	129
Total			**(13,647)**			**17,063**

9.1.5.9 Backtesting and validation of models

The validation of credit risk parameter models is performed in accordance with the established model validation framework. Validation is performed by an independent external contractor in accordance with its methodology approved by the bank. In the context of validation, the appropriateness of the model and all processes related to the development and implementation of the model in the IT system are assessed, i.e. the appropriateness of the expertise of the personnel who developed the models, the appropriateness of the methods and data used, and the appropriateness of the predictive power of the models. The life cycle contains various controls, such as initial validation, implementation validation, monitoring and regular validation. The scope and frequency of these activities depends on the materiality (tiering) of the model. Initial validation must be performed when a new model is introduced or a significant model change is made. This is followed by the validation of the implementation of the model in the bank's system, the goal of which is that the model is implemented without errors in terms of information technology. Regular validation is required every three years for material models (tier 1), while regular validation of models with less impact on key indicators (tier 2) is performed at least every five years. The internal monitoring of models was also introduced in 2022, and is generally carried out for material models (tier 1) on a quarterly basis. The goal of monitoring is to ensure that the models in use are unbiased and representative of the current portfolio composition and macroeconomic environment. Model risk management is supervised and directed by the Model Risk Committee, which is also responsible for development and validation planning, review and management of validation results, including monitoring of corrective measures. The Group is constantly upgrading and improving the model risk management process and in 2022 began a complete overhaul of model risk management, including the previously described validation process.

All amounts in EUR thousand unless otherwise stated.

Actual credit losses are frequently realised over a longer period. A direct comparison of forecasted and actual losses remains difficult. The Group monitors the historical values of credit risk parameters that affect the calculation of expected credit losses (default rate, loss rate and exposure at default) and thus directly monitors the accuracy of past estimates. The Group updated the monitoring of estimated parameters in 2022. The macroeconomic environment remains uncertain due to the Russian military aggression, supply chain issues and rising inflation, which in turn leads to significant uncertainty with regard to the model and the results thereof, and thus on the calculation of expected credit losses. For this reason, the Group takes into account the credit risk parameter with a degree of conservatism, as described in points 9.1.5.3 and 9.1.5.8.

9.1.6 EXPOSURE TO CREDIT RISK BY CREDIT RATING CATEGORIES

a) Financial assets measured at fair value through other comprehensive income

In the tables below, the Group does not disclose equity instruments that are otherwise part of financial assets measured at fair value through other comprehensive income; such assets are not subject to staging in accordance with IFRS 9. As of 31 December 2022, equity instruments amounted to €47,841 thousand (31 December 2021: €50,036 thousand).

Nova KBM Group and Nova KBM					31/12/2022
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at fair value through other comprehensive income					
A Credit rating category	651,297	0	0	0	651,297
B Credit rating category	2,037	0	0	0	2,037
Total gross amount	**653,334**	**0**	**0**	**0**	**653,334**
Total impairments	(305)	0	0	0	(305)
Total net amount	**653,029**	**0**	**0**	**0**	**653,029**

Nova KBM Group and Nova KBM					31/12/2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at fair value through other comprehensive income					
A Credit rating category	1,244,103	0	0	0	1,244,103
Total gross amount	**1,244,103**	**0**	**0**	**0**	**1,244,103**
Total impairments	(281)	0	0	0	(281)
Total net amount	**1.243,822**	**0**	**0**	**0**	**1,243,822**

All amounts in EUR thousand unless otherwise stated.

b) Debt securities measured at amortised cost

Nova KBM Group and Nova KBM					31/12/2022
	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at amortised cost					
A Credit rating category	1,716,138	15,096	0	0	1,731,234
B Credit rating category	32,480	0	0	0	32,480
Total gross amount	**1,748,618**	**15,096**	**0**	**0**	**1,763,714**
Total impairments	(1,734)	(13)			(1,747)
Total net amount	**1,746,884**	**15,083**	**0**	**0**	**1,761,967**

Nova KBM Group and Nova KBM					31/12/2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at amortised cost					
A Credit rating category	578,914	0	0	0	578,914
B Credit rating category	22,587	0	0	0	22,587
Total gross amount	**601,501**	**0**	**0**	**0**	**601,501**
Total impairments	(576)	0	0	0	(576)
Total net amount	**600,925**	**0**	**0**	**0**	**600,925**

c) Loans to banks

Nova KBM Group and Nova KBM					31/12/2022
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to banks					
A Credit rating category	40,055	0	0	0	40,055
B Credit rating category	5,093	0	0	0	5,093
Total gross amount	**45,148**	**0**	**0**	**0**	**45,148**
Total impairments	0	0	0	0	0
Total net amount	**45,148**	**0**	**0**	**0**	**45,148**

Nova KBM Group and Nova KBM					31/12/2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to banks					
A Credit rating category	78,353	0	0	0	78,353
Total gross amount	**78,353**	**0**	**0**	**0**	**78,353**
Total impairments	(28)	0	0	0	(28)
Total net amount	**78,325**	**0**	**0**	**0**	**78,325**

All amounts in EUR thousand unless otherwise stated.

d) Loans to customers

Nova KBM Group					31/12/2022
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers					
A Credit rating category	1,697,830	35,623	0	0	1,733,453
B Credit rating category	2,619,861	256,049	0	4,523	2,880,433
C Credit rating category	295.109	282,665	0	1,295	579,069
D Credit rating category	0	0	93,875	2,757	96,632
E Credit rating category	0	0	49,717	623	50,340
Total gross amount	**4,612,800**	**574,337**	**143,592**	**9,198**	**5,339,927**
Total impairments	(17,911)	(25,822)	(55,965)	947	(98,751)
Total net amount	**4,594,889**	**548,515**	**87,627**	**10,145**	**5,241,176**

Nova KBM Group					31/12/2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers					
A Credit rating category	1,879,224	3,245	0	0	1,882,469
B Credit rating category	1,933,765	189,410	0	1,262	2,124,437
C Credit rating category	431,066	352,400	0	6,339	789,805
D Credit rating category	0	0	85,183	2,776	87,959
E Credit rating category	0	0	56,384	1,655	58,039
Total gross amount	**4,244,055**	**545,055**	**141,567**	**12,032**	**4,942,709**
Total impairments	(15,904)	(26,375)	(44,675)	2,131	(84,823)
Total net amount	**4,228,151**	**518,680**	**96,892**	**14,163**	**4,857,886**

Non-trading financial assets mandatorily at fair value through profit or loss are excluded from the table.

Nova KBM					31/12/2022
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers					
A Credit rating category	2,407,524	34,958	0	0	2,442,482
B Credit rating category	2,165,328	239,781	0	4,523	2,409,632
C Credit rating category	102,974	205,856	0	1,295	310,125
D Credit rating category	0	0	44,464	2,757	47,221
E Credit rating category	0	0	34,744	623	35,367
Total gross amount	**4,675,826**	**480,595**	**79,208**	**9,198**	**5,244,827**
Total impairments	(16,408)	(23,470)	(37,896)	947	(76,827)
Total net amount	**4,659,418**	**457,125**	**41,312**	**10,145**	**5,168,000**

All amounts in EUR thousand unless otherwise stated.

Nova KBM					31/12/2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers					
A Credit rating category	2,351,969	3,074	0	0	2,355,043
B Credit rating category	1,752,893	180,731	0	1,262	1,934,886
C Credit rating category	135,426	312,631	0	6,339	454,396
D Credit rating category	0	0	50,784	2,776	53,560
E Credit rating category	0	0	42,344	1,655	43,999
Total gross amount	**4,240,288**	**496,436**	**93,128**	**12,032**	**4,841,884**
Total impairments	(13,348)	(25,143)	(34,402)	2,131	(70,762)
Total net amount	**4,226,940**	**471,293**	**58,726**	**14,163**	**4,771,122**

Non-trading financial assets mandatorily at fair value through profit or loss are excluded from the table.

e) Other financial assets

Nova KBM Group					31/12/2022
	Stage 1	Stage 2	Stage 3	POCI	Total
Other financial assets					
A Credit rating category	50,878	54	0	0	50,932
B Credit rating category	218	88	0	0	306
C Credit rating category	26	210	0	0	236
D Credit rating category	0	0	167	0	167
E Credit rating category	0	0	766	12	778
Total gross amount	**51,122**	**352**	**933**	**12**	**52,419**
Total impairments	(205)	(12)	(654)	(12)	(883)
Total net amount	**50,917**	**340**	**279**	**0**	**51,536**

Nova KBM Group					31/12/2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Other financial assets					
A Credit rating category	20,175	3,409	0	0	23,584
B Credit rating category	1,314	169	0	0	1,483
C Credit rating category	193	260	0	0	453
D Credit rating category	0	0	187	0	187
E Credit rating category	0	0	1,052	10	1,062
Total gross amount	**21,682**	**3,838**	**1,239**	**10**	**26,769**
Total impairments	(216)	(36)	(1,114)	(10)	(1,376)
Total net amount	**21,466**	**3,802**	**125**	**0**	**25,393**

All amounts in EUR thousand unless otherwise stated.

Nova KBM					31/12/2022
	Stage 1	Stage 2	Stage 3	POCI	Total
Other financial assets					
A Credit rating category	50,862	3	0	0	50,865
B Credit rating category	218	10	0	0	228
C Credit rating category	26	24	0	0	50
D Credit rating category	0	0	107	0	107
E Credit rating category	0	0	309	12	321
Total gross amount	**51,106**	**37**	**416**	**12**	**51,571**
Total impairment	(205)	(3)	(290)	(11)	(509)
Total net amount	**50,901**	**34**	**126**	**1**	**51,062**

Nova KBM					31/12/2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Other financial assets					
A Credit rating category	20,207	3,363	0	0	23,570
B Credit rating category	1,314	99	0	0	1,413
C Credit rating category	193	193	0	0	386
D Credit rating category	0	0	118	0	118
E Credit rating category	0	0	559	10	569
Total gross amount	**21,714**	**3,655**	**677**	**10**	**26,056**
Total impairment	(215)	(28)	(569)	(10)	(822)
Total net amount	**21,499**	**3,627**	**108**	**0**	**25,234**

f) Financial guarantees

Nova KBM Group and Nova KBM					31/12/2022
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial guarantees					
A Credit rating category	58,750	0	0	0	58,750
B Credit rating category	152,783	1,216	0	0	153,999
C Credit rating category	10,625	2,706	0	0	13,331
D Credit rating category	0	0	31	0	31
E Credit rating category	0	0	151	0	151
Total gross amount	**222,158**	**3,922**	**182**	**0**	**226,262**
Total provisions	(770)	(238)	(129)	0	(1,137)
Total net amount	**221,388**	**3,684**	**53**	**0**	**225,125**

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group and Nova KBM					31/12/2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial guarantees					
A Credit rating category	73,370	0	0	0	73,370
B Credit rating category	114,654	1,132	0	0	115,786
C Credit rating category	9,650	5,626	0	0	15,276
D Credit rating category	0	0	135	0	135
E Credit rating category	0	0	151	0	151
Total gross amount	**197,674**	**6,758**	**286**	**0**	**204,718**
Total provisions	(212)	(259)	(84)	0	(555)
Total net amount	**197,462**	**6,499**	**202**	**0**	**204,163**

g) Other off-balance sheet liabilities

Nova KBM Group					31/12/2022
	Stage 1	Stage 2	Stage 3	POCI	Total
Other off-balance sheet liabilities					
A Credit rating category	638,847	6,438	0	0	645,285
B Credit rating category	866,254	40,917	0	0	907,171
C Credit rating category	19,035	14,082	0	0	33,117
D Credit rating category	0	0	1,678	0	1,678
E Credit rating category	0	0	4,481	113	4,594
Total gross amount	**1,524,136**	**61,437**	**6,159**	**113**	**1,591,845**
Total provisions	(1,943)	(859)	(1,152)	(11)	(3,965)
Total net amount	**1,522,193**	**60,578**	**5,007**	**102**	**1,587,880**

Nova KBM Group					31/12/2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Other off-balance sheet liabilities					
A Credit rating category	785,783	813	0	0	786,596
B Credit rating category	880,791	28,137	0	0	908,928
C Credit rating category	41,286	33,701	0	0	74,987
D Credit rating category	0	0	2,178	0	2,178
E Credit rating category	0	0	6,659	651	7,310
Total gross amount	**1,707,860**	**62,651**	**8,837**	**651**	**1,779,999**
Total provisions	(3,083)	(1,453)	(1,179)	(62)	(5,777)
Total net amount	**1,704,777**	**61,198**	**7,658**	**589**	**1,774,222**

The table contains other off-balance sheet liabilities such as guarantees, overdrafts, undrawn loans, letters of credit.

All amounts in EUR thousand unless otherwise stated.

Nova KBM					31/12/2022
	Stage 1	Stage 2	Stage 3	POCI	Total
Other off-balance sheet liabilities					
A Credit rating category	686,038	6,438	0	0	692,476
B Credit rating category	866,254	40,917	0	0	907,171
C Credit rating category	19,035	13,542	0	0	32,577
D Credit rating category	0	0	1,678	0	1,678
E Credit rating category	0	0	4,481	113	4,594
Total gross amount	**1,571,327**	**60,897**	**6,159**	**113**	**1,638,496**
Total provisions	(1,986)	(850)	(1,152)	(11)	(3,999)
Total net amount	**1,569,341**	**60,047**	**5,007**	**102**	**1,634,497**

The table contains other off-balance sheet liabilities such as guarantees, overdrafts, undrawn loans, letters of credit.

Nova KBM					31/12/2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Other off-balance sheet liabilities					
A Credit rating category	805,083	813	0	0	805,896
B Credit rating category	880,791	28,137	0	0	908,928
C Credit rating category	41,286	32,488	0	0	73,774
D Credit rating category	0	0	2,178	0	2,178
E Credit rating category	0	0	6,659	651	7,310
Total gross amount	**1,727,160**	**61,438**	**8,837**	**651**	**1,798,086**
Total provisions	(3,096)	(1,422)	(1,179)	(62)	(5,759)
Total net amount	**1,724,064**	**60,016**	**7,658**	**589**	**1,792,327**

The table contains other off-balance sheet liabilities such as guarantees, overdrafts, undrawn loans letters of credit.

All amounts in EUR thousand unless otherwise stated.

Loans to customers by days past due

	2022		2022	
Nova KBM Group	Gross amount	Impairments	Gross amount	Impairments
Outstanding	5,074,602	59,231	4,596,119	43,781
Past due up to 30 days	165,018	6,378	240,854	9,347
Past due 31 to 60 days	46,005	4,768	50,289	4,196
Past due 61 to 90 days	9,116	1,126	10,167	1,195
Past due over 90 days	45,186	27,248	45,280	26,304
Total	**5,339,927**	**98,751**	**4,942,709**	**84,823**

	2022		2021	
Nova KBM	Gross amount	Impairments	Gross amount	Impairments
Outstanding	5,149,319	49,735	4,615,864	39,129
Past due up to 30 days	40,740	2,921	159,448	7,113
Past due 31 to 60 days	17,873	2,482	24,403	2,570
Past due 61 to 90 days	1,971	489	3,979	688
Past due over 90 days	34,924	21,200	38,190	21,262
Total	**5,244,827**	**76,827**	**4,841,884**	**70,762**

All amounts in EUR thousand unless otherwise stated.

Credit risk exposure by sector of activity and geographical areas

Nova KBM Group	Loans and to banks measured at amortised cost		Loans to customers measured at amortised cost		Debt securities measured at amortised cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance sheet liabilities	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Concentration by sector of activity										
1. Manufacturing industry	0	0	709,503	633,539	74,913	53,421	12,774	16,579	289,589	319,417
2. Construction	0	0	235,009	132,291	2,018	0	0	0	259,751	309,021
3. Trade	0	0	364,146	250,963	8,967	4,892	0	16,409	330,513	304,207
4. Financial and insurance sectors	45,148	78,325	391,227	350,489	570,127	356,495	162,395	432,488	89,264	149,715
5. Professional, scientific and technical activities	0	0	227,376	218,860	55,005	30,857	2,027	9,109	115,594	140,059
6. Public administration and defence sectors	0	0	39,379	49,231	977,845	102,289	464,513	755,696	1,201	5,816
7. Transport and storage	0	0	138,762	124,269	11,159	7,280	9,447	10,405	39,666	33,755
8. Catering	0	0	91,401	102,097	0	0	0	0	7,836	9,091
9. Cultural, entertainment and recreational activities	0	0	35,283	32,803	0	0	0	0	12,472	233,433
10. IT and communication	0	0	60,421	71,293	15,691	15,045	0	1,037	75,667	62,337
11. Health and social work	0	0	46,500	46,826	0	0	0	0	3,939	5,435
12. Other	0	0	368,293	431,287	46,242	30,646	1,873	2,099	193,981	233,435
13. Retail customers	0	0	2,533,876	2,413,938	0	0	0	0	393,532	393,580
– secured by mortgages	0	0	1,028,204	1,025,552	0	0	0	0	6,457	4,033
– unsecured	0	0	1,505,672	1,388,386	0	0	0	0	387,075	389,547
Total	**45,148**	**78,325**	**5,241,176**	**4,857,886**	**1,761,967**	**600,925**	**653,029**	**1,243,822**	**1,813,005**	**1,978,385**
Concentration by geographical areas										
1. Slovenia	24,236	14,988	4,316,013	4,194,636	146,223	42,603	170,185	270,664	1,716,517	1,805,792
2. Other EU member states	20,912	63,337	681,574	542,212	1,469,887	536,088	411,345	868,432	65,748	133,784
3. Europe (without EU member states)	0	0	89,755	6,476	77,888	13,048	22,298	40,279	20,853	3,222
4. Other countries	0	0	153,834	114,562	67,969	9,186	49,201	64,447	9,887	35,587
Total	**45,148**	**78,325**	**5,241,176**	**4,857,886**	**1,761,967**	**600,925**	**653,029**	**1,243,822**	**1,813,005**	**1,978,385**

All amounts in EUR thousand unless otherwise stated.

Nova KBM		Loans to banks measured at amortised cost		Loans to customers measured at amortised cost		Debt securities measured at amortised cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance sheet liabilities	
		2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Concentration by sector of activity											
1.	Manufacturing industry	0	0	654,432	618,706	74,913	53,421	12,774	16,579	289,589	319,417
2.	Construction	0	0	192,544	108,081	2,018	0	0	0	259,751	309,021
3.	Trade	0	0	284,635	221,271	8,967	4,892	0	16,409	329,982	303,024
4.	Financial and insurance sectors	45,148	78,325	1,158,743	837,628	570,127	356,495	162,395	432,488	136,411	169,002
5.	Professional, scientific and technical activities	0	0	213,009	211,757	55,005	30,857	2,027	9,109	115,594	140,059
6.	Public administration and defence sectors	0	0	39,137	49,031	977,845	102,289	464,513	755,696	1,201	5,816
7.	Transport and storage	0	0	80,295	97,129	11,159	7,280	9,447	10,405	39,666	33,755
8.	Catering	0	0	83,922	98,431	0	0	0	0	7,836	9,091
9.	Cultural, entertainment and recreational activities	0	0	33,018	31,527	0	0	0	0	12,472	12,519
10.	IT and communication	0	0	56,918	69,495	15,691	15,045	0	1,037	75,667	62,337
11.	Health and social work	0	0	43,456	45,423	0	0	0	0	3,939	5,435
12.	Other	0	0	312,353	409,849	46,242	30,646	1,873	2,099	193,982	233,434
13.	Retail customers	0	0	2,015,538	1,972,794	0	0	0	0	393,532	393,580
	– secured by mortgages	0	0	1,028,204	1,025,552	0	0	0	0	6,457	4,033
	– unsecured	0	0	987,334	947,242	0	0	0	0	387,075	389,547
	Total	**45,148**	**78,325**	**5,168,000**	**4,771,122**	**1,761,967**	**600,925**	**653,029**	**1,243,822**	**1,859,622**	**1,996,490**
Concentration by geographical areas											
1.	Slovenia	24,236	14,988	4,351,413	4,111,643	146,223	42,603	170,185	270,664	1,763,134	1,823,897
2.	Other EU member states	20,912	63,337	583,384	541,677	1,469,887	536,088	411,345	868,432	65,748	133,784
3.	Europe (without EU member states)	0	0	82,994	3,296	77,888	13,048	22,298	40,279	20,853	3,222
4.	Other countries	0	0	150,209	114,506	67,969	9,186	49,201	64,447	9,887	35,587
	Total	**45,148**	**78,325**	**5,168,000**	**4,771,122**	**1,761,967**	**600,925**	**653,029**	**1,243,822**	**1,859,622**	**1,996,490**

As of 31 December 2022, the Group's net loans outstanding to customers measured at amortised cost totalled €5,241,176 thousand (€4,857,886 thousand in 2021). The majority of loans are loans to households, where the amount is €2,533,876 thousand (€2,413,938 thousand in 2021) and represents 48.35% (49.69% in 2021) of net loans to customers.

The amount under item financial assets designated at fair value through other comprehensive income amounted to €653.029 thousand (€1,243,822 thousand in 2021). The largest share of financial assets at fair value through comprehensive income is in the area of other EU member states, where the share is 62.99% (69.82% in 2021).

All amounts in EUR thousand unless otherwise stated.

Non-performing loan management

For the purpose of managing non-performing loans, the Group has established a special department that, in organisational terms, is placed under Credit Management, and its Director reports to the Chief Risk Officer (CRO).

The Workout Department is responsible for management of non-performing loans (NPLs) in both the corporate and retail segments as well as management of repossessed assets. These substantive elements are used also in the organisational structure of the Department's sub-units. The Workout Department operates in line with internal rules that comply with applicable legislation and the recommendations given by regulators. The rules are prepared in cooperation with other specialised departments of the Group. In its work, the Department cooperates with relevant Group specialised departments that provide professional support in specific areas which are centrally organised within the Group.

NPLs are transferred to the Workout Department when a debtor is in default on a materially significant amount for more than 90 days (applicable to corporate customers and sole proprietors) or 60 days (natural person) or in case where an insolvency proceeding or an insolvency remedial action is initiated against the defaulted customer. Until that day, the recovery is carried out in commercial units with assistance of the Workout Department. In the segment of natural persons, the recovery of a default exceeding 1 day is carried out by the early recovery department (typically via the call centre), whilst a customer in default of over 60 days is transferred for management to the Workout Department.

After corporate non-performing loans are transferred to the Workout Department, a management strategy for each asset is prepared on the basis of available information and confirmed by the competent body. In certain cases, additional measures can be taken to recover some or all non-performing loans, such as the sale of claims to third parties or cooperation with external service providers. If there is no suitable exit from an NPL available at a given moment, the Group may decide to repossess assets provided as collateral. Such assets are managed by a special unit within the Workout Department. The latter carries out the procedures of acceptance, analysis and subsequent re-marketing of the asset until it is sold on the market under a standardised sales procedure. After all legal and actual options for repayment in accordance with laws and internal regulations have been exhausted, any remaining exposures are written off.

Individual decisions in the process of NPL management are taken by various competent bodies of the Group depending on the amount of exposure or the complexity of the case, and cover all the levels from the heads of departments, through the Credit Committee, and the decision-making and supervisory bodies of the Group.

Volume of non-performing loans (NPLs)

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Total gross loans	5,437,492	5,047,831	5,341,543	4,946,293
Total impairment	99,632	86,227	77,333	71,612
Total net loans	5,337,860	4,961,604	5,264,210	4,874,681
Gross NPLs	147,917	147,247	83,016	98,246
Impairment of NPLs	57,899	46,683	39,466	35,866
Net NPLs	90,018	100,564	43,550	62,380
Gross NPLs/total gross loans (%)	2.72	2.92	1.55	1.99
Net NPLs/total net loans (%)	1.69	2.03	0.83	1.28

Loans also include other financial assets.

All amounts in EUR thousand unless otherwise stated.

During the period of 1 January to 31 December 2022, the Group continued collecting the unpaid obligations of customers by liquidating instruments of collateral through regular court proceedings, use of out-of-court settlements and individual and portfolio claim sales.

The non-performing loan (NPL) ratio of the Group remained at a low level in 2022 relative to 2021. As of 31 December 2022, the net NPL ratio was 1.69% at the Group level and 0.83% at the Bank.

The Group has achieved the planned reduction of non-performing loans as, in addition to the regular planned reduction of NPLs, it successfully completed one package sale of non-performing loans in 2022 and thus reduced gross non-performing loans by a total of €15 million at the Bank.

The Group did not record a significant increase in non-performing loans in 2022 due to the impact of the COVID-19 pandemic.

More about the impact of the COVID-19 pandemic on the Group's operations is disclosed in point 9.1.5.3.

Analysis of restructured loans

Nova KBM Group	Restructured loans to individuals			Restructured loans to corporate customers			31/12/2022
	Without mortgage	Secured by mortgages	Total	Without mortgage	Secured by mortgages	Total	Total restructured loans
Gross loans	3,208	7,056	**10,264**	12,555	44,094	**56,649**	**66,913**
Impairments	(1,285)	(2,516)	**(3,801)**	(3,570)	(3,974)	**(7,544)**	**(11,345)**
Net loans	1,923	4,540	**6,463**	8,985	40,120	**49,105**	**55,568**
Share of restructured gross loans in all gross loans (individuals and corporate customers)							1.25%
Share of restructured net loans in all net loans (individuals and corporate customers)							1.04%

Loans as of 31 December 2022 include other financial assets.

Nova KBM Group	Restructured loans to individuals			Restructured loans to corporate customers			31/12/2021
	Without mortgage	Secured by mortgages	Total	Without mortgage	Secured by mortgages	Total	Total restructured loans
Gross loans	5,555	10,208	**15,763**	10,472	55,793	**66,265**	**82,028**
Impairments	(2,127)	(1,550)	**(3,677)**	(917)	(1,699)	**(2,616)**	**(6,293)**
Net loans	3,428	8,658	**12,086**	9,555	54,094	**63,649**	**75,735**
Share of restructured gross loans in all gross loans (individuals and corporate customers)							1.65%
Share of restructured net loans in all net loans (individuals and corporate customers)							1.53%

Loans as of 31 December 2021 include other financial assets.

As of 31 December 2022, the volume of restructured loans in the Group's lending portfolio totalled €66,913 thousand (€82,028 thousand in 2021), of which €10,264 thousand (€15,763 thousand in 2021) were in the retail segment, and €56,649 thousand (€66,265 thousand in 2021) in the corporate segment (loans outstanding to companies and sole proprietors).

All amounts in EUR thousand unless otherwise stated.

Nova KBM	Restructured loans to individuals			Restructured loans to corporate customers			31/12/2022
	Without mortgage	Secured by mortgages	Total	Without mortgage	Secured by mortgages	Total	Total restructured loans
Gross loans	2,821	7,056	**9,877**	8,188	44,094	**52,282**	**62,159**
Impairments	(1,246)	(2,516)	**(3,762)**	(3,229)	(3,974)	**(7,203)**	**(10,965)**
Net loans	1,575	4,540	**6,115**	4,959	40,120	**45,079**	**51,194**
Share of restructured gross loans in all gross loans (individuals and corporate customers)							1.16%
Share of restructured net loans in all net loans (individuals and corporate customers)							0.97%

Loans as of 31 December 2022 include other financial assets.

Nova KBM	Restructured loans to individuals			Restructured loans to corporate customers			31/12/2021
	Without mortgage	Secured by mortgages	Total	Without mortgage	Secured by mortgages	Total	Total restructured loans
Gross loans	5,202	10,208	**15,410**	4,737	55,793	**60,530**	**75,940**
Impairments	(2,094)	(1,550)	**(3,644)**	(500)	(1,699)	**(2,199)**	**(5,843)**
Net loans	3,108	8,658	**11,766**	4,237	54,094	**58,331**	**70,097**
Share of restructured gross loans in all gross loans (individuals and corporate customers)							1.54%
Share of restructured net loans in all net loans (individuals and corporate customers)							1.44%

Loans as of 31 December 2021 include other financial assets.

Valuation of real estate

Valuation of real estate is regulated by the Collateral Policy and the Collateral Valuation and Allocation Methodology of the Group. The Group monitors the quality and value of real estate collateral prior to taking any business decision during the origination process and throughout the period of its exposure.

The ESG strategy also assesses risks in area of collateral value. The impact of climate change, which includes the physical risk and transition risk, is being identified.

Assessments of the value of real estate that must be carried out in compliance with the International Valuation Standards are usually performed by independent real estate appraisers certified by the Slovenian Institute of Auditors, and which are included in the Group's list of approved appraisers. Valuation reports received by the Group are checked by the Credit management, which confirms whether the valuation carried out is appropriate for the needs of business decisions. The Department also monitors the quality of work of external appraisers who are included in the Group's list of approved appraisers. In monitoring the value of real estate, the Group uses various procedures, depending on the type of property, the type of collateral and the value of the subject to collateral – Statistical (internal) revaluation is used for larger groups of similar real estate of smaller values, or a revaluation of the value estimates carried out by internal or external appraisers.

All amounts in EUR thousand unless otherwise stated.

Value of exposure by type of collateral

31/12/2022		Nova KBM Group		Nova KBM	
		Amount	Structure	Amount	Structure
1	Deposits	57,359	2.17%	57,359	2.19%
2	Guarantees	47,250	1.79%	47,250	1.80%
3	Sureties	61,800	2.34%	61,800	2.36%
4	Securities and pledge of receivables from points of mutual funds	6,201	0.23%	6,201	0.24%
5	Mortgages	1,994,727	75.41%	1,994,727	76.07%
6	Pledge of inventories and movable property	70,623	2.67%	70,623	2.69%
7	Pledge of receivables and assignment of claims	0	0.00%	0	0.00%
8	Pledge of interest in equity	0	0.00%	0	0.00%
9	Reserve fund assets	0	0.00%	0	0.00%
10	Insurance company	406,863	15.38%	383,884	14.64%
11	Pledge of claims from insurances with insurance company	330	0.01%	330	0.01%
12	Securities portfolio	0	0.00%	0	0.00%
13	Other types of collateral	125	0.00%	125	0.00%
	Total	**2,645,278**	**100.00%**	**2,622,299**	**100.00%**

31/12/2021		Nova KBM Group		Nova KBM	
		Amount	Structure	Amount	Structure
1	Deposits	54,616	1,95%	54,616	1.95%
2	Guarantees	161,603	5,77%	161,603	5.77%
3	Sureties	56,681	2,02%	56,681	2.02%
4	Securities and pledge of receivables from points of mutual funds	8,297	0,30%	8,297	0.30%
5	Mortgages	2,044,488	73,02%	2,044,488	73.02%
6	Pledge of inventories and movable property	76,798	2,74%	76,798	2.74%
7	Pledge of receivables and assignment of claims	0	0,00%	0	0.00%
8	Pledge of interest in equity	0	0,00%	0	0.00%
9	Reserve fund assets	0	0,00%	0	0.00%
10	Insurance company	392,884	14,03%	392,884	14.03%
11	Pledge of claims from insurances with insurance company	471	0,02%	471	0.02%
12	Securities portfolio	0	0,00%	0	0.00%
13	Other types of collateral	4,201	0,15%	4,201	0.15%
	Total	**2,800,039**	**100,00%**	**2,800,039**	**100.00%**

The table does not include exposures from consumer loans of the subsidiary SLS, collateralized via credit protection provided by an insurance company in the amount of €86,022thousand.

Nova KBM Group											31/12/2022
Financial assets \ Type of collateral	Maximum exposure to credit risk (Net exposure)	Cash	Securities	3rd party/gov guarantees	Property	Other	Surplus collateral	Total collateral	Net exposure	% of exposure subject to collateral requirements	Associated ECL
Cash, cash balances at central bank and other demand deposits	2,370,815	-	-	-	-	-	-	-	2,370,815	-	13
Financial assets held for trading	8,988	-	-	-	-	-	-	-	8,988	-	-
Financial assets at fair value through other comprehensive income	653,029	0	0	75,615	0	0	51	75,564	577,465	12%	305
- debt securities	653,029	0	0	75,615	0	0	51	75,564	577,465	12%	305
Financial assets at amortised cost	7,099,827	40,437	15,157	181,460	4,596,812	548,710	2,997,359	2,385,218	4,714,609	34%	101,381
- debt securities	1,761,967	0	0	50,382	0	0	559	49,823	1,712,144	3%	1,747
– loans to banks	45,148	0	0	1	0	0	1	0	45,148	0%	0
– loans to customers	5,241,176	37,297	15,080	126,855	4,578,857	548,370	2,971,183	2,335,274	2,905,902	45%	98,751
Loans to corporates	2,705,785	36,957	13,368	126,552	1,974,662	170,397	1,378,627	943,307	1,762,478	35%	52,991
Loans to retail customers	2,535,391	340	1,712	303	2,604,195	377,973	1,592,556	1,391,967	1,143,423	55%	45,760
– other financial assets	51,536	3,141	77	4,223	17,955	341	25,616	121	51,415	0%	883
Hedge accounting	5,983	-	-	-	-	-	-	-	5,983	0%	-
Total balance sheet exposures	**10,138,642**	**40,438**	**15,157**	**257,075**	**4,596,812**	**548,711**	**2,997,409**	**2,460,782**	**7,677,860**		**101,686**
Loan commitments	1,198,609	18,132	282	6,115	342,028	2,989	245,257	124,289	1,074,320	10%	3,027
Financial guarantees	225,124	4,382	6	1,019	30,843	0	36,250	0	225,124	0%	1,138
Other commitments	389,271	8,059	132	9,074	66,434	514	84,213	0	389,271	0%	937
Total commitments	**1,813,004**	**30,573**	**420**	**16,208**	**439,305**	**3,503**	**365,720**	**124,289**	**1,688,715**		**5,102**

Nova KBM											31/12/2022
Financial assets \ Type of collateral	Maximum exposure to credit risk (Net exposure)	Cash	Securities	3rd party/gov guarantees	Property	Other	Surplus collateral	Total collateral	Net exposure	% of exposure subject to collateral requirements	Associated ECL
Cash, cash balances at central bank and other demand deposits	2,361,829	-	-	-	-	-	-	-	2,361,829	-	-
Financial assets held for trading	8,988	-	-	-	-	-	-	-	8,988	-	-
Financial assets at fair value through other comprehensive income	653,029	0	0	75,615	0	0	51	75,564	577,465	12%	305
- debt securities	653,029	0	0	75,615	0	0	51	75,564	577,465	12%	305
Financial assets at amortised cost	7,026,177	40,437	15,157	181,460	4,596,812	527,704	2,,997,119	2,364,452	4,661,725	34%	79,084
- debt securities	1,761,967	0	0	50,382	0	0	559	49,823	1,712,144	3%	1,747
– loans to banks	45,148	0	0	1	0	0	1	0	45,148	0%	0
– loans to customers	5,168,000	37,297	15,080	126,855	4,578,857	527,363	2,970,943	2,314,508	2,853,492	45%	76,828
Loans to corporates	3,152,430	36,957	13,368	126,552	1,974,662	149,390	1,378,387	922,541	2,229,889	29%	44,324
Loans to retail customers	2,015,570	340	1,712	303	2,604,195	377,973	1,592,556	1,391,967	623,603	69%	32,504
– other financial assets	51,062	3.141	77	4,223	17,955	341	25,616	121	50,941	0%	509
Hedge accounting	5,983	-	-	-	-	-	-	-	5,983	0%	-
Total balance sheet exposures	**10,056,006**	**40,438**	**15,157**	**257,075**	**4,596,812**	**527,704**	**2,997,169**	**2,440,016**	**7,615,990**		**79,389**
Loan commitments	1,245,226	18,132	282	6,115	342,028	2,989	245,257	124,289	1,120,937	10%	3,062
Financial guarantees	225,124	4,382	6	1,019	30,843	0	36,250	0	225,124	0%	1.138
Other commitments	389,271	8,059	132	9,074	66,434	514	84,213	0	389,271	0%	937
Total commitments	**1,859,621**	**30,573**	**420**	**16,208**	**439,305**	**3,503**	**365,720**	**124,289**	**1,735,332**		**5,137**

All amounts in EUR thousand unless otherwise stated.

The volume of collateral, impairments and provisions for mortgaged housing loans

31/12/2022		Nova KBM Group		Nova KBM	
Mortgaged loans		Amount	Impairments	Amount	Impairments
1	up to 50%	453,231	6,495	453,231	6,495
2	51 to 90%	545,141	4,942	545,141	4,942
3	over 90%	28,787	1,800	28,787	1,800
	Total	**1,027,159**	**13,237**	**1,027,159**	**13,237**

31/12/2022		Nova KBM Group		Nova KBM	
Irrevocable loan to value LTV commitments		Amount	Impairments	Amount	Impairments
1	up to 50%	1,523	1	1,523	1
2	51 to 90%	2,825	3	2,825	3
3	over 90%	2,113	1	2,113	1
	Total	**6,461**	**5**	**6,461**	**5**

31/12/2022		Nova KBM Group		Nova KBM	
Impaired mortgaged loans LTV		Amount	Impairments	Amount	Impairments
1	up to 50%	11,433	5,124	11,433	5,124
2	51 to 90%	8,274	3,144	8,274	3,144
3	over 90%	1,985	1,635	1,985	1,635
	Total	**21,692**	**9,903**	**21,692**	**9,903**

All amounts in EUR thousand unless otherwise stated.

31/12/2021		Nova KBM Group		Nova KBM	
Mortgaged loans		Amount	Impairments	Amount	Impairments
1	up to 50%	439,840	2,073	439,840	2,073
2	51 to 90%	530,469	2,427	530,469	2,427
3	over 90%	42,025	1,699	42,025	1,699
	Total	**1,012,334**	**6,199**	**1,012,334**	**6,199**

31/12/2021		Nova KBM Group		Nova KBM	
Irrevocable loan to value LTV commitments		Amount	Impairments	Amount	Impairments
1	up to 50%	1,148	0	1,148	0
2	51 to 90%	2,841	1	2,841	1
3	over 90%	45	0	45	0
	Total	**4,034**	**1**	**4,034**	**1**

31/12/2021		Nova KBM Group		Nova KBM	
Impaired mortgaged loans LTV		Amount	Impairments	Amount	Impairments
1	up to 50%	12,448	1418	12,448	1418
2	51 to 90%	12,045	1,502	12,045	1,502
3	over 90%	2,889	1,459	2,889	1,459
	Total	**27,382**	**4,379**	**27,382**	**4,379**

The analysis above shows the value of collateral eligible under relevant CRR relating to the calculation of regulatory capital only. The Group holds collateral against certain claims against which it has registered legal mortgages, but which are not yet eligible because the Group is collecting current market valuations and evidence of assignment of property insurance policies.

All amounts in EUR thousand unless otherwise stated.

Movement in gross exposure amounts by type of financial assets and commitments

The reconciliation of total amounts of loans to banks, loans to customers and other financial assets at year-end in tables a) and b) with the balance sheet amounts is presented in tables below.

Nova KBM Group			2022
	Gross amount	Allowance for impairment	Net amount
Loans to banks incl. other financial assets	**94,395**	**(201)**	**94,194**
Loans to banks	45,148	0	45,148
Other financial assets - banks	49,247	(201)	49,046
Loans to customers incl. other financial assets	**5,343,099**	**(99,433)**	**5,243,666**
Loans to customers	5,339,927	(98,751)	5,241,176
Other financial assets - customers	3,172	(682)	2,490
Other financial assets - total	**52,419**	**(883)**	**51,536**

Nova KBM Group			2021
	Gross amount	Allowance for impairment	Net amount
Loans to banks incl. other financial assets	**98,066**	**(194)**	**97,872**
Loans to banks	78,353	(28)	78,325
Other financial assets - banks	19,713	(166)	19,547
Loans to customers incl. other financial assets	**4,949,765**	**(86,033)**	**4,863,732**
Loans to customers	4,942,709	(84,823)	4,857,886
Other financial assets - customers	7,056	(1,210)	5,846
Other financial assets - total	**26,769**	**(1,376)**	**25,393**

Nova KBM			2022
	Gross amount	Allowance for impairment	Net amount
Loans to banks incl. other financial assets	**94,395**	**(201)**	**94,194**
Loans to banks	45,148	0	45,148
Other financial assets - banks	49,247	(201)	49,046
Loans to customers incl. other financial assets	**5,247,151**	**(77,135)**	**5,170,016**
Loans to customers	5,244,827	(76,827)	5,168,000
Other financial assets - customers	2,324	(308)	2,016
Other financial assets - total	**51,571**	**(509)**	**51,062**

All amounts in EUR thousand unless otherwise stated.

Nova KBM			2021
	Gross amount	Allowance for impairment	Net amount
Loans to banks incl. other financial assets	**98,066**	**(194)**	**97,872**
Loans to banks	78,353	(28)	78,325
Other financial assets - banks	19,713	(166)	19,547
Loans to customers incl. other financial assets	**4,848,227**	**(71,418)**	**4,776,809**
Loans to customers	4,841,884	(70,762)	4,771,122
Other financial assets - customers	6,343	(656)	5,687
Other financial assets - total	**26,056**	**(822)**	**25,234**

a) Movement in gross amounts of loans and other financial assets to banks measured at amortised cost

Nova KBM Group					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**95,678**	**2,388**	**0**	**0**	**98,066**
Net change in gross amounts due to withdrawal / (repayment)	17,739	(2,388)	0	0	15,351
New recognition of financial assets	475,344	0	0	0	475,344
Derecognition of financial assets other than write-offs	(494,366)	0	0	0	(494,366)
As at 31/12	**94,395**	**0**	**0**	**0**	**94,395**
Impairments as at 31/12	(201)	0	0	0	(201)

Nova KBM Group					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**41,648**	**920**	**0**	**0**	**42,568**
Net change in gross amounts due to withdrawal / (repayment)	(39,198)	(3,870)	0	0	(43,068)
New recognition of financial assets	497,107	5,338	0	0	502,445
Derecognition of financial assets other than write-offs	(403,879)	0	0	0	(403,879)
As at 31/12	**95,678**	**2,388**	**0**	**0**	**98,066**
Impairments as at 31/12	(194)	0	0	0	(194)

Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**95,678**	**2,388**	**0**	**0**	**98,066**
Net change in gross amounts due to withdrawal / (repayment)	17,739	(2,388)	0	0	15,351
New recognition of financial assets	475,344	0	0	0	475,344
Derecognition of financial assets other than write-offs	(494,366)	0	0	0	(494,366)
As at 31/12	**94,395**	**0**	**0**	**0**	**94,395**
Impairments as at 31/12	(201)	0	0	0	(201)

All amounts in EUR thousand unless otherwise stated.

Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**41,604**	**920**	**0**	**0**	**42,524**
Net change in gross amounts due to withdrawal / (repayment)	(39,154)	1,468	0	0	(37,686)
New recognition of financial assets	497,107	0	0	0	497,107
Derecognition of financial assets other than write-offs	(403,879)	0	0	0	(403,879)
As at 31/12	**95,678**	**2,388**	**0**	**0**	**98,066**
Impairments as at 31/12	(194)	0	0	0	(194)

b) Movement in gross amounts of loans and other financial assets to customers measured at amortised cost

Nova KBM Group					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**4,248,415**	**546,505**	**142,803**	**12,042**	**4,949,765**
Transfer to Stage 1	336,207	(335,958)	(249)	0	0
Transfer to Stage 2	(606,891)	627,363	(20,472)	0	0
Transfer to Stage 3	(3,959)	(51,367)	55,326	0	0
Net change in gross amounts due to withdrawal / (repayment)	(602,856)	(334,336)	(33,105)	(1,785)	(972,082)
New recognition of financial assets	2,200,877	196,550	23,931	0	2,421,358
Derecognition of financial assets other than write-offs	(956,447)	(73,119)	(20,197)	(919)	(1,050,682)
Write-offs	(5)	(899)	(3,402)	(122)	(4,428)
Other changes	(665)	(47)	(114)	(6)	(832)
As at 31/12	**4,614,676**	**574,692**	**144,521**	**9,210**	**5,343,099**
Impairments as at 31/12	(17,927)	(25,834)	(56,607)	935	(99,433)

Nova KBM Group					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**4,101,237**	**465,634**	**131,924**	**25,508**	**4,724,303**
Transfer to Stage 1	228,706	(224,899)	(3,807)	0	0
Transfer to Stage 2	(563,861)	589,541	(25,680)	0	0
Transfer to Stage 3	(18,989)	(69,591)	88,580	0	0
Net change in gross amounts due to withdrawal / (repayment)	(739,988)	(240,805)	(27,072)	3,478	(1,004,387)
New recognition of financial assets	1,853,769	95,166	20,574	36	1,969,545
Derecognition of financial assets other than write-offs	(612,446)	(68,493)	(35,998)	(15,510)	(732,447)
Write-offs	(13)	(48)	(5,718)	(1,470)	(7,249)
As at 31/12	**4,248,415**	**546,505**	**142,803**	**12,042**	**4,949,765**
Impairments as at 31/12	(15,951)	(26,411)	(45,791)	2,120	(86,033)

All amounts in EUR thousand unless otherwise stated.

Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**4,244,676**	**497,703**	**93,806**	**12,042**	**4,848,227**
Transfer to Stage 1	261,583	(261,424)	(159)	0	0
Transfer to Stage 2	(348,324)	359,045	(10,721)	0	0
Transfer to Stage 3	(2,345)	(23,754)	26,099	0	0
Net change in gross amounts due to withdrawal / (repayment)	(175,141)	(67,063)	(11,660)	(1,785)	(255.649)
New recognition of financial assets	1,432,931	38,299	0	0	1,471,230
Derecognition of financial assets other than write-offs	(735,029)	(62,116)	(14,522)	(919)	(812,586)
Write-offs	(5)	(8)	(3,333)	(122)	(3,468)
Other changes	(658)	(53)	114	(6)	(603)
As at 31/12	**4,677,688**	**480,629**	**79,624**	**9,210**	**5,247,151**
Impairments as at 31/12	(16,409)	(23,474)	(38,187)	935	(77,135)

Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**4,101,607**	**408,078**	**96,284**	**23,567**	**4,629,536**
Transfer to Stage 1	193,122	(189,331)	(3,791)	0	0
Transfer to Stage 2	(405,965)	422,528	(16,563)	0	0
Transfer to Stage 3	(15,088)	(40,530)	55,618	0	0
Net change in gross amounts due to withdrawal / (repayment)	(624,362)	(59,398)	(10,758)	(12,632)	(707,150)
New recognition of financial assets	1,525,345	11,938	7,957	36	1,545,276
Derecognition of financial assets other than write-offs	(529,971)	(55,578)	(29,899)	2,558	(612,890)
Write-offs	(12)	(4)	(5,042)	(1,487)	(6,545)
As at 31/12	**4,244,676**	**497,703**	**93,806**	**12,042**	**4,848,227**
Impairments as at 31/12	(13,395)	(25,171)	(34,973)	2,121	(71,418)

c) Movement in gross amounts of debt securities measured at amortised cost

Nova KBM Group and Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**601,501**	**0**	**0**	**0**	**601,501**
Transfer to Stage 2	(15,076)	15,076	0	0	0
Net change in gross amounts due to purchases	(4,440)	20	0	0	(4,420)
New recognition of financial assets	1,245,703	0	0	0	1,245,703
Derecognition of financial assets other than write-offs	(79,070)	0	0	0	(79,070)
As at 31/12	**1,748,618**	**15,096**	**0**	**0**	**1,763,714**
Impairments as at 31/12	(1,733)	(14)	0	0	(1,747)

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group and Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**284,216**	**0**	**0**	**0**	**284,216**
Net change in gross amounts due to purchases	(1,644)	0	0	0	(1,644)
New recognition of financial assets	381,833	0	0	0	381,833
Derecognition of financial assets other than write-offs	(62,904)	0	0	0	(62,904)
As at 31/12	**601,501**	**0**	**0**	**0**	**601,501**
Impairments as at 31/12	(576)	0	0	0	(576)

d) Movement in gross amounts of financial assets measured at fair value through other comprehensive income

Nova KBM Group and Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**1,239,267**	**0**	**0**	**0**	**1,239,267**
Net change in gross amounts due to withdrawal / (repayment)	(106,969)	0	0	0	(106,969)
New recognition of financial assets	29,598	0	0	0	29,598
Derecognition of financial assets other than write-offs	(466,436)	0	0	0	(466,436)
As at 31/12	**695,460**	**0**	**0**	**0**	**695,460**
Impairments as at 31/12	(305)	0	0	0	(305)
Fair value adjustments	(42,126)	0	0	0	(42,126)

Nova KBM Group and Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**1,789,682**	**0**	**0**	**0**	**1,789,682**
Net change in gross amounts due to withdrawal / (repayment)	(29,098)	0	0	0	(29,098)
New recognition of financial assets	29,725	0	0	0	29,725
Derecognition of financial assets other than write-offs	(535,382)	0	0	0	(535,382)
Other changes*	(15,660)	0	0	0	(15,660)
As at 31/12	**1,239,267**	**0**	**0**	**0**	**1,239,267**
Impairments as at 31/12	(281)	0	0	0	(281)
Fair value adjustments	4,836	0	0	0	4,836

* Includes the change due to change in definition of gross carrying amount of financial assets measured at fair value through other comprehensive income. The definition of gross carrying amount changed from "carrying amount adjusted for any loss allowance" to "amortised cost before adjusting for any loss allowance".

All amounts in EUR thousand unless otherwise stated.

e) Movement in gross amounts of off-balance sheet exposures (financial guarantees and other off-balance sheet exposures)

Nova KBM Group					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**1,905,532**	**69,408**	**9,127**	**650**	**1,984,717**
Transfer to Stage 1	36,688	(36,683)	(5)	0	0
Transfer to Stage 2	(55,334)	55,960	(626)	0	0
Transfer to Stage 3	(653)	(1,451)	2,103	0	(1)
Net change in gross amounts due to withdrawal / (repayment)	(94,741)	4,100	(750)	0	(91,391)
New recognition of financial assets	1,009,470	7,577	191	0	1,017,238
Derecognition of financial assets other than write-offs	(1,054,836)	(33,567)	(3,700)	(537)	(1,092,640)
Other changes	170	14	0	0	184
As at 31/12	**1,746,296**	**65,358**	**6,340**	**113**	**1,818,107**
Provisions as at 31/12	(2,714)	(1,097)	(1,281)	(11)	(5,103)

Nova KBM Group					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**1,642,225**	**77,600**	**20,800**	**650**	**1,741,275**
Transfer to Stage 1	50,764	(50,743)	(21)	0	0
Transfer to Stage 2	(60,686)	66,206	(5,520)	0	0
Transfer to Stage 3	(2,922)	(1,562)	4,484	0	0
Net change in gross amounts due to withdrawal / (repayment)	81,682	4,056	(6,701)	4	79,041
New recognition of financial assets	1,544,037	13,295	2,995	128	1,560,455
Derecognition of financial assets other than write-offs	(1,349,568)	(39,444)	(6,910)	(132)	(1,396,054)
As at 31/12	**1,905,532**	**69,408**	**9,127**	**650**	**1,984,717**
Provisions as at 31/12	(3,293)	(1,712)	(1,265)	(62)	(6,332)

Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**1,924,832**	**68,194**	**9,127**	**651**	**2,002,804**
Transfer to Stage 1	36,688	(36,683)	(5)	0	0
Transfer to Stage 2	(55,334)	55,960	(626)	0	0
Transfer to Stage 3	(653)	(1,450)	2,103	0	0
Net change in gross amounts due to withdrawal / (repayment)	(81,506)	6,775	(750)	0	(75,298)
New recognition of financial assets	1,024,127	5,577	191	0	1,029,895
Derecognition of financial assets other than write-offs	(1,054,838)	(33,567)	(3,700)	(538)	(1,092,643)
Other changes	170	13	0	0	0
As at 31/12	**1,793,486**	**64,819**	**6,340**	**113**	**1,864,758**
Provisions as at 31/12	(2,757)	(1,089)	(1,280)	(11)	(5,137)

All amounts in EUR thousand unless otherwise stated.

Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**1,664,087**	**77,600**	**20,800**	**650**	**1,763,137**
Transfer to Stage 1	50,764	(50,743)	(21)	0	0
Transfer to Stage 2	(60,686)	60,686	0	0	0
Transfer to Stage 3	(2,922)	(1,562)	4,484	0	0
Net change in gross amounts due to withdrawal / (repayment)	79,120	9,620	(12,221)	5	76,524
New recognition of financial assets	1,544,037	12,037	2,995	128	1,559,197
Derecognition of financial assets other than write-offs	(1,349,568)	(39,444)	(6,910)	(132)	(1,396,054)
As at 31/12	**1,924,832**	**68,194**	**9,127**	**651**	**2,002,804**
Provisions as at 31/12	(3,307)	(1,681)	(1,264)	(62)	(6,314)

Movement in impairments and provisions by type of financial assets and commitments

a) Movement in impairments of loans and other financial assets to banks measured at amortised cost

Nova KBM Group and Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(193)**	**0**	**(1)**	**0**	**(194)**
Net change in expected losses due to changes in credit risk	16	0	1	0	17
New recognition of financial assets or impairments	(24)	0	0	0	(24)
As at 31/12	**(201)**	**0**	**0**	**0**	**(201)**

Nova KBM Group and Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(335)**	**0**	**(1)**	**0**	**(336)**
Net change in expected losses due to changes in credit risk	173	0	0	0	173
New recognition of financial assets or impairments	(31)	0	0	0	(31)
As at 31/12	**(193)**	**0**	**(1)**	**0**	**(194)**

All amounts in EUR thousand unless otherwise stated.

b) Movement in impairments of loans and other financial assets to customers measured at amortised cost

Nova KBM Group					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(15,951)**	**(26,411)**	**(45,791)**	**2,120**	**(86,033)**
Transfer to Stage 1	(9,745)	9,661	84	0	0
Transfer to Stage 2	3,432	(8,147)	4,715	0	0
Transfer to Stage 3	97	2,824	(2,921)	0	0
Net change in expected losses due to changes in credit risk	9,906	(5,581)	(12,624)	(1,649)	(9,948)
New recognition of financial assets or impairments	(7,291)	(1,050)	(6,993)	0	(15,334)
Derecognition of impairments other than write-offs	1,625	2,873	3,931	343	8,772
Write-offs	1	4	3,115	121	3,241
Modifications in contractual conditions	0	0	(1)	0	(1)
Foreign exchange rate differences and other changes	(1)	(7)	(122)	0	(130)
As at 31/12	**(17,927)**	**(25,834)**	**(56,607)**	**935**	**(99,433)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	1,055	2	1,057
Amounts written-off directly to the statement of profit or loss	(4)	(895)	(287)	(1)	(1,187)
Gains or (losses) on derecognition of debt instruments	0	0	571	177	748

Nova KBM Group					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(20,579)**	**(29,776)**	**(44,679)**	**(567)**	**(95,601)**
Transfer to Stage 1	(8,264)	8,236	28	0	0
Transfer to Stage 2	4,700	(9,038)	4,338	0	0
Transfer to Stage 3	211	6,203	(6,414)	0	0
Net change in expected losses due to changes in credit risk	12,396	(4,159)	(6,004)	(1,192)	1,041
New recognition of financial assets or impairments	(5,965)	(296)	(3,629)	0	(9,890)
Derecognition of impairments other than write-offs	1,551	2,702	5,920	3,181	13,354
Write-offs	2	3	4,735	698	5,438
Modifications in contractual conditions	(3)	(286)	(86)	0	(375)
As at 31/12	**(15,951)**	**(26,411)**	**(45,791)**	**2,120**	**(86,033)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	4,514	215	4,729
Amounts written-off directly to the statement of profit or loss	(11)	(45)	(967)	(789)	(1,812)
Gains or (losses) on derecognition of debt instruments	(63)	(7)	(420)	1,392	902

All amounts in EUR thousand unless otherwise stated.

In June 2022 the Group introduced new models for determining EAD and LGD, which resulted in additional impairments of €0,7 million. Additionally macro scenarios, scenario weights and PMA were changed. These changes resulted in increase of impairments of €4.3 million. In June 2022 the bank changed the booking of unwinding interest with impairment release of €1 million. During August and November 2022 the methodology of required minimum coverage of defaulters was changed, the impact of which was €3.4 million.

In December 2022 the Group adjusted macroeconomic scenarios and PMA and introduced new PD and LGD models for International lending segment. The criteria for determination of significant increase of credit risk have become more stringent. Total impact of these changes as of 31 December 2022 was an impairment increase of €0.5 million.

Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(13,395)**	**(25,171)**	**(34,973)**	**2,121**	**(71,418)**
Transfer to Stage 1	(7,429)	7,386	43	0	0
Transfer to Stage 2	2,214	(5,288)	3,074	0	0
Transfer to Stage 3	50	1,742	(1,792)	0	0
Net change in expected losses due to changes in credit risk	4,045	(3,780)	(11,035)	(1,650)	(12,420)
New recognition of financial assets or impairments	(3,511)	(811)	0	0	(4,322)
Derecognition of impairments other than write-offs	1,617	2,451	3,504	343	7,915
Write-offs	1	4	3,115	121	3,241
Modifications in contractual conditions	0	0	(1)	0	(1)
Foreign exchange rate differences and other changes	(1)	(7)	(122)	0	(130)
As at 31/12	**(16,409)**	**(23,474)**	**(38,187)**	**935**	**(77,135)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	1,054	2	1,056
Amounts written-off directly to the statement of profit or loss	(4)	(4)	(218)	(1)	(227)
Gains or (losses) on derecognition of debt instruments	0	0	571	177	748

All amounts in EUR thousand unless otherwise stated.

Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(20,494)**	**(28,541)**	**(35,672)**	**312**	**(84,395)**
Transfer to Stage 1	(7,687)	7,659	28	0	0
Transfer to Stage 2	4,351	(7,348)	2,997	0	0
Transfer to Stage 3	182	4,953	(5,135)	0	0
Net change in expected losses due to changes in credit risk	13,844	(3,990)	(6,154)	(1,208)	2,492
New recognition of financial assets or impairments	(5,136)	(235)	(1,246)	0	(6,617)
Derecognition of impairments other than write-offs	1,547	2,616	6,013	2,319	12,495
Write-offs	1	1	4,282	698	4,982
Modifications in contractual conditions	(3)	(286)	(86)		(375)
As at 31/12	**(13,395)**	**(25,171)**	**(34,973)**	**2,121**	**(71,418)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	4,514	216	4,730
Amounts written-off directly to the statement of profit or loss	(11)	(3)	(760)	(789)	(1,563)
Gains or (losses) on derecognition of debt instruments	(63)	(7)	(420)	1,392	902

c) Movement in impairments of corporate loans and other financial assets measured at amortised cost

Nova KBM Group					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(11,252)**	**(16,563)**	**(21,113)**	**2,655**	**(46,273)**
Transfer to Stage 1	(4,073)	4,049	24	0	0
Transfer to Stage 2	1,900	(3,186)	1,286	0	0
Transfer to Stage 3	70	629	(699)	0	0
Net change in expected losses due to changes in credit risk	3,241	(723)	(3,729)	(774)	(1,985)
New recognition of financial assets or impairments	(4,776)	(951)	(4,507)	0	(10,234)
Derecognition of impairments other than write-offs	1,308	1,550	789	346	3,993
Write-offs	0	0	1,691	121	1,812
Modifications in contractual conditions	0	0	0	0	0
Foreign exchange rate differences and other changes	(2)	(9)	(111)	0	(122)
As at 31/12	**(13,584)**	**(15,204)**	**(26,369)**	**2,348**	**(52,809)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	585	0	585
Amounts written-off directly to the statement of profit or loss	(3)	(892)	(285)	(1)	(1,181)
Gains or (losses) on derecognition of debt instruments	0	0	0	161	161

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(17,359)**	**(23,284)**	**(23,214)**	**1,024**	**(62,833)**
Transfer to Stage 1	(5,265)	5,256	9	0	0
Transfer to Stage 2	3,562	(5,576)	2,014	0	0
Transfer to Stage 3	97	2,554	(2,651)	0	0
Net change in expected losses due to changes in credit risk	11,253	2,623	(439)	(782)	12,655
New recognition of financial assets or impairments	(4,930)	(178)	(1,429)	0	(6,537)
Derecognition of impairments other than write-offs	1,392	2,251	3,088	1,716	8,447
Write-offs	1	2	1,520	697	2,220
Modifications in contractual conditions	(3)	(211)	(11)	0	(225)
As at 31/12	**(11,252)**	**(16,563)**	**(21,113)**	**2,655**	**(46,273)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	1,218	91	1,309
Amounts written-off directly to the statement of profit or loss	(6)	(45)	(330)	(526)	(907)
Gains or (losses) on derecognition of debt instruments	(50)	(2)	(183)	1,157	922

Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(11,123)**	**(16,087)**	**(17,246)**	**2,652**	**(41,804)**
Transfer to Stage 1	(3,340)	3,340	0	0	0
Transfer to Stage 2	1,395	(2,015)	620	0	0
Transfer to Stage 3	28	369	(397)	0	0
Net change in expected losses due to changes in credit risk	360	(675)	(3,272)	(771)	(4,358)
New recognition of financial assets or impairments	(2,097)	(750)	0	0	(2,847)
Derecognition of impairments other than write-offs	1,300	1,202	482	345	3,329
Write-offs	0	0	1,691	121	1,812
Modifications in contractual conditions	0	0	0	0	0
Foreign exchange rate differences and other changes	(2)	(9)	(111)	0	(122)
As at 31/12	**(13,479)**	**(14,625)**	**(18,233)**	**2,347**	**(43,990)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	584	0	584
Amounts written-off directly to the statement of profit or loss	(3)	(1)	(216)	(1)	(221)
Gains or (losses) on derecognition of debt instruments	0	0	0	161	161

All amounts in EUR thousand unless otherwise stated.

Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(17,859)**	**(22,708)**	**(19,816)**	**1,880**	**(58,503)**
Transfer to Stage 1	(5,130)	5,121	9	0	0
Transfer to Stage 2	3,373	(4,735)	1,362	0	0
Transfer to Stage 3	83	2,334	(2,417)	0	0
Net change in expected losses due to changes in credit risk	11,512	2,082	(522)	(779)	12,293
New recognition of financial assets or impairments	(4,491)	(155)	(409)	0	(5,055)
Derecognition of impairments other than write-offs	1,391	2,184	3,040	854	7,469
Write-offs	1	1	1,518	697	2,217
Modifications in contractual conditions	(3)	(211)	(11)	0	(225)
As at 31/12	**(11,123)**	**(16,087)**	**(17,246)**	**2,652**	**(41,804)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	1,218	91	1,309
Amounts written-off directly to the statement of profit or loss	(6)	(3)	(222)	(526)	(757)
Gains or (losses) on derecognition of debt instruments	(50)	(1)	(182)	1,156	923

d) Movement in impairments of retail loans and other financial assets measured at amortised cost

Nova KBM Group					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(4,393)**	**(9,404)**	**(24,561)**	**(532)**	**(38,890)**
Transfer to Stage 1	(5,569)	5,509	60	0	0
Transfer to Stage 2	1,500	(4,929)	3,429	0	0
Transfer to Stage 3	27	2,195	(2,222)	0	0
Net change in expected losses due to changes in credit risk	6,511	(4,582)	(8,888)	(878)	(7,837)
New recognition of financial assets or impairments	(2,514)	(98)	(2,496)	0	(5,108)
Derecognition of impairments other than write-offs	311	948	3,141	(2)	4,398
Write-offs	1	4	1,314	0	1,319
Modifications in contractual conditions	0	0	(1)	0	(1)
Foreign exchange rate differences and other changes	1	2	(11)	0	(8)
As at 31/12	**(4,125)**	**(10,355)**	**(30,235)**	**(1,412)**	**(46,127)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	470	2	472
Amounts written-off directly to the statement of profit or loss	(1)	(3)	(2)	0	(6)
Gains or (losses) on derecognition of debt instruments	0	0	571	16	587

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(2,586)**	**(5,724)**	**(21,424)**	**(1,549)**	**(31,283)**
Transfer to Stage 1	(2,936)	2,916	20	0	0
Transfer to Stage 2	1,138	(3,446)	2,308	0	0
Transfer to Stage 3	114	3,649	(3,763)	0	0
Net change in expected losses due to changes in credit risk	752	(7,058)	(5,474)	(449)	(12,229)
New recognition of financial assets or impairments	(1,035)	(118)	(2,200)	0	(3,353)
Derecognition of impairments other than write-offs	159	451	2,832	1,465	4,907
Write-offs	1	1	3,215	1	3,218
Modifications in contractual conditions	0	(75)	(75)	0	(150)
As at 31/12	**(4,393)**	**(9,404)**	**(24,561)**	**(532)**	**(38,890)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	3,296	124	3,420
Amounts written-off directly to the statement of profit or loss	(5)	0	(637)	(263)	(905)
Gains or (losses) on derecognition of debt instruments	(13)	(5)	(237)	235	(20)

Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(1,965)**	**(8,641)**	**(17,616)**	**(531)**	**(28,753)**
Transfer to Stage 1	(3,986)	3,943	43	0	0
Transfer to Stage 2	788	(3,242)	2,454	0	0
Transfer to Stage 3	22	1,373	(1,395)	0	0
Net change in expected losses due to changes in credit risk	3,530	(2,824)	(7,763)	(879)	(7,936)
New recognition of financial assets or impairments	(1,414)	(61)	0	0	(1,475)
Derecognition of impairments other than write-offs	311	873	3,022	(2)	4,204
Write-offs	1	4	1,314	0	1,319
Modifications in contractual conditions	0	0	(1)	0	(1)
Foreign exchange rate differences and other changes	1	2	(11)	0	(8)
As at 31/12	**(2,712)**	**(8,573)**	**(19,953)**	**(1,412)**	**(32,650)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	470	2	472
Amounts written-off directly to the statement of profit or loss	(1)	(3)	(2)	0	(6)
Gains or (losses) on derecognition of debt instruments	0	0	571	16	587

All amounts in EUR thousand unless otherwise stated.

Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1					
Transfer to Stage 1	**(2,339)**	**(5,064)**	**(15,808)**	**(1,544)**	**(24,755)**
Transfer to Stage 2	(2,494)	2,474	20	0	0
Transfer to Stage 3	978	(2,596)	1,618	0	0
Net change in expected losses due to changes in credit risk	99	2,619	(2,718)	0	0
New recognition of financial assets or impairments	2,280	(6,351)	(5,553)	(453)	(10,077)
Derecognition of impairments other than write-offs	(645)	(80)	(837)	0	(1,562)
Write-offs	156	432	2,973	1,465	5,026
Modifications in contractual conditions	0	0	2,764	1	2,765
Foreign exchange rate differences and other changes	0	(75)	(75)	0	(150)
As at 31/12	**(1,965)**	**(8,641)**	**(17,616)**	**(531)**	**(28,753)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	3,296	125	3,421
Amounts written-off directly to the statement of profit or loss	(5)	0	(538)	(263)	(806)
Gains or (losses) on derecognition of debt instruments	(13)	(6)	(238)	236	(21)

e) Movement in impairments of debt securities measured at amortised cost

Nova KBM Group and Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(576)**	**0**	**0**	**0**	**(576)**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	9	(9)	0	0	0
Transfer to Stage 3	0	0	0	0	0
Net change in expected losses due to changes in credit risk	(815)	(5)	0	0	(820)
New recognition of financial assets or impairments	(357)	0	0	0	(357)
Derecognition of impairments other than write-offs	6	0	0	0	6
Write-offs	0	0	0	0	0
Modifications in contractual conditions	0	0	0	0	0
Foreign exchange rate differences and other changes	0	0	0	0	0
As at 31/12	**(1,733)**	**(14)**	**0**	**0**	**(1,747)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	0	0	0	0	0
Amounts written-off directly to the statement of profit or loss	0	0	0	0	0
Gains or losses on derecognition of debt instruments	(52)	0	0	0	(52)

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group and Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(743)**	**0**	**0**	**0**	**(743)**
Net change in expected losses due to changes in credit risk	981	0	0	0	981
New recognition of financial assets or impairments	(831)	0	0	0	(831)
Derecognition of impairments other than write-offs	17	0	0	0	17
As at 31/12	**(576)**	**0**	**0**	**0**	**(576)**

f) Movement in impairments of financial assets measured at fair value through other comprehensive income

Nova KBM Group and Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(281)**	**0**	**0**	**0**	**(281)**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
Net change in expected losses due to changes in credit risk	(49)	0	0	0	(49)
New recognition of financial assets or impairments	(3)	0	0	0	(3)
Derecognition of impairments other than write-offs	28	0	0	0	28
Write-offs	0	0	0	0	0
Modifications in contractual conditions	0	0	0	0	0
Foreign exchange rate differences and other changes	0	0	0	0	0
As at 31/12	**(305)**	**0**	**0**	**0**	**(305)**
Gains or (losses) on derecognition of debt instruments	(995)	0	0	0	(995)

Nova KBM Group and Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(551)**	**0**	**0**	**0**	**(551)**
Net change in expected losses due to changes in credit risk	235	0	0	0	235
New recognition of financial assets or impairments	(2)	0	0	0	(2)
Derecognition of impairments other than write-offs	37	0	0	0	37
As at 31/12	**(281)**	**0**	**0**	**0**	**(281)**
Gains or (losses) on derecognition of debt instruments	84	0	0	0	84

All amounts in EUR thousand unless otherwise stated.

g) Movement in provisions for off-balance sheet exposures (financial guarantees and other off-balance sheet exposures)

Nova KBM Group					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(3,293)**	**(1,712)**	**(1,265)**	**(62)**	**(6,332)**
Transfer to Stage 1	(644)	642	2	0	0
Transfer to Stage 2	220	(397)	177	0	0
Transfer to Stage 3	11	47	(58)	0	0
Net change in expected losses due to changes in credit risk	1,905	161	(249)	51	1,868
New recognition of financial assets or provisions	(1,072)	(14)	0	0	(1,086)
Derecognition of impairments other than write-offs	159	176	112	0	447
Write-offs	0	0	0	0	0
As at 31/12	**(2,714)**	**(1,097)**	**(1,281)**	**(11)**	**(5,103)**

Nova KBM Group					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(5,539)**	**(1,629)**	**(2,877)**	**(62)**	**(10,107)**
Transfer to Stage 1	(799)	797	2	0	0
Transfer to Stage 2	308	(1,573)	1,265	0	0
Transfer to Stage 3	43	133	(176)	0	0
Net change in expected losses due to changes in credit risk	4,105	489	70	0	4,664
New recognition of financial assets or provisions	(1,594)	(85)	(90)	0	(1,769)
Derecognition of impairments other than write-offs	182	155	541	0	878
Write-offs	1	1	0	0	2
As at 31/12	**(3,293)**	**(1,712)**	**(1,265)**	**(62)**	**(6,332)**

Nova KBM					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(3,307)**	**(1,681)**	**(1,264)**	**(62)**	**(6,314)**
Transfer to Stage 1	(644)	642	2	0	0
Transfer to Stage 2	220	(397)	177	0	0
Transfer to Stage 3	11	47	(58)	0	0
Net change in expected losses due to changes in credit risk	1,885	138	(249)	51	1,825
New recognition of financial assets or impairments	(1,081)	(14)	0	0	(1,095)
Derecognition of impairments other than write-offs	159	176	112	0	447
As at 31/12	**(2,756)**	**(1,089)**	**(1,281)**	**(11)**	**(5,137)**

All amounts in EUR thousand unless otherwise stated.

Nova KBM					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1/1	**(5,560)**	**(1,629)**	**(2,876)**	**(62)**	**(10,127)**
Transfer to Stage 1	(799)	797	2	0	0
Transfer to Stage 2	298	(1,563)	1,265	0	0
Transfer to Stage 3	43	133	(176)	0	0
Net change in expected losses due to changes in credit risk	4,112	492	63	0	4,667
New recognition of financial assets or impairments	(1,579)	(65)	(82)	0	(1,726)
Derecognition of impairments other than write-offs	178	154	540	0	872
As at 31/12	**(3,307)**	**(1,681)**	**(1,264)**	**(62)**	**(6,314)**

Modified financial assets

Nova KBM Group and Nova KBM	2022	2021
Financial assets with a change in contractual cash flows Stage 2, 3 (lifetime ECL)		
– amortised cost before modification	378	2,594
– net gains/loss resulting from modification	0	(24)
Financial assets with a change in contractual cash flows transfer from Stage 2 (lifetime ECL) to Stage 1 (12-month ECL)		
– gross book value on the reporting day	12	44

Financial assets with a change in contractual cash flows as of 31 December 2022 decreased comparing to 31 December 2021. The reason is that most of these loans in 2021 related to loans with moratoriums on mitigation of the consequences of the COVID-19 epidemic (detailed explanation 9.1.5.3).

Assets seized for debt repayment

Nova KBM Group	2022	2021
Investment properties	0	0
Equity and debt securities	837	13,200
Other	647	167
Total	**1,484**	**13,367**

Nova KBM	2022	2021
Equity and debt securities	837	13,200
Other	117	1,932
Total	**954**	**15,132**

Assets in the amount of €837 thousand seized by the Group for debt repayment relate to equity securities disclosed in the Non-trading financial assets mandatorily at fair value through profit or loss. The Group intends to sell these securities via its regular procedures for such assets and under appropriate market conditions.

Assets in the item "Other" primarily relate to works of art and a residential house with land and a carpentry workshop to land, while in case of the subsidiary SLS and MBL, they relate to repossessed vehicles. Assets obtained in recovery procedures are prepared for sale and sold by the Group at the earliest practicable date.

9.2 LIQUIDITY RISK

Liquidity risk is the risk of loss resulting from the Group'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 focuses mainly on the funding risk, market liquidity risk, assets encumbrance risk and Intraday liquidity risk. In its liquidity projections, the Group takes into account liquidity needs of other Group companies. A harmonised method for monitoring operational and structural liquidity is used across the entire Group.

The ILAAP policy of the Group represents a key component of the overall Risk Appetite Framework. It sets out the methods and responsibilities for managing assets and liabilities to provide sufficient cash inflows within certain time buckets. This policy sets out the measures for assessing, measuring, managing, and monitoring liquidity risk. The policy includes liquidity planning for the timely repayment of due obligations, measures to be adopted under adverse liquidity conditions and procedures to assess assumptions, on which liquidity plans are based. The Group manages liquidity risk by efficient management of liquidity buffer and by diversification of funding sources.

ILAAP

The Group carries out the Internal Liquidity Adequacy Assessing Process (ILAAP). A sound, effective, and comprehensive ILAAP is based on two pillars: the economic and the normative perspective. The two perspectives are complementary and inform each other. The purpose of the ILAAP of the Group is to manage and identify, assess, measure and mitigate risks to which the Group is exposed in its business activities.

ILAAP is an internal process, which means that it must be consistent with the Group's business model, size, complexity, risk, market expectations. It includes all qualitative and quantitative information on which the risk appetite is based, including a description of the systems, processes, and methodology used to measure and manage liquidity and financing risks.

The main objectives of the ILAAP include:

- Planning actual and potential cash inflows in relation to cash outflows, and assessment of liquidity risk by calculating liquidity ratios
- Ensuring adequate amounts of liquid investments or other forms of liquidity in relation to liquidity risk
- Monitoring adequate structure of sources of liabilities and financial assets
- Calculating liquidity indicators
- Setting up limits and maintaining the system of limits to mitigate exposure to liquidity risk
- Implementing various liquidity stress scenarios, including an unfavourable scenario
- Defining normative perspective and economic perspective of ILAAP
- Defining interaction between ICAAP, ILAAP, the Recovery Plan, Liquidity in Resolution and the planning process; and
- Availability and maintenance of a contingency plan in the case of liquidity crisis occurrence.

At least once a year, the Group provides a clear and formal Liquidity Adequacy Statement, based on an analysis of the ILAAP process results.

Stress scenarios

The Group performs regular liquidity stress tests in line with its ILAAP Methodology. Results of stress tests at the Group level are used to assess negative effects of potentially critical events on the Group's liquidity position, and to prepare measures for dealing with liquidity crisis.

The stress scenarios are divided into three major groups:

- Scenario adjusted to the Group's own liquidity position or idiosyncratic scenario which assumes the failure to renew existing major sources of liquidity and a decrease of deposits of non-banking sector as a result of loss of customer confidence and reputational risk;
- Scenario based on the market situation or market scenario, which assumes a decline in the liquidity of liquid assets, a decline of their market value and deterioration of conditions for the obtaining liquidity on the market; and
- Combination of both scenarios sets referred to above.

Stress scenarios are based on different difficulty levels. The Group regularly tests the adequacy and accuracy of assumptions underlying stress scenarios.

Based on the stress test results the Group defines the composition and the required size of liquidity buffer.

Liquidity in crisis situations

The Group's Liquidity Contingency Plan Methodology sets out appropriate measures and activities for the prevention and management of various liquidity crisis situations as well as for restoring a normal liquidity position of the Group via use of different contingency options. Liquidity risk is managed also through the Group's Recovery plan.

The Liquidity Contingency Plan sets out the primary and additional liquidity indicators for early detection of crisis situations as well as adequate steps for restoring normal liquidity levels.

Liquidity indicators

The Group monitors its liquidity risk from a normative and economic perspective. Within the normative perspective it monitors regulatory indicators, especially LCR and NSFR, while from economic perspective the key indicators are mainly the liquidity position and the internal liquidity buffer.

Liquidity coverage ratio (LCR)

The LCR is a measure used to determine whether a bank has sufficient high-quality liquid assets to cover its total net cash outflows within the next 30 days under a stress scenario. It has been developed with the aim of ensuring the resilience of a bank under the conditions of very short-term stress period. LCR includes all on-balance sheet items (both asset and liability items) due within one month as well as all off-balance sheet liabilities that could crystallise within a period of 30 days, irrespective of their contractual maturities.

According to the internal limit, the value of the LCR is maintained above the regulatory requirement of 100%, increased by an additional buffer. As of 31 December 2022, the LCR calculated on a Group consolidated basis was 341%, and for the Bank alone it stood as of 323%, while as of 31 December 2021, LCR calculated on a Group consolidated basis was 349%, and for the Bank was 340%.

Net stable funding ratio (NSFR)

The NSFR is a measure designed to compare a bank's available stable funding to its required stable funding. It has been developed with the aim of ensuring a bank's ability to withstand any long-term liquidity risk.

The Group monitors NSFR on a quarterly basis. According to the internal limit, the Bank keeps the NSFR value above the regulatory requirement of 100%, increased by an additional buffer. As of 31 December 2022, the NSFR calculated on a Group consolidated basis was 177 %, and for the Bank on a standalone bases it was 170 %, while as of 31 December 2021, NSFR on a consolidated basis was 175%, and for the Bank was 179%.

Internal liquidity buffer

The internal liquidity buffer is part of the counterbalancing capacity the Group must provide in the short period of time according to the predefined survival period in stress situations. The internal liquidity buffer consists of cash (without cash, held in ATM), free reserves at central bank, claims against banks and assets eligible and available for collateral for claims of the Eurosystem. In determining the appropriate level of liquidity buffer the Group considers the amounts that could be actually obtained from the assets taken into account reduced market value of the assets by haircuts reflecting the different level of liquidity of individual categories of liquid assets.

Liquidity position

Liquidity position is the sum of the internal liquidity buffer and liquidity gap. The liquidity gap, which is regularly monitored and thoroughly analysed into individual time buckets, is a measure of the level of maturity matching of assets and liabilities, including capital. The Group is not able avoid fully liquidity gaps but can take steps to manage them effectively. A positive gap represents a surplus of funds that can be invested profitably, while a negative gap is a sign of a shortage of funds that needs to be provided.

Deposits

The Group uses its own econometric model for calculating the proportion of stable sight deposits. This model is based on regression analysis and used to examine the movements in sight deposits over time. Based on the model results, sight deposits are divided into stable and unstable portions.

In 2022, results of the model showed a lower level of stable sight deposits, which arises mainly from rising deposit interest rates. The average stable sight deposits stood at 88.7% in 2022 and at 89.6% in 2021, of which the stability of deposits for households amounted to 94.9% (95.1% in 2021) and for corporates to 82.5% (84.0% in 2021).

The following tables show the distribution of material statement of financial position items in terms of expected maturity in accordance with the internal methodology.

All amounts in EUR thousand unless otherwise stated.

Analysis of the expected non-discounted future cash flows

						31/12/2022
Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash, cash balances at central banks and demand deposits at banks	2,370,934	2,370,934	0	0	0	0
Financial assets held for trading	8,988	141	122	308	993	7,424
Non-trading financial assets mandatorily at fair value through profit or loss	11,177	11,161	0	0	16	0
Financial assets at fair value through other comprehensive income	723,933	62,798	42,014	216,346	327,321	75,454
Financial assets at amortised cost – loans	6,410,845	293,737	305,152	1,105,793	3,121,968	1,584,195
Financial assets at amortised cost – debt securities	1,813,381	34,196	22,421	223,160	1,400,162	133,442
Other assets*	221,393	67,092	37	408	2,764	151,092
Total assets	**11,560,651**	**2,840,059**	**369,746**	**1,546,015**	**4,853,224**	**1,951,607**
Liabilities						
Financial liabilities held for trading	8,535	134	117	114	936	7,234
Financial liabilities at amortised cost	9,400,104	948,104	712,979	1,647,043	5,010,543	1,081,435
Other liabilities*	1,059,672	139,862	178	344,224	1,205	574,203
Total liabilities and equity	**10,468,311**	**1,088,100**	**713,274**	**1,991,381**	**5,012,684**	**1,662,872**
Liquidity gap	**1,092,340**	**1,751,959**	**(343,528)**	**(445,366)**	**(159,460)**	**288,735**
Guarantees	**33,710**	**1,859**	**3,242**	**13,565**	**10,754**	**4,290**

* Other assets and other liabilities, including equity, with no direct impact on liquidity.

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	31/12/2021 Over 5 years
Assets						
Cash, cash balances at central banks and demand deposits at banks	2,884,799	2,884,799	0	0	0	0
Financial assets held for trading	3,717	60	26	1,475	477	1,679
Non-trading financial assets mandatorily at fair value through profit or loss	23,876	23,876	0	0	0	0
Financial assets at fair value through other comprehensive income	1,339,180	36,787	144,026	308,602	736,130	113,635
Financial assets at amortised cost – loans	5,584,463	233,256	254,226	972,499	2,624,527	1,499,955
Financial assets at amortised cost – debt securities	625,067	1,355	4,761	26,107	401,419	191,425
Other assets*	189,577	44,973	0	0	0	144,604
Total assets	**10,650,679**	**3,225,106**	**403,039**	**1,308,683**	**3,762,553**	**1,951,298**
Liabilities						
Financial liabilities held for trading	4,727	1,345	21	1,457	437	1,467
Financial liabilities at amortised cost	8,906,263	753,900	729,865	1,638,024	4,288,614	1,495,860
Other liabilities*	1,084,143	165,738	535	342,116	1,319	574,435
Total liabilities and equity	**9,995,133**	**920,983**	**730,421**	**1,981,597**	**4,290,370**	**2,071,762**
Liquidity gap	**655,546**	**2,304,123**	**(327,382)**	**(672,914)**	**(527,817)**	**(120,464)**
Guarantees	**32,723**	**1,902**	**2,734**	**13,258**	**11,036**	**3,793**

* Other assets and other liabilities, including equity, with no direct impact on liquidity.

All amounts in EUR thousand unless otherwise stated.

Nova KBM	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	31/12/2022 Over 5 years
Assets						
Cash, cash balances at central banks and demand deposits at banks	2,361,948	2,361,948	0	0	0	0
Financial assets held for trading	8,988	141	122	308	993	7,424
Non-trading financial assets mandatorily at fair value through profit or loss	11,161	11,161	0	0	0	0
Financial assets at fair value through other comprehensive income	723,933	62,798	42,014	216,346	327,321	75,454
Financial assets at amortised cost – loans	6,214,930	242,101	227,138	935,965	3,308,461	1,501,265
Financial assets at amortised cost – debt securities	1,813,381	34,196	22,421	223,160	1,400,162	133,442
Other assets*	305,421	49,941	0	0	1,730	253,750
Total assets	**11,439,762**	**2,762,286**	**291,695**	**1,375,779**	**5,038,667**	**1,971,335**
Liabilities						
Financial liabilities held for trading	8,535	134	117	114	936	7,234
Financial liabilities at amortised cost	9,408,589	944,312	714,069	1,649,561	5,016,296	1,084,351
Other liabilities*	1,052,562	137,701	178	339,275	1,205	574,203
Total liabilities and equity	**10,469,686**	**1,082,147**	**714,364**	**1,988,950**	**5,018,437**	**1,665,788**
Liquidity gap	**970,076**	**1,680,139**	**(422,669)**	**(613,171)**	**20,230**	**305,547**
Guarantees	**33,710**	**1,859**	**3,242**	**13,565**	**10,754**	**4,290**

* Other assets and other liabilities, including equity, with no direct impact on liquidity.

All amounts in EUR thousand unless otherwise stated.

Nova KBM	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years 31/12/2021
Assets						
Cash, cash balances at central banks and demand deposits at banks	2,884,442	2,884,442	0	0	0	0
Financial assets held for trading	3,717	60	26	1,475	477	1,679
Non-trading financial assets mandatorily at fair value through profit or loss	23,876	23,876	0	0	0	0
Financial assets at fair value through other comprehensive income	1,339,180	36,787	144,026	308,602	736,130	113,635
Financial assets at amortised cost – loans	5,421,187	215,237	218,088	1,319,588	2,212,116	1,456,158
Financial assets at amortised cost – debt securities	625,067	1,355	4,761	26,107	401,419	191,425
Other assets*	263,513	34,339	0	0	0	229,174
Total assets	**10,560,982**	**3,196,096**	**366,901**	**1,655,772**	**3,350,142**	**1,992,071**
Liabilities						
Financial liabilities held for trading	4,727	1,345	21	1,457	437	1,467
Financial liabilities at amortised cost	8,902,434	747,531	730,035	1,638,565	4,290,070	1,496,233
Other liabilities*	1,074,620	157,793	535	340,538	1,319	574,435
Total liabilities and equity	**9,981,781**	**906,669**	**730,591**	**1,980,560**	**4,291,826**	**2,072,135**
Liquidity gap	**579,201**	**2,289,427**	**(363,690)**	**(324,788)**	**(941,684)**	**(80,064)**
Guarantees	**32,723**	**1,902**	**2,734**	**13,258**	**11,036**	**3,793**

* Other assets and other liabilities, including equity, with no direct impact on liquidity.

The following tables present non-discounted on-balance- and off-balance sheet liabilities by their contractual maturities. A significant proportion of the Group's liabilities falls due within a one-month period, referring to demand deposits. The Group monitors the stability of demand deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in these deposits.

Non-derivative balance-sheet liabilities by contractual maturity

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years 31/12/2022
Financial liabilities at amortised cost	**9,400,104**	**8,315,531**	**83,846**	**190,519**	**670,535**	**139,673**
Deposits from banks and central banks	13,677	7,637	0	0	2,400	3,640
Deposits from customers	8,531,509	8,236,430	77,751	154,788	58,545	3,995
Loans from banks and central banks	186,663	959	5,549	28,759	109,934	41,462
Debt securities	601,684	5,625	0	6,471	499,064	90,524
Other financial liabilities	66,571	64,880	546	501	592	52
Other liabilities	**1,068,207**	**139,996**	**296**	**344,339**	**2,141**	**581,435**
Total liabilities	**10,468,311**	**8,455,527**	**84,142**	**534,858**	**672,676**	**721,108**
Guarantees	**616,471**	**33,995**	**59,296**	**248,072**	**196,661**	**78,447**

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	31/12/2021 Over 5 years
Financial liabilities at amortised cost	**8,906,263**	**7,796,010**	**119,046**	**248,536**	**410,663**	**332,008**
Deposits from banks and central banks	4,976	4,976	0	0	0	0
Deposits from customers	8,179,386	7,716,766	112,619	216,219	130,137	3,645
Loans from banks and central banks	352,087	898	5,467	25,843	261,866	58,013
Debt securities	295,474	0	0	6,471	18,653	270,350
Other financial liabilities	74,340	73,370	960	3	7	0
Other liabilities	**1,088,869**	**167,082**	**556**	**343,574**	**1,756**	**575,901**
Total liabilities	**9,995,132**	**7,963,092**	**119,602**	**592,110**	**412,419**	**907,909**
Guarantees	**607,509**	**35,302**	**50,755**	**246,142**	**204,884**	**70,426**

Nova KBM	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	31/12/2022 Over 5 years
Financial liabilities at amortised cost	**9,408,589**	**8,325,668**	**83,336**	**190,018**	**669,946**	**139,621**
Deposits from banks and central banks	13,676	7,636	0	0	2,400	3,640
Deposits from customers	8,550,795	8,255,716	77,751	154,788	58,545	3,995
Loans from banks and central banks	186,626	929	5,546	28,755	109,934	41,462
Debt securities	601,684	5,625	0	6,471	499,064	90,524
Other financial liabilities	55,808	55,762	39	4	3	0
Other liabilities	**1,061,097**	**137,835**	**296**	**339,389**	**2,141**	**581,436**
Total liabilities	**10,469,686**	**8,463,503**	**83,632**	**529,407**	**672,087**	**721,057**
Guarantees	**616,471**	**33,995**	**59,296**	**248,072**	**196,661**	**78,447**

Nova KBM	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	31/12/2021 Over 5 years
Financial liabilities at amortised cost	**8,902,434**	**7,792,382**	**118,901**	**248,498**	**410,645**	**332,008**
Deposits from banks and central banks	4,976	4,976	0	0	0	0
Deposits from customers	8,182,556	7,719,936	112,619	216,219	130,137	3,645
Loans from banks and central banks	352,016	892	5,455	25,808	261,848	58,013
Debt securities	295,474	0	0	6,471	18,653	270,350
Other financial liabilities	67,412	66,578	827	0	7	0
Other liabilities	**1,079,347**	**159,139**	**556**	**341,995**	**1,756**	**575,901**
Total liabilities	**9,981,781**	**7,951,521**	**119,457**	**590,493**	**412,401**	**907,909**
Guarantees	**607,509**	**35,302**	**50,755**	**246,142**	**204,884**	**70,426**

All amounts in EUR thousand unless otherwise stated.

Cash flows from derivatives

Cash flows from derivatives may be settled on a net or gross basis. Derivatives that are settled on a net basis include:

- Foreign exchange derivatives: over-the-counter (OTC) currency options and
- Interest rate derivatives: interest rate swaps and interest rate options.

Derivatives that are settled on a gross basis include:

- Currency forwards and
- Currency swaps.

The following tables present gross and net non-discounted cash flows from derivatives. Cash flows are allocated to maturity gaps based on the residual contractual maturity on the date of the statement of financial position. The amounts are converted into Euro according to the European Central Bank's exchange rate.

						31/12/2022
Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Currency derivatives						
Forwards						
– outflow	34,570	16,629	10,209	7,732	0	0
– inflow	34,588	16,638	10,213	7,737	0	0
Interest rate derivatives						
Interest rate and currency swaps						
– outflow	4,346	79	305	1,024	2,520	419
– inflow	4,777	81	308	1,125	2,799	462
Total outflow	**38,916**	**16,708**	**10,514**	**8,756**	**2,520**	**419**
Total inflow	**39,365**	**16,719**	**10,522**	**8,862**	**2,799**	**462**

						31/12/2021
Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Currency derivatives						
Forwards						
– outflow	61,993	16,257	4,409	41,327	0	0
– inflow	62,027	16,261	4,414	41,352	0	0
Interest rate derivatives						
Interest rate and currency swaps						
– outflow	3,628	27	155	1,875	1,282	289
– inflow	3,999	30	213	1,956	1,461	339
Total outflow	**65,621**	**16,284**	**4,564**	**43,202**	**1,282**	**289**
Total inflow	**66,026**	**16,291**	**4,627**	**43,308**	**1,461**	**339**

All amounts in EUR thousand unless otherwise stated.

Nova KBM	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	31/12/2022 Over 5 years
Currency derivatives						
Forwards						
– outflow	34,570	16,629	10,209	7,732	0	0
– inflow	34,588	16,638	10,213	7,737	0	0
Interest rate derivatives						
Interest rate and currency swaps						
– outflow	4,346	79	305	1,024	2,520	419
– inflow	4,777	81	308	1,125	2,799	462
Total outflow	**38,916**	**16,708**	**10,514**	**8,756**	**2,520**	**419**
Total inflow	**39,365**	**16,719**	**10,522**	**8,862**	**2,799**	**462**

Nova KBM	Total	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	31/12/2021 Over 5 years
Currency derivatives						
Forwards						
– outflow	61,993	16,257	4,409	41,327	0	0
– inflow	62,027	16,261	4,414	41,352	0	0
Interest rate derivatives						
Interest rate and currency swaps						
– outflow	3,628	27	155	1,875	1,282	289
– inflow	3,999	30	213	1,956	1,461	339
Total outflow	**65,621**	**16,284**	**4,564**	**43,202**	**1,282**	**289**
Total inflow	**66,026**	**16,291**	**4,627**	**43,308**	**1,461**	**339**

9.3 MARKET RISKS

Market risk is the uncertainty that an adverse change in risk factors, including interest rates, exchange rates, credit spreads, prices of financial instruments, commodity prices and other relevant parameters, may have an adverse effect on the value of a financial instrument and/or consequently lead to a loss. During 2022, the Group monthly monitoring of portfolio's exposure to environmental and social risk and reports to the ALCO Committee.

The Group monitors exposure to market risk of trading book and market risk of banking book separately. Market risks primarily arise from activities performed by the treasury and investment departments of the Bank. Trading book positions primarily include positions in debt instruments that the Group intends to sell for profit in a short-term. Part of the trading book are also derivatives that the Group sells to its customers to hedge against interest rate and foreign exchange risk. These positions are closed according to the Group's back-to-back policy. Banking book positions include positions in debt instruments, foreign exchange instruments and derivatives held for asset and liability management purposes of the Group, equity instruments (acquired through collateral redemption and/or debt-to-equity swaps) and strategic positions.

9.3.1 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.

All limits are in line with the Group's Investment Strategy. Limits are set at different levels of the portfolio – the entire portfolio, sub-portfolio, each issuer level, and each investment level. The bases for determining and monitoring the system of limits are set out in methodologies where the concepts and procedures used to determine the system of limits for market risks are detailed. The volume of transactions per specific type of financial instrument is limited in detail by the Operative Limits Handbook.

The Group values its trading portfolios daily using appropriate mark-to-market techniques. The Group monitors transactions on a daily basis in order to identify excesses or irregularities. The system of limits for trading in financial instruments enables the Group to maintain a low risk appetite for market risk and requires investment in highly liquid positions whilst taking into account an appropriate diversification of risks. The Group determines the system of limits primarily on the basis of the Group's risk appetite for market risk and capital allocated.

In 2022, the Group traded in debt financial instruments in a limited volume, while trading in equity financial instruments for its own account was not allowed. Trading in derivatives was based on a policy of closing positions and concluding transactions with counterparties having a higher credit quality. Such transactions are concluded mainly for hedging against financial risks.

Market risk measurement techniques comprise risk analyses and validation, which includes assessments of possible frequency of a potential event and the scope of its consequences.

The Parent Bank controls the position risk in foreign exchange trading by trading limits. Limits for foreign exchange trading for the Bank's proprietary account are defined as the maximum allowable open position of the Trading Department. The Strategic Risk Management Department monitors trading results on a daily basis and reports its findings to the responsible bodies.

The Parent Bank offers its customers the service of buying and selling derivatives as a broker only and does not take its own positions.

All amounts in EUR thousand unless otherwise stated.

9.3.2 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.

The Group identifies, measures, manages, and monitors the interest rate risk arising from non-trading items in accordance with the Interest Rate Risk Management Policy of the Nova KBM Group. In accordance with the interest rate risk management strategy, the Group limits the interest rate risk by establishing a system of limits. The Group monitors and reports on a monthly basis whether the interest rate risk is within the limits set up.

The interest rate risk management for trading book items is included in the Nova KBM Group's Market Risk Management Policy. Interest rate risk management of non-trading book items is carried out by the Group in accordance with the Methodology for Managing Interest Rate Risk in the Nova KBM Group.

The Group monitors interest-sensitive statement of financial position items and off-balance sheet items separated by the key currencies and reference interest rates in which it operates, i.e., cash flows from fixed interest rate products with regard to the cash flow maturity date, while cash flows from variable interest rate products are monitored with regard to the first variable interest rate repricing period or their contractual maturity. The Group separately monitors reference interest rate risk for Euro, US dollar and Swiss franc. The balance as of 31 December 2021 and 31 December 2020 is given in the following table:

				31/12/2022
		Nova KBM Group		Nova KBM
Currency	Assets%	Liabilities%	Assets%	Liabilities%
EUR	97.58%	97.49%	97.40%	97.49%
CHF	1.59%	1.55%	1.71%	1.54%
USD	0.45%	0.59%	0.49%	0.59%
Other	0.37%	0.38%	0.40%	0.38%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

				31/12/2021
		Nova KBM Group		Nova KBM
Currency	Assets%	Liabilities%	Assets%	Liabilities%
EUR	97.62%	97.52%	97.47%	97.38%
CHF	1.29%	1.36%	1.37%	1.44%
USD	0.46%	0.50%	0.49%	0.53%
Other	0.63%	0.62%	0.67%	0.65%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The Group implements interest rate scenarios for ongoing internal management and interest rate stress testing scenarios on a monthly basis. Furthermore, the Group undertakes calculations of the extent to which their economic value of equity and net interest income are impacted over a period of one year according to the results of the standardised stress test for interest rate risk resulting from a parallel shift in the interest rate curve. In calculations the Group considers the prepayment and refinancing model of loans, demand deposits are distributed in time buckets according to the Stable sight deposits model and the Core and non-core deposit determining model.

The Group uses in interest rate risk monitoring and management the basis point value. This method measures the exposure to interest rate risk using the basis point value, which indicates the extent to which the value of the interest-sensitive instruments portfolio is reduced if the general level of interest rates rises by 1 basis point or 0.01%.

For its internal purposes and the purposes of calculating capital requirement for interest rate risk, the Group calculates the impact of the change on the economic value of equity and net interest income, where it takes into account the interest rate floor by each product in cases of the following shifts in the yield curve (ongoing internal management scenarios):

- A shock on the basis of past market data;
- A shock on the basis of predicted market data;
- VaR based shock upward or downward (yield curve shift based on its volatility during the previous year, with 95% confidence interval);
- Parallel shift upward or downward (a sudden parallel shift of the yield curve for a certain basis point value, which is defined by a preliminary analysis of movements in market interest rates);
- Flattener yield curve scenario (the Group identified two scenarios: the scenario of an increase in short-term interest rates and a decline in long-term interest rates, and the shock resulting from an increase in short-term interest rates with a slight increase in long-term interest rates);
- Shock resulting from an increase in short-term interest rates by 50 bps with decrease in long-term interest rates by 50 bps and
- Steepener yield curve scenario (increase in long-term interest rates with a slight rise in short-term interest rates).

The Group performs also stress testing scenarios, using them to measure its vulnerability in stressful market conditions. In addition to the standardised stress test in the form of a parallel yield curve shift by +/−200 basis points, the Group carries out also other upward and downward shifts in the yield curves of various proportions (regulatory scenarios) that were summarised by the Bank in line with the *EBA Guidelines on the management of interest rate risk arising from non-trading activities (July 2018)*. In calculations of the economic value of equity, the maturity-dependent interest rate floor prescribed by the EBA Guidelines is considered. The Group calculates the impact of the change on the economic value of equity and net interest income in cases of the following shifts in the yield curve:

- Parallel upward yield curve shift by 200 basis points;
- Parallel downward yield curve shift by 200 basis points;
- Parallel upward yield curve shift by currency;
- Parallel downward yield curve shift by currency;
- Steepener yield curve shock (resulting from a decline in short-term interest rates and an increase in long-term interest rates):
- Flattener yield curve shock (resulting from an increase in short-term interest rates and a decline in long-term interest rates);
- Increase in short-term interest rates shock and
- Decline in short-term interest rates shock.

For the above listed shifts in the yield curve the Group calculates the impact of the change in the economic value of capital and the impact of the change in net interest income on a monthly basis.

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 a variable interest rate in a given period. In addition to the standardised stress test analysis, the Group implements several scenarios for ongoing internal management scenarios and stress testing scenarios, separately for each currency and maturity handled. The Group reports its exposure to interest rate risk at the ALCO Committee meetings and in the scope of the Chief Risk Officer's Report, on a monthly basis.

The impact of a change in the economic value of capital and net interest income for various regulatory stress test scenarios is presented in following tables below.

All amounts in EUR thousand unless otherwise stated.

Sensitivity analyses of yield curve shifts

Nova KBM Group	Net present value	Interest income	31/12/2022 Total	Net present value	Interest income	31/12/2021 Total
Standardised stress test						
+200 bp	36,065	86,718	**122,783**	113,926	36,482	**150,408**
−200 bp	(40,873)	(62,438)	**(103,311)**	(14,766)	(9,514)	**(24,280)**
Parallel yield curve shift						
Upward parallel yield curve shift	36,128	86,191	**122,319**	113,940	36,228	**150,168**
Downward parallel yield curve shift	(40,943)	(61,909)	**(102,852)**	(14,766)	(9,514)	**(24,280)**
Change in the yield curve slope						
Steepener yield curve shock	5,954	(37,871)	**(31,917)**	20,222	(3,997)	**16,225**
Flattener yield curve shock	(303)	71,341	**71,038**	10,203	24,010	**34,213**
Change in short-term interest rates						
Increase in short-term interest rates shock	12,309	93,548	**105,857**	39,317	35,886	**75,203**
Decline in short-term interest rates shock	(13,618)	(63,154)	**(76,772)**	(16,958)	(7,878)	**(24,836)**

Nova KBM	Net present value	Interest income	31/12/2022 Total	Net present value	Interest income	31/12/2021 Total
Standardised stress test						
+200 bp	45,259	87,634	**132,893**	122,659	36,519	**159,178**
−200 bp	(51,275)	(63,403)	**(114,678)**	(18,164)	(9,495)	**(27,659)**
Parallel yield curve shift						
Upward parallel yield curve shift	45,323	87,107	**132,430**	122,673	36,265	**158,938**
Downward parallel yield curve shift	(51,345)	(62,874)	**(114,219)**	(18,164)	(9,495)	**(27,659)**
Change in the yield curve slope						
Steepener yield curve shock	6,257	(39,262)	**(33,005)**	19,567	(3,979)	**15,588**
Flattener yield curve shock	902	72,877	**73,779**	12,645	24,263	**36,908**
Change in short-term interest rates						
Increase in short-term interest rates shock	16,175	95,290	**111,465**	44,214	36,129	**80,343**
Decline in short-term interest rates shock	(17,818)	(63,506)	**(81,324)**	(20,174)	(7,860)	**(28,034)**

The result of the standardised stress test on the Group level suggests that in the case of an increase in interest rates by 200 basis points, the economic value of capital as of 31 December 2022 would have increased by €36,065 thousand, and the potential profit would represent 3.8% of the Group's regulatory capital, while as of 31 December 2021, the potential profit was 12.2% of the Group's regulatory capital. In the case of a decline in interest rates by 200 basis points, the economic value of capital as of 31 December 2022 would decrease by €40.873 thousand and the potential loss would represent 4.3% of the Group's regulatory capital, while as of 31 December 2021, the potential loss represented 1.58% regulatory capital of the Group, which is in line with the regulatory limit in both years.

As of 31 December 2022, the result with the largest negative change in the economic value of equity in six stress test scenarios represents 4.8% of the Group’s Tier-1 capital, while as of 31 December 2021, it equalled 2.01% of the Group’s tier-1 capital, which is in line with the regulatory limit in both years.

All amounts in EUR thousand unless otherwise stated.

Impact of yield curve shifts on net present value

				31/12/2022				31/12/2021
Nova KBM Group	EUR	USD	CHF	Total	EUR	USD	CHF	Total
Standardised stress test								
+200 bp	38,053	(1,863)	(125)	**36,065**	116,265	(2,307)	(32)	**113,926**
−200 bp	(42,943)	1,935	135	**(40,873)**	(16,952)	2,186	0	**(14,766)**
Parallel yield curve shift								
Upward parallel yield curve shift	38,053	(1,863)	(62)	**36,128**	116,265	(2,307)	(18)	**113,940**
Downward parallel yield curve shift	(42,942)	1,935	64	**(40,943)**	(16,952)	2,186	0	**(14,766)**
Change in the yield curve slope								
Steepener yield curve shock	4,591	1,313	50	**5,954**	19,176	1,037	9	**20,222**
Flattener yield curve shock	1,459	(1,697)	(65)	**(303)**	11,762	(1,521)	(38)	**10,203**
Change in short-term interest rates								
Increase in short-term interest rates shock	14,683	(2,294)	(80)	**12,309**	41,666	(2,308)	(41)	**39,317**
Decline in short-term interest rates shock	(16,096)	2,397	81	**(13,618)**	(18,988)	2,029	1	**(16,958)**

				31/12/2022				31/12/2021
Nova KBM	EUR	USD	CHF	Total	EUR	USD	CHF	Total
Standardised stress test								
+200 bp	47,248	(1,863)	(126)	**45,259**	124,998	(2,307)	(32)	**122,659**
−200 bp	(53,345)	1,935	135	**(51,275)**	(20,350)	2,186	0	**(18,164)**
Parallel yield curve shift								
Upward parallel yield curve shift	47,248	(1,863)	(62)	**45,323**	124,998	(2,307)	(18)	**122,673**
Downward parallel yield curve shift	(53,344)	1,935	64	**(51,345)**	(20,350)	2,186	0	**(18,164)**
Change in the yield curve slope								
Steepener yield curve shock	4,894	1,313	50	**6,257**	18,521	1,037	9	**19,567**
Flattener yield curve shock	2,664	(1,697)	(65)	**902**	14,204	(1,521)	(38)	**12,645**
Change in short-term interest rates								
Increase in short-term interest rates shock	18,549	(2,294)	(80)	**16,175**	46,563	(2,308)	(41)	**44,214**
Decline in short-term interest rates shock	(20,296)	2,397	81	**(17,818)**	(22,204)	2,029	1	**(20,174)**

All amounts in EUR thousand unless otherwise stated.

Impact of yield curve shifts on net interest income

				31/12/2022				31/12/2021
Nova KBM Group	**EUR**	**USD**	**CHF**	**Total**	**EUR**	**USD**	**CHF**	**Total**
Standardised stress test								
+200 bp	85,098	697	923	**86,718**	35,202	843	437	**36,482**
−200 bp	(60,335)	(1,047)	(1,056)	**(62,438)**	(8,621)	(815)	(78)	**(9,514)**
Parallel yield curve shift								
Upward parallel yield curve shift	85,098	697	396	**86,191**	35,202	843	183	**36,228**
Downward parallel yield curve shift	(60,335)	(1,047)	(527)	**(61,909)**	(8,621)	(815)	(78)	**(9,514)**
Change in the yield curve slope								
Steepener yield curve shock	(37,800)	(88)	17	**(37,871)**	(3,229)	(690)	(78)	**(3,997)**
Flattener yield curve shock	71,327	10	4	**71,341**	23,076	740	194	**24,010**
Change in short-term interest rates								
Increase in short-term interest rates shock	93,014	320	214	**93,548**	34,590	1,037	259	**35,886**
Decline in short-term interest rates shock	(62,067)	(721)	(366)	**(63,154)**	(7,027)	(773)	(78)	**(7,878)**

				31/12/2022				31/12/2021
Nova KBM	**EUR**	**USD**	**CHF**	**Total**	**EUR**	**USD**	**CHF**	**Total**
Standardised stress test								
+200 bp	86,014	697	923	**87,634**	35,239	843	437	**36,519**
−200 bp	(61,300)	(1,047)	(1,056)	**(63,403)**	(8,602)	(815)	(78)	**(9,495)**
Parallel yield curve shift								
Upward parallel yield curve shift	86,014	697	396	**87,107**	35,239	843	183	**36,265**
Downward parallel yield curve shift	(61,300)	(1,047)	(527)	**(62,874)**	(8,602)	(815)	(78)	**(9,495)**
Change in the yield curve slope								
Steepener yield curve shock	(39,191)	(88)	17	**(39,262)**	(3,211)	(690)	(78)	**(3,979)**
Flattener yield curve shock	72,863	10	4	**72,877**	23,329	740	194	**24,263**
Change in short-term interest rates								
Increase in short-term interest rates shock	94,756	320	214	**95,290**	34,833	1,037	259	**36,129**
Decline in short-term interest rates shock	(62,419)	(721)	(366)	**(63,506)**	(7,009)	(773)	(78)	**(7,860)**

According to the basis point value method, with the rate of return changed by one basis point, the value of the euro currency portfolio position would change by €15 thousand as of 31 December 2022, while as of 31 December 2021, the value of the euro currency portfolio position changed by €438 thousand.

A more detailed breakdown of the Group's statement of financial position by interest rate maturity as of 31 December 2022 and 31 December 2021 is presented in the tables Interest rate risk as of 31 December 2022 and Interest rate risk as of 31 December 2021, below, showing the distribution of interest-bearing items in terms of the first interest rate repricing period or contractual maturity. Sight deposits are distributed according to the model.

All amounts in EUR thousand unless otherwise stated.

Interest rate risk

Nova KBM Group	Interest-bearing	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
						31/12/2022
Interest-sensitive assets						
Cash, cash balances at the central bank and demand deposits at banks	2,184,653	2,184,653	0	0	0	0
Financial assets at fair value through other comprehensive income	673,853	18,900	32,000	213,674	331,779	77,500
Financial assets at amortised cost	7,079,600	958,372	1,430,912	1,978,362	2,126,809	585,145
Total interest-sensitive assets	**9,938,106**	**3,161,925**	**1,462,912**	**2,192,036**	**2,458,588**	**662,645**
Interest-sensitive liabilities						
Financial liabilities at amortised cost	9,230,487	3,000,439	586,613	1,398,970	3,642,567	601,898
– deposits from banks and central banks	13,680	13,680	0	0	0	0
– deposits from customers	8,486,497	2,973,819	577,361	1,257,900	3,075,519	601,898
– loans from banks and central banks	164,210	12,940	9,252	141,070	948	0
– debt securities	566,100	0	0	0	566,100	0
Total interest-sensitive liabilities	**9,230,487**	**3,000,439**	**586,613**	**1,398,970**	**3,642,567**	**601,898**
Interest sensitivity gap	**707,619**	**161,486**	**876,299**	**793,066**	**(1,183,979)**	**60,747**

Nova KBM Group	Interest-bearing	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
						31/12/2021
Interest-sensitive assets						
Cash, cash balances at the central bank and demand deposits at banks	2,734,514	2,734,514	0	0	0	0
Financial assets at fair value through other comprehensive income	1,242,273	54,143	122,687	302,036	663,356	100,051
Financial assets at amortised cost	5,953,513	1,062,123	1,283,506	1,895,233	1,213,295	499,356
Total interest-sensitive assets	**9,930,300**	**3,850,780**	**1,406,193**	**2,197,269**	**1,876,651**	**599,407**
Interest-sensitive liabilities						
Financial liabilities at amortised cost	8,809,298	2,842,059	585,223	1,425,785	3,019,160	937,071
– deposits from banks and central banks	4,979	4,979	0	0	0	0
– deposits from customers	8,158,623	2,827,407	574,129	1,244,842	2,754,629	757,616
– loans from banks and central banks	351,617	9,673	11,094	174,472	155,478	900
– debt securities	294,079	0	0	6,471	109,053	178,555
Total interest-sensitive liabilities	**8,809,298**	**2,842,059**	**585,223**	**1,425,785**	**3,019,160**	**937,071**
Interest sensitivity gap	**1,121,002**	**1,008,721**	**820,970**	**771,484**	**(1,142,509)**	**(337,664)**

All amounts in EUR thousand unless otherwise stated.

						31/12/2022
Nova KBM	Interest-bearing	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Interest-sensitive assets						
Cash, cash balances at the central bank and demand deposits at banks	2,189,465	2,189,465	0	0	0	0
Financial assets at fair value through other comprehensive income	696,917	20,517	35,037	219,639	342,983	78,741
Financial assets at amortised cost	7,483,924	795,342	1,865,162	1,926,791	2,259,721	636,908
Total interest-sensitive assets	**10,370,306**	**3,005,324**	**1,900,199**	**2,146,430**	**2,602,704**	**715,649**
Interest-sensitive liabilities						
Financial liabilities at amortised cost	9,306,277	3,044,862	587,230	1,408,687	3,662,965	602,533
– deposits from banks and central banks	13,680	13,680	0	0	0	0
– deposits from customers	8,527,421	3,012,572	577,684	1,259,016	3,076,129	602,020
– loans from banks and central banks	169,174	12,985	9,546	143,200	2,930	513
– debt securities	596,002	5,625	0	6,471	583,906	0
Total interest-sensitive liabilities	**9,306,277**	**3,044,862**	**587,230**	**1,408,687**	**3,662,965**	**602,533**
Interest sensitivity gap	**1,064,029**	**(39,538)**	**1,312,969**	**737,743**	**(1,060,261)**	**113,116**

						31/12/2021
Nova KBM	Interest-bearing	Up to 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years
Interest-sensitive assets						
Cash, cash balances at the central bank and demand deposits at banks	2,730,987	2,730,987	0	0	0	0
Financial assets at fair value through other comprehensive income	1,242,273	54,143	122,687	302,036	663,356	100,051
Financial assets at amortised cost	5,775,465	962,704	1,566,515	1,728,520	1,051,660	466,066
Total interest-sensitive assets	**9,748,725**	**3,747,834**	**1,689,202**	**2,030,556**	**1,715,016**	**566,117**
Interest-sensitive liabilities						
Financial liabilities at amortised cost	8,809,226	2,842,058	585,173	1,425,768	3,019,156	937,071
– deposits from banks and central banks	4,979	4,979	0	0	0	0
– deposits from customers	8,158,623	2,827,407	574,129	1,244,842	2,754,629	757,616
– loans from banks and central banks	351,545	9,672	11,044	174,455	155,474	900
– debt securities	294,079	0	0	6,471	109,053	178,555
Total interest-sensitive liabilities	**8,809,226**	**2,842,058**	**585,173**	**1,425,768**	**3,019,156**	**937,071**
Interest sensitivity gap	**939,499**	**905,776**	**1,104,029**	**604,788**	**(1,304,140)**	**(370,954)**

All amounts in EUR thousand unless otherwise stated.

The tables show only the distribution of interest-sensitive items by each time bucket in terms of the first interest rate repricing period or contractual maturity.

Figures in the tables present:

- Nominal value of debt securities (not their market value or amortised cost);
- Loans taking into account the Prepayments and refinancing model of loans (excluding interest, fees and commissions);
- Sight deposits distributed in time buckets according to the Model for determining stable sight deposits and the Model for determining core and non-core deposits and
- Future cash flows from interest on loans, deposits and securities.

Average interest rates (%)

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Average interest rate on assets	2.14	1.66	1.74	1.41
Average interest rate on liabilities	0.18	0.11	0.17	0.11

9.3.3 FOREIGN EXCHANGE RISK

Foreign exchange risk represents a potential loss arising from an open foreign exchange position and the volatility of foreign exchange rates. The Parent Bank limits its exposure to foreign exchange risk by maintaining neutral position in individual foreign currencies.

The Group's intent is that the aggregate position for each currency is closed on a daily basis. The aggregate open position for all currencies is limited by its impact on the Group's capital adequacy. The Group monitors its exposure in each currency by using the value at risk (VaR) method. The maximum allowable VaR is established at each currency level just as for the entire foreign exchange portfolio. VaR depends on the exposure amount and the volatility of each pair of currencies.

The closed position for each foreign currency is monitored daily, and the Group calculates the daily result of assumed foreign exchange risk due to discrepancies from the neutral foreign exchange position. In case of an increase in volatility, the Group reduces the allowable open position in individual currencies in accordance with the adopted methodology. Any changes in volatility are reviewed by the Group on a monthly basis.

The Group controls its exposure to foreign exchange risk by maintaining target positions in individual currencies. The Group companies monitor currency risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The Group regularly monitors its exposure to the foreign exchange risk in its statement of financial position and off-balance sheet items by individual currencies. The Group's exposure to the foreign exchange risk in USD, CHF and HRK is presented below.

A more detailed breakdown of the open foreign exchange position as of 31 December 2022 and 31 December 2021 is presented in tables on Foreign exchange risk below.

A 10-day VaR of the open foreign exchange position is calculated on the basis of one-year data and a 99-percent confidence interval. These data suggest with a 99-percent probability that by holding an unchanged currency position, the loss over the 10 consecutive business days would not exceed €115 thousand, taking into account the highest level of exposure to foreign exchange risk during 2022. The range of VaR movement for the Bank is presented in the table below.

All amounts in EUR thousand unless otherwise stated.

10-day VaR of the Bank's foreign exchange position in 2022

Nova KBM	Highest	Lowest	Average
	115	5	21

10-day VaR of the Bank's foreign exchange position in 2021

Nova KBM	Highest	Lowest	Average
	262	9	25

Foreign exchange risk

						31/12/2022
Nova KBM Group	EUR	USD	CHF	HRK	Other currencies	Total
Financial assets						
Cash, cash balances at the central bank and demand deposits at banks	2,314,645	11,524	4,573	12,397	27,676	**2,370,815**
Financial assets held for trading	8,420	445	0	0	123	**8,988**
Non-trading financial assets mandatorily at fair value through profit or loss	1,871	9,290	0	16	0	**11,177**
Financial assets at fair value through other comprehensive income	628,657	72,214	0	0	0	**700,871**
Financial assets at amortised cost	6,950,443	77,112	59,107	1,098	12,067	**7,099,827**
Other assets	221,383	0	0	0	10	**221,393**
Total assets	**10,125,419**	**170,585**	**63,680**	**13,511**	**39,876**	**10,413,071**
Financial liabilities						
Financial liabilities held for trading	8,172	244	0	0	119	**8,535**
Financial liabilities at amortised cost	9,074,476	161,702	65,919	7,010	35,757	**9,344,864**
Other liabilities	1,047,127	8,505	0	4,039	1	**1,059,672**
Total liabilities	**10,129,775**	**170,451**	**65,919**	**11,049**	**35,877**	**10,413,071**
Assets-liabilities mismatch	**(4,356)**	**134**	**(2,239)**	**2,462**	**3,999**	**0**
Derivatives	2,686	(188)	0	0	(2,480)	**18**
Assets-liabilities, including equity and derivatives, mismatch	**(1,670)**	**(54)**	**(2,239)**	**2,462**	**1,519**	**18**

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group	EUR	USD	CHF	HRK	Other currencies	31/12/2021 Total
Financial assets						
Cash, cash balances at the central bank and demand deposits at banks	2,808,872	7,316	17,647	7,894	43,107	**2,884,836**
Financial assets held for trading	3,542	109	0	47	19	**3,717**
Non-trading financial assets mandatorily at fair value through profit or loss	16,483	7,393	0	0	0	**23,876**
Financial assets at fair value through other comprehensive income	1,225,218	68,640	0	0	0	**1,293,858**
Financial assets at amortised cost	5,460,274	57,409	30,149	3	14,694	**5,562,529**
Other assets	189,576	0	0	0	1	**189,577**
Total assets	**9,703,965**	**140,867**	**47,796**	**7,944**	**57,821**	**9,958,393**
Financial liabilities						
Financial liabilities held for trading	4,586	97	3	26	15	**4,727**
Financial liabilities at amortised cost	8,629,837	130,099	50,086	7,823	51,678	**8,869,523**
Other liabilities	1,073,532	10,530	0	79	2	**1,084,143**
Total liabilities	**9,707,955**	**140,726**	**50,089**	**7,928**	**51,695**	**9,958,393**
Assets-liabilities mismatch	**(3,990)**	**141**	**(2,293)**	**16**	**6,126**	**0**
Derivatives	33	0	0	0	0	33
Assets-liabilities, including equity and derivatives, mismatch	**(3,957)**	**141**	**(2,293)**	**16**	**6,126**	**33**

Nova KBM	EUR	USD	CHF	HRK	Other currencies	31/12/2022 Total
Financial assets						
Cash, cash balances at the central bank and demand deposits at banks	2,309,411	11,524	4,573	8,645	27,676	**2,361,829**
Financial assets held for trading	8,420	445	0	0	123	**8,988**
Non-trading financial assets mandatorily at fair value through profit or loss	1,871	9,290	0	0	0	**11,161**
Financial assets at fair value through other comprehensive income	628,657	72,214	0	0	0	**700,871**
Financial assets at amortised cost	6,877,888	77,112	59,107	3	12,067	**7,026,177**
Other assets	305,411	0	0	0	10	**305,421**
Total assets	**10,131,658**	**170,585**	**63,680**	**8,648**	**39,876**	**10,414,447**
Financial liabilities						
Financial liabilities held for trading	8,172	244	0	0	119	**8,535**
Financial liabilities at amortised cost	9,083,334	161,702	65,919	6,638	35,757	**9,353,350**
Other liabilities	1,043,900	8,505	0	156	1	**1,052,562**
Total liabilities	**10,135,406**	**170,451**	**65,919**	**6,794**	**35,877**	**10,414,447**
Assets-liabilities mismatch	**(3,748)**	**134**	**(2,239)**	**1,854**	**3,999**	**0**
Derivatives	2,686	(188)	0	0	(2,480)	**18**
Assets-liabilities, including equity and derivatives, mismatch	**(1,062)**	**(54)**	**(2,239)**	**1,854**	**1,519**	**18**

All amounts in EUR thousand unless otherwise stated.

Nova KBM	EUR	USD	CHF	HRK	Other currencies	31/12/2021 Total
Financial assets						
Cash, cash balances at the central bank and demand deposits at banks	2,808,515	7,316	17,647	7,894	43,107	**2,884,479**
Financial assets held for trading	3,542	109	0	47	19	**3,717**
Non-trading financial assets mandatorily at fair value through profit or loss	16,483	7,393	0	0	0	**23,876**
Financial assets at fair value through other comprehensive income	1,225,218	68,640	0	0	0	**1,293,858**
Financial assets at amortised cost	5,373,351	57,409	30,149	3	14,694	**5,475,606**
Other assets	263,512	0	0	0	1	**263,513**
Total assets	**9,690,621**	**140,867**	**47,796**	**7,944**	**57,821**	**9,945,049**
Financial liabilities						
Financial liabilities held for trading	4,586	97	3	26	15	**4,727**
Financial liabilities at amortised cost	8,626,016	130,099	50,086	7,823	51,678	**8,865,702**
Other liabilities	1,064,009	10,530	0	79	2	**1,074,620**
Total liabilities	**9,694,611**	**140,726**	**50,089**	**7,928**	**51,695**	**9,945,049**
Assets-liabilities mismatch	**(3,990)**	**141**	**(2,293)**	**16**	**6,126**	**0**
Derivatives	33	0	0	0	0	33
Assets-liabilities, including equity and derivatives, mismatch	**(3,957)**	**141**	**(2,293)**	**16**	**6,126**	**33**

Foreign exchange sensitivity analysis

		31/12/2022 Impact on profit or loss			31/12/2021 Impact on profit or loss	
	Exchange rate change against EUR (%)	Nova KBM Group	Nova KBM	Exchange rate change against EUR (%)	Nova KBM Group	Nova KBM
USD	+13%	17	17	+6%	8	8
CHF	+19%	(425)	(425)	+8%	(183)	(183)
HRK	+2%	49	37	+3%	0	0
Other currencies	+7%	280	280	+6%	368	368

The Bank determines changes in exchange rate based on volatility. The table shows the Bank's sensitivity to changes in exchange rate. The impact of changes in foreign exchange rate on equity is negligible; therefore, it is not presented in the table.

All amounts in EUR thousand unless otherwise stated.

9.4 GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES

Nova KBM Group	Total	Slovenia	Total foreign countries	European Union	31/12/2022 Other
Assets					
Cash, cash balances at the central bank and demand deposits at banks	2,370,815	2,321,407	49,408	28,766	20,642
Financial assets held for trading	8,988	371	8,617	8,167	450
Non-trading financial assets mandatorily at fair value through profit or loss	11,177	1,871	9,306	16	9,290
Financial assets at fair value through other comprehensive income	700,871	217,913	482,958	411,459	71,499
Financial assets at amortised cost	7,099,827	4,553,995	2,545,832	2,166,738	379,094
Other assets	221,393	212,619	8,774	2,768	6,006
Total assets	**10,413,071**	**7,308,176**	**3,104,895**	**2,617,914**	**486,981**
Liabilities					
Financial liabilities held for trading	8,535	8,312	223	223	0
Financial liabilities at amortised cost	9,344,864	8,733,612	611,252	157,042	454,210
Other liabilities	1,059,672	1,055,354	4,318	4,186	132
Total liabilities	**10,413,071**	**9,797,278**	**615,793**	**161,451**	**454,342**
Assets-liabilities mismatch	**0**	**(2,489,102)**	**2,489,102**	**2,456,463**	**32,639**

Nova KBM Group	Total	Slovenia	Total foreign countries	European Union	31/12/2021 Other
Assets					
Cash, cash balances at the central bank and demand deposits at banks	2,884,836	2,816,739	68,097	36,362	31,735
Financial assets held for trading	3,717	2,743	974	974	0
Non-trading financial assets mandatorily at fair value through profit or loss	23,876	16,483	7,393	0	7,393
Financial assets at fair value through other comprehensive income	1,293,858	320,610	973,248	839,672	133,576
Financial assets at amortised cost	5,562,529	4,281,314	1,281,215	1,072,007	209,208
Other assets	189,577	189,545	32	16	16
Total assets	**9,958,393**	**7,627,434**	**2,330,959**	**1,949,031**	**381,928**
Liabilities					
Financial liabilities held for trading	4,727	2,147	2,580	1,120	1,460
Financial liabilities at amortised cost	8,869,523	8,569,127	300,396	152,815	147,581
Other liabilities	1,084,143	1,083,626	517	401	116
Total liabilities	**9,958,393**	**9,654,900**	**303,493**	**154,336**	**149,157**
Assets-liabilities mismatch	**0**	**(2,027,466)**	**2,027,466**	**1,794,695**	**232,771**

All amounts in EUR thousand unless otherwise stated.

Nova KBM	Total	Slovenia	Total foreign countries	European Union	31/12/2022 Other
Assets					
Cash, cash balances at the central bank and demand deposits at banks	2,361,829	2,316,174	45,655	25,013	20,642
Financial assets held for trading	8,988	371	8,617	8,167	450
Non-trading financial assets mandatorily at fair value through profit or loss	11,161	1,871	9,290	0	9,290
Financial assets at fair value through other comprehensive income	700,871	217,913	482,958	411,459	71,499
Financial assets at amortised cost	7,026,177	4,572,896	2,453,281	2,074,187	379,094
Other assets	305,421	299,407	6,014	8	6,006
Total assets	**10,414,447**	**7,408,632**	**3,005,815**	**2,518,834**	**486,981**
Liabilities					
Financial liabilities held for trading	8,535	8,312	223	223	0
Financial liabilities at amortised cost	9,353,350	8,743,831	609,519	155,309	454,210
Other liabilities	1,052,562	1,052,128	434	302	132
Total liabilities	**10,414,447**	**9,804,271**	**610,176**	**155,834**	**454,342**
Assets-liabilities mismatch	**0**	**(2,395,639)**	**2,395,639**	**2,363,000**	**32,639**

Nova KBM	Total	Slovenia	Total foreign countries	European Union	31/12/2021 Other
Assets					
Cash, cash balances at the central bank and demand deposits at banks	2,884,479	2,816,382	68,097	36,362	31,735
Financial assets held for trading	3,717	2,743	974	974	0
Non-trading financial assets mandatorily at fair value through profit or loss	23,876	16,483	7,393	0	7,393
Financial assets at fair value through other comprehensive income	1,293,858	320,610	973,248	839,672	133,576
Financial assets at amortised cost	5,475,606	4,194,427	1,281,179	1,071,974	209,205
Other assets	263,513	263,481	32	16	16
Total assets	**9,945,049**	**7,614,126**	**2,330,923**	**1,948,998**	**381,925**
Liabilities					
Financial liabilities held for trading	4,727	2,147	2,580	1,120	1,460
Financial liabilities at amortised cost	8,865,702	8,565,361	300,341	152,760	147,581
Other liabilities	1,074,620	1,074,103	517	401	116
Total liabilities	**9,945,049**	**9,641,611**	**303,438**	**154,281**	**149,157**
Assets-liabilities mismatch	**0**	**(2,027,485)**	**2,027,485**	**1,794,717**	**232,768**

The following table shows the exposure to foreign issuers from debt and equity securities held in portfolios measured at fair value.

All amounts in EUR thousand unless otherwise stated.

Financial assets of foreign issuers measured at fair value

Country of issuer		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Australia	0	8,091	0	8,091
Austria	37,243	70,286	37,243	70,286
Belgium	43,582	62,269	43,582	62,269
Bulgaria	0	5,105	0	5,105
Canada	10,918	11,609	10,918	11,609
Czechia	0	35,371	0	35,371
Denmark	9,698	14,134	9,698	14,134
Finland	12,418	30,116	12,418	30,116
France	49,615	139,999	49,615	139,999
Germany	29,310	56,139	29,310	56,139
Hungary	12,151	13,752	12,151	13,752
Ireland	20,655	53,970	20,655	53,970
Italy	7,858	16,094	7,858	16,094
Latvia	1,854	2,000	1,854	2,000
Lithuania	7,866	19,821	7,866	19,821
Luxembourg	34,768	65,567	34,768	65,567
Netherlands	44,747	82,150	44,747	82,150
Norway	14,594	28,092	14,594	28,092
Poland	15,590	22,758	15,590	22,758
Portugal	3,015	3,388	3,015	3,388
Slovakia	58,113	60,928	58,113	60,928
Spain	14,053	51,396	14,053	51,396
Sweden	8,808	34,340	8,808	34,340
Switzerland	1,836	2,006	1,836	2,006
United Kingdom	5,867	39,030	5,867	39,030
United States of America	38,283	44,748	38,283	44,748
Total	**482,844**	**973,159**	**482,844**	**973,159**

9.5 OPERATIONAL RISK

Operational risk (OR) is present in all business processes of the Group. As a result, the Group focuses on the management of operational risk. The Group recognizes that this is a growing risk category, and includes risks associated with the outsourcing of services to third parties, data leakage or loss, an expanding typology of cyber threats and the actions of organized fraud groups. In response to increasing risks, the Group has invested additional resources in detection, prevention and protection in first- and second-line functions, and uses its internal and external communication channels to raise awareness about those risks. During 2022, the Group continued to upgrade and strengthen its outsourcing risk framework, primarily by upgrading outsourcing policies and procedures, and introducing the regular monitoring of the risk exposure of outsourcers and the performance of outsourcing services according to established KPIs. The findings are reported and discussed by the Group's Operational Risk Committee on a quarterly basis.

The Group has established the systematic recording of operational risk events, which is coordinated by the Operational Risk Management Department. The Group has established clear mechanisms to ensure that all relevant events are recorded and reported. Senior management receives regular reports regarding operational risk events on a monthly and quarterly basis. The Group's Operational Risk Committee meets quarterly. The Group also includes ESG risks in operational risk management.

The Group identifies and distinguishes operational risk events to the following:

1. Legal risk event.
Legal risk events are all received lawsuits.

2. Financial loss events.
Loss events arising from operational risk and resulting either in financial loss (impact on the profit and loss account) or misstatement of items in the profit and loss account (more than one financial year). The Group has defined as financial loss events all the events the gross loss of which reached or exceeded €50.

3. Non-financial events.
A non-financial event arising from operational risk is the event producing no direct financial effect on the profit and loss account while producing an effect of regulatory nature or an effect relating to customers, market/competitors, and/or reputation, with no financial effects, while having the potential to cause such effects.

4. Potential events.
A potential event arising from operational risk is an event with no financial effects on the profit and loss account because it was prevented in a timely manner whilst having the potential to cause financial or non-financial effects.

The Group classifies measured loss arising from operational risk in accordance with the guidelines of the Basel capital framework, i.e., by operating segments and type of loss events, and the Regulation (EU) 575/2013, Article 324 thereof (CRR Regulation).

The Group has established an incident management, escalation and reporting process and a crisis management framework that enables effective response to significant or material events. For each significant event, there is a review of root causes and response plans with owners are defined to prevent the repetition of such events and to reduce the risk of recurrence of such events.

The Group has established an Operational Risk Register and RCSA questionnaire for business units, both adapted to the Basel II categorisation of loss events, which enables the Group to ensure a better comparison between reported operational risk events and assessed risks, and thus higher quality operational risk analyses. In 2022, the Group upgraded the process of preparing risk analyses, implemented application support and automated the calculation of the operational risk profile of each organizational part of the Group. In addition to self-assessments, the final risk analysis of business units includes operational risk events, audit recommendations, risk indicators and assessments of key stakeholders in the process.

To support improved risk management, the Group has established an operational risk appetite, set a series of key risk indicators which are monitored quarterly. The key risk indicators, operational risk self-assessments and scenario analyses assist the Group in identifying possible future risks and steps which can be taken to mitigate them via changes in business or operational process.

The actual or final net loss from loss events represents a small amount of the capital requirement for operational risk.

In 2022, the Group made further improvements to its operational risk framework. The Group focused, inter alia, on:

- Upgrade of operational risk management processes
- Update and development of risk assessment methodologies
- Improvement of the Group's outsourcing framework, in part by setting indicators, which are regularly monitored and reported against these KPIs. At the same time, the procurement process was upgraded with the aim of including ESG risks in such a way that an ESG questionnaire is mandatory for all vendors and contracts above EUR 10,000 since the beginning of 2022;
- Upgrade the preparation of risk analyses (application support and automated calculation of the operational risk profile of each organizational part of the Group, inclusion of operational risk events, audit recommendations, risk indicators and assessments of key stakeholders in the process);
- Continuing education regarding the complete and timely reporting of operational risk events.

In addition to the above, the Group has upgraded its capabilities and mechanisms for the detection of data loss and leakage and has re-inforced the classification of newly created via its primary internal support applications.

The Group has also developed response plans for different typologies of cyberthreat and has begun a response test program for different scenarios.

In 2022, the Group is also upgraded technical protection, including mechanisms for detecting potential data leakage, which include automatic data classification and improved detection. An external security operations centre (SOC) has been established and operates 24/7. Incident response procedures were also adapted to changes due to an increase in the typology of threats.

Fraud risk management

The Group has an established system for the detection and management of risks as the result of fraud. The Group effectively manages fraud using analytical and other tools. The Group is aware of the extreme importance of raising awareness among clients and employees, as a key method of prevention (notification via social networks, website, online bank, training and education programmes for employees, etc.). The Group focuses on prevention, detection and protection, and has reporting mechanisms in place, enabling management to understand trends and prepare appropriate and effective responses.

9.6 CAPITAL RISK

The Group identified capital risk as the risk that part of its regulatory capital items will not be available to cover losses in the future, either due to their maturity or other factors (such as changed dividend policy, higher regulatory deductions, changes in legislation). This risk results from:

- Insufficient amounts of capital;
- Inappropriate equity instruments;
- Inappropriate capital composition; and
- Difficulties obtaining capital injections, particularly in case of the need for a rapid increase in capital in adverse or stressed business conditions.

Exposure to capital risk is managed by effective capital planning, The Group's projections of aggregate capital and capital adequacy take into account planned operational changes in the short and medium term that may arise from:

- Higher capital requirements due to the planned increase in risk-weighted assets;
- Higher capital requirements due to the planned increase in internal capital allocation;
- Increases in regulatory capital deductions (such as legislative changes, continuing investments of intangible assets such as software);
- Implementation of legislative changes; and
- Adjustments to dividend policy if necessary, during the medium-term planning horizon.

The Group has in place a Risk Appetite Framework, including the Risk Appetite Statement, and the system of limits supported by the early warning system, policies, methodologies, and relevant procedures and mechanisms to ensure adequate structure and amount of its capital, both in the period of current operations and the period of the next three years.

The Group manages its capital and capital requirement at all the three reporting levels by:

- Managing, monitoring and measuring actual and planned regulatory capital through an assessment of the need of increasing the regulatory capital through recapitalisation or by raising subordinated instruments, taking into account statutory restrictions;
- Managing, monitoring and measuring actual and planned capital requirements;
- Managing, monitoring and measuring movements in actual and planned capital adequacy ratios;
- Monitoring the Group's key performance indicators related to the management of capital and capital requirements;
- Integrating the process of capital, capital requirements, and capital adequacy planning aligned with the business planning process, which is further reflected in:
  - a clear Risk Appetite Statement and a stated risk-bearing capacity;
  - an established system of limits supported by the early warning system (EWS);
  - regular stress testing and scenario analysis based on which the Group assesses the sustainability and resilience of its business plan and the planned capital and capital requirements; and
  - Implementation of an ICAAP analysis when introducing new products.
- Monitoring and timely implementing amendments of legislation.

Capital requirements under the Basel Pillar 1 framework

The Group calculates capital requirements for credit risk using the standardised approach. The Group uses Moody's rating agency as its external credit ratings to determine the risk weight for the following asset classes as defined in Article 112 of CRR:

- Exposure to central governments and central banks;
- Exposure to regional governments or local authorities;
- Exposure to public sector entities;

- Exposure to financial institutions;
- Exposure to corporates; and
- Exposures in the form of covered bonds.

The Group calculates capital requirements for market risks in accordance with the standardised approach and does not use internal models.

The capital requirement for operational risk is calculated according to the basic indicator approach. The Group is considering article 315(1) of CRR when calculating risk weighted assets, therefore it revises its calculations every year end, based on audited financial statements, if available, otherwise using business estimates.

Capital requirements under the Basel Pillar 2 framework

In the ICAAP economic perspective, the Group's Pillar 2 capital requirements represent additional, internal capital requirements for covering risks that are not covered or not sufficiently covered in the scope of minimum capital requirements under the Basel Pillar 1 capital requirements framework. The Group calculates its Pillar 2 (internal) capital requirements using internally developed models, based on the going concern assumption.

Additionally, the Group calculates its internal capital needed to cover Pillar 2 capital requirements. Ultimately, internal capital needs to exceed Pillar 2 (internal) capital requirements.

The Group has a harmonised policy governing the internal capital adequacy assessment process, a methodology for risk identification and assessment, a risk measurement methodology based on which the Group assesses the need for internal capital allocation, and an internal stress-testing process/sensitivity analyses performance methodology.

Composition of regulatory capital and Pillar 1 capital requirements

As of 31 December 2022, the Group's overall capital adequacy ratio was 17.27%, while its CET1 or Tier 1 capital adequacy ratio was 15.62%.

The capital adequacy of the Bank and the Group changed in 2022, primarily for the following reasons:

- Implementation of the Group's investment policy (redeployment of liquidity to credit assets with a higher risk weight than cash and investment grade securities);
- Inclusion of ALEJA finance and Mobil leasing in the Nova KBM Group;
- Inclusion of interim profit for the period from 1 January to 30 September 2022 in the Tier 1 capital of the Group; and
- Legislative changes set out in the CRR.

All amounts in EUR thousand unless otherwise stated.

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Tier-1 capital	**852,079**	**844,637**	**875,562**	**853,988**
Paid-in capital instruments	150,000	150,000	150,000	150,000
Paid-in capital surplus	403,302	403,302	403,302	403,302
(–) Own CET1 capital instruments	0	0	0	0
Retained earnings and value adjustments from previous years in respect of investment property	342,460	339,154	337,588	337,575
Profit/loss for the current financial year	50,559	0	59,952	0
Accumulated other comprehensive income	(25,012)	2,742	(25,103)	3,067
Other reserves	20,228	20,228	20,228	20,228
(–) Intangible assets	(38,920)	(33,909)	(24,934)	(25,656)
(–) Deferred tax assets	(47,444)	(35,540)	(43,049)	(33,189)
(–) Other deductions	(3,094)	(1,340)	(2,422)	(1,339)
Additional tier-1 (AT1) capital	**0**	**0**	**0**	**0**
Tier-2 (T2) capital	**90,400**	**90,400**	**90,400**	**90,400**
Total equity	**942,479**	**935,037**	**965,962**	**944,388**
Risk weighted exposure amounts for credit risk	**4,956,495**	**4,654,658**	**5,087,558**	**4,718,446**
Central governments or central banks	6,946	7,853	6,946	7,853
Regional governments or local authorities	11,360	11,519	11,359	11,518
Public sector entities	1,184	1,858	1,086	1,790
Multilateral development banks	0	0	0	0
International organisations	0	0	0	0
Institutions	175,357	211,745	171,210	211,627
Corporates	2,287,393	2,056,578	2,861,394	2,458,466
Retail exposures	1,507,235	1,401,377	1,025,542	1,036,027
Exposures secured by mortgages on immovable property	458,429	459,468	458,429	459,468
Exposures in default	112,105	130,317	47,163	73,943
Items associated with particular high risk	146,211	176,281	146,187	175,473
Covered bonds	4,882	8,139	4,882	8,139
Collective investment undertakings	5,765	6,323	5,765	6,323
Equity	53,959	28,514	191,975	137,931
Other items	185,670	154,686	155,620	129,888
Risk weighted exposure amounts for market risks	**14,430**	**29,861**	**14,430**	**29,861**
Traded debt instruments	120	70	120	70
Equity instruments and funds	0	26,401	0	26,401
Foreign exchange	0	0	0	0
Funds	0	0	0	0
Credit value adjustment	14,310	3,390	14,310	3,390
Risk weighted exposure amounts for operational risk	**485,080**	**466,743**	**443,460**	**430,412**

All amounts in EUR thousand unless otherwise stated.

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Total risk weighted exposure amount	**5,456,006**	**5,151,262**	**5,545,448**	**5,178,719**
Total capital adequacy ratio	**17.27%**	**18.15%**	**17.42%**	**18.24%**
Tier-1 capital adequacy ratio	**15.62%**	**16.40%**	**15.79%**	**16.49%**
CET1 capital adequacy ratio	**15.62%**	**16.40%**	**15.79%**	**16.49%**

9.7 RECOVERY AND RESOLUTION

In 2014 the Bank Recovery and Resolution Directive (BRRD) was introduced to reduce the likelihood of another financial crisis, improve the resilience of institutions under stress, and eventually support the long-term stability of financial systems without exposing taxpayers' money to losses. Since then, the Group introduced and continuously improved its recovery and resolution planning framework and activities.

Recovery plan

The Group Recovery Plan of NKBM d.d. was prepared with the aim to ensure the financial viability of Nova KBM Group as a whole, and the financial viability of each group member, primarily that of the parent institution. Preparation of the group recovery plan is requested by the Directive 2014/59/EU of the European Parliament and by the Slovenian Banking Act. The aim of the group recovery plan is to define procedures which ensure that the management of the NKBM Group detects threats to the financial stability of the Group or that of its material members in a timely manner. The group recovery plan must also ensure that the management is well-prepared for a crisis scenario and commands with preliminary plans on how and which measures shall be taken in case of different types of distress.

In 2022, the Group's Recovery Plan showed a robust recovery planning framework and reflected enhancements to address the latest regulatory feedback. Updates in this iteration of the plan include the following:

- The set of recovery indicators was reviewed and aligned with the "New minimum list of recovery plan indicators", while the two-level warning system was amended with early warning signal (EWS) thresholds for all indicators.
- Baseline and three stress scenarios were defined and elaborated: system-wide, slowly emerging stress scenario with capital deterioration, Idiosyncratic, fast-moving scenario with liquidity deterioration and a combined stress scenario with capital and liquidity deterioration.
- The overall recovery capacity (ORC) was calculated for all four scenarios, including a range between the minimum and maximum impact of recovery options on capital and liquidity.

Resolution plan

The Group's Resolution Plan, on the other hand, is prepared by resolution authorities, rather than by the Bank itself. The Group works closely with the Single Resolution Board (SRB) and the Bank of Slovenia (BoS), which drafted the Group's Resolution Plan. The Resolution Plan is based on a single point of entry (SPE), and bail-in as the preferred resolution strategy. Under the SPE bail-in strategy, Nova KBM would be recapitalized through the write-down and/or conversion to equity or capital instruments and other eligible liabilities to stabilize the bank. To further support and improve resolvability, the Bank has established a **resolvability work programme**, which defines resolution planning activities. The programme includes, *inter alia*:

- tasks to improve operational continuity in resolution, with the newly drafted self-standing document "Succession and Retention Planning for Resolution Purposes", which outlines NKBM's arrangements regarding the identification of relevant roles, staff retention and succession planning;
- the preparation of the self-standing document "Separability Analysis Report (SAR)", where the sale of business is envisaged as an alternative resolution strategy for NKBM;
- the preparation of the self-standing document "Business Reorganization Plan (BRP)", which sets out minimum activities and business lines to be performed by NKBM post open bank bail-in;
- the preparation of the self-standing document "Liquidity in Resolution – Mobilisation of Collateral", which covers roles and responsibilities for collateral management, access to ordinary central bank facilities and access to secured market funding via the private market; and
- the preparation of the updated Bail-in Playbook, with two dry run reports.

MREL

The BRRD requires banks in EU Member States to maintain minimum requirements for own funds and eligible liabilities (MREL) in order to make resolution credible by establishing sufficient loss absorption and recapitalization capacity. The MREL for the Group, which is based on the Single Point of Entry (SPE) approach, is regularly analysed and monitored. The Group has fully integrated the MREL into the overall risk management and monitoring system.

As of 1 January 2024, Nova KBM d.d. must, on a consolidated basis at the resolution group level (Nova KBM Group), comply with an MREL of 23.18% of the total risk exposure amount (TREA), increased by the applicable combined buffer requirement (CBR) and 5.8% of the leverage ratio exposure (LRE). From 1 January 2022, the Nova KBM Group must comply with the transitional period MREL, and must provide a linear increase in capital and eligible liabilities in order to achieve the fully loaded MREL as of 1 January 2024.

All amounts in EUR thousand unless otherwise stated.

10 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Where possible, the Group determines the fair value of financial instruments on the basis of exchange rates provided by the Bloomberg data source. The Group starts measuring the value of financial assets according to the valuation model once it establishes that the market is not active. In accordance with the IFRSs, the Group divides fair values of financial instruments into three levels.

Classified **into Level 1** are investments the fair value of which is determined entirely on the basis of prices quoted on one or more active markets. The Group classifies into Level 1 most of its investments in debt securities that are valued based on Bloomberg BGN exchange rate. The Group argues that Bloomberg has become a MTF trading venue (organised market) and the Bloomberg's price reflects fair value, since most deals are concluded just through the Bloomberg information system. Namely, other sources do not provide sufficient liquidity to reflect the reality of exchange rates.

Classified **into Level 2** are investments the fair value of which is estimated on the basis of valuation models, that take into account variables derived from public market data, such as yield curves, market interest rates, exchange rates, and the volatility of currencies and interest rates. Included in Level 2 are also investments in illiquid bonds that are valued based on the Bloomberg BVAL exchange rate.

The Group also classifies non-financial assets as level 2, namely investment property and non-current assets held for sale, where fair value is determined entirely on the basis of valuation models that take into account variables derived from publicly available data.

Classified **into Level 3** are investments the fair value of which is estimated on the basis of valuation models, that take into account subjective variables not publicly available. Included in level 3 are the following instruments:

- Financial instruments the fair value of which is measured on the basis of a selected valuation technique was measured using incomplete or unobservable data,
- Financial instruments the fair values of which was measured on the basis of prices quoted by third parties, and which does not reflect the results of regular transactions or does not represent a binding offer of a third party,
- Equities and capital shares the fair value of which was measured based on external or internal assessment using appropriate evaluation techniques.

The table below shows placement of financial instruments into fair value hierarchy levels.

All amounts in EUR thousand unless otherwise stated.

Fair value hierarchy

Nova KBM Group	Total	Level 1	Level 2	31/12/2022 Level 3
Financial assets				
Financial assets held for trading	8,988	189	8,799	0
– derivatives	8,799	0	8,799	0
– debt financial instruments	189	189	0	0
– other financial assets	0	0	0	0
Derivatives hedge accounting	5,983	0	5,983	0
Non-trading financial assets mandatorily at fair value through profit or loss	11,177	822	0	10,355
– equity instruments	11,177	822	0	10,355
Financial assets at fair value through other comprehensive income	700,871	612,708	88,049	114
– equity instruments	47,842	0	47,728	114
– debt financial instruments	653,029	612,708	40,321	0
Financial liabilities				
Financial liabilities held for trading	8,535	0	8,535	0
– derivatives	8,534	0	8,534	0
– other financial liabilities	1	0	1	0
Non-financial assets				
Investment property	25,443	0	0	25,443
Non-current assets held for sale	0	0	0	0

Nova KBM Group	Total	Level 1	Level 2	31/12/2021 Level 3
Financial assets				
Financial assets held for trading	3,717	0	3,717	0
– derivatives	3,707	0	3,707	0
– other financial assets	10	0	10	0
Non-trading financial assets mandatorily at fair value through profit or loss	23,876	15,577	0	8,299
– equity instruments	23,876	15,577	0	8,299
Financial assets at fair value through other comprehensive income	1,293,858	1,200,223	93,545	90
– equity instruments	50,036	0	49,946	90
– debt financial instruments	1,243,822	1,200,223	43,599	0
Financial liabilities				
Financial liabilities held for trading	4,727	0	4,727	0
– derivatives	4,722	0	4,722	0
– other financial liabilities	5	0	5	0
Non-financial assets				
Investment property	25,443	0	0	25,443
Non-current assets held for sale	1,868	0	1,868	0

All amounts in EUR thousand unless otherwise stated.

Nova KBM	Total	Level 1	Level 2	31/12/2022 Level 3
Financial assets				
Financial assets held for trading	8,988	189	8,799	0
– derivatives	8,799	0	8,799	0
– debt financial instruments	189	189	0	0
– other financial assets	0	0	0	0
Derivatives hedge accounting	5,983	0	5,983	0
Non-trading financial assets mandatorily at fair value through profit or loss	11,161	822	0	10,339
– equity instruments	11,161	822	0	10,339
Financial assets at fair value through other comprehensive income	700,871	612,708	88,049	114
– equity instruments	47,842	0	47,728	114
– debt financial instruments	653,029	612,708	40,321	0
Financial liabilities				
Financial liabilities held for trading	8,535	0	8,535	0
– derivatives	8,534	0	8,534	0
– other financial liabilities	1	0	1	0
Non-financial assets				
Investment property	25,443	0	0	25,443
Non-current assets held for sale	0	0	0	0

Nova KBM	Total	Level 1	Level 2	31/12/2021 Level 3
Financial assets				
Financial assets held for trading	3,717	0	3,717	0
– derivatives	3,707	0	3,707	0
– other financial assets	10	0	10	0
Non-trading financial assets mandatorily at fair value through profit or loss	23,876	15,577	0	8,299
– equity instruments	23,876	15,577	0	8,299
Financial assets at fair value through other comprehensive income	1,293,858	1,200,223	93,545	90
– equity instruments	50,036	0	49,946	90
– debt financial instruments	1,243,822	1,200,223	43,599	0
Financial liabilities				
Financial liabilities held for trading	4,727	0	4,727	0
– derivatives	4,722	0	4,722	0
– other financial liabilities	5	0	5	0
Non-financial assets				
Investment property	25,443	0	0	25,443
Non-current assets held for sale	1,868	0	1,868	0

All amounts in EUR thousand unless otherwise stated.

The following table presents for each type of financial instrument the triggers that lead to the transfer of a financial instrument between the fair value hierarchy levels.

Transfers	Financial instruments	Reason for transfer between levels
From Level 2 to Level 1	bonds	Re-availability of the market price of the financial instrument.
From Level 3 to Level 1	shares or funds	Re-availability of the market price of the financial instrument.
From Level 1 to Level 2	bonds	Valuation of bonds that have been previously valued according to the market price. The reason for the valuation of a bond and for changing its level is either the withdrawal of a bond from the regulated market or its illiquidity.
From Level 1 to Level 3	shares or funds	Valuation of shares and investment funds that have been previously valued according to the market price. The reason for the valuation of a share or an investment fund and for changing its level is the withdrawal of a share or an investment fund from the regulated market or its illiquidity.
From Level 2 to Level 3	derivatives	The underlying instrument to which the derivative refers has been reclassified from Level 1 to either Level 2 or Level 3. The market price of the underlying instrument is no longer available.
From Level 3 to Level 2	derivatives	The underlying instrument to which the derivative refers has been reclassified to Level 1. The market price of the underlying instrument is available.

Analysis of transfers between fair value hierarchy levels

The following table presents transfers between fair value hierarchy levels in 2022

		31/12/2022
Nova KBM Group	From Level 1 to Level 2	From Level 2 to Level 1
Financial assets at fair value through other comprehensive income	19,567	8,699
– debt financial instruments	19,567	8,699

		31/12/2022
Nova KBM	From Level 1 to Level 2	From Level 2 to Level 1
Financial assets at fair value through other comprehensive income	19,567	8,699
– debt financial instruments	19,567	8,699

In 2021, there were no transfers between the fair value hierarchy levels.

Determining the fair value of financial assets classified in Level 2

The Group classifies into Level 2 of the fair value hierarchy those less liquid debt financial instruments that are valued on the basis of the Bloomberg BVAL exchange rate, and debt financial instruments and derivatives valued on the basis of models that use data derived from the market.

Debt securities with determinable cash flows and without an available market price are valued at the end of each month using the discounted cash flow method. The interest rate applicable to discounting is the sum of the interest rate on a risk-free instrument of comparable maturity, plus a margin for credit risk.

For valuing interest rate derivatives, the Group uses models that take into consideration the market interest rate curve and the forward interest rate curve. The models used to value currency derivatives are based on market exchange rates for each pair of currencies. Derivatives on securities are valued using models that take into account market prices of underlying securities; if the market price is not available, the valuation of a derivative is based on the price of the underlying security determined using a fair value model. Whichever model is used to determine the value of derivatives, the future cash flows are discounted to the present value on the basis of risk-free yield curves.

If the fair value of business interests and shares of companies cannot be determined on the basis of current prices on an active market, the Group recognises and discloses the fair value of an asset within Level 2 – fair value determined on the basis of valuation models that take into consideration variables derived from publicly available market data (e.g., market or quoted prices of comparable companies, comparable sale of (non-listing) companies).

Interests and shares of such companies are valued by the Group using a value assessment methodology that is based on three hierarchical levels – approaches, methods and procedures used for value assessment. For the purpose of assessing values, the Group uses the market comparison approach, and within this approach, it uses the method of comparable listed companies.

The method of comparable listed companies is the most appropriate method used to assess the value of assets classified into Level 2 of the fair value hierarchy. The market comparison approach is designed on the assumption that the quoted (market) prices of assets similar to those being valued provide satisfactory information and empirical proof regarding the value of the asset that is subject to the value assessment. This concept is based on the use of market value, meaning that a market category (quoted or market price) is used as the numerator, while various categories from financial statements are used as the denominator. When using the method of comparable listed companies, the basic financial categories of the assessed company are multiplied by market multiples derived from comparable listed companies.

Level 2 also includes non-financial assets, namely investment real estate and non-current assets intended for sale, which are valued on the basis of appropriate valuation methods, models and procedures, in accordance with valuation standards. The following valuation method is used for valuation:

- the method of market comparisons and, within the latter, the method of comparable sales.

Determining the fair value of financial assets classified in Level 3

If the fair value of interests and shares of companies cannot be determined either on the basis of current prices on an active market, or on the basis of valuation models that take into consideration variables derived from publicly available market data, the Group recognises and discloses the fair value of an asset within Level 3 – fair value determined on the basis of valuation models that take into consideration subjective variables not publicly available on markets.

Interests and shares of such companies are valued by the Group using a value assessment methodological approach that is based on three hierarchical levels: approaches, methods and procedures used for value assessment. For the purpose of assessing values, the Group uses the following three value assessment approaches: the return-based valuation approach, and within this approach the discounted cash flow model; the market comparison approach, and within this approach the comparable transactions method; and the asset-based valuation approach.

All amounts in EUR thousand unless otherwise stated.

The return-based valuation approach is the most commonly used approach to value assessment, and within this the discounted cash flow model is used. According to definition, the value of an asset is the sum of all future returns to the owner of that asset, whereby each return is discounted to the present value using the discount rate that reflects the time value of money and the level of risk associated with the realisation of return. Thus, it takes into consideration the inflow of expected future returns, the distribution of these returns over time, and the risks borne by the asset owner. The bases for the prediction of expected future returns are performance projections based on discrete projection period. Using these projections, the net cash flows are determined for a discrete projection period. The net cash flows for the discrete projection period are then discounted at a discount rate to arrive at the present value of net cash flows generated in the discrete projection period. The present value of expected cash flows generated after the discrete projection period (i.e., when the company enters the mature stage of operations) is determined by calculating the remaining value, usually by applying the Gordon growth model. When calculating the remaining value, the normalised net cash flow is taken into consideration as well as the expected constant long-term growth rate of net cash flow.

Level 3 also includes non-financial assets, namely investment real estate and non-current assets intended for sale, which are valued on the basis of appropriate valuation methods, models and procedures, in accordance with valuation standards. The following valuation method is used for valuation:

- return-based approach.

Use of unobservable inputs

The assessment of the fair value of interests and shares classified into Level 3 is made on the basis of inputs for which market information and data are not available and which are developed using the best available information and assumptions that the market participants would use in determining the price of an asset. When assessing the fair value of interests and shares classified into Level 3, the Group uses, as the values of unobservable inputs, the projections of performance made on the basis of a reasonable scenario.

Sensitivity analysis

Using a sensitivity analysis, a simulation is made of the impact of changes in key parameters (market input data, such as a change in the discount rate and a change in the expected constant long-term growth rate of normalised net cash flows) on the estimated value or fair value. The sensitivity analysis aims to present changes in fair values of equities and shares (classified in Level 3) deriving from the upper and lower range (based on dynamic of increase or decrease in the value of key parameters).

Movements in financial assets classified in Level 3, in 2022

	As at 1/1/2022	Revaluation	New recognition	As at 31/12/2022
Non-trading financial assets mandatorily at fair value through profit or loss				
– equities	**8,298**	(115)	2,155	**10,338**
– capital shares	**1**	0	0	**1**
– loans and advances	**0**	0	0	**0**
Total	**8,299**	**(115)**	**2,155**	**10,339**
Financial assets at fair value through other comprehensive income				
– capital shares	**90**	24	0	**114**
Total	**90**	**24**	**0**	**114**

As of 31 December 2022, all of the Group’s investments classified in Level 3 were attributable to the portfolio of the Parent Bank.

All amounts in EUR thousand unless otherwise stated.

Movements in financial assets classified in Level 3, in 2021

	As at 1/1/2021	Revaluation	Derecognition	As at 31/12/2021
Non-trading financial assets mandatorily at fair value through profit or loss				
– equities	**11,093**	1,256	(4,051)	**8,298**
– capital shares	**1**	0	0	**1**
– loans and advances	**41,186**	100	(41,286)	**0**
Total	**52,280**	**1,356**	**(45,337)**	**8,299**
Financial assets at fair value through other comprehensive income				
– equities	**0**	0	0	**0**
– capital shares	**85**	5	0	**90**
Total	**85**	**5**	**0**	**90**

As of 31 December 2021, all of the Group's investments classified in Level 3 were attributable to the portfolio of the Parent Bank. In 2021, decline in the value of Level 3 investments is result from revaluation of investments or derecognition of non-strategic equities and loans.

Fair value of financial instruments measured at amortised cost

Nova KBM Group					31/12/2022
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash, cash balances at the central bank and demand deposits at banks	2,370,815	2,370,815	2,370,815	0	0
Loans to banks	45,148	45,148	0	45,148	0
Loans to customers	5,241,176	5,215,492	0	0	5,215,492
Other financial assets	51,536	51,770	0	0	51,770
Financial assets at amortised cost – debt securities	1,761,967	1,654,124	1,554,652	99,472	0
Financial liabilities					
Deposits from banks and central banks	13,677	13,675	0	0	13,675
Deposits from customers	8,527,801	8,519,252	0	0	8,519,252
Loans from banks and central banks	165,033	165,033	0	0	165,033
Loans from customers	0	0	0	0	0
Debt securities	571,782	523,056	0	0	523,056
Other financial liabilities	66,571	66,571	0	0	66,571

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group	Book value	Fair value	Level 1	Level 2	31/12/2021 Level 3
Financial assets					
Cash, cash balances at the central bank and demand deposits at banks	2,884,836	2,884,836	2,884,836	0	0
Loans to banks	78,325	78,608	0	78,608	0
Loans to customers	4,857,886	4,849,113	0	0	4,849,113
Other financial assets	25,393	25,393	0	0	25,393
Financial assets at amortised cost – debt securities	600,925	602,148	570,166	31,982	0
Financial liabilities					
Deposits from banks and central banks	4,976	4,976	0	4,976	0
Deposits from customers	8,176,349	8,180,574	0	8,180,574	0
Loans from banks and central banks	346,365	347,034	0	347,034	0
Loans from customers	0	0	0	0	0
Debt securities	267,495	267,495	0	267,495	0
Other financial liabilities	74,338	74,338	0	0	74,338

Nova KBM	Book value	Fair value	Level 1	Level 2	31/12/2022 Level 3
Financial assets					
Cash, cash balances at the central bank and demand deposits at banks	2,361,829	2,361,829	2,361,829	0	0
Loans to banks	45,148	45,148	0	45,148	0
Loans to customers	5,168,000	5,142,316	0	0	5,142,316
Other financial assets	51,062	51,296	0	0	51,296
Financial assets at amortised cost – debt securities	1,761,967	1,654,124	1,554,652	99,472	0
Financial liabilities					
Deposits from banks and central banks	13,677	13,675	0	0	13,675
Deposits from customers	8,547,087	8,538,537	0	0	8,538,537
Loans from banks and central banks	164,996	164,996	0	0	164,996
Loans from customers	0	0	0	0	0
Debt securities	571,782	523,056	0	0	523,056
Other financial liabilities	55,808	55,808	0	0	55,808

All amounts in EUR thousand unless otherwise stated.

Nova KBM					31/12/2021
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash, cash balances at the central bank and demand deposits at banks	2,884,479	2,884,479	2,884,479	0	0
Loans to banks	78,325	78,608	0	78,608	0
Loans to customers	4,771,122	4,809,222	0	0	4,809,222
Other financial assets	25,234	25,234	0	0	25,234
Financial assets at amortised cost – debt securities	600,925	602,148	570,166	31,982	0
Financial liabilities					
Deposits from banks and central banks	4,976	4,976	0	4,976	0
Deposits from customers	8,179,518	8,183,744	0	8,183,744	0
Loans from banks and central banks	346,301	346,965	0	346,965	0
Loans from customers	0	0	0	0	0
Debt securities	267,495	267,495	0	267,495	0
Other financial liabilities	67,412	67,412	0	0	67,412

The change in the fair value of financial assets and liabilities measured at amortized costs, compared to previous years is largely driven by the rise in market interest rates, which significantly reduced the fair value of assets and liabilities. The rise in interest rates had the largest impact on the portfolio of loans to customers.

The Group calculates the fair value of the loans to customers at amortised costs by discounting expected cash flows, where the risk free curve increased by market risk premia is used as discount curve. For financial liabilities contractual cash flows are discounted, where the market curve for the rating class of the Group is used as the discount curve.

11 REPORTING BY OPERATING AND GEOGRAPHICAL SEGMENTS

11.1 ANALYSIS OF RESULTS BY OPERATING SEGMENTS

A segment is a distinct, integral part of the Group that deals with products or services (business segment), and is exposed to risks and returns that differ from those in other segments. With the aim of effective governance, the Group is organised into the five following business segments based on the products and services it offers:

Corporate banking includes Nova KBM's operations with large and medium enterprises in Slovenia.
Retail banking includes operations with individuals and micro companies included in Nova KBM's business network.
Financial markets include all treasury operations, investment banking and international banking.
Leasing includes operations of subsidiary leasing company.
Other includes bank's categories whose operating results cannot be allocated to individual segments, operations of subsidiary Aleja, results of operations with workout and custody services.

The Management Board controls the operating results of business segments for the purpose of making investment decisions and assessing performance. The performance of a segment is defined based on the profit or loss it generates, which differs in certain aspects from the operating results disclosed in the consolidated financial statements.

Assets and liabilities and income and expenses are disclosed by operating segment with regard to client segmentation, which is set out in internal rules regarding business segmentation for the Nova KBM Group. Disclosed in the segment 'Other' are the Bank's operations relating to the management of non-performing loans, property, plant and equipment and intangible assets, taxes and other assets, issued debt securities, other liabilities and equity of the Bank, and the operations of subsidiaries.

The system of opportunity interest rates also impacts results by operating segment. That system is based on alternative/opportunity interest rates, which are defined for all material interest-bearing assets and liabilities at the contract level. Opportunity interest rates serve as the basis for calculating opportunity interest margins for segments of assets as the difference between actual income generated and opportunity income, and for segments of liabilities as the difference between opportunity expenses and actual expenses incurred. Positive and negative opportunity interest rates serve as the basis for determining the positive or negative contribution of specific segments to operating results.

Also affecting results are relations between Group companies and transactions between operating segments for the purpose of accounting for income effects (internal transfers/allocation of indirect costs to all business segments, the charging of overhead costs to commercial business segments, and internal transfers of income effects between business segments).

Business segments are reported to the Bank's Management Board, while increases in non-current assets are not monitored on the business segment level.

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group						1/1/2022 – 31/12/2022
	Corporate	Retail	Financial markets	Leasing	Other	Total
Net interest income	**33,833**	**63,718**	**43,790**	**23,141**	**13,243**	**177,725**
External net interest	39,207	72,081	35,824	39,192	(8,579)	177,725
Net interest between segments	(5,375)	(8,363)	7,967	(16,051)	21,821	0
Net fee and commission income	**28,310**	**55,600**	**2,571**	**1,934**	**1,142**	**89,557**
Other net income/loss	3,610	2,776	475	5,046	6,707	18,615
Net income/expenses	**65,753**	**122,094**	**46,836**	**30,122**	**21,092**	**285,897**
Administrative costs	(22,592)	(66,547)	(7,568)	(14,159)	(25,323)	(136,188)
Depreciation and amortisation	(2,125)	(6,862)	(1,689)	(5,997)	(89)	(16,761)
Profit/loss before provisions	**41,035**	**48,686**	**37,580**	**9,966**	**(4,320)**	**132,947**
Cash contributions to resolution funds and deposit guarantee schemes	(3,893)	(4,255)	(4,711)	0	(164)	(13,022)
Provisions and impairments	792	(1,211)	(3,005)	(4,231)	(6,418)	(14,072)
Profit/loss before tax from continuing operations	**37,934**	**43,220**	**29,865**	**5,735**	**(10,901)**	**105,853**
Tax (expense)/income related to profit from continuing operations	0	0	0	(1,781)	2,014	233
Net profit/loss for the financial year	**37,934**	**43,220**	**29,865**	**3,954**	**(8,887)**	**106,086**
Total assets by segments	1,594,109	2,050,165	5,606,339	842,712	319,747	10,413,071
Investments in associates	0	0	0	0	5,529	5,529
Total liabilities by segments	1,793,999	6,671,720	196,286	21,928	736,100	9,420,034

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group						1/1/2021 – 31/12/2021
	Corporate	Retail	Financial markets	Leasing	Other	Total
Net interest income	**31,346**	**50,513**	**40,107**	**20,340**	**1,919**	**144,226**
External net interest	38,443	67,359	10,872	30,202	(2,651)	144,226
Net interest between segments	(7,097)	(16,846)	29,235	(9,862)	4,570	0
Net fee and commission income	**23,593**	**56,166**	**3,131**	**1,290**	**2,480**	**86,660**
Other net income/loss	2,756	1,723	6,521	4,352	17,828	33,180
Net income/expenses	**57,695**	**108,403**	**49,758**	**25,982**	**22,228**	**264,066**
Administrative costs	(24,001)	(74,162)	(10,790)	(11,356)	(21,709)	(142,018)
Depreciation and amortisation	(1,931)	(6,777)	(1,598)	(5,083)	(158)	(15,548)
Profit/loss before provisions	**31,764**	**27,464**	**37,370**	**9,543**	**360**	**106,501**
Cash contributions to resolution funds and deposit guarantee schemes	(2,689)	(2,640)	(2,381)	0	(236)	(7,946)
Provisions and impairments	17,151	(6,646)	1,944	(4,782)	6,918	14,585
Profit/loss before tax from continuing operations	**46,226**	**18,177**	**36,932**	**4,761**	**7,042**	**113,139**
Tax (expense)/income related to profit from continuing operations	0	0	0	(1,513)	968	(545)
Net profit/loss for the financial year	**46,226**	**18,177**	**36,932**	**3,248**	**8,011**	**112,594**
Total assets by segments	1,641,672	1,992,435	5,474,865	603,351	246,070	9,958,393
Investments in associates	0	0	0	0	5,448	5,448
Total liabilities by segments	1,796,570	6,307,729	351,822	12,622	461,618	8,930,360

All amounts in EUR thousand unless otherwise stated.

11.2 ANALYSIS OF RESULTS BY GEOGRAPHICAL SEGMENTS

					31/12/2022
	Non-current assets	Number of employees	Turnover	Profit or loss before tax	Income tax
Slovenia	**299,015**	**1,648**	**375,736**	**118,721**	**557**
Croatia	**211**	**34**	**3,430**	**1,089**	**(325)**
Banking	**249,497**	**1,458**	**327,774**	**113,560**	**2,023**
Nova KBM d.d.	249,497	1,458	327,774	113,560	2,023
Leasing operations	**49,272**	**208**	**48,997**	**6,120**	**(1,781)**
Summit Leasing Slovenija d.o.o.	49,061	174	45,567	5,031	(1,456)
Mobil Leasing d.o.o.	211	34	3,430	1,089	(325)
Factoring	**457**	**16**	**2,395**	**130**	**(10)**
ALEJA finance d.o.o.	457	16	2,395	130	(10)
Total	**299,226**	**1,682**	**379,166**	**119,810**	**232**

The column "Turnover" includes interest income, dividend income, and fee and commission income by country of the registered office of each member company of the Nova KBM Group in the period concerned.

The item "Non-current assets" comprises property, plant and equipment, intangible assets, investment property, and long-term equity investments in subsidiaries at the reporting date. The Group has received no public subsidies.

The number of employees in the reporting year is expressed in full-time equivalent terms.

					31/12/2021
	Non-current assets	Number of employees	Turnover	Profit or loss before tax	Income tax
Slovenia	**247,255**	**1,808**	**310,285**	**113,102**	**(545)**
Banking	**229,174**	**1,649**	**273,592**	**107,964**	**968**
Nova KBM d.d.	229,174	1,649	273,592	107,964	968
Leasing operations	**18,081**	**159**	**36,693**	**5,138**	**(1,513)**
Summit Leasing Slovenija d.o.o.	18,081	159	36,693	5,138	(1,513)
Total	**247,255**	**1,808**	**310,285**	**113,102**	**(545)**

All amounts in EUR thousand unless otherwise stated.

Notes to the income statement items

12 INTEREST INCOME AND INTEREST EXPENSES

12.1 ANALYSIS OF INTEREST BY MARKET SEGMENTS

Nova KBM Group		2022		2021
	Income	Expenses	Income	Expenses
Non-financial companies	69,684	566	57,924	255
Government	8,024	108	4,016	223
Banks	3,847	14,338	1,739	6,779
Central bank	7,673	4,825	810	9,235
Other financial organisations	11,956	3,990	7,946	3,078
Households	101,123	755	92,329	968
Total	**202,307**	**24,582**	**164,764**	**20,538**
Net interest income		**177,725**		**144,226**

Nova KBM		2022		2021
	Income	Expenses	Income	Expenses
Non-financial companies	55,305	566	49,901	255
Government	8,015	108	4,006	223
Banks	3,847	14,242	1,739	6,758
Central bank	7,673	4,825	810	9,235
Other financial organisations	27,579	3,966	17,796	3,040
Households	74,249	757	70,113	968
Total	**176,668**	**24,464**	**144,365**	**20,479**
Net interest income		**152,204**		**123,886**

All amounts in EUR thousand unless otherwise stated.

12.2 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSES BY TYPE OF ASSETS AND LIABILITIES

Nova KBM Group	2022		2021	
	Current	Non-current	Current	Non-current
Income from financial assets at amortised cost and financial assets at fair value through other comprehensive income	**31,413**	**169,226**	**17,305**	**144,910**
Financial assets at fair value through other comprehensive income	0	2,951	7	2,522
Financial assets at amortised cost	23,671	165,994	17,216	141,495
– from loans	23,420	157,168	17,177	138,245
– from debt securities	251	8,826	39	3,250
Other assets	7,696	96	32	82
Interest from financial liabilities resulting from negative interest rate	46	185	50	811
Other income	**1,668**	**0**	**2,549**	**0**
Financial assets held for trading	1,656	0	2,252	0
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	297	0
Derivatives – hedge accounting	12	0	0	0
Total by maturity	**33,081**	**169,226**	**19,854**	**144,910**
Total	**202,307**		**164,764**	
Interest expenses	**8,116**	**16,466**	**12,326**	**8,212**
Financial liabilities held for trading	1,482	0	2,095	0
Financial liabilities at amortised cost	535	15,377	215	7,723
Derivatives - hedge accounting	429	0	0	0
Interest from financial assets resulting from negative interest rate	5,670	1,089	10,016	489
Total by maturity	**8,116**	**16,466**	**12,326**	**8,212**
Total	**24,582**		**20,538**	
Net interest income	**177,725**		**144,226**	

All amounts in EUR thousand unless otherwise stated.

Nova KBM	2022		2021	
	Current	Non-current	Current	Non-current
Income from financial assets at amortised cost and financial assets at fair value through other comprehensive income	**26,826**	**148,174**	**16,262**	**125,554**
Financial assets at fair value through other comprehensive income	0	2,951	7	2,522
Financial assets at amortised cost	19,084	145,038	16,173	122,221
– from loans	18,833	136,212	16,134	118,971
– from debt securities	251	8,826	39	3,250
Other assets	7,696	0	32	0
Interest from financial liabilities resulting from negative interest rate	46	185	50	811
Other income	**1,668**	**0**	**2,549**	**0**
Financial assets held for trading	1,656	0	2,252	0
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	297	0
Derivatives – hedge accounting	12	0	0	0
Total by maturity	**28,494**	**148,174**	**18,811**	**125,554**
Total	**176,668**		**144,365**	
Interest expenses	**8,033**	**16,431**	**12,326**	**8,153**
Financial liabilities held for trading	1,482	0	2,095	0
Financial liabilities at amortised cost	452	15,342	215	7,664
Derivatives - hedge accounting	429	0	0	0
Interest from financial assets resulting from negative interest rate	5,670	1,089	10,016	489
Total by maturity	**8,033**	**16,431**	**12,326**	**8,153**
Total	**24,464**		**20,479**	
Net interest income	**152,204**		**123,886**	

In 2022, €3,691 thousand of interest expenses on financial liabilities measured at amortised cost referred to the Bank's subordinated bonds issued (in 2021 €3,699 thousand).

All amounts in EUR thousand unless otherwise stated.

13 DIVIDEND INCOME

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Dividends from non-trading financial assets mandatorily at fair value through profit or loss	**1,085**	**813**	**1,085**	**813**
– from shares and interests of other issuers	1,085	813	1,085	813
Dividends from investments in subsidiaries, associates and joint ventures	**0**	**0**	**14,903**	**322**
– from equity investment in subsidiaries	0	0	14,420	0
– from equity investment in associates	0	0	483	322
Total	**1,085**	**813**	**15,988**	**1,135**

14 FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSES

14.1 ANALYSIS OF FEES AND COMMISSIONS BY TYPE

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Fee and commission income	**143,090**	**134,390**	**135,118**	**128,092**
– Guarantees	4,728	4,233	4,728	4,233
– Payment transactions	51,089	51,686	51,493	51,686
– Transaction account management	27,898	25,129	27,898	25,129
– Card and ATM operations	31,911	31,875	31,911	31,875
– Brokerage and agency services	8,543	8,156	7,894	7,406
– Transactions in securities for customers	2,530	3,452	2,530	3,452
– Lending operations	8,981	7,224	1,254	1,542
– Other services	7,410	2,635	7,410	2,769
Fee and commission expenses	**53,533**	**47,730**	**47,073**	**42,588**
– Card and ATM operations	8,857	9,192	8,857	9,192
– Brokerage and agency services	8,754	7,491	2,375	2,552
– Stock exchange transactions and other transactions in securities	1,425	1,251	1,425	1,251
– Payment transactions	31,575	29,767	31,494	29,571
– Other services	2,922	29	2,922	22
Net fee and commission income	**89,557**	**86,660**	**88,045**	**85,504**

All amounts in EUR thousand unless otherwise stated.

14.2 ANALYSIS OF FEE AND COMMISSION INCOME BY CUSTOMER SEGMENT

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Corporate, financial markets and other	77,099	72,054	76,090	71,159
Retail	65,991	62,336	59,028	56,933
Total fee and commission income by segment	**143,090**	**134,390**	**135,118**	**128,092**

14.3 FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSES RELATING TO INVESTMENT SERVICES AND TRANSACTIONS FOR CUSTOMERS (FIDUCIARY ACTIVITIES)

	Nova KBM Group	
	2022	2021
Fee and commission income related to investment services and transactions and ancillary investment services and transactions for customers	**4,465**	**5,401**
Receipt, transmission and execution of orders	1,576	2,427
Custodian and related services	2,723	2,752
Administration of book-entry securities accounts of customers	166	222
Fee and commission expenses related to investment services and transactions and ancillary investment services and transactions for customers	**1,022**	**903**
Fees and commissions relating to the Central Securities Clearing Corporation and similar entities	953	871
Fees and commissions relating to the stock exchange and similar entities	69	32
Total	**3,443**	**4,498**

The Bank discloses above information pursuant to the Regulation on the Books of Account and Annual Reports of Banks and Saving Banks issued by the Bank of Slovenia.

Those fee and commission income are part of income from transactions in securities for customers and other services, fee and commission expenses are part of stock exchange transactions and other transactions in securities in Note 14.1.

All amounts in EUR thousand unless otherwise stated.

15 NET GAINS ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Nova KBM Group and Nova KBM			2022			2021
	Gains	Losses	Net gains/(losses)	Gains	Losses	Net gains
Financial assets measured at fair value through other comprehensive income	3	998	(995)	102	19	83
Financial assets measured at amortised cost	914	217	697	2,087	1,185	902
– loans	914	166	748	2,087	1,185	902
– debt securities	0	51	(51)	0	0	0
Financial liabilities measured at amortised cost	27	0	27	44	0	44
Total	**944**	**1,215**	**(271)**	**2,233**	**1,204**	**1,029**

16 NET GAINS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

Nova KBM Group and Nova KBM			2022			2021
	Gains	Losses	Net gains	Gains	Losses	Net gains/(losses)
Trading in debt securities	1,832	595	1,237	906	305	601
Trading in foreign exchange (purchase/sale)	12,238	6,443	5,795	5,378	1,458	3,920
Trading in derivatives	15,127	13,027	2,100	6,232	7,013	(781)
– futures/forwards	3,552	3,313	239	1,895	1,837	58
– options	3,594	3,474	120	984	983	1
– swaps	6,249	6,240	9	3,131	3,242	(111)
– other derivatives	1,732	0	1,732	222	951	(729)
Total	**29,197**	**20,065**	**9,132**	**12,516**	**8,776**	**3,740**

The Group uses derivatives (futures/forwards) held for trading to economically hedge its exposure to foreign exchange risk. Their effects are linked to the effects arising from exchange differences.

All amounts in EUR thousand unless otherwise stated.

17 NET GAINS ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

Nova KBM Group and Nova KBM			2022			2021
	Gains	Losses	Realised (losses)	Gains	Losses	Realised gains
Non-trading financial assets mandatorily at fair value through profit or loss	5,558	7,494	(1,936)	22,913	6,855	16,058
Total	**5,558**	**7,494**	**(1,936)**	**22,913**	**6,855**	**16,058**

Material exposure restructured in prior years and classified as non-performing, was repaid in April 2021. This resulted in a positive valuation effect in 2021.

18 OTHER NET OPERATING INCOME

		Nova KBM Group		Nova KBM
	2022	2021	2022	2021
Income	**13,896**	**15,173**	**6,522**	**7,335**
Property, plant, equipment and investment property leased out under operating leases	9,585	8,692	3,944	3,654
Other operating income	4,311	6,481	2,578	3,681
Expenses	**3,280**	**4,267**	**849**	**629**
Property, plant, equipment and investment property leased out under operating leases	1,138	1,070	67	3
Expenses from seized real estate	76	137	76	137
Other operating expenses	2,066	3,060	706	489
Total	**10,616**	**10,906**	**5,673**	**6,706**

All amounts in EUR thousand unless otherwise stated.

19 ADMINISTRATIVE EXPENSES

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Staff costs	**87,969**	**92,174**	**77,037**	**84,256**
Gross salaries	68,297	70,696	59,574	64,589
Social security contributions	4,483	4,679	3,348	3,685
Pension insurance contributions	4,117	4,432	4,026	4,432
Transportation allowances	1,191	947	1,042	842
Meal allowances	2,348	2,351	2,087	2,141
Costs related to members of the Supervisory Board	659	677	659	677
Severance benefits and early retirement payments	949	2,096	949	2,096
Supplementary pension insurance premiums	1,590	1,725	1,448	1,604
Pay for annual leave	3,853	4,057	3,457	3,730
Solidarity aid and loyalty bonuses	48	23	48	23
Other staff costs	434	491	399	437
General and administrative costs	**48,219**	**49,844**	**43,331**	**46,406**
Cost of material	408	477	315	406
Cost of energy	2,652	1,529	2,402	1,341
Cost of specialised text books	38	53	34	49
Other costs	377	613	373	609
Business premise rentals	2,184	2,693	2,121	2,672
Postal costs	4,048	4,267	3,632	3,904
Transport costs	176	158	10	10
Information system costs	3,242	3,033	3,147	3,033
Costs of other services	7,360	7,655	6,986	7,394
Business travel expenses	348	256	140	104
Maintenance costs of fixed assets	11,466	11,489	9,616	9,954
Advertising costs	3,688	3,903	3,492	3,738
Entertainment costs	636	366	318	231
Consulting, auditing, accounting and other services	8,702	10,380	8,047	10,157
School fees, scholarships and other training costs	673	720	646	695
Cost of insurance	1,465	1,465	1,381	1,360
Other administrative costs	756	787	671	749
Total administrative costs	**136,188**	**142,018**	**120,368**	**130,662**
Cash contributions to resolution funds and deposit guarantee schemes	**13,022**	**7,946**	**13,022**	**7,946**

The Group continued its cost optimisation activities in 2022 which resulted in a decrease in administrative expenses compared to 2021. In 2022, in line with the cost optimisation plan, the Bank recognised restructuring costs (extraordinary costs, consulting service costs of the Bank and the Group) in the amount of €2,469 thousand (€5,222 thousand in 2021). At the Group level, restructuring costs equalled €2,485 thousand in 2022 (€5,317 thousand in 2021).

All amounts in EUR thousand unless otherwise stated.

Remuneration of auditors

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Audit of the annual report	467	252	366	232
Other assurance services	107	157	83	142
Other non-audit services	0	18	0	18
Total	**574**	**427**	**449**	**392**

In addition to the services included in the above table, the certified auditor also provided certain services in connection with the issue of subordinated instruments in 2021, in the amount of €90 thousand. Payment was included in the calculation of the effective interest rate on subordinated instruments issued at the beginning of 2022.

20 DEPRECIATION AND AMORTISATION

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Depreciation of property, plant and equipment	10,889	10,437	5,563	5,863
Amortisation of intangible assets	5,872	5,111	5,480	4,859
Total	**16,761**	**15,548**	**11,043**	**10,722**

21 PROVISIONS

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Provisions for restructuring costs	46	832	46	832
Provisions for tax claims and other pending legal issues	179	544	179	544
Provisions for pensions and similar benefits	(393)	(429)	(370)	(387)
Provisions for off-balance sheet liabilities	1,229	3,775	1,177	3,813
Other provisions	17	0	17	0
Total	**1,078**	**4,722**	**1,049**	**4,802**

All amounts in EUR thousand unless otherwise stated.

22 IMPAIRMENTS

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Impairments of financial assets not measured at fair value through profit or loss	(15,150)	10,045	(11,390)	14,798
Impairments of non-financial assets (real estate in inventory)	0	(182)	0	(182)
Total	**(15,150)**	**9,863**	**(11,390)**	**14,616**

22.1 (CREATION)/REVERSAL OF IMPAIRMENTS OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Financial assets measured at fair value through other comprehensive income	(24)	270	(24)	270
– debt securities	(24)	270	(24)	270
Financial assets measured at amortised cost	(15,126)	9,775	(11,366)	14,528
– debt securities	(1,171)	168	(1,171)	168
– demand deposits at banks	59	(11)	59	(11)
– loans and advances to banks	26	(26)	26	(26)
– loans to customers	(15,083)	8,574	(11,142)	13,316
– other financial assets	1,043	1,070	862	1,081
Total	**(15,150)**	**10,045**	**(11,390)**	**14,798**

Movements and other related disclosures in respect to impairments are disclosed in Chapter 9.

23 INCOME TAX ON CONTINUING OPERATIONS

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Income tax on continuing operations	(12,229)	(11,271)	(9,240)	(9,387)
Deferred tax relating to continuing operations	12,462	10,726	11,263	10,355
Total	**233**	**(545)**	**2,023**	**968**

23.1 RECONCILIATION OF EFFECTIVE TAX RATE

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Profit before tax	105,853	113,139	113,560	107,964
Income tax calculated using the official tax rate	(20,112)	(21,496)	(21,576)	(20,513)
19% from items reducing the tax base	2,829	5,184	4,380	4,456
19% from items increasing the tax base	(6,105)	(6,222)	(3,103)	(4,525)
Tax reliefs used and tax loss coverage	11,050	11,263	10,968	11,195
Tax from preceding years	91	0	91	0
Other adjustments	12,462	10,726	11,263	10,355
Effect of different tax rates between states	18	0	0	0
Total income taxes	**233**	**(545)**	**2,023**	**968**

Most of the Group's non-taxable income for 2022 relates to the reversal of impairments that were not recognised for tax purposes in the past and tax-exempt dividends received.

The Parent Bank also used €53,420 thousand of past tax loss and €4,305 thousand of current tax relief in its 2022 income tax statement.

Other adjustments relate to net deferred taxes, which mostly resulted from higher future taxable income planned in 2022.

The prescribed income tax rate is 19%. The effective income tax rate of the Parent Bank for 2022 was -1.7%, and the effective income tax rate of the Group for 2022 was -0.22%.

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records covering the five-year period subsequent to the reported tax year and may impose additional tax assessments and penalties. The Group has no open tax audits.

24 BASIC AND DILUTED EARNINGS PER SHARE

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Net profit for the financial year (€000)	106,086	112,594	115,583	108,932
Weighted average number of ordinary no-par-value shares	10,000,000	10,000,000	10,000,000	10,000,000
Basic earnings per share/diluted earnings per share (€)	**10.61**	**11.26**	**11.56**	**10.89**

Basic earnings per share is calculated as the ratio between the net profit reported for the period and the weighted average number of ordinary no-par-value shares.

All amounts in EUR thousand unless otherwise stated.

Notes to the statement of financial position items

25 CASH IN HAND, CASH BALANCES AT THE CENTRAL BANK, AND DEMAND DEPOSITS AT BANKS

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Cash in hand	172,181	153,738	172,181	153,738
Cash balances at the central bank	2,139,232	2,656,775	2,139,232	2,656,775
Gross demand deposits at banks	59,415	74,382	50,416	74,025
Allowance for impairment	(13)	(59)	0	(59)
Total - net demand deposits at banks	59,402	74,323	50,416	73,966
Total	**2,370,815**	**2,884,836**	**2,361,829**	**2,884,479**

In 2022, the Bank has been redirecting funds with the central bank towards growth in its debt securities portfolio and towards loan growth. The debt securities portfolio grew by EUR 568 million in 2022, while the non-bank customer loan portfolio grew by EUR 397 million.

Slovenian banks are required to maintain an obligatory reserve with the Bank of Slovenia relative to the volume and structure of deposits received. Nova KBM fulfils its obligatory reserve requirements. As at 31 December 2022, the obligatory reserve of Nova KBM amounted to €82,620 thousand.

25.1 CASH AND CASH EQUIVALENTS

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Cash in hand, cash balances at the central bank and demand deposits at banks	2,370,815	2,884,836	2,361,829	2,884,479
Loans to banks	18,963	60,345	18,963	60,345
Total	**2,389,778**	**2,945,181**	**2,380,792**	**2,944,824**

All amounts in EUR thousand unless otherwise stated.

26 FINANCIAL ASSETS HELD FOR TRADING

Nova KBM Group and Nova KBM	31/12/2022	31/12/2021
Derivatives	**8,799**	**3,707**
– forwards	379	174
– options	4,369	657
– swaps	4,051	2,876
Debt securities	**189**	**0**
Other financial assets	**0**	**10**
Total	**8,988**	**3,717**

26.1 DERIVATIVES HELD FOR TRADING

Nova KBM Group and Nova KBM		31/12/2022			31/12/2021		
Type of risk	Type of derivative	Book value taken to the statement of financial position		Off-balance sheet amount	Book value taken to the statement of financial position		Off-balance sheet amount
		Assets	Liabilities		Assets	Liabilities	
Interest rate risk	Interest rate swaps	4,051	3,803	118,786	2,876	2,630	409,049
Interest rate risk	Options	4,369	4,369	101,306	657	657	86,402
Equity instrument price risk	Futures contracts	0	0	0	0	1,299	2,219
Currency risk	Currency forward	379	362	34,588	174	136	62,173
Total		**8,799**	**8,534**	**254,680**	**3,707**	**4,722**	**559,843**

All amounts in EUR thousand unless otherwise stated.

27 NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Equity instruments	11,177	23,876	11,161	23,876
Total	**11,177**	**23,876**	**11,161**	**23,876**

The decrease in non-trading financial assets mandatorily at fair value through profit or loss in 2022 was mainly due to the sale of equity instruments (EUR 15.4 million in total).

27.1 MOVEMENTS IN NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

Nova KBM Group 2022	Equity instruments	Debt securities	Loans and advances	Total
As at 1/1	**23,876**	**0**	**0**	**23,876**
Increase during the year	**5,563**	**0**	**0**	**5,563**
Change in group	16	0	0	16
Change in fair value	3,982	0	0	3,982
Purchases	0	0	0	0
Reclassification	1,565	0	0	1,565
Decrease during the year	**(18,262)**	**0**	**0**	**(18,262)**
Change in fair value	(6,054)	0	0	(6,054)
Sale	(11,203)	0	0	(11,203)
Other	(1,005)	0	0	(1,005)
As at 31/12	**11,177**	**0**	**0**	**11,177**

All amounts in EUR thousand unless otherwise stated.

Nova KBM 2022	Equity instruments	Debt securities	Loans and advances	Total
As at 1/1	**23,876**	**0**	**0**	**23,876**
Increase during the year	**5,547**	**0**	**0**	**5,547**
Change in fair value	3,982	0	0	3,982
Purchases	0	0	0	0
Reclassification	1,565	0	0	1,565
Decrease during the year	**(18,262)**	**0**	**0**	**(18,262)**
Change in fair value	(6,054)	0	0	(6,054)
Sale	(11,203)	0	0	(11,203)
Other	(1,005)	0	0	(1,005)
As at 31/12	**11,161**	**0**	**0**	**11,161**

Nova KBM Group and Nova KBM 2021	Equity instruments	Debt securities	Loans and advances	Total
As at 1/1	**21,305**	**0**	**41,186**	**62,491**
Increase during the year	**7,083**	**5,128**	**16,033**	**28,244**
Change in fair value	6,242	70	8,486	14,798
Purchases and withdrawals*	0	5,058	0	5,058
Reclassification	841	0	7,547	8,388
Decrease during the year	**(4,512)**	**(5,128)**	**(57,219)**	**(66,859)**
Change in fair value	(187)	(35)	(6,192)	(6,414)
Sale and repayments*	(4,051)	(5,093)	(51,027)	(60,171)
Other	(274)	0	0	(274)
As at 31/12	**23,876**	**0**	**0**	**23,876**

* Increases and decreases include withdrawals and repayments of revolving loans.

All amounts in EUR thousand unless otherwise stated.

28 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

28.1 ANALYSIS BY TYPE AND MARKET SEGMENTS

Nova KBM Group and Nova KBM	31/12/2022	31/12/2021
Equity instruments	**47,842**	**50,036**
Government	47,728	49,946
Other financial organisations	114	90
Debt securities	**653,029**	**1,243,822**
Government	464,514	755,696
Banks	128,034	351,888
Other financial organisations	34,360	80,599
Non-financial companies	26,121	55,639
Total	**700,871**	**1,293,858**

Debt securities decreased due to repayments and higher concentration on hold to collect business model for investing in current period which is reflected in increase in debt securities at amortised cost as disclosed in Note 29.1 Debt securities.

28.2 MOVEMENTS IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Nova KBM Group and Nova KBM 2022	Equity instruments	Debt securities	Total
As at 1/1	**50,036**	**1,243,822**	**1,293,858**
Acquisition or recognition of new financial assets	0	134,468	134,468
Derecognition of fin. assets upon sale or maturity	0	(682,564)	(682,564)
Net revaluation through equity	(2,194)	(40,664)	(42,858)
Net impairment	0	(24)	(24)
Net gains/(losses) on sale	0	(995)	(995)
Interest	0	2,951	2,951
Valuation in profit or loss (Note 30.1)	0	(6,322)	(6,322)
Other	0	2,357	2,357
As at 31/12	**47,842**	**653,029**	**700,871**

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group and Nova KBM 2021	Equity instruments	Debt securities	Total
As at 1/1	**50,461**	**1,789,131**	**1,839,592**
Acquisition or recognition of new financial assets	0	83,012	83,012
Derecognition of fin. assets upon sale or maturity	(31)	(621,187)	(621,218)
Net revaluation through equity	(408)	(10,554)	(10,962)
Net impairment	0	270	270
Net gains/(losses) on sale	14	83	97
Interest	0	2,529	2,529
Other	0	538	538
As at 31/12	**50,036**	**1,243,822**	**1,293,858**

The Nova KBM Group chose the option to measure equity financial instruments held for strategic reasons (equity interest due to business cooperation) at fair value through other comprehensive income.

Nova KBM Group and Nova KBM	31/12/2022	31/12/2021
Single Bank Resolution Fund	47,728	49,946
SWIFT LA HULPE	114	90
Total	**47,842**	**50,036**

Movements in impairments and gross amounts of debt securities measured at fair value through other comprehensive income for 2022 and 2021 financial years are presented in Note 9.1.6.

All amounts in EUR thousand unless otherwise stated.

29 FINANCIAL ASSETS AT AMORTISED COST

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Debt securities	1,761,967	600,925	1,761,967	600,925
Loans to banks	45,148	78,325	45,148	78,325
Loans to customers	5,241,176	4,857,886	5,168,000	4,771,122
Other financial assets	51,536	25,393	51,062	25,234
Total	**7,099,827**	**5,562,529**	**7,026,177**	**5,475,606**

Movements in impairments and gross amounts for the 2022 and 2021 financial years are presented in Note 9.1.6.

29.1 DEBT SECURITIES

Nova KBM Group and Nova KBM	31/12/2022	31/12/2021
Short term debt securities	135,788	0
Long term debt securities	1,627,926	601,501
Total - gross amount	**1,763,714**	**601,501**
Allowance for impairment	**(1,747)**	**(576)**
Total - net amount	**1,761,967**	**600,925**

The increase in debt securities is discussed in Note 28 Financial assets at fair value through other comprehensive income.

29.2 LOANS TO BANKS

Nova KBM Group and Nova KBM	31/12/2022	31/12/2021
Short term loans	18,965	60,350
Long term loans	26,183	18,003
Total - gross amount	**45,148**	**78,353**
Allowance for impairment	**0**	**(28)**
Total - net amount	**45,148**	**78,325**

All amounts in EUR thousand unless otherwise stated.

29.3 LOANS TO CUSTOMERS

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Short term loans	564,403	443,488	493,657	423,203
Long term loans	4,775,243	4,498,658	4,750,889	4,418,118
Claims under guarantees	281	563	281	563
Total - gross amount	**5,339,927**	**4,942,709**	**5,244,827**	**4,841,884**
Allowance for impairment	**(98,751)**	**(84,823)**	**(76,827)**	**(70,762)**
Total - net amount	**5,241,176**	**4,857,886**	**5,168,000**	**4,771,122**

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Loans	4,355,402	4,236,041	5,027,615	4,647,145
Overdrafts	159,389	141,850	159,389	141,850
Payment card business	54,935	50,438	54,935	50,438
Factoring	52,495	0	0	0
Finance leases	714,818	511,929	0	0
Financial guarantees	281	563	281	563
Subordinated loans	0	0	0	0
Deposits	2,607	1,888	2,607	1,888
Total - gross amount	**5,339,927**	**4,942,709**	**5,244,827**	**4,841,884**
Allowance for impairment	**(98,751)**	**(84,823)**	**(76,827)**	**(70,762)**
Total - net amount	**5,241,176**	**4,857,886**	**5,168,000**	**4,771,122**

29.4 OTHER FINANCIAL ASSETS

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Claims for fees and commissions	1,339	4,008	1,339	4,031
Accounts receivables	970	830	214	140
Other financial assets	50,110	21,931	50,018	21,885
– of which claims accounted for	33,322	11,173	33,320	11,162
– of which other	16,788	10,758	16,698	10,723
Total – gross amount	**52,419**	**26,769**	**51,571**	**26,056**
Allowance for impairment	**(883)**	**(1,376)**	**(509)**	**(822)**
Total – net amount	**51,536**	**25,393**	**51,062**	**25,234**

As at 31 December 2022, claims in the Group's accounts were mostly made of claims accounted for in respect of transactions with households (transactions under credit and charge cards).

All amounts in EUR thousand unless otherwise stated.

30 DERIVATIVES - HEDGE ACCOUNTING

30.1 FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING RECOGNISED IN PROFIT OR LOSS

Nova KBM Group and Nova KBM	31/12/2022	31/12/2021
Fair value hedge		
Net effects from hedging instrument – interest rate swaps for micro hedge	6,321	0
Net effects from hedged bonds measured at fair value through OCI – micro hedge	(6,322)	0
Total	**(1)**	**0**

30.2 DERIVATIVES – HEDGE ACCOUNTING

Nova KBM Group and Nova KBM		31/12/2022			31/12/2021		
Type of risk	Type of derivative	Book value taken to the statement of financial position		Off-balance sheet amount	Book value taken to the statement of financial position		Off-balance sheet amount
		Assets	Liabilities		Assets	Liabilities	
Fair value risk	Interest rate swaps	5,983	0	88,920	0	0	0
Total		**5,983**	**0**	**88,920**	**0**	**0**	**0**

Nova KBM Group and Nova KBM	31/12/2022				31/12/2021			
	Carrying amount of the hedged item		Accumulated amount of FV adjustments on the hedged item		Carrying amount of the hedged item		Accumulated amount of FV adjustments on the hedged item	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Micro fair value hedge								
Fixed rate bonds measured at FVOCI	79,512	0	(6,322)	0	0	0	0	0
Total	**79,512**	**0**	**(6,322)**	**0**	**0**	**0**	**0**	**0**

All amounts in EUR thousand unless otherwise stated.

31 EQUITY INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Equity investments in other Group companies				
– equity investments in Group's subsidiary financial organisations	0	0	117,417	109,417
– equity investments in Group's subsidiary non-financial organisations	0	6,220	21,220	6,220
– equity investments in Group's associated financial organisations	5,529	5,448	4,909	4,909
Total	**5,529**	**11,668**	**143,546**	**120,546**

31.1 MOVEMENTS IN EQUITY INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
As at 1/1	**11,668**	**4,954**	**120,546**	**114,326**
Increase during the year	**81**	**6,714**	**55,000**	**6,220**
– acquisition of a subsidiary	0	6,220	0	6,220
– recapitalization	0	0	55,000	0
– other (equity method)	81	494	0	0
Decrease during the year	**(6,220)**	**0**	**(32,000)**	**0**
– decrease (return of subsequent payments)	0	0	(32,000)	0
– sale	0	0	0	0
– other (Note 6.2)	(6,220)	0	0	0
As at 31/12	**5,529**	**11,668**	**143,546**	**120,546**

Acquisition of ALEJA finance d.o.o. by the parent bank Nova KBM and acquisition of Mobil Leasing d.o.o. by the bank's subsidiary Summit Leasing Slovenija d.o.o. are described in more detail in Notes 6.2 and 6.3.

All amounts in EUR thousand unless otherwise stated.

31.2 INFORMATION ABOUT COMPANIES IN WHICH THE BANK HOLDS AT LEAST A 20-PERCENT EQUITY STAKE

31/12/2022

Company name	Activity	Total equity	Net profit	Equity attributable to Nova KBM	Acquisition cost	Nova KBM's interest (in %)	Nova KBM's voting rights (in %)	Investment value
Subsidiary companies								
Summit Leasing Slovenija Group (SLS Group)	Leasing	104,205	4,522	104,205	117,417	100	100	117,417
ALEJA finance d.o.o.	Factoring	18,201	120	18,201	21,220	100	100	21,220
Associated company								
Bankart d.o.o.	Processing of payment instruments	21,308	1,724	6,226	4,909	29.22	29.22	4,909
Total		**143,714**	**6,366**	**128,632**	**143,546**			**143,546**

31/12/2022

Company name	Activity	Total equity	Net profit	Equity attributable to Nova KBM	Acquisition cost	Nova KBM's interest (in %)	Nova KBM's voting rights (in %)	Investment value
SLS Group								
Subsidiary companies								
Summit Leasing Slovenija d.o.o.	Leasing	103,165	3,574	103,165	117,417	100	100	117,417
Mobil Leasing d.o.o.	Leasing	23,441	765	23,441	24,946	100	100	24,946
Total		**126,606**	**4,339**	**126,606**	**142,363**			**142,363**

31/12/2021

Company name	Activity	Total equity	Net profit	Equity attributable to Nova KBM	Acquisition cost	Nova KBM's interest (in %)	Nova KBM's voting rights (in %)	Investment value
Subsidiary companies								
Summit Leasing Slovenija d.o.o.	Leasing	105,879	3,625	105,879	109,417	100	100	109,417
ALEJA finance d.o.o.	Factoring	3,067	331	3,067	6,220	100	100	6,220
Associated company								
Bankart d.o.o.	Processing of payment instruments	20,973	2,653	6,128	4,909	29.22	29.22	4,909
Total		**129,919**	**6,609**	**115,074**	**120,546**			**120,546**

All amounts in EUR thousand unless otherwise stated.

32 TANGIBLE ASSETS

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Property, plant and equipment	77,200	73,584	55,574	57,529
Investment property	25,443	25,443	25,443	25,443
Total	**102,643**	**99,027**	**81,017**	**82,972**

32.1 PROPERTY, PLANT AND EQUIPMENT

Nova KBM Group					
2022	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
As at 1/1	**82,946**	**12,469**	**44,462**	**1,167**	**141,044**
Change in group	799	375	268	0	1,442
Transfers between types of assets	1,006	5,562	(2,495)	(4,073)	0
Additions	0	126	37,789	2,911	40,826
Right-to-use additions (IFRS 16)	2,056	0	252	0	2,308
Disposals	(49)	(2,918)	(33,288)	0	(36,255)
Right-to-use disposals (IFRS 16)	(2,045)	0	(292)	0	(2,337)
Other changes	0	0	0	4	4
As at 31/12	**84,713**	**15,614**	**46,696**	**9**	**147,032**
Accumulated depreciation					
As at 1/1	**(35,929)**	**(8,903)**	**(22,628)**	**0**	**(67,460)**
Change in group	(485)	(358)	(201)	0	(1,044)
Transfers between types of assets	0	(1,830)	1,830	0	0
Additions	(5)	(32)	(54)	0	(91)
Right-to-use additions (IFRS 16)	(149)	0	(138)	0	(287)
Depreciation	(1,419)	(2,435)	(1,074)	0	(4,928)
Right-to-use depreciation (IFRS 16)	(999)	0	(4,962)	0	(5,961)
Disposals	18	2,846	1,637	0	4,501
Right-to-use disposals (IFRS 16)	1,020	0	4,418	0	5,438
As at 31/12	**(37,948)**	**(10,712)**	**(21,172)**	**0**	**(69,832)**
Book value at 1/1	**47,017**	**3,566**	**21,834**	**1,167**	**73,584**
Book value at 31/12	**46,765**	**4,902**	**25,524**	**9**	**77,200**

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group 2021	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
As at 1/1	**89,724**	**14,673**	**49,413**	**237**	**154,047**
Change in group	(116)	(1)	(5)	0	(122)
Transfers between types of assets	(4,801)	486	473	(1,864)	(5,706)
Additions	0	76	29,477	2,794	32,347
Right-to-use additions (IFRS 16)	762	0	0	0	762
Disposals	(1,254)	(1,304)	(34,776)	0	(37,334)
Right-to-use disposals (IFRS 16)	(1,369)	(1,461)	(120)	0	(2,950)
As at 31/12	**82,946**	**12,469**	**44,462**	**1,167**	**141,044**
Accumulated depreciation					
As at 1/1	**(38,110)**	**(8,476)**	**(27,193)**	**0**	**(73,779)**
Change in group	77	1	0	0	78
Transfers between types of assets	3,213	(5)	0	0	3,208
Additions	(563)	(399)	(445)	0	(1,407)
Right-to-use additions (IFRS 16)	(745)	(858)	0	0	(1,603)
Depreciation	(1,304)	(1,808)	(6,010)	0	(9,122)
Right-to-use depreciation (IFRS 16)	(1,168)	(102)	(45)	0	(1,315)
Disposals	1,302	1,283	10,904	0	13,489
Right-to-use disposals (IFRS 16)	1,369	1,461	161	0	2,991
As at 31/12	**(35,929)**	**(8,903)**	**(22,628)**	**0**	**(67,460)**
Book value at 1/1	**51,614**	**6,197**	**22,220**	**237**	**80,268**
Book value at 31/12	**47,017**	**3,566**	**21,834**	**1,167**	**73,584**

All amounts in EUR thousand unless otherwise stated.

Nova KBM 2022	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
As at 1/1	**81,873**	**11,753**	**24,113**	**1,165**	**118,904**
Transfers between types of assets	1,006	5,562	(2,495)	(4,073)	0
Additions	0	0	0	2,913	2,913
Right-to-use additions (IFRS 16)	635	0	438	0	1,073
Disposals	(6)	(2,829)	(1,632)	0	(4,467)
Right-to-use disposals (IFRS 16)	(452)	0	(292)	0	(744)
As at 31/12	**83,056**	**14,486**	**20,132**	**5**	**117,679**
Accumulated depreciation					
As at 1/1	**(35,556)**	**(8,249)**	**(17,570)**	**0**	**(61,375)**
Transfers between types of assets	0	(1,830)	1,830	0	0
Additions	(5)	(32)	(54)	0	(91)
Right-to-use additions (IFRS 16)	(149)	0	(138)	0	(287)
Depreciation	(1,258)	(2,366)	(784)	0	(4,408)
Right-to-use depreciation (IFRS 16)	(802)	0	(353)	0	(1,155)
Disposals	6	2,829	1,632	0	4,467
Right-to-use disposals (IFRS 16)	452	0	292	0	744
Revaluation	0	0	0	0	0
As at 31/12	**(37,312)**	**(9,648)**	**(15,145)**	**0**	**(62,105)**
Book value at 1/1	**46,317**	**3,504**	**6,543**	**1,165**	**57,529**
Book value at 31/12	**45,744**	**4,838**	**4,987**	**5**	**55,574**

All amounts in EUR thousand unless otherwise stated.

Nova KBM 2021	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
As at 1/1	**88,535**	**13,993**	**29,072**	**237**	**131,837**
Transfers between types of assets	(4,801)	486	473	(1,864)	(5,706)
Additions	0	0	0	2,792	2,792
Right-to-use additions (IFRS 16)	762	0	344	0	1,106
Disposals	(1,254)	(1,265)	(5,733)	0	(8,252)
Right-to-use disposals (IFRS 16)	(1,369)	(1,461)	(43)	0	(2,873)
As at 31/12	**81,873**	**11,753**	**24,113**	**1,165**	**118,904**
Accumulated depreciation					
As at 1/1	**(37,855)**	**(7,862)**	**(21,143)**	**0**	**(66,860)**
Transfers between types of assets	3,213	(5)	0	0	3,208
Additions	(563)	(399)	(445)	0	(1,407)
Right-to-use additions (IFRS 16)	(756)	(858)	0	0	(1,614)
Depreciation	(1,304)	(1,749)	(1,455)	0	(4,508)
Right-to-use depreciation (IFRS 16)	(950)	(102)	(303)	0	(1,355)
Disposals	1,290	1,265	5,733	0	8,288
Right-to-use disposals (IFRS 16)	1,369	1,461	43	0	2,873
Revaluation	0	0	0	0	0
As at 31/12	**(35,556)**	**(8,249)**	**(17,570)**	**0**	**(61,375)**
Book value at 1/1	**50,680**	**6,131**	**7,929**	**237**	**64,977**
Book value at 31/12	**46,317**	**3,504**	**6,543**	**1,165**	**57,529**

As at 31 December 2022, the cost of the Bank's fully amortised property, plant and equipment still in use amounted to €14,590 thousand (€18,418 thousand as at 31 December 2021). The cost of the Group's fully amortised property, plant and equipment still in use amounted to €15,937 thousand as at 31 December 2022 (€19,588 thousand as at 31 December 2021).

The Banks's liabilities to suppliers of property, plant and equipment amounted to €64 thousand as at 31 December 2022 (€473 thousand as at 31 December 2021). The Group's liabilities to suppliers of property, plant and equipment amounted to €353 thousand as at 31 December 2022 (€3,122 thousand as at 31 December 2021).

No items of property, plant and equipment were pledged by the Group as at 31 December 2022.

Assets leased by the Group (and recognised in accordance with IFRS 16) are detailed in Note 41.

All amounts in EUR thousand unless otherwise stated.

32.2 INVESTMENT PROPERTY

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
As at 1/1	**25,443**	**26,871**	**25,443**	**25,443**
Change in group	0	(1,428)	0	0
As at 31/12	**25,443**	**25,443**	**25,443**	**25,443**

The aggregate Group's annual rental income from investment property amounted to €3,056 thousand in 2022 (€2,829 thousand in 2021).

Direct operating expenses incurred by the Group in respect of investment property amounted to €43 thousand in 2022 (€8 thousand in 2021).

Investment properties are recognised in financial statements in accordance with the fair value model.

Fair value of all major investment property items is determined by an authorised appraiser.

Items of investment property are not subject to any restrictions of sale.

All amounts in EUR thousand unless otherwise stated.

33 INTANGIBLE ASSETS

Nova KBM Group 2022	Computer software	Intangible assets in progress	Other intangible assets	Goodwill	Total
Cost					
As at 1/1	**52,537**	**582**	**4,541**	**7,299**	**64,959**
Change in group	0	0	622	5,145	5,767
Transfers between types of assets	4,551	(4,551)	0	0	0
Additions	0	5,575	642	0	6,217
Disposals	(3,545)	(577)	(98)	0	(4,220)
As at 31/12	**53,543**	**1,029**	**5,707**	**12,444**	**72,723**
Accumulated amortisation					
As at 1/1	**(28,109)**	**0**	**(2,941)**	**0**	**(31,050)**
Change in group	0	0	(476)	0	(476)
Transfers between types of assets	0	0	0	0	0
Amortisation	(5,158)	0	(714)	0	(5,872)
Disposals	3,545	0	50	0	3,595
As at 31/12	**(29,722)**	**0**	**(4,081)**	**0**	**(33,803)**
Book value at 1/1	**24,428**	**582**	**1,600**	**7,299**	**33,909**
Book value at 31/12	**23,821**	**1,029**	**1,626**	**12,444**	**38,920**

Nova KBM Group 2021	Computer software	Intangible assets in progress	Other intangible assets	Goodwill	Total
Cost					
As at 1/1	**47,264**	**899**	**4,159**	**7,299**	**59,621**
Change in group	0	0	(140)	0	(140)
Transfers between types of assets	5,273	(5,379)	0	0	(106)
Additions	0	5,080	532	0	5,612
Disposals	0	(18)	(10)	0	(28)
As at 31/12	**52,537**	**582**	**4,541**	**7,299**	**64,959**
Accumulated amortisation					
As at 1/1	**(23,576)**	**0**	**(2,403)**	**0**	**(25,979)**
Change in group	0	0	24	0	24
Transfers between types of assets	5	0	0	0	5
Amortisation	(4,538)	0	(573)	0	(5,111)
Disposals	0	0	11	0	11
As at 31/12	**(28,109)**	**0**	**(2,941)**	**0**	**(31,050)**
Book value at 1/1	**23,688**	**899**	**1,756**	**7,299**	**33,642**
Book value at 31/12	**24,428**	**582**	**1,600**	**7,299**	**33,909**

All amounts in EUR thousand unless otherwise stated.

Nova KBM 2022	Computer software	Intangible assets in progress	Other intangible assets	Total
Cost				
As at 1/1	**52,537**	**567**	**1,815**	**54,919**
Transfers between types of assets	4,551	(4,551)	0	0
Additions	0	4,758	0	4,758
Disposals	(3,545)	0	(6)	(3,551)
As at 31/12	**53,543**	**774**	**1,809**	**56,126**
Accumulated amortisation				
As at 1/1	**(28,109)**	**0**	**(1,154)**	**(29,263)**
Transfers between types of assets	0	0	0	0
Amortisation	(5,158)	0	(322)	(5,480)
Disposals	3,545	0	6	3,551
As at 31/12	**(29,722)**	**0**	**(1,470)**	**(31,192)**
Book value at 1/1	**24,428**	**567**	**661**	**25,656**
Book value at 31/12	**23,821**	**774**	**339**	**24,934**

Nova KBM 2021	Computer software	Intangible assets in progress	Other intangible assets	Total
Cost				
As at 1/1	**47,264**	**866**	**1,815**	**49,945**
Transfers between types of assets	5,273	(5,379)	0	(106)
Additions	0	5,080	0	5,080
Disposals	0	0	0	0
As at 31/12	**52,537**	**567**	**1,815**	**54,919**
Accumulated amortisation				
As at 1/1	**(23,576)**	**0**	**(833)**	**(24,409)**
Transfers between types of assets	5	0	0	5
Amortisation	(4,538)	0	(321)	(4,859)
Disposals	0	0	0	0
As at 31/12	**(28,109)**	**0**	**(1,154)**	**(29,263)**
Book value at 1/1	**23,688**	**866**	**982**	**25,536**
Book value at 31/12	**24,428**	**567**	**661**	**25,656**

As at 31 December 2022, the cost of the Bank's fully amortised intangible assets still in use amounted to €11,522 thousand (€13,609 thousand as at 31 December 2021). The cost of the Group's fully amortised intangible assets still in use amounted to €13,482 thousand as at 31 December 2022 (€15,393 thousand as at 31 December 2021).

The Bank's liabilities to suppliers of intangible assets amounted to €389 thousand as at 31 December 2022 (€458 thousand as at 31 December 2021). The Group's liabilities to suppliers of intangible assets amounted to €565 thousand as at 31 December 2022 (€467 thousand as at 31 December 2021).

The Group may freely dispose of its intangible assets and none of these assets are pledged as collateral.

Testing of goodwill impairment includes goodwill resulting from the acquisition of Summit Leasing Slovenia d.o.o. (hereinafter: SLS) by the Parent company Nova KBM in 2017 and goodwill resulting from the acquisition of ALEJA finance in 2021 (hereinafter: ALEJA); goodwill of SLS Group amounts to €9,660 thousand (SLS €7,299 thousand and Mobil Leasing €2,361 thousand) and that of ALEJA finance amounts to €2,784 thousand. A test of impairment of Nova KBM's equity investments in the subsidiaries SLS and ALEJA was also performed. The recoverable amount of an asset or a cash-generating unit is the higher of the following two items: the asset’s fair value less costs to sell and the value in use. For the purposes of the impairment test, the recoverable amount of goodwill resulting from the acquisition of holdings in SLS and ALEJA was determined by independent external appraiser on the basis of calculating the value in use, i.e., using cash flow projections of the cash-generating units to which the goodwill was allocated. SLS Group and ALEJA were considered as cash-generating units. In the six-year business projection, explicit forecasts and adjustments were used, whereby the growth of the balance sheet was estimated at 2% on an annual basis, the cost of equity capital at 9.76%. The discount factors used in the projection of cash flows ranged from 0.590 to 0.996 for individual years. According to the management’s estimate, a reasonable change in the discount factors or long-term growth rate would not impair goodwill.

The recoverable amount of goodwill calculated on the basis on these assumptions exceeds the carrying amount; consequently, there is no need for its impairment.

In 2022 and 2021, the Parent Bank did not capitalise development costs.

All amounts in EUR thousand unless otherwise stated.

34 INCOME TAX ASSETS AND LIABILITIES

34.1 GROSS DEFERRED TAXES

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Deferred gross tax assets	**58,244**	**40,166**	**53,848**	**37,814**
– relating to financial assets at fair value through other comprehensive income	7,643	929	7,643	929
– relating to financial assets at amortised cost	332	109	332	109
– relating to tax loss	45,313	35,666	45,313	35,666
– relating to fixed assets	81	82	81	82
– relating to other provisions for employees	553	860	479	788
– relating to other items	4,322	2,520	0	240
Deferred gross tax liabilities	**7,301**	**10,394**	**7,301**	**10,394**
– relating to financial assets at fair value through other comprehensive income	3,904	6,269	3,904	6,269
– relating to financial assets at amortised costs	3,111	3,807	3,111	3,807
– relating to fixed assets	286	318	286	318
Net deferred taxes	**50,943**	**29,772**	**46,547**	**27,420**

	Nova KBM Group		Nova KBM	
	1/1–31/12/2022	1/1–31/12/2021	1/1–31/12/2022	1/1–31/12/2021
Included in profit or loss				
– relating to impairments of financial assets at fair value through other comprehensive income	(179)	(52)	(179)	(52)
– relating to impairments of financial assets at amortised cost	216	(41)	216	(41)
– relating to tax loss	9,646	8,373	9,646	8,373
– relating to impairments of fixed assets	(1)	(9)	(1)	(9)
– relating to business combination	1,855	3,670	1,855	3,670
– relating to other provisions for employees	(34)	32	(33)	32
– temporary differences arising from impairments of receivables	1,200	371	0	0
– relating to provisions for restructuring costs	(229)	(944)	(229)	(944)
– relating to provisions for the sale of receivables	(11)	0	(11)	0
– relating to other items	(1)	(674)	(1)	(674)
Total	**12,462**	**10,726**	**11,263**	**10,355**
Included in other comprehensive income				
As at 1/1	**(777)**	**(2,897)**	**(807)**	**(2,926)**
– relating to provisions for retirement benefits	(274)	(14)	(276)	(15)
– relating to revaluation of financial assets at fair value through other comprehensive income	8,138	2,134	8,138	2,134
As at 31/12	**7,087**	**(777)**	**7,055**	**(807)**

All amounts in EUR thousand unless otherwise stated.

For a portion of its uncovered tax loss totalling €238,489 thousand, the Parent Bank recorded deferred tax assets in the amount of €45,313 thousand. Residual tax loss for which the Parent Bank has not made deferred tax assets amounts to €1,237,582 thousand. In accordance with the Slovene Corporate Income Tax Act, tax losses can be carried forward indefinitely.

35 OTHER ASSETS

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Inventory	6,145	5,340	191	2,016
– assets received in settlement of claims	118	47	118	1,932
– other inventory	6,027	5,293	73	84
Claims arising from advance payments	2,945	2,008	134	109
Prepayments and accrued income	4,893	4,358	2,517	2,860
Other claims	2,666	1,627	56	66
Total - net amount	**16,649**	**13,333**	**2,898**	**5,051**

As at 31 December 2022, real estate held for sale, totalling €71 thousand (€1,885 thousand in 2021), movable items seized under lease agreements totalling €337 thousand (€120 thousand in 2021), and the stock of vehicles totalling €5,617 thousand (€3,205 thousand in 2021) accounted for the largest portion of the Group's inventory.

36 PLEDGED ASSETS

Nova KBM Group and Nova KBM	31/12/2022	31/12/2021
Obligatory reserve	82,620	78,063
Financial assets of the Bank pledged for Bank's liabilities	4,230	24,714
Financial assets at fair value through other comprehensive income – debt securities	39,575	156,337
Financial assets at amortised cost	2,982	52,995
– loans to banks	124	2,575
– loans to customers	164	49,848
– other financial assets	2,694	572
Total pledged assets	**129,407**	**312,109**

Assets are pledged as collateral for claims by counterparties arising from derivatives, to provide liquid assets for the Bank Resolution Fund (pursuant to the Bank Resolution Authority and Fund Act – ZOSRB), to ensure obligatory reserves on the cash account with the Bank of Slovenia and for collateral paid to clearing systems (SEPA DD). Compared to 2021, the amount of pledged assets is lower because in 2022 the Bank repaid the debt from the ECB's Targeted Longer-Term Refinancing Operations (TLTRO).

All amounts in EUR thousand unless otherwise stated.

37 FINANCIAL LIABILITIES HELD FOR TRADING

Nova KBM Group and Nova KBM	31/12/2022	31/12/2021
Derivatives	**8,534**	**4,722**
– forwards	362	136
– options	4,369	657
– swaps	3,803	2,630
– other derivatives	0	1,299
Other financial liabilities	**1**	**5**
Total	**8,535**	**4,727**

38 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Deposits	8,541,478	8,181,325	8,560,764	8,184,494
Loans	165,033	346,365	164,996	346,301
Debt securities issued	571,782	267,495	571,782	267,495
Other financial liabilities	66,571	74,338	55,808	67,412
Total	**9,344,864**	**8,869,523**	**9,353,350**	**8,865,702**

38.1 DEPOSITS BY TYPE OF CUSTOMERS AND MATURITY

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Deposits from banks	**13,677**	**4,976**	**13,677**	**4,976**
– demand deposits	7,637	4,976	7,637	4,976
– non-current deposits	6,040	0	6,040	0
Deposits from customers	**8,527,801**	**8,176,349**	**8,547,087**	**8,179,518**
– demand deposits	8,169,596	7,639,545	8,188,882	7,642,714
– current deposits	136,118	191,362	136,118	191,362
– non-current deposits	222,087	345,442	222,087	345,442
Total	**8,541,478**	**8,181,325**	**8,560,764**	**8,184,494**

All amounts in EUR thousand unless otherwise stated.

38.2 LOANS BY TYPE OF CUSTOMERS AND MATURITY

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Loans from banks	**165,033**	**346,365**	**164,996**	**346,301**
– current loans	0	0	0	0
– non-current loans	165,033	346,365	164,996	346,301
Total	**165,033**	**346,365**	**164,996**	**346,301**

38.3 DEPOSITS AND LOANS BY MARKET SEGMENTS

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Deposits	**8,541,478**	**8,181,325**	**8,560,764**	**8,184,494**
– from banks	13,677	4,976	13,677	4,976
– from non-financial companies	1,685,625	1,712,625	1,686,171	1,712,625
– from the government	62,199	78,151	62,199	78,151
– from other financial organisations	328,701	270,901	347,441	274,070
– from households	6,355,671	6,012,238	6,355,671	6,012,238
– from non-profit institutions serving households	95,605	102,434	95,605	102,434
Loans	**165,033**	**346,365**	**164,996**	**346,301**
– from banks	165,033	346,365	164,996	346,301
Total	**8,706,511**	**8,527,690**	**8,725,760**	**8,530,795**

38.4 DEBT SECURITIES ISSUED

Nova KBM Group and Nova KBM	31/12/2022	31/12/2021
Subordinated securities	**90,524**	**90,450**
– banks	51,771	51,028
– other financial organisations	38,753	39,422
Non-subordinated securities	**481,258**	**177,045**
– banks	455,149	150,963
– other financial organisations	24,093	24,068
– government	2,016	2,014
Total	**571,782**	**267,495**

On 25 May 2021, the Bank issued senior non-preferred bonds KBM12 in the nominal amount of €125,700 thousand.

On 12 October 2021, the Bank increased its KBM12 issuance by €50,000 thousand. Total nominal amount of KBM12 bonds equals to €175,700 thousand.

All amounts in EUR thousand unless otherwise stated.

On 27 January 2022, Nova KBM issued senior non-preferred bonds NOVAKR 0 01/27/25 on the international market in the total nominal amount of €300 million.

38.5 OTHER FINANCIAL LIABILITIES

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Liabilities for fees and commissions	49	30	28	30
Liabilities to suppliers	6,925	6,438	2,390	3,474
Liabilities for cross-border payments	3,119	1,209	3,119	1,209
Claims accounted for	526	906	526	906
Other financial liabilities	45,931	38,500	40,472	36,425
Accrued expenses	10,021	27,255	9,273	25,368
Total	**66,571**	**74,338**	**55,808**	**67,412**

39 PROVISIONS

Nova KBM Group 2022	Provisions for restructuring costs	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance-sheet liabilities	Other provisions	Total
As at 1/1	**2,410**	**7,446**	**9,236**	**6,332**	**10,597**	**36,021**
Change in group	0	671	32	0	0	703
Net creation/(reversal) of provisions through profit or loss	(46)	(179)	393	(1,229)	(17)	(1,078)
– provisions made during the year	0	0	704	54,917	0	55,621
– provisions (reversed) during the year	(46)	(179)	(311)	(56,146)	(17)	(56,699)
Net (reversal) of provisions through other comprehensive income	0	0	(3,048)	0	0	(3,048)
Provisions used during the year	(2,364)	(126)	(141)	0	(115)	(2,746)
Other	0	26	0	0	648	674
As at 31/12	**0**	**7,838**	**6,472**	**5,103**	**11,113**	**30,526**

All amounts in EUR thousand unless otherwise stated.

Nova KBM Group 2021	Provisions for restructuring costs	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance-sheet liabilities	Other provisions	Total
As at 1/1	**12,344**	**8,244**	**9,755**	**10,107**	**9,820**	**50,270**
Change in group	0	0	(37)	0	0	(37)
Net creation/(reversal) of provisions through profit or loss	(832)	(544)	429	(3,775)	0	(4,722)
– provisions made during the year	0	160	510	60,101	0	60,771
– provisions (reversed) during the year	(832)	(704)	(81)	(63,876)	0	(65,493)
Net (reversal) of provisions through other comprehensive income	0	0	(681)	0	0	(681)
Provisions used during the year	(9,102)	(254)	(234)	0	(21)	(9,611)
Other	0	0	4	0	798	802
As at 31/12	**2,410**	**7,446**	**9,236**	**6,332**	**10,597**	**36,021**

Nova KBM 2022	Provisions for restructuring costs	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance-sheet liabilities	Other provisions	Total
As at 1/1	**2,410**	**7,446**	**8,480**	**6,314**	**10,597**	**35,247**
Net creation/(reversal) of provisions through profit or loss	(46)	(179)	370	(1,177)	(17)	(1,049)
– provisions made during the year	0	0	656	55,431	0	56,087
– provisions (reversed) during the year	(46)	(179)	(286)	(56,608)	(17)	(57,136)
Net (reversal) of provisions through other comprehensive income	0	0	(2,903)	0	0	(2,903)
Provisions used during the year	(2,364)	(126)	(139)	0	(115)	(2,744)
Other	0	0	0	0	648	648
As at 31/12	**0**	**7,141**	**5,808**	**5,137**	**11,113**	**29,199**

All amounts in EUR thousand unless otherwise stated.

Nova KBM 2021	Provisions for restructuring costs	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance-sheet liabilities	Other provisions	Total
As at 1/1	**12,344**	**8,244**	**9,006**	**10,127**	**9,820**	**49,541**
Net creation/(reversal) of provisions through profit or loss	(832)	(544)	387	(3,813)	0	(4,802)
– provisions made during the year	0	160	463	60,165	0	60,788
– provisions (reversed) during the year	(832)	(704)	(76)	(63,978)	0	(65,590)
Net (reversal) of provisions through other comprehensive income	0	0	(686)	0	0	(686)
Provisions used during the year	(9,102)	(254)	(231)	0	(21)	(9,608)
Other	0	0	4	0	798	802
As at 31/12	**2,410**	**7,446**	**8,480**	**6,314**	**10,597**	**35,247**

The Group has formed provisions for pensions and similar benefits. Important assumptions used in the calculation are presented in Note 8.17.

Law on limiting and distributing currency risk among creditors and borrowers of loans in Swiss francs ("CHF Law")

On 2 February 2022, the National Assembly of Slovenia passed a "Law on limiting and distributing currency risk among creditors and borrowers of loans in Swiss francs" ("CHF Law"). The law entered into effect on February 26, 2022 (on the 15th day after its publication in the Official Gazette).

On 10 March 2022, the Constitutional Court has granted the temporary injunction on the CHF Law and decided to consider the case with absolute priority.

In December 2022, the Constitutional Court of the Republic of Slovenia annulled the CHF Law. Nova KBM, the initiator of the constitutional review, considered the Constitutional Court's decision important for confidence in the legal order.

Based on the decision of the constitutional court to annul the CHF Law, no obligation exist.

40 OTHER LIABILITIES

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Liabilities arising from advance payments received	5,040	2,702	0	0
Liabilities arising from gross salaries of employees	5,106	5,130	4,496	4,703
Accruals and deferred income	22,105	3,419	19,239	2,947
Other (liabilities in respect of taxes and contributions)	2,952	1,988	1,928	1,842
Total	**35,203**	**13,239**	**25,663**	**9,492**

All amounts in EUR thousand unless otherwise stated.

41 LEASES

41.1 GROUP AS A LESSEE

41.1.1 IMPACT ON THE STATEMENT OF FINANCIAL POSITION

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Assets				
Right-of-use assets				
– Business premises	5,040	5,406	4,018	4,334
– Motor vehicles	0	0	949	1,002
Liabilities				
Long-term lease liabilities	5,326	5,053	5,323	5,585

In the statement of financial position, the right-of-use assets are included in the item "Property, plant and equipment" and lease liabilities are included in the item "Other financial liabilities".

In 2022, the Group decreased the right-of-use assets in the amount of €366 thousand (2021: increase of €1,107 thousand).

41.1.2 IMPACT ON THE INCOME STATEMENT

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Depreciation of right-of-use assets				
– Business premises	1,118	1,145	802	949
– Computer equipment	0	103	0	103
– Motor vehicles	0	5	353	303
Interest expenses	**68**	**117**	**51**	**110**
Expenses relating to short-term leases (included in administrative expenses)	**1,941**	**2,438**	**1,906**	**2,438**
Expenses relating to leases of low-value assets (included in administrative expenses)	**238**	**265**	**215**	**243**

All amounts in EUR thousand unless otherwise stated.

41.1.3 IMPACT ON THE CASH FLOW STATEMENT

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Principal repayments	1,203	2,285	1,237	2,144
Interest payments	72	132	51	110

41.1.4 ANALYSIS OF LIABILITIES FROM LEASE AGREEMENTS BY MATURITY

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Lease liabilities:				
– up to 1 year	1,249	196	1,322	0
– over 1 year to 5 years	4,038	2,975	3,810	3,409
– over 5 years	191	2,244	191	2,176
Total	**5,478**	**5,415**	**5,323**	**5,585**

41.2 GROUP AS A LESSOR

41.2.1 FINANCE LEASE

Maturity of finance lease receivables (undiscounted leases with maturity after the reporting date)		Nova KBM Group
	31/12/2022	31/12/2021
– up to 1 year	266,406	116,783
– over 1 year to 2 years	173,926	135,673
– over 2 years to 3 years	137,776	113,085
– over 3 years to 4 years	101,065	87,812
– over 4 years to 5 years	64,808	59,669
– over 5 years	67,973	55,839
Total undiscounted lease receivables	**811,954**	**568,861**
– Unearned future finance income on finance leases	100,328	59,767
Net investment in finance leases	**711,626**	**509,094**

Summit Leasing Slovenia continued to efficiently increase the volume of new investments in 2022, increasing its investment portfolio by €106 million compared to the previous year. The acquisition of the subsidiary Mobil Leasing resulted in an additional increase of €96 million in the lease financing in 2022.

Assets leased out under finance lease are secured by ownership of the leased item.

The largest portion of finance lease contracts at the Group level relates to vehicles and equipment.

The Group has no finance lease contracts with variable rents.

All amounts in EUR thousand unless otherwise stated.

41.2.2 OPERATING LEASE

Maturity of operating lease receivables (undiscounted leases with maturity after the reporting date)		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
– up to 1 year	27,645	18,713	3,887	3,057
– over 1 year to 2 years	5,952	6,019	4,278	3,069
– over 2 years to 3 years	5,318	4,329	4,278	3,059
– over 3 years to 4 years	4,830	3,489	4,278	3,059
– over 4 years to 5 years	3,840	3,253	3,599	3,059
– over 5 years	121	2,808	196	2,818
Total	**47,706**	**38,611**	**20,516**	**18,121**

At the Group level, the largest portion of lease contracts relates to operating leases of vehicles and real estate.

All amounts in EUR thousand unless otherwise stated.

42 EQUITY

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Ordinary shares	**150,000**	**150,000**	**150,000**	**150,000**
– subscribed by non-residents	150,000	150,000	150,000	150,000

In 2022 and 2021, the Group did not purchase or sell treasury shares. As at 31 December 2022, no treasury shares were held by the Parent Bank, and no shares of the Parent Bank were held by any of the Group companies.

The share premium comprises payments exceeding the nominal amounts of paid-in shares (paid-in surplus).

42.1 ACCUMULATED OTHER COMPREHENSIVE INCOME

		Nova KBM Group		Nova KBM
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Accumulated other comprehensive income relating to actuarial losses on defined benefit pension plans	1,801	(971)	1,954	(673)
– revaluation	1,974	(1,074)	2,159	(744)
– deferred taxes	(173)	103	(205)	71
Accumulated other comprehensive income relating to investments in associates and joint ventures accounted for using the equity method	23	(27)	0	0
Accumulated other comprehensive income relating to change in fair value of investment in equity instruments	(1,954)	(177)	(1,954)	(177)
– revaluation	(2,412)	(218)	(2,412)	(218)
– deferred taxes	458	41	458	41
Accumulated other comprehensive income relating to foreign currency translation	93	0	0	0
Accumulated other comprehensive income relating to investments in debt financial instruments at fair value	(29,002)	3,917	(29,002)	3,917
– revaluation	(36,109)	4,555	(36,109)	4,555
– other reclassifications	305	281	305	281
– deferred taxes	6,802	(919)	6,802	(919)
Total	**(29,039)**	**2,742**	**(29,002)**	**3,067**

All amounts in EUR thousand unless otherwise stated.

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
As at 1/1	**2,742**	**11,185**	**3,067**	**11,494**
Change in group	0	(12)	0	0
Net change in accumulated other comprehensive income relating to actuarial losses on defined benefit pension plans	3,048	681	2,903	686
Net change in accumulated other comprehensive income relating to investments in associates and joint ventures accounted for using the equity method	50	0	0	0
Net change in accumulated other comprehensive income relating to change in fair value of investment in equity instruments	(2,194)	(408)	(2,194)	(408)
Net change in accumulated other comprehensive income relating to foreign currency translation	93	0	0	0
– recognised gains	93	0	0	0
Net change in accumulated other comprehensive income relating to investments in debt financial instruments at fair value	(40,640)	(10,824)	(40,640)	(10,824)
– recognised losses	(47,981)	(10,471)	(47,981)	(10,471)
– transfer of (gains)/losses to profit or loss	7,341	(353)	7,341	(353)
Net change in deferred taxes	7,862	2,120	7,862	2,119
As at 31/12	**(29,039)**	**2,742**	**(29,002)**	**3,067**

42.2 RESERVES FROM PROFIT

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Regulatory reserves	3,518	3,518	3,518	3,518
Other reserves from profit	16,710	16,710	16,710	16,710
Total	**20,228**	**20,228**	**20,228**	**20,228**

All amounts in EUR thousand unless otherwise stated.

42.3 RETAINED EARNINGS (INCLUDING NET PROFIT FOR THE FINANCIAL YEAR)

	Nova KBM Group		Nova KBM	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Retained earnings from previous years	342,460	339,168	337,589	337,589
Net profit for the financial year	106,086	112,594	115,583	108,932
Total	**448,546**	**451,762**	**453,172**	**446,521**

In April 2022, the 43rd General Meeting of Shareholders adopted a resolution on allocation of distributable profit for 2021. Based on the resolution, a part of the distributable profit for 2021 in the amount of €108,932 thousand (€10.89 per share) was used for the payment of dividends, the residual of distributable profit for 2021 in the amount €337,575 thousand was allocated to retained earnings.

The dividends were paid out to the sole shareholder, i.e. Biser Bidco S.à r.l, on 28 April 2022.

Allocation of the distributable profit for 2022 is subject to a decision to be taken by the Shareholders' Meeting of the Bank.

All amounts in EUR thousand unless otherwise stated.

Other notes

43 GUARANTEES AND COMMITMENTS

	Nova KBM Group 31/12/2022			Nova KBM 31/12/2022		
	Current	Non-current	Total	Current	Non-current	Total
Financial guarantees	57,360	168,902	226,262	57,360	168,902	226,262
Other commitments	85,479	304,729	390,208	85,479	304,729	390,208
Loan commitments	920,577	281,060	1,201,637	920,577	327,711	1,248,288
Total	**1,063,416**	**754,691**	**1,818,107**	**1,063,416**	**801,342**	**1,864,758**

	Nova KBM Group 31/12/2021			Nova KBM 31/12/2021		
	Current	Non-current	Total	Current	Non-current	Total
Financial guarantees	55,462	149,256	204,718	55,462	149,256	204,718
Other commitments	30,904	371,929	402,833	30,904	371,929	402,833
Loan commitments	957,348	419,818	1,377,166	957,348	437,905	1,395,253
Total	**1,043,714**	**941,003**	**1,984,717**	**1,043,714**	**959,090**	**2,002,804**

All amounts in EUR thousand unless otherwise stated.

44 FUNDS MANAGED ON BEHALF OF THIRD PARTIES

Nova KBM Group and Nova KBM	31/12/2022	31/12/2021
ASSETS	**4,189,464**	**4,751,664**
Claims of settlement and transactions accounts for customer assets	**4,148,172**	**4,691,345**
– from financial instruments	4,138,939	4,689,938
– investment services and transactions (receipt, transmission and execution of orders)	1,433	1,079
– custody transactions (ZISDU)	4,137,506	4,688,859
– against the Central Securities Clearing Corporation or the Bank's clearing account for sold financial instruments	427	246
– against other settlement systems and institutions for sold financial instruments (buyers)	257	55
- against brokerage for purchased financial instruments and net receivables from the CSCC (ZISDU)	8,549	1,106
Customers' cash	**11,120**	**9,170**
– in central banks' settlement accounts	3,998	4,694
– in banks' transaction accounts (ZTFI)	5,074	4,389
– in banks' transaction accounts (ZISDU)	2,048	87
Other transactions authorised by the customer	**30,172**	**51,149**
LIABILITIES	**4,189,464**	**4,751,664**
Liabilities of settlement and transactions accounts for customer assets	**4,159,528**	**4,700,515**
– to customers from cash and financial instruments	4,157,620	4,699,491
– investment services and transactions (receipt, transmission and execution of orders)	9,518	9,439
– custody transactions (ZISDU)	4,148,102	4,690,052
– to the Central Securities Clearing Corporation or the Bank's clearing account for purchased financial instruments	843	173
– to other settlement systems and institutions for purchased financial instruments (suppliers)	593	194
– to the Bank for commissions, fees, etc.	472	657
Other transactions authorised by the customer	**29,936**	**51,149**

The Bank discloses above information pursuant to the Regulation on the Books of Account and Annual Reports of Banks and Saving Banks issued by the Bank of Slovenia.

All amounts in EUR thousand unless otherwise stated.

45 RELATED PARTY TRANSACTIONS OF THE GROUP AND THE BANK

In accordance with IAS 24, related parties of the Nova KBM Group and Nova KBM include key management personnel, other related persons and subsidiaries.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Nova KBM Group, directly or indirectly.

Key management personnel of the Bank comprises:

- Management Board of Nova KBM
- Supervisory Board of Nova KBM.

Key management personnel of the Group comprises:

- Management Board of Nova KBM
- Supervisory Board of Nova KBM
- Directors of subsidiaries

Other related parties of the Bank include:

- Immediate family members of the key management personnel of the Bank
- Companies controlled or significantly influenced by key management personnel of the Bank (i.e., they are their owners or members of key management personnel).

Other related parties of the Group include:

- Immediate family members of the key management personnel of the Group
- Companies controlled or significantly influenced by key management personnel of the Group (i.e., they are their owners or members of key management personnel).

Related parties' transaction in the disclosures 45.1 – 45.3 refer to the consolidated level of the Nova KBM Group and do not include transactions with the parent company Biser Bidco S.à r.l. Transactions with the Parent Company are disclosed in Note 45.4.

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

All amounts in EUR thousand unless otherwise stated.

45.1 TRANSACTIONS WITH NOVA KBM'S RELATED PARTIES

	Subsidiaries		Associates		Key management personnel		Other related parties	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Assets	**907,585**	**634,399**	**4,923**	**4,913**	**4**	**285**	**67**	**67**
Deposits and loans given (gross amount)	768,948	518,762	0	0	4	285	67	67
– loans to customers	768,948	518,735	0	0	4	285	11	13
– other financial assets	0	27	0	0	0	0	56	54
Equity investments	138,637	115,637	4,909	4,909	0	0	0	0
Other assets	0	0	14	4	0	0	0	0
Liabilities	**19,338**	**4,298**	**1,115**	**1,073**	**717**	**958**	**27,910**	**10,070**
Deposits and loans received	19,295	4,276	1,115	1,073	717	958	27,910	10,070
– deposits and loans from customers	19,285	4,242	46	115	717	958	27,910	10,065
– other financial liabilities	10	34	1,069	958	0	0	0	5
Provisions	43	22	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0	0	0
Off-balance sheet items	**47,201**	**33,302**	**0**	**0**	**29**	**67**	**21**	**22**

Equity investments in 2022 refer to subsidiaries Summit Leasing Slovenija d.o.o. and ALEJA finance d.o.o. and the associated company Bankart d.o.o.

All amounts in EUR thousand unless otherwise stated.

	Subsidiaries		Associates		Key management personnel		Other related parties	
	1/1–31/12/2022	1/1–31/12/2021	1/1–31/12/2022	1/1–31/12/2021	1/1–31/12/2022	1/1–31/12/2021	1/1–31/12/2022	1/1–31/12/2021
Interest income	16,061	9,933	0	0	0	0	1	1
Interest expenses	(8)	0	(321)	(302)	(2)	0	(2)	(8)
Dividend income	14,420	0	483	322	0	0	0	0
Fee and commission income	404	141	1	1	4	3	417	56
Fee and commission expenses	0	0	(11,471)	(10,880)	0	0	0	(75)
Other operating gains	152	94	0	0	0	0	0	0
Net gains or losses from trading in loans and other financial assets	8	1	0	0	1	6	46	(1)
Costs of services	(4)	0	(325)	(331)	0	0	(211)	(199)
Loan impairments	(471)	53	0	0	0	0	0	0
Provisions	(22)	(2)	0	0	0	0	0	0
Impairment of equity investments	0	0	0	0	0	0	0	0
Total	**30,540**	**10,220**	**(11,633)**	**(11,190)**	**3**	**9**	**251**	**(226)**

The Bank Association of Slovenia is treated as a related party as a member of the Nova KBM Management Board is a member of the Supervisory Board of the Bank Association of Slovenia. Cost related to the Bank's membership in the Bank Association of Slovenia are included under the line costs of other related party's services.

45.2 TRANSACTIONS WITH NOVA KBM GROUP'S RELATED PARTIES

	Key management personnel		Associates		Other related parties	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Assets	**60**	**413**	**5,544**	**5,452**	**358**	**326**
Deposits and loans given (gross amount)	60	413	0	0	358	326
– loans to customers	59	413	0	0	301	272
– other financial assets	1	0	0	0	57	54
Equity investments	0	0	5,529	5,448	0	0
Other assets	0	0	15	4	0	0
Liabilities	**821**	**1,100**	**1,115**	**1,073**	**27,993**	**10,089**
Deposits and loans received	821	1,100	1,115	1,073	27,993	10,089
– deposits and loans from customers	821	1,100	46	115	27,993	10,084
– other financial liabilities	0	0	1,069	958	0	5
Other liabilities	0	0	0	0	0	0
Off-balance sheet items	**29**	**81**	**0**	**0**	**22**	**22**

All amounts in EUR thousand unless otherwise stated.

	Key management personnel		Asociates		Other related parties	
	1/1–31/12/2022	1/1–31/12/2021	1/1–31/12/2022	1/1–31/12/2021	1/1–31/12/2022	1/1–31/12/2021
Interest income	2	0	0	0	7	3
Interest expenses	(2)	0	(321)	(302)	(2)	(8)
Dividend income	0	0	483	322	0	0
Fee and commission income	7	4	1	1	426	61
Fee and commission expenses	0	0	(11,471)	(10,880)	0	(75)
Net gains or losses from trading in loans and other financial assets	1	6	0	0	46	(1)
Costs of services	0	0	(325)	(331)	(242)	(199)
Loan impairments	0	0	0	0	3	0
Total	**8**	**10**	**(11,633)**	**(11,190)**	**238**	**(219)**

45.3 LOANS AND GUARANTEES GIVEN

Nova KBM Group	Management Board members		Supervisory Board members		Other Group's employees on individual contracts	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Loans	0	277	0	0	2,477	2,283
Average interest rate on loans (%)	0.00	1.41	0.00	0.00	2.54	1.78
Repayments	0	1	0	0	307	214
Guarantees given	0	0	0	0	0	0

Nova KBM	Management Board members		Supervisory Board members		Other Group's employees on individual contracts	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Loans	0	277	0	0	2,397	2,131
Average interest rate on loans (%)	0.00	1.41	0.00	0.00	2.51	1.76
Repayments	0	1	0	0	262	159
Guarantees given	0	0	0	0	0	0

45.4 RELATIONSHIP BETWEEN NOVA KBM D.D. AND ITS PARENT COMPANY

No legal transactions were made in 2022 between Nova KBM and Biser Bidco S.à r.l., its Parent Company, or Biser Topco S.à r.l., a company affiliated to its Parent company, which could have been detrimental to the Bank.

In 2022, Nova KBM paid dividends to its Parent Company, Biser Bidco S.à r.l in the total amount of €108,932 thousand. The commission received amounted to €164 thousand.

All amounts in EUR thousand unless otherwise stated.

45.5 COMPENSATION EXPENSE OF KEY MANAGEMENT PERSONNEL

	Nova KBM Group		Nova KBM	
	2022	2021	2022	2021
Short-term employee benefits	4,415	5,128	2,962	4,210
Post-employment benefits	0	0	0	0
Other long-term benefits	1,552	1,968	1,419	1,855
Termination benefits	0	1,608	0	1,608
Share-based benefits	0	0	0	0
Total	**5,967**	**8,704**	**4,381**	**7,673**

The table above includes certain amounts, presented as payable short-term benefits and other long-term benefits, that have been accrued for variable compensation for the Management Board members that as of the date of signing the financial statements had not been confirmed by the Bank's Supervisory Board. Such amounts are included within the amounts which are presented as compensation expenses of key management personnel. Actual short-term and long-term payments may differ compared to the accrued amounts as at 31 December 2022.

In 2021, in accordance with IAS 19, the Bank has accrued an amount of €1,608 thousand in respect of the compensation of Board members for loss of office in accordance with the relevant clauses in their contracts. For the avoidance of doubt, no amount was paid by the Bank to Board members as compensation for loss of office during the year ended 31 December 2022.

Key management personnel included in the above table is defined in the Note 45.

All amounts in EUR thousand unless otherwise stated.

46 REMUNERATION

		Nova KBM Group		Nova KBM
	2022	2021	2022	2021
Management Board members	4,045	4,488	4,045	4,488
Members of Supervisory Board	614	637	614	637
Other employees on individual contracts	9,887	10,862	8,093	9,686
Total	**14,546**	**15,987**	**12,752**	**14,811**

In accordance with Article 69 of the Companies act (ZGD-1), the remuneration received by members of the Management Board, Supervisory Board, and employees on individual contracts are disclosed in gross amounts received (excluding reimbursement of costs and supplementary pension insurance). The amounts in the above table represent gross payments received by these persons in the 2022 financial year.

Remuneration paid to Management Board members comprises: salary, allowance for bonuses, bonuses, payment of supplementary pension insurance premiums, other remuneration under employment contract and reimbursement of costs.

Remuneration paid to Supervisory Board members comprises: payment for holding the office, reimbursement of costs, and payment of liability insurance premiums.

Remuneration paid to other employees working on individual contracts comprises: salary, allowance for bonuses, bonuses, pay for annual leave, supplementary pension insurance premiums, other remuneration under employment contracts and reimbursement of costs. This remuneration was paid to senior management personnel as well as all the employees in the Group employed on individual contracts.

All amounts in EUR thousand unless otherwise stated.

47 SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

No other events have occurred that were not already taken into account and would have affected disclosed items of the financial statements.

Business combinations completed after the reporting date

Following the receipt of all necessary consents from the regulatory bodies, the takeover of the Nova KBM Group was completed on 6 February 2023, based on the sale and purchase agreement concluded between OTP Bank Nyrt. and Biser Topco S.à r.l. Indirectly, OTP Bank became the official owner of the Nova KBM Group, which comprises Nova KBM d.d. and ALEJA finance d.o.o.

On the day the aforementioned transaction was concluded, Nova KBM's 100% participating interest in Summit Leasing Slovenija d.o.o. was sold based on the agreement of 29 June 2022 on the sale and purchase of all of the company's issued capital, due to certain competition law concerns expressed by the Competition Protection Agency regarding the leasing activity within the Nova KBM Group following the conclusion of the sale and purchase agreement between OTP Bank Nyrt. and Biser Topco S.à r.l.

Summit Leasing Slovenija d.o.o. and its related company Mobil Leasing are consequently excluded from the compilation of the financial statements of the Nova KBM Group from 1 February 2023 onwards, which resulted in a reduction in total assets by €59.2 million and a reduction in equity by €45.2 million. The Nova KBM Group and Nova KBM realised a loss from the sale in the amount of €37 million and €50.4 million, respectively.

The name of Biser Bidco S.à r.l., the sole shareholder of Nova KBM d.d., was changed to OTP Luxembourg S.à r.l. on 6 February 2023.