THE LANDMARK YEAR OF 2013

NOVA KBM GROUP AND
NOVA KBM D.D.
ANNUAL REPORT 2013

Nova KBM
READY FOR TOMORROW

New organization. A new restructuring programme. An increase in share capital. More than 100 measures adopted to improve operational efficiency. Improving credit ratings and stable operations. Newly found trust of our customers. These are the events that marked 2013. Through a thorough test of the Slovene banking system that even Nova KBM didn´t avoid, we built the basis for a more successful future. We are building a bank that will stand by your side on these solid foundations. For us, 2013 was the year of new beginnings.

For us, 2013 was a landmark year.


NovaKBM

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It was heavier than I imagined it would be. No wonder, as the path to winning it was not easy. Despite the grind, training was not the largest obstacle. And neither were the other competitors, even though all of them were masters. My toughest opponents were doubt, denial and scorn. But when I wrapped my fingers around the crystal globe, everything fell into place. When I grabbed it, it seemed heavy. But when I raised it, I also raised the respect for my sport.

For me, 2012 was a landmark year.

Filip Flisar

Filip Flisar, skier

BUSINESS REPORT

01 KEY PERFORMANCE INDICATORS

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

ITEM DESCRIPTION 1	2013 2	2012 3	2011 4	Index 5=2/3
Statement of financial position (€000)	**31.12.**	**31.12.**	**31.12.**	
Total assets	**4,810,793**	5,321,810	5,813,071	90
Total deposits from the non-banking sector measured at amortised cost	**3,079,299**	3,618,678	3,760,639	85
Total loans and advances to the non-banking sector measured at amortised cost	**2,231,765**	3,397,900	3,844,085	66
Total shareholders´ equity	**560,028**	253,204	435,563	221
Impairment of financial assets, provisions	**805,048**	759,234	497,601	106
Off-balance sheet items	**725,706**	789,457	889,043	92
Income statement (€000)	**12M 2013**	**12M 2012**	**12M 2011**	
Net interest income	**78,683**	105,844	135,593	74
Net fee and commission income	**109,481**	105,937	62,332	103
Staff, general and administration costs	**(105,021)**	(104,059)	(108,455)	101
Depreciation and amortisation	**(16,454)**	(16,443)	(16,644)	100
Impairment losses and provisions	**(725,269)**	(309,466)	(175,391)	234
(Loss) before tax from continuing and discontinued operations	**(658,580)**	(218,187)	(102,565)	302
Income tax related to profit or loss from continuing and discontinued operations	**(26,328)**	12,490	21,443	
Net (loss)	**(684,908)**	(205,697)	(81,122)	333
Statement of comprehensive income (€000)	**12M 2013**	**12M 2012**	**12M 2011**	
Other comprehensive income/(loss) before tax	**13,091**	28,254	(24,811)	46
Income tax related to other comprehensive income or loss	**(2,206)**	(6,020)	5,164	37
	31.12.	**31.12.**	**31.12.**	
Number of employees	**1,856**	2,027	2,991	92
Shares				
Number of shareholders	**1**	97,429	98,354	
Number of shares	**10,000,000**	39,122,968	39,122,968	26
Accountable par value of one share (€)	**15.00**	1.04	1.04	
Book value per share (€)	**56.67**	5.37	10.07	
Ratios (%)				
a) Equity				
- total capital adequacy ratio	**18.13**	9.17	11.47	
- Tier I capital ratio	**18.06**	8.17	8.59	
- Core Tier I capital ratio	**18.06**	5.26	8.06	
- Core Tier I capital ratio (EBA methodology)*	**18.06**	7.57	8.06	
b) Quality of assets				
- impairment of financial assets measured at amortised cost and provisions for commitments/classified on- and off-balance sheet items	**16.79**	12.93	8.93	
- premium for risk	**23.93**	6.77	3.15	
- overdue claims as a percentage of gross loan portfolio	**24.87**	18.72	13.86	
- overdue claims coverage ratio	**67.52**	69.05	64.44	
c) Profitability				
- interest margin	**1.52**	1.87	2.31	
- margin of financial intermediation	**3.64**	3.73	3.37	
- ROAA before tax	**(12.74)**	(3.85)	(1.75)	
- ROAE before tax	**(221.22)**	(55.00)	(21.51)	
- ROAE after tax	**(230.06)**	(51.85)	(17.01)	
d) Operating costs				
- operating costs/average total assets	**2.35**	2.12	2.13	
- cost/income (margin of financial intermediation)	**64.56**	56.90	63.21	
e) Net loans and advances to customers/deposits from customers	**72.48**	93.90	102.22	

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

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

1.2 KEY PERFORMANCE INDICATORS OF NOVA KBM[2]

ITEM DESCRIPTION 1	2013 2	2012 2	2011 4	Index 5=2/3
Statement of financial position (€000)	**31.12.**	**31.12.**	**31.12.**	
Total assets	**3,909,983**	4,338,568	4,810,537	90
Total deposits from the non-banking sector measured at amortised cost	**2,364,102**	2,917,317	3,061,835	81
a) from legal and other entities that carry out economic activity	**539,986**	974,082	1,057,291	55
b) from households	**1,824,116**	1,943,235	2,004,544	94
Total loans and advances to the non-banking sector measured at amortised cost	**1,826,371**	2,891,136	3,342,123	63
a) to legal and other entities that carry out economic activity	**1,003,891**	2,017,969	2,412,756	50
b) to households	**822,480**	873,167	929,367	94
Total shareholders´ equity	**517,712**	192,569	373,736	269
Impairment of financial assets, provisions	**583,006**	634,558	367,729	92
Off-balance sheet items	**630,100**	699,155	799,439	90
Income statement (€000)	**12M 2013**	**12M 2012**	**12M 2011**	
Net interest income	**60,628**	71,736	99,257	85
Net fee and commission income	**91,865**	101,057	43,651	91
Staff, general and administration costs	**(71,242)**	(70,157)	(75,580)	102
Depreciation and amortisation	**(11,788)**	(11,986)	(13,162)	98
Impairment losses and provisions	**(702,957)**	(304,985)	(158,184)	230
(Loss) before tax from continuing and discontinued operations	**(633,494)**	(214,335)	(104,018)	296
Income tax related to profit or loss from continuing and discontinued operations	**(23,006)**	11,080	20,043	
Net (loss)	**(656,500)**	(203,255)	(83,975)	323
Statement of comprehensive income (€000)	**12M 2013**	**12M 2012**	**12M 2011**	
Other comprehensive income/(loss) before tax	**11,033**	27,765	(19,347)	40
Income tax related to other comprehensive income or loss	**(1,801)**	(5,676)	3,870	32
	31.12.	**31.12.**	**31.12.**	
Number of employees	**1,201**	1,280	1,346	94
Shares				
Number of shareholders	**1**	97,429	98,354	
Number of shares	**10,000,000**	39,122,968	39,122,968	26
Accountable par value of one share (€)	**15.00**	1.04	1.04	
Book value per share (€)	**51.77**	4.92	9.55	
Ratios (%)				
a) Equity				
- total capital adequacy ratio	**20.49**	9.18	10.83	
- Tier I capital ratio	**20.45**	8.33	8.47	
- Core Tier I capital ratio	**20.45**	4.91	7.81	
- Core Tier I capital ratio (EBA methodology)*	**20.45**	7.62	7.81	
b) Quality of assets				
- impairment of financial assets measured at amortised cost and provisions for commitments/classified on- and off-balance sheet items	**16.43**	13.55	7.94	
- premium for risk	**26.21**	8.82	2.78	
- overdue claims as a percentage of gross loan portfolio	**25.46**	16.94	12.05	
- overdue claims coverage ratio	**64.52**	79.99	65.90	
c) Profitability				
- interest margin	**1.44**	1.54	2.05	
- margin of financial intermediation	**3.62**	3.71	2.96	
- ROAA before tax	**(15.03)**	(4.60)	(2.15)	
- ROAE before tax	**(249.42)**	(65.54)	(24.32)	
- ROAE after tax	**(258.48)**	(62.15)	(19.63)	
d) Operating costs				
- operating costs/average total assets	**1.97**	1.76	1.84	
- cost/income (margin of financial intermediation)	**54.45**	47.54	62.10	
e) Net loans and advances to customers/deposits from customers	**77.25**	99.10	109.15	
g) Liquidity				
- liquid assets/current financial liabilities to the non-banking sector, measured at amortised cost	**53.95**	43.40	32.50	
- liquid assets/average total assets	**20.66**	15.66	12.23	

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

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

02 STATEMENT BY THE MANAGEMENT BOARD

Dear Sirs,

The year 2013 was a landmark year for Nova KBM and the Nova KBM Group, and for the entire Slovene financial system, as well as for shareholders and holders of subordinated financial instruments of several Slovene banks, including Nova KBM. Despite constraints in the financial market and changes taking place in its shareholder structure, Nova KBM remained a robust and well-performing financial institution with a strong liquidity position. It employs staff who possess the experience and skills necessary to provide all kinds of first-class financial services, and it is determined to do whatever necessary to restore the profitability of the Bank and its Nova KBM Group. Amid the difficult economic and social climate, both the Bank and the Nova KBM Group managed to report a pre-tax, pre-provision profit for all quarters of 2013. However, a significant level of provisioning expenses caused them to incur a net loss. The Nova KBM Group, along with its staff, exercises its mission in a professional and responsible manner, day by day, thus strengthening the platform for a lasting, successful future performance of both the Bank and the Nova KBM Group, irrespective of the Bank´s current ownership, and irrespective of when the Bank and its subsidiaries within the Nova KBM Group are sold to a new, strategic investor that will be free to draw up and implement a different strategy.

The measures aimed at strengthening the soundness of Slovene banks, which the Republic of Slovenia adopted by a special law at the end of December 2012, started being implemented intensively in 2013. As part of the programme to stabilise the banking system, the Parliament of the Republic of Slovenia last year adopted an amended Banking Act, primarily with a view to introducing several changes in banks, especially those owned by the state. In December 2013, following the release of results of stress tests and an asset quality review carried out in the Nova KBM Group, based on which the Bank of Slovenia made a decision to impose extraordinary measures on several banks, including Nova KBM, the Ministry of Finance of the Republic of Slovenia infused €870 million of fresh capital into the Bank and became its sole shareholder. All of the qualified liabilities of the Bank arising from its shares, hybrid notes, and bonds with characteristics of innovative instruments were written off. The Bank transferred to BAMC a significant proportion of bad loans held on its books and the books of some other companies within the Nova KBM Group. The provision of state aid through recapitalisations in 2012 and 2013 as well as the adoption of extraordinary measures were necessary to ensure the adequate financial position of both the Bank and the Nova KBM Group in the long run and to restore the stability of the Slovene financial system.

While the implementation of extraordinary measures improved the capital base of the Bank and the Nova KBM Group as a whole, it also led to a necessary restructuring of their operations. By drawing up a restructuring programme, we demonstrated to the Ministry of Finance and the European Commission our capability to fundamentally reorganise the Bank and the Nova KBM Group and to return them onto a path towards profitability. The approval of our restructuring programme by the European Commission last December is to be understood as a sign of trust, while at the same time it also gives us a degree of responsibility towards our owner, all citizens, our customers, and the social and economic environment in which we operate.

Over the last two years, we have invested much energy into dealing with the consequences of the economic and financial crises in a responsible and active manner, and resolving allegedly irregular practices that occurred in past operations of the Bank. By taking decisive and well thought-out decisions and measures, we are restoring the trust that was placed in us while building a business model for a strong and stable future of both the Bank and the entire Nova KBM Group. While some decisions and measures have already started to bear fruit, we expect most results to come gradually and over a longer period of time, given the nature of the changes necessary.

Our efforts, and the measures adopted by the regulator, have come to the attention of rating agencies, which, following a long period of rating downgrades, improved their ratings on Nova KBM by one notch at the beginning of 2014. The current long-term deposit rating assigned to Nova KBM by Moody´s stands at Caa1, while the outlook on the rating was changed from negative to stable. Standard & Poor´s upgraded Nova KBM´s long-term counterparty risk rating to B from Ccc, and affirmed its unsolicited public information rating at Bpi.

Operating results of the Nova KBM Group affected by harsh economic conditions

According to several indicators, the economic activity of the Eurozone slowed down marginally in the last quarter of last year, as opposed to the economic climate and expectations, which saw an improvement relative to the previous period. The development in Slovenia in 2013 was marked by a further shrinkage of economic activities in the local and

international environment as well as by difficult conditions in the local labour market. Notwithstanding these facts, the Nova KBM Group reported a pre-tax, pre-provision profit from continuing operations of €66.7 million, while the pre-tax, pre-provision profit of Nova KBM stood at €69.5 million. A high level of provisioning expenses caused the Nova KBM Group and the Bank to incur a net loss of €684.9 million and €656.5 million, respectively. The total assets of the Nova KBM Group equalled €4.8 billion at the end of 2013, a year-on-year decline of €511.0 million, or 9.6%. The decrease in total assets was in line with the commitments set out in the restructuring programme, with the transfer of bad loans to BAMC contributing the most to this fall.

Throughout 2013, the Nova KBM Group continued reducing and optimising its operating costs, this being one of its most important strategic objectives. The most promising cost-cutting results were achieved by Nova KBM, which registered a reduction in staff costs of €1.8 million, or 4.5%. The decrease in staff costs, which accounted for the largest proportion of the total operating costs, reflected in part a reduction of 79 in the number of staff. At the end of 2013, the Nova KBM Group had 1,865 employees, of whom 1,201 were employed by the Bank. Nova KBM´s operating costs saw a year-on-year increase of €0.9 million, mainly due to extraordinary expenses related to certain projects that the Bank was obliged to carry out in order to strengthen its capital base and meet the regulatory capital requirements. Most of this increase was attributable to advisory costs in respect of the Bank´s restructuring, the asset quality review, recapitalisation, and regular and extraordinary audit reviews, but also to the payment of severance benefits and interest on the CoCo bonds. Without taking account of extraordinary costs, the Bank´s cost-to-income ratio would have stood at 52.0%. Since the new Management Board started to run the Bank in 2012, a total of more than 70 cost-cutting measures have been implemented in the Bank and at the Nova KBM Group level as part of the RAST project, resulting in estimated cost savings of €5.1 million. Moreover, 108 additional measures have been implemented by other companies within the Nova KBM Group, providing estimated cost savings of €1.6 million. The implementation of all the identified 247 cost-cutting measures is expected to bring down the operating costs of the Nova KBM Group by €12.4 million. Cost-cutting efforts are continuing in 2014, without compromising on the quality of our work and customer service.

Despite adverse conditions in the financial market, the Bank managed its liquidity in 2013 in such a way as to ensure the settlement of all obligations that became due. By applying a conservative approach, the Bank created an adequate secondary liquidity reserve and complied with the Bank of Slovenia regulations on minimum liquidity and obligatory deposits.

While the Management Board of Nova KBM continued to consist of two members, the composition of its Supervisory Board saw some changes after three members resigned, one in 2013 and the other two in February and March this year. As a result, at the end of March 2014, the Nova KBM Supervisory Board had six members, without this reduction in its members having an impact on its professional conduct or compliance with regulatory requirements. The communication and cooperation between the Management and Supervisory Boards was adequate and correct, and complied with the principles of good corporate governance, which remains our guiding principle also in 2014.

Important activities in 2013

To ensure successful performance of the Bank in the future, a number of projects and measures were carried out both in the Bank and at the Nova KBM Group level, the most important of which we would like to present to you below.

The Bank drew up a restructuring programme, which the European Commission approved in December. The main goal of the restructuring programme, which is being actively implemented, is to restore the profitability and vitality of both the Bank and the Nova KBM Group. The restructuring programme encompasses 16 umbrella commitments that the Bank and the Republic of Slovenia must fulfil by the end of 2017.

As part of the restructuring programme, a portion of bad loans on our books was transferred to BAMC in December. We have started taking certain measures to improve the system of internal controls and the warning system for potentially distressed loans, which has led to a reduction of credit and operational risks. Measures were also implemented for a more efficient monitoring of customers, as well as measures aimed at protecting the interests of the Bank. All this, in addition to organisational changes, is being done to mitigate the possibility of incurring additional bad loans.

We have set out the platform for a new strategic development programme, which focuses on two segments: corporate banking and retail banking. While the Bank will favour stability and the quality of its loan portfolio over growth, the Nova KBM Group will be fundamentally restructured.

Particular attention has been devoted to the internal development of the Bank. In October 2013, we set up a new, more efficient and streamlined organisational structure, and have started downsizing our branch office network. Among the organisational and development steps taken last year, we wish to emphasize the introduction of the 'one face to the customer' service, the formation of the Product and Service Development Department, the merger of support functions into one department, a decrease in the number of employees working on individual contracts, and the delegation of increased individual responsibility to the senior management level.

Based on the report of a forensic audit review of Nova KBM and several companies within the Nova KBM Group, the Management Board brought charges against individuals who were allegedly responsible for irregularities in past operations of the Bank. The implementation of measures intended to protect the interests of the Bank is continuing in 2014.

Financial plan for 2014

The drafting of the 2014 financial plan was carried out by taking into consideration mainly the autumn forecasts of the Institute of Macroeconomic Analysis and Development, according to which growth prospects for Slovenia are still mostly negative. The economic recession is expected to continue almost throughout the year, with a marginal economic growth projected to be achieved only in the last quarter of the year. Achieving this projection will to a large extent depend on the efficacy of further measures to stabilise the banking system, and on the de-leveraging of companies.

The 2014 financial plan of the Bank and the Nova KBM Group, which has been approved by the Supervisory Board, envisages that the Bank will generate a net profit of €8.3 million in 2014, provided no deterioration in the economic conditions occurs. The Nova KBM Group is expected to report a pre-tax, pre-provision profit, while a minor loss of €0.9 million is expected after absorbing the impact of provisioning expenses.

Our loan portfolio was cleaned up by the end of 2013. Considering that a number of efforts have been taken to enhance credit risk management, we expect that the level of bad loans and provisioning expenses will remain relatively low in the future. However, the realisation of this projection will to a certain degree depend on the future economic climate in Slovenia.

In accordance with the restructuring programme, the Bank must, among other steps, gradually reduce its total assets. To make this happen, the financial plan anticipates that the total assets of the Bank and the Nova KBM Group will come down to €3.6 billion and €4.5 billion, respectively, by the end of 2014. Additional business streamlining measures are expected to help us reduce the operating costs of the Bank and the Nova KBM Group by 4.1% and 5.2%, respectively.

The capital position of the Nova KBM Group will remain strong throughout 2014. A more robust capital base will facilitate the access of the Bank to funding needed to support the local economy, with priority in financing being given to customers with a good credit rating. Both the Bank and the Nova KBM Group are aware of the importance of their role in the local economy. Because of this, they will continue to actively participate in the restructuring of troubled companies that have a good chance of revival, to finance viable projects, and to ensure the safety of deposits and appropriate financial support to existing and new customers.

The new structure of the Bank, in effect since last October, constitutes the beginning of a permanently efficient and market-adapted process organisation. In 2014, we intend to continue the overhaul of our business processes, the result of which, in combination with the changes in the technological support, will be an optimum process organisation of the Bank. Based on the outcome of this business processes overhaul project, the Bank will introduce further organisational changes and upgrade its information system.

Intensive consolidation of the Nova KBM Group will be carried out in 2014, with a focus being placed on banking and other segments that have the ability to generate profits. The fundamental reorganisation of the Nova KBM Group will be carried out through mergers and restructurings of the Bank´s subsidiaries. The drafting of the reorganisation plan is in the final stages, and the decisions regarding the necessary organisational changes are expected to be taken in the first half of this year.

We are focused on a more successful future

With the landmark and challenging year of 2013 over, we now have to devote our attention to the future development of the Bank and the Nova KBM Group. This development, however, is to a great extent dependent on the decisions taken in this regard at the present time, both within and outside the Nova KBM Group. By demonstrating appropriate conduct, we are determined to regain the trust of all those who cooperate with us. We are ready to accept the challenges that await us in the future. In order to prevent any of the irregularities we have seen in the past from occurring in the future, and to meet the expectations of all our stakeholders most effectively, we will continue setting up our new business model. Together with our colleagues in the Bank and in other companies within the Nova KBM Group, we wish to thank you for your cooperation, support and confidence in us. We believe that Nova KBM and its Group have the full potential to reclaim their positions as profitable and successful financial institutions.

Management Board of Nova KBM d.d.

Igor Žibrik
Member

Aleš Hauc
President

03 REPORT OF THE SUPERVISORY BOARD

Introduction

In 2013, until 10 June, the Nova KBM Supervisory Board was composed of the following members: Peter Kukovica (Chairman), Niko Samec (Deputy Chairman), Egon Žižmond, Andrej Fatur, Keith Charles Miles FCA, Miha Glavič, Karmen Dvorjak and Peter Kavčič.

On 10 June 2013, the Nova KBM Shareholders´ Meeting appointed Aljoša Tomaž as a new Supervisory Board member, replacing Dušanka Jurenec who resigned from this position in November 2012. Aljoša Tomaž stepped down as a Supervisory Board member on 12 September 2013.

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

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

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

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

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

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

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

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

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

Supervisory Board members came to meetings well prepared, and meetings were regularly attended by the majority of its members. Supervisory Board members were adequately prepared for discussing relevant affairs; they presented constructive proposals and, on the basis of professionally prepared and comprehensive information provided by the

Management Board, reached decisions in compliance with their Rules of Procedure and competencies. The Rules of Procedure of the Supervisory Board are harmonised with the applicable principles of good corporate governance. The Management Board of the Bank was invited to all Supervisory Board meetings.

The Supervisory Board believes that its members carried out their work with great responsibility and commitment. In 2013, some members of the Supervisory Board attended the supervisory board members´ training programmes organised by the Slovene Directors´ Association, the Deloitte Academy, and the Bank Association of Slovenia.

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

In 2013, the self-assessment of the Supervisory Board and its committees was the subject of an analysis carried out by Deloitte Revizija on the basis of a survey, a review of documents in respect of the work of the Supervisory Board and its committees, and interviews with members of the Supervisory Board and its committees and members of the Management Board. It was established that, as regards the preparation for the meetings, their participation in and activity at the meetings, and their contribution to formulating individual decisions reached, the Supervisory Board members had effectively performed their supervising function during 2013 and had acted in accordance with the interests of the Bank.

The analysis of the self-assessment carried out in 2013 showed that the Supervisory Board achieved a high overall level of governance, which enabled its members to perform their work and duties effectively. By taking into consideration the opinion of Deloitte Revizija, the Supervisory Board believes an improvement in its work can be achieved, particularly in the following key areas: the composition of the Supervisory Board, by appointing additional members who are experts in banking; transparency of appointment of Management Board members; provision of information to the Supervisory Board; control by the Supervisory Board and its committees over the Bank´s strategy and planning; risk management; and financial reporting.

Audit Committee

Based on a self-assessment of the Audit Committee, it was established that the overall quality of its work was high, with the composition of the Audit Committee (in terms of the expertise and experience of its members) and its cooperation with internal and external auditors achieving the highest rating. A designated external auditor participated in the meetings of the Audit Committee.

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

Remuneration and Nomination Committee

The analysis of the self-assessment carried out in 2013 showed that the Remuneration and Nomination Committee achieved a high overall level of quality in its work. However, the committee believes certain improvements can be made in its work.

For example, in the opinion of the Remuneration and Nomination Committee, its members and members of the Supervisory Board should be informed in a timely manner of certain strategies and projects in order to be able to express their views and provide implementation guidelines. The committee believes that this deficiency is typical of a two-tier governance system. In addition to not being informed in a timely manner of certain issues and decisions, the Remuneration and Nomination Committee also does not have the competences necessary to influence such issues or decisions. The committee pointed out that the communication of the Bank´s Management Board with the Bank of Slovenia, the Ministry of Finance and the European Commission was an illustration of such a deficiency. The Remuneration and Nomination Committee also considers that an improvement must be made to the process of appointing new members to the Management Board. According to the committee, the transparency of procedures and rules applicable to appointments must be further enhanced, and its members must be more involved in the restructuring of the Bank.

Examination of the Bank´s operations and consideration of most important issues relating to the Bank´s business
During 2013 the Supervisory Board met at 11 regular and nine correspondence meetings. The most important issues discussed at the Supervisory Board meetings in 2013 were connected with the Bank´s current operations that had been impacted by the changed market conditions as a result of the financial and economic crises. The Supervisory Board was given the reports prepared by the Bank´s Management Board on the exposure to customers with financial difficulties, and the reports on changes in the quality of portfolio of leasing companies and banks in the Group. It was also informed of the measures and activities undertaken by the Bank´s Management Board with the aim of reducing the Bank´s exposure to credit risk. Furthermore, the Supervisory Board was given reports prepared by the Bank´s Management Board on the method and progress of Nova KBM´s recapitalisation.

In December 2012, the Supervisory Board gave consent to the 2013 Business Policy and Financial Plan of Nova KBM, the implementation of which it monitored throughout last year.

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

In addition to these key issues, the Supervisory Board deliberated on and approved the 2012 Annual Report of the Bank and the Group, as well as other materials which the Supervisory Board submitted for approval to the Shareholders´ Meeting. It discussed other important affairs as well.

The Supervisory Board dealt with the following key affairs and issues in 2013:
- At the beginning of the year, it reviewed the unaudited 2012 report on operations of the Bank and the Group.
- In March 2013, it considered the Bank´s Management Board´s proposal regarding the covering of the 2012 loss incurred by the Bank.
- Also in March 2013, it considered the action plan for the Bank´s recapitalisation, and was regularly informed of the Management Board´s reports regarding the implementation of measures in this regard.
- On 2 April 2013, it considered the final programme on the restructuring of the Nova KBM Group.
- It was regularly informed of the Management Board´s reports regarding the implementation of a new organisational structure of the Bank and the streamlining of its business processes.
- In April 2013, it consented to the decision of the Management Board to increase the share capital of the Bank by converting into equity the principal of a state-provided hybrid loan facility, and agreed to the amendments to the Bank´s Articles of Association in order for it to reflect the share capital increase.
- On 25 April 2013, it consented to the decision of the Management Board to increase the share capital of the Bank by converting into equity the interest accrued on the state-provided hybrid loan facility referred to above, and agreed to the amendments to the Bank´s Articles of Association in order for it to reflect the share capital increase.
- Also on 25 April 2013, it consented to a proposal of the Remuneration and Nomination Committee that a substitute member of the Supervisory Board be appointed by the Shareholders´ Meeting.
- It considered the reports on strategic and other important projects carried out by the Bank and the Group.
- It consented to the Management Board´s proposal for setting up a system of internal controls in the Bank. It regularly followed and assessed the strategies and policies of risk acceptance and management, and of the risk management system and capital adequacy.
- Within the scope of following the operations of the Bank, it regularly discussed quarterly reports on the Bank´s and the Group´s performance and quarterly internal audit reports.

- It discussed and approved the 2012 Annual Report of Nova KBM and the Nova KBM Group.
- It discussed the materials for the 24th Shareholders´ Meeting, and proposed that the Shareholders´ Meeting should reach decisions on the covering of the 2012 loss; on granting the discharge to the Management and the Supervisory Boards for the financial year 2012; on nominating the auditor for the financial year 2013; on increasing the share capital of the Bank; on amendments to the Bank´s Articles of Association; and on candidates for a substitute Supervisory Board member. Furthermore, the Shareholders´ Meeting was informed of the remuneration provided to members of management and supervisory bodies in 2012.
- On 15 October 2013, it appointed Igor Hustič as the third member of the Bank´s Management Board.
- On 29 November 2013, it consented to the Bank´s fit and proper policy.
- In November 2013, it was informed that the Republic of Serbia had exercised its option to sell its shareholding in KBM Banka to Nova KBM.
- In January 2014, it considered the report on the AQR and stress tests, and the report on recapitalisation of Nova KBM, which was carried out based on a decision on extraordinary measures reached by the Bank of Slovenia on 18 December 2013, and a decision of the European Commission regarding the provision of state aid to the Nova KBM Group.
- Also in January 2014, it was informed of the letter sent to the management of the Nova KBM Group, setting out the findings of the pre-audit of the 2013 financial statements.
- On 9 January 2014, it was informed that Igor Hustič had withdrawn as a candidate for the Bank´s Management Board.
- On 14 February 2014, it was informed that Karmen Dvorjak had stepped down as a Supervisory Board member.
- Also on 14 February 2014, it consented to the 2014 Business Policy and Financial Plan of Nova KBM and the Nova KBM Group.
- On 3 April 2014, it appointed Robert Senica as the third member of the Nova KBM Management Board, with his five-year term of office starting to run on the day he takes up the position. At the same session, the supervisors were also informed that Egon Žižmond had resigned as a Supervisory Board member.

In addition to the above stated key issues, the Supervisory Board discussed the following important matters:
- In January 2013, it considered the draft report on the forensic audit of past operations, prepared by PricewaterhouseCoopers, and proposed measures and actions to be taken to establish the responsibility of persons involved in the transactions that had been subject to audit, and measures to be taken to remedy deficiencies set out in the forensic report.
- On 29 January 2013, it adopted the Corporate Governance Statement for 2012.
- It gave its consent to the upper limit of long-term borrowings of the Bank in 2013.
- It gave its consent to the annual plan of work of the Internal Audit Centre for 2013.
- It was informed of the 2012 Report on Internal Audit in the Nova KBM Group.
- In March 2013, it was informed of the 2012 risk profile of the Bank.
- Also in March 2013, it considered the Bank´s Management Board´s proposal regarding the covering of the 2012 loss.
- On 25 April 2013, it appointed Adriana Rejc Buhovac as the new external member of the Remuneration and Nomination Committee.
- It was informed of the letters of the Bank of Slovenia to the Management and Supervisory Boards, and of the decisions, resolutions and recommendations of the Bank of Slovenia and the explanations of the Management Board in respect of these documents.
- Between individual meetings, it was informed of the Management Board´s periodic reports on the performance of the Bank and the Group.
- It considered the reports drafted by individual Supervisory Board committees.
- At its regular meetings, the Supervisory Board gave its consent to the Bank´s exposure to individual customers pursuant to the Banking Act, and approval to the exposure of the Bank to persons having a special relation with the Bank.
- It considered the Management Board´s reports regarding the transfer of bad loans to BAMC.
- It considered the Management Board´s reports regarding the progress of the RAST project.
- In May 2013, it was informed of the preliminary study on the replacement of Nova KBM´s core information system.
- It adopted amendments to the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Remuneration and Nomination Committee, and the Rules of Procedure of the Audit Committee.

- On 24 June 2013, it appointed its member Peter Kavčič as the new member of the Audit Committee.
- In June 2013, it consented to the recapitalisation of KBM Leasing Hrvatska.
- On 23 July 2013, it agreed that the increase in share capital of Gorica Leasing, KBM Leasing and KBM Invest be carried out by converting loans given by Nova KBM to these companies into their equity.
- In July 2013, based on a proposal of the Remuneration and Nomination Committee, it adopted new criteria for the remuneration of the Management Board.
- On 28 August 2013, it was informed of the assessment of the performance of Nova KBM and the Nova KBM Group for the period January to December 2013.
- In October 2013, it agreed to the revised annual plan of work of the Internal Audit Centre.
- On 15 October 2013, it consented to the draft strategy of Nova KBM for the period 2014 to 2018.
- In November 2013, it considered the final report, prepared by Deloitte Svetovanje, on the assessment of restructuring plans for KBM Leasing, KBM Leasing Hrvatska, KBM Invest and Gorica Leasing.
- Also in November 2013, it consented to the Bank´s Management Board´s decision with respect to the method and procedure used to wind up the company KBM Fineko.
- Also in November 2013, it consented to the Bank´s Management Board´s decision on the recapitalisation of PBS.
- Also in November, based on a proposal of the Remuneration and Nomination Committee, it suggested that the Bank´s Management Board regulates the remuneration system for members of supervisory boards of companies that are 100% owned by the Bank.
- On 9 January 2014, it was informed that John Harris had stepped down as an external member of the Audit Committee.
- On 14 February 2014, based on a proposal of the Audit Committee, it appointed Gojko Koprivec as the new external member of the Audit Committee.
- In February 2014, it consented to the 2014 investment and trading strategy of Nova KBM.
- Also in February 2014, it was informed of the procedure for the sale of Adria Bank, and consented to its recapitalisation.
- Also in February 2014, it considered the report on recapitalisation of PBS.
- Also in February 2014, it was informed of the method used to monitor the fulfilment of commitments given to the European Commission, and in this regard consented to amendments to the Bank´s Articles of Association.
- Also in February 2014, it was informed of the progress made with regard to the privatisation of Nova KBM.

Based on the aforementioned, and Articles 272 and 281 of the Companies Act, the Supervisory Board asserts and establishes that it regularly and thoroughly monitored the operations of the Bank and the Group in 2013 within its competencies, thus adequately supervising the management and operations of the Bank and the Nova KBM Group and the work of the Internal Audit Centre.

Supervisory Board committees

The following committees carried out their work during 2013 in accordance with the Companies Act and the Banking Act: the Audit Committee, and the Remuneration and Nomination Committee.

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

Review and approval of the Annual Report and consideration of the proposal of the Bank´s Management Board with regard to covering the 2013 loss

The Management Board submitted to the Supervisory Board the audited 2013 Annual Report of Nova KBM and the Nova KBM Group, together with the auditor´s report, within the legal deadline. It also submitted the annual report on the internal audit of the Nova KBM Group for the year 2013.

The Supervisory Board deliberated on the audited 2013 Annual Report of Nova KBM and the Nova KBM Group. It established that both annual reports gave a complete overview of the Bank´s and the Group´s operations in 2013. The Supervisory Board was also informed of the opinions of the certified auditor Deloitte Revizija. As stated in these opinions, the financial statements of the Bank and the consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2013, and their financial performance and their cash flows for the year ended 31 December 2013 in accordance with International Financial Reporting Standards as endorsed by the EU, and in accordance with the requirements of the Companies Act and the Banking Act relating to the drafting of the financial statements. The external auditor is of the opinion that the business part of the annual report is also in compliance with the audited financial statements.

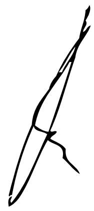
The Supervisory Board also verified the proposal of the Bank´s Management Board with regard to covering the 2013 loss. It agreed that the accumulated losses, including the 2013 loss, totalling €943,472,456.46, be covered from reserves from profit and share premium as follows:

- from regulatory reserves: €12,144,695.54
- from statutory reserves: €172,158,127.31
- from other reserves from profit: €90,741,497.60
- from share premium: €668,428,136.01

At the end of 2013, the retained earnings of the Bank equalled €0.00.

Maribor, 25 April 2014

Supervisory Board of Nova KBM d.d.



Peter Kukovica
Chairman

04 THE LANDMARK YEAR OF 2013

4.1 PROGRAMMES AND PROJECTS AIMED AT RESTORING THE PROFITABILITY OF THE NOVA KBM GROUP

Trust is the most important value and the basis of the successful performance of any financial institution. We at Nova KBM and the Nova KBM Group are dealing with the consequences of the recent global economic and financial crises in a responsible manner. A number of vital steps were taken in 2013 towards a necessary business, financial and organisational restructuring of the Nova KBM Group. By decisively implementing well thought-out programmes and measures, we are rebuilding trust in our performance while improving our results and building up a business model to ensure a more robust and stable future of the Bank and the entire Nova KBM Group.

The key activities that were carried out in 2013 and that are expected to have a material effect on the future performance of both the Bank and the Nova KBM Group are as follows:

- the development and approval of the restructuring programme
- the creation of a new business model and new strategic development programme
- the implementation of a new organisational structure
- the execution of stress tests and an AQR
- more active management of bad loans and their transfer to BAMC
- the state-sponsored recapitalisation and the write-off of all qualified liabilities of the Bank
- an intensive continuation of the programme aimed at reducing the operating costs (RAST)
- the protection of the interests and reputation of the Bank.

The European Commission approved the restructuring programme for the Nova KBM Group

According to the restructuring programme, the Bank has committed itself to fundamentally restructuring its business and that of the Nova KBM Group as a whole. The main goal of the restructuring programme is to restore the profitability and vitality of both the Bank and the Nova KBM Group.

The restructuring programme was approved by the European Commission on 18 December 2013, nine months after it had been submitted by the Ministry of Finance of the Republic of Slovenia. The Bank was obliged to prepare the restructuring programme in accordance with the rules of the European Union because it benefited from state aid through capital injections in 2012 and 2013. The restructuring programme takes into consideration the declaration of the Republic of Slovenia to sell Nova KBM by the end of 2016 at the latest.

The restructuring programme encompasses 16 umbrella commitments that the Bank and the Republic of Slovenia must fulfil by the end of 2017, of which some of the most important are as follows: a reduction in NPLs in the total loan portfolio; gradual downsizing of total assets; a reduction in operating costs and a streamlining of business processes, including the optimisation of the branch office network; improvements in the corporate governance system as well as the risk management and the loan origination models; focus of the Nova KBM Group on traditional banking services; and divestment, i.e. the sale of non-strategic assets.

Consistent and accurate implementation of all the commitments and obligations set out in the restructuring programme is continuously monitored and verified by a qualified Monitoring Trustee who is independent of Nova KBM and the Republic of Slovenia. Moreover, the trustee has the qualifications necessary to execute the mandate, and is not in, or exposed to, any conflict of interest. After the Bank had selected the candidate for the Monitoring Trustee on the basis of an invitation to tender, it submitted his/her name for approval to the European Commission.

The new strategy of Nova KBM and the Nova KBM Group places an emphasis on sound operations and the quality of the loan portfolio

By approving the restructuring programme in December 2013, the condition was met to finalise the drafting of strategic directions of Nova KBM and the Nova KBM Group. The new strategic development programme, the proposal of which was approved by the Supervisory Board and which is aligned with the commitments set out in the restructuring programme, is based on two key pillars: corporate banking and retail banking. While the Bank will favour sound operations and the quality of its loan portfolio over its growth, it will devote particular attention to the transparency of its operations, which will enable it to clearly identify profitable products.

Further information about the strategy is set out in Section 8 'Strategic development programme of the Nova KBM Group and Nova KBM for the period 2014 to 2018'.

Nova KBM has introduced a more efficient internal organisation

The restructuring programme and strategic guidelines, as well as a necessity to adapt to market needs, have prompted the management to introduce a new organisational structure for Nova KBM. This new, more efficient and streamlined organisational structure of the Bank came into effect on 1 October 2013.

The advantages of the new organisational structure are as follows:

- more efficient operations
- more efficient decision-making and communication as well as the transfer of more competences and responsibilities to department managers
- increased focus on customers and services
- a reduction in administration
- greater standardisation of work processes
- more efficient management of the Nova KBM Group.

The implementation of a new organisational structure is a step towards ensuring continued efficient and market-adapted process organisation. Along with introducing a new organisational structure, efforts have started to overhaul the Bank´s business processes, which, in combination with the changes in the technological infrastructure, are expected to result in an optimum process organisation of the Bank. Further organisational adjustments will be made based on regular assessment of the improvements in operational efficiency.

Since the takeover of Komercialna banka Nova Gorica in 1994, the Bank and the Nova KBM Group have undergone several organisational changes, rationalisations and reductions in staff. The reorganisation of the Bank in 2013 was one of the most comprehensive and demanding in the Bank´s history, and was carried out at a time of aggravated social and economic conditions. Therefore, great attention has been given to the proper communication of organisational changes.

A number of communication guidelines have been provided to department managers to ensure an adequate flow of information across hierarchical levels. The employees have received several notices from the Management Board regarding the changes taking place, and were invited to a consultation where the Management Board and department managers presented the changes in person. As each reorganisation step was taken, the relevant departments prepared a circular and posted on the intranet extensive details of the organisational changes.

Further details regarding the new organisational structure are set out in Section 9.13.1 'Changes in the business processes'. The new organisational structure of Nova KBM, in effect from 1 October 2013, is presented in Section 5.3.2 'Organisational structure of Nova KBM'.

The results of the AQR and stress tests have revealed the expected capital shortage of Nova KBM
In accordance with the recommendations given by the European Council in June 2013, the Bank of Slovenia and the Ministry of Finance requested an AQR be carried out at the Slovene banking system level, in addition to calling upon several banks to undergo stress tests. Apart from systemically important banks (NLB, Nova KBM and Abanka), Banka Celje, Gorenjska banka, Probanka, Factor banka, UniCredit Banka Slovenija, Hypo Alpe Adria Bank and Raiffeisen banka have also been included in the review under the established criteria. The purpose of the AQR was to verify the completeness and integrity of data on loans, to review individual loans and assess the value of collateral provided for these loans, and to establish whether additional impairment losses had to be set aside by the banks for their loan portfolios. The stress tests were carried out with a view to assessing the banks´ potential need for capital over the next three-year period (from 2013 to 2015) under both the baseline scenario and the adverse scenario (i.e. the scenario of increased macroeconomic imbalances).

The results of the AQR and stress tests were revealed by the Bank of Slovenia on 12 December 2013. These results have shown that, in the worst-case scenario of deteriorating economic conditions, Nova KBM would suffer from the expected capital shortage.

Republic of Slovenia became the sole owner of Nova KBM
Based on a decision passed by the Bank of Slovenia on 17 December 2013, the Republic of Slovenia became the sole owner of Nova KBM. The decision of the Bank of Slovenia was reached after the European Commission had approved the state aid measures[3] for Nova KBM and agreed to the restructuring plan for the Nova KBM Group. On 18 December 2013, Nova KBM increased its share capital by €870 million, in accordance with the decision of the Bank of Slovenia. The entire amount was paid in by the Republic of Slovenia, with €620 million being provided in cash and the remaining €250 million in the form of government bonds.

As of 18 December 2013, all qualified liabilities of the Bank to the holders of its shares, hybrid notes and bonds with characteristics of innovative instruments, incurred until the date the Bank of Slovenia passed the decision referred to above, ceased to have effect. The legal basis for the write-off of qualified liabilities referred to above was the extraordinary measures imposed on Nova KBM by the Bank of Slovenia[4] on the basis of the latest amendments to the Banking Act. As regards the rehabilitation of banks, the Republic of Slovenia is obliged to comply with the regulations governing the provision of state aid within the EU. These regulations stipulate that the government may recapitalise a troubled bank that is undergoing a rehabilitation process, but only after the identified loss is fully covered by the existing equity holders, i.e. the shareholders and holders of subordinated instruments.

As a consequence of the extraordinary measures and recapitalisation, Nova KBM had to request that its securities referred to above be deleted from the register kept by KDD. The decision of LJSE on the delisting of Nova KBM shares and bonds was received by Nova KBM on 20 December 2013, on the same day that 10,000,000 new ordinary no-par value

3 http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_35709.

4 Official Gazette of RS, No. 7/2014; dated 31 January 2014: 182. A Summary of the decision on extraordinary measures imposed on Nova KBM d.d., dated 18 December 2013; page 551.

shares of Nova KBM, with the ticker symbol KBMS, were issued and entered in the register of book-entry securities kept by KDD. On 20 December 2013, KBMR shares were also delisted from the Warsaw Stock Exchange.

Further information for shareholders is available in Section 6 'Shareholders´ equity of Nova KBM'.

In 2013, the Nova KBM Group improved the management of its bad loans; a portion of bad assets on the books of the Nova KBM Group was transferred to BAMC

Nova KBM strengthened its staffing and reorganised the units dealing with bad loans and their recovery. The Monitoring of Corporate Customers Department is closely involved in the monitoring of customers´ operations and in indentifying those companies which it is believed have growth potential. The Bad Loans Management Department actively seeks the best solutions for the restructuring of companies, to which end it collaborates constructively with other creditor banks.

Other companies in the Nova KBM Group also focused great deal of attention in 2013 on more efficient management of bad loans, taking into consideration the recommendations and standards determined by Nova KBM for that purpose. For example, KBM Banka took over from Nova KBM and implemented a harmonised credit risk management model which, after appropriate adjustment to reflect the local environment, makes it possible to manage bad loans in a more efficient way, thereby improving the loan recovery rate. Similar models and measures are gradually being introduced in other Nova KBM Group companies.

In addition to managing a portion of its bad loans internally, on the basis of the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability (ZUKSB), Nova KBM signed an agreement with BAMC for the transfer of bad assets. The cooperation between the Bank and BAMC is running smoothly and in accordance with the adopted action plan and the agreement entered into.

The legal transfer of bad assets that met the criteria stipulated in ZUKSB took place in December 2013, while the physical transfer of these assets will be conducted gradually in five tranches, presumably by the end of April 2014.

Positive effects of the RAST project (a system of continuous cost efficiency improvement) have started to snowball

At the end of 2012, Nova KBM launched the RAST project, the purpose of which was to identify and implement all necessary rationalisation measures, and to set up a system of continuous cost efficiency improvement that will help the Bank boost its performance and cut down on operating costs. After the first year of the project being in operation, the Bank considers it has been well accepted and further developed, and it has started to show the first positive results.

The RAST project is being implemented by the Bank and all other members of the Nova KBM Group. The Bank started the project in February 2013, in accordance with the decision reached by the Management Board, while at the Nova KBM Group level it has been in place since June 2013.

In 2013, a total of 113 measures were identified and implemented through the RAST project, with their aggregate impact on the permanent reduction in operating costs being assessed at €10.2 million. By the end of last year, 70 cost-cutting measures worth an estimated €5.1 million had been implemented, with the following being among the most important ones: optimisation of procurement agreements (e.g. optimisation of cleaning services provided to the Bank; rationalisation of the cash supply process; a reduction in communication costs; and a reduction in costs related to IT outsourcing, etc.); a downsizing of the branch office network (closure of several branch offices); disposal of unnecessary assets; a reduction in sponsorship, grant and entertainment expenses; a reduction in costs incurred by Pošta Slovenije universal-service post counters; an improvement in the use of transfer prices; the expansion of e-banking services by, among other improvements, discontinuing sending paper form account statements and notices to customers that use the Bank´s online banking facility, replacing them with electronic ones that are posted to the online banking service (Bank@Net and Poslovni Bank@Net) inboxes.

The implementation of these measures has already shown the first financial results, while their full effects are expected to be achieved in the next two years, given that the purpose of the RAST project is a continuous cost reduction. Also in 2013, a training programme was provided for the staff responsible for suppliers and outsourcers, the purpose of which was to make negotiations with them more effective and successful in the future.

Several workshops were held at the Group level on the method of registering cost-cutting measures, as a result of which a total of 134 measures worth an estimated €2.2 million have been addressed and included in the project. Out of these, as many as 108 cost-cutting measures worth an estimated €1.6 million had been implemented at the Group level by the end of 2013, with the following being considered to have contributed the most to cost savings: a reduction in staff and legal counselling costs; a reduction in sponsorship and grant expenses; the optimisation of mutual funds; disposal of business premises; and the migration to a new IT system.

The estimated value of 247 cost-cutting measures to be implemented at the Group level is €12.4 million.

In addition, as part of the RAST project, a consultation called 'Minimum standards applicable to procurement by steps' was held at the Group level to inform the relevant staff of the newly adopted procurement process, and to demonstrate to them the synergy effects of using a common procurement list that the Nova KBM Group will start implementing in 2014.

Nova KBM is carrying out measures to enhance its risk management framework and protect its interests

Based on a forensic audit of operations of Nova KBM and several Group companies, the Management Board took a number of steps in 2013 to improve the system of internal controls and the early warning system for potentially distressed loans, which has led to a reduction of credit and operational risks. Several actions were also taken to protect the interests of the Bank, including bringing charges against individuals who were allegedly responsible for irregularities in the past operations of the Bank. These measures and actions are continuing in 2014. Further details in this regard are set out in the document 'Disclosures made by Nova KBM for the year 2013 on the basis of its consolidated financial situation'.

4.2 SUMMARY OF THE BANK OF SLOVENIA DECISION ON EXTRAORDINARY MEASURES[5]

BANKA SLOVENIJE
BANK OF SLOVENIA
EUROSYSTEM

SUMMARY OF DECISION ON EXTRAORDINARY MEASURES IMPOSED ON NOVA KREDITNA BANKA MARIBOR D. D. ON 18 DECEMBER 2013

Pursuant to the first paragraph of Article 31 and the first paragraph of Article 43 of the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. 72/06 [official consolidated version] and 59/11) and the first paragraph of Article 217 in connection with Article 253 of the Banking Act (Official Gazette of the Republic of Slovenia, Nos. 99/10 [official consolidated version], 52/11 [correction], 9/11 [ZPlaSS-B], 35/11, 59/11, 85/11, 48/12, 105/12, 56/13, 63/13-ZS-K and 96/13; hereinafter: the ZBan-1), the Bank of Slovenia hereby imposes on **Nova Kreditna banka Maribor d. d., Vita Kraigherja 4, 2000 Maribor** a decision on extraordinary measures, and a decision to write down all of the bank's qualified liabilities and increase its share capital via the payment of new contributions with the aim of re-establishing conditions for positive operations in the long term.

The Bank of Slovenia determined that the bank is operating in an environment of increased risk that could result in the revocation of authorisation to provide banking services because, based on an assessment of the bank's financial position as at 30 September 2013 prepared under the assumption of a going concern, including additionally required impairments identified in an independent examination of the credit portfolio, the bank does not fulfil requirements regarding the provision of minimum capital.

Under the extraordinary measure to write down qualified liabilities, the Bank of Slovenia decided to write down all of the bank's qualified liabilities effective 18 December 2013. The aforementioned liabilities comprise the bank's share capital and liabilities to creditors from subordinated claims that would only be repaid after the repayment of all ordinary claims against the bank in the event of the latter's bankruptcy.

The bank's qualified liabilities written down on the basis of the decision on extraordinary measures include:

a) the bank's share capital, which amounts to EUR 143,225,272.00 and is divided into 323,103,520 ordinary freely transferable no-par-value registered shares designated KBMR, bearing the ISIN SI0021104052 and issued in the central register of book-entry securities maintained by Centralna klirinško depotna družba d.d., Ljubljana (the Central Securities Clearing Corporation; hereinafter: the KDD);

b) the bank's liabilities from KBM9 bonds bearing the ISIN SI0022103046 issued on 30 December 2009, *Floating Rate Perpetual Notes* designated XS0270427163 and issued by ING Bank N.V. based on the agreement between the bank and ING bank N.V. (Global Issuance Programme) of 2 October 2006 and *Fixed to Floating Rate Perpetual Loan Participation Notes* designated XS0325446903 and issued by Maribor Finance B.V. based on the agreement between the bank and VTB Bank Europe plc (Subordinated Loan Agreement) of 11 October 2007.

Pursuant to the decision on extraordinary measures, the bank's shares capital was reduced to zero due to the write down of qualified liabilities. Due to the reduction in share capital, 323,103,520 of the bank's shares designated KBMR, bearing the ISIN SI0021104052 and issued in the central register of book-entry securities maintained by the KDD were cancelled effective 18 December 2013 by the decision on extraordinary measures.

5 Further information regarding the Bank of Slovenia decision to impose extraordinary measures on Nova KBM is available on the Bank of Slovenia website at: https://www.bsi.si/en/banking-supervision.asp?MapaId=1601.

Following the write down of qualified liabilities, the **bank's share capital was increased via new contributions paid up by the Republic of Slovenia on 18 December 2013**, based on the decision on extraordinary measures.

Based on the paid-in capital in the total amount of EUR 870,000,000.00, the bank once again meets capital adequacy requirements.

Pursuant to the third paragraph of Article 253 of the ZBan-1, extraordinary measures are deemed reorganisation measures as set out in Directive 2001/24/EC.

Pursuant to Article 350a of the ZBan-1, shareholders, creditors and other persons whose rights are affected by the Bank of Slovenia's decision on extraordinary measures may request that the Bank of Slovenia reimburse them for damages, provided that they prove that the damages that arose due to the effects of an extraordinary measure exceed the damages that would have been incurred had the extraordinary measure not been imposed. An appeal may be filed against the Bank of Slovenia with the competent court in Ljubljana (e.g. the Local Court or District Court in Ljubljana).

The bank may file an appeal against the decision on extraordinary measures with the Administrative Court of the Republic of Slovenia within 15 days from the delivery of the decision to all the members of the management board. The bank's shareholders whose total participating interests amount to at least one tenth of the bank's share capital may, for the purposes of exercising the right to judicial protection against the Bank of Slovenia's decision on the winding-up of the bank or extraordinary measure, request that the bank's management board, or special administration if one has been appointed, convene a general meeting of the bank's shareholders, with a proposal that the general meeting discharge the persons authorised to represent the bank pursuant to the second paragraph of Article 347 of the ZBan-1 and appoint other persons to represent the bank in judicial protection proceedings against the Bank of Slovenia's decision.

Ljubljana, 20. 12. 2013

Boštjan Jazbec
Governor

05 PROFILE OF THE NOVA KBM GROUP AND NOVA KBM

5.1 IMPORTANT EVENTS AND ACHIEVEMENTS DURING 2013

January
- Robert Senica started his five-year term of office as the President of the PBS[6] Management Board.
- The Shareholders´ Meeting of Moja naložba[7] appointed a new Supervisory Board of the company, with the following members: Aleš Hauc, Uroš Lorenčič, Katrca Rangus, Marko Planinšec, Jure Korent, Mojca Androjna, Igor Marinič, Irena Šela and Irena Žnidaršič.

February
- The equity sub-fund Infond Life, managed by KBM Infond[8], received, for the second consecutive year, a Five Star award from the magazine Finance for being the best managed mutual fund offered in the Slovene market in the last three- and five-year periods.

March
- The Nova KBM Supervisory Board consented to the Nova KBM Group´s restructuring programme, after which the restructuring programme was submitted, through the Ministry of Finance, to the European Commission.
- The Nova KBM Management Board submitted to the competent authorities the report on forensic audit of operations of Nova KBM and several Group companies.
- Moody´s Investors Service downgraded Nova KBM´s long-term deposit rating to Caa2 from B3, with a negative outlook.
- For its trademark 'Sveta vladar' *(Ruler of the world)* and marketing communication campaign 'Rimaj z Zlatkom' *(Rhyme with Zlatko)*, Nova KBM won the silver and the bronze Effie prize, respectively.

April
- The Nova KBM Supervisory Board consented to the decision reached by the Management Board to increase the share capital of the Bank by an in-kind contribution resulting from the conversion into equity of a €100,000,000 deposit provided by the Ministry of Finance of the Republic of Slovenia in accordance with the Hybrid Loan Facility Agreement dated 31 December 2012.
- Nova KBM received a court notice that the share capital increase referred to in the paragraph above had been entered into the Companies Register. Prior to the registration of the share capital increase, Nova KBM´s share capital totalled €40,814,000 and was split into 39,122,968 ordinary freely transferable registered no-par value shares with voting rights. Following the registration of the share capital increase, Nova KBM´s share capital totalled €140,814,000 and was split

6 All references in this Annual Report to 'Poštna banka Slovenije' or 'PBS' are to Poštna banka Slovenije d.d.
7 All references in this Annual Report to 'Moja naložba' are to Moja naložba, pokojninska družba, d.d.
8 All references in this Annual Report to 'KBM Infond' are to KBM Infond, družba za upravljanje, d.o.o.

into 137,645,135 ordinary freely transferable registered no-par value shares with voting rights. All newly issued shares were subscribed for by the Republic of Slovenia. The rights and entitlements attached to new shares were the same as those attached to all other ordinary registered shares issued previously by Nova KBM.
- Nova KBM received the remaining proceeds from the sale of its 51% shareholding in Zavarovalnica Maribor, in accordance with the provisions of the agreement on the sale of Zavarovalnica Maribor shares, signed on 11 December 2012 between SOD and Pozavarovalnica Sava, as the buyers, and Nova KBM, as the seller. The transfer of Zavarovalnica Maribor shares to SOD and Pozavarovalnica Sava was made in accordance with the said agreement on 25 April 2013. By paying the entire purchase consideration and transferring the shares, the parties to the agreement fulfilled all contractual obligations, thus completing the sale of the Bank´s equity stake in Zavarovalnica Maribor.
- Fitch Ratings downgraded Nova KBM´s ratings to BB-/B from BBB-/F3.
- Igor Žibrik resigned as the Chairman and Ivica Smiljan resigned as a member of the KBM Leasing Hrvatska[9] Supervisory Board. Uroš Lorenčič took over the chair of the company´s Supervisory Board, while Borut Radolič was appointed as a new Supervisory Board member. Peter Kupljen remained on the Supervisory Board as a member.
- KBM Leasing Hrvatska prepared its rehabilitation plan.
- A new Supervisory Board of KBM Leasing[10] was appointed, with the following members: Uroš Lorenčič, Chairman, Anton Guzej, Deputy Chairman, and members Borut Radolič and Peter Kupljen.
- A new Supervisory Board was also appointed to KBM Invest[11], with the following members: Uroš Lorenčič, Chairman, Borut Radolič, Deputy Chairman, and members Anton Guzej and Peter Kupljen.
- Nova KBM´s branch office Mestna Hranilnica in Maribor closed its doors.
- Identification began of loans that were transferred to BAMC in December.

May
- Nova KBM participated as the main sponsor in the international conference PODIM.
- Nova KBM´s branch office in Novo mesto moved into new premises.

June
- Nova KBM held a meeting with its shareholders.
- The 24th Nova KBM Shareholders´ Meeting took place.
- The Nova KBM Shareholders´ Meeting appointed Aljoša Tomaž as a new Supervisory Board member, replacing Dušanka Jurenec who resigned from this position in November 2012.
- The Nova KBM Supervisory Board and the KBM Leasing Hrvatska Shareholders´ Meeting approved a €5.5 million capital injection into KBM Leasing Hrvatska.
- The Moja naložba Shareholders´ Meeting reached a decision to change the name of the company from Moja naložba, pokojninska družba, d.d. – member of the Nova KBM Group to Moja naložba, pokojninska družba, d.d.

July
- Nova KBM received a court notice that the share capital increase had been entered into the Companies Register. Prior to the registration of the share capital increase, Nova KBM´s share capital totalled €140,814,000. Following the registration of the share capital increase, Nova KBM´s share capital amounted to €143,225,000 and was split into 323,103,520 ordinary no-par value shares. The share capital of Nova KBM was increased by an in-kind contribution resulting from the conversion into equity of interest accrued on the state-provided hybrid loan facility dated 31 December 2012. All newly issued shares were subscribed for by the Republic of Slovenia, as a result of which the shareholding (direct and indirect) of the Republic of Slovenia in Nova KBM increased to 94.08%. The rights and entitlements attached to new shares were the same as those attached to all other ordinary registered shares issued previously by Nova KBM.
- The Nova KBM Supervisory Board approved debt-to-equity swaps for the following Group companies: Gorica Leasing[12], in the amount of €22 million, KBM Leasing, in the amount of €25 million, and KBM Invest, in the amount of €21 million.

9 All references in this Annual Report to 'KBM Leasing Hrvatska' are to KBM Leasing Hrvatska d.o.o.
10 All references in this Annual Report to 'KBM Leasing' are to KBM Leasing d.o.o.
11 All references in this Annual Report to 'KBM Invest' are to KBM Invest d.o.o.
12 All references in this Annual Report to 'Gorica Leasing' are to Gorica Leasing d.o.o.

- After the European Commission had agreed to the recapitalisation of KBM Leasing Hrvatska, Nova KBM injected €5.5 million of fresh capital into the company.
- Vesna Užnik Djorić became a member of the Credy banka Executive Board.

August
- In accordance with the recommendations given by the European Council in June 2013, the Bank of Slovenia and the Ministry of Finance requested an AQR be carried out at the Slovene banking system level, in addition to calling upon several banks to undergo stress tests.
- Alojz Kovše was appointed as the President of the Credy banka Executive Board.

September
- Aljoša Tomaž served a notice to resign from the Nova KBM Supervisory Board.
- Nova KBM closed the following three branch offices: Delpinova, Vrtojba and Majšperk.
- Credy banka changed its name to KBM Banka[13].
- Udo Szekulics replaced Martin Czurda as a member of the Adria Bank[14] Management Board.
- Marko Planinšec stepped down as a member of the Moja naložba Supervisory Board.

October
- With the aim of enhancing its effectiveness as well as improving its performance and results, Nova KBM adopted a new organisational structure.
- The Nova KBM Supervisory Board appointed Igor Hustič as the third member of the Nova KBM Management Board.
- Elica Vogrinc was appointed by the PBS Supervisory Board as a member of the PBS Management Board.
- Damjan Kozjak took over the running of KBM Leasing, handing over his previous position as the Manager of KBM Invest to Nada Kolmanič.
- Nova KBM, KBM Invest, KBM Leasing, Gorica Leasing, KBM Leasing Hrvatska and PBS launched a joint website, www.nkbm.si/nepremicnine, where over 260 real estate units owned by these companies are offered for sale and where potential buyers of real estate can find a range of useful information about the real estate market.
- KBM Infond added a money market sub-fund, Infond Money-Euro, to its umbrella fund.

November
- In accordance with the relevant regulations, KBM Fineko[15] ceased its operations and filed for dissolution.

December
- The European Commission agreed to the restructuring programme for Nova KBM and the Nova KBM Group, which Nova KBM, as a recipient of state aid, was obliged to prepare.
- The Bank of Slovenia published the results of the bank asset quality review and stress tests. The results revealed that, in the worst-case scenario of deteriorating economic conditions, Nova KBM would suffer from the expected capital shortage and therefore would have to be provided with €870 million of additional capital. After the European Commission approved state aid measures for Nova KBM and four other Slovene banks, and agreed to the restructuring programme for Nova KBM, the Bank of Slovenia passed a decision to introduce extraordinary measures in order to ensure necessary conditions for the successful performance of banks in the future, and to restore the stability of the Slovene financial system.
- Based on the decision of the Bank of Slovenia referred to in the previous indent, the Republic of Slovenia recapitalised Nova KBM, thus becoming its sole owner and shareholder.
- In accordance with the decision of the Bank of Slovenia referred to above, all qualified liabilities of Nova KBM were written off. As a result, shares (KBMR) and hybrid bonds (KBM9) issued by Nova KBM were deleted from the register kept by KDD and delisted from the Ljubljana Stock Exchange and the Warsaw Stock Exchange.

13 All references in this Annual Report to 'KBM Banka' are to KBM Banka a.d.
14 All references in this Annual Report to 'Adria Bank' are to Adria Bank AG.
15 All references in this Annual Report to 'KBM Fineko' are to KBM Fineko d.o.o. (a company within the Nova KBM Group, now in the process of liquidation).

- Nova KBM issued shares with the trading symbol KBMS, which are not quoted on a regulated capital market.
- Several bad loans were book-transferred to BAMC.
- Recapitalisation and a simultaneous impairment of investments in the equity of the following Group companies were carried out as follows: KBM Invest, in the amount of €21 million, KBM Leasing, in the amount of €25 million, and Gorica Leasing, in the amount of €22 million.
- By injecting in-kind and cash contributions in the total amount of €42.5 million, Nova KBM became a 99.12% shareholder of PBS.
- PBS received a licence to provide insurance brokerage services in accordance with the law governing the insurance business.
- Nova KBM purchased from the Republic of Serbia shares of KBM Banka worth €5,641,000, thereby increasing its shareholding in KBM Banka to 89.53%.
- Ljubinka Lovčević was appointed as a member of the KBM Banka Executive Board.
- Drago Cotar served a notice to resign from the KBM Infond Supervisory Board.
- Nova KBM joined a Slovenia-wide charitable campaign called 'Anina zvezdica' *(Ana´s little star)*, for which, along with its employees and other Group companies, it collected food for 500 Slovene families.

5.2 IMPORTANT EVENTS IN 2014

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

On 11 March 2014, with the aim of controlling the operations of Adria Bank and supporting the improvement of its performance, the Austrian Financial Market Authority (FMA) appointed a government commissioner to the Adria Bank Management Board. The commissioner´s term of office is limited to a maximum of 18 months.

On 30 January 2014, Moody´s Investors Service upgraded Nova KBM´s long-term deposit rating to Caa1 from Caa2, at the same time changing the outlook on the rating from negative to stable. The financial strength rating was affirmed at E. Moody´s also raised Nova KBM´s baseline credit assessment (BCA) to caa2 from caa3.

Standard & Poor´s upgraded Nova KBM´s long-term counterparty risk rating to B from Ccc, and affirmed its unsolicited public information rating at Bpi.

In March 2014, Fitch Ratings affirmed the ratings of Nova KBM.

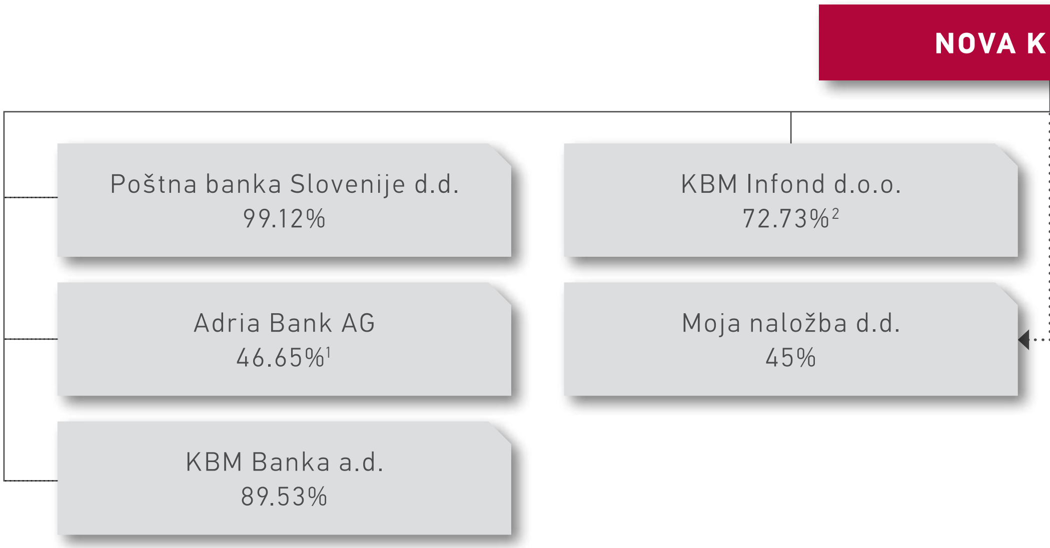
On 2 January 2014, Igor Hustič withdrew as a candidate for the Nova KBM Management Board after he had been nominated for that position in October 2013.

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

On 3 April 2014, the Supervisory Board appointed Robert Senica as the third member of the Nova KBM Management Board, with his five-year term of office starting to run on the day he takes up the position.

5.3 GOVERNANCE OF THE NOVA KBM GROUP AND NOVA KBM

5.3.1 ORGANISATIONAL STRUCTURE OF THE NOVA KBM GROUP



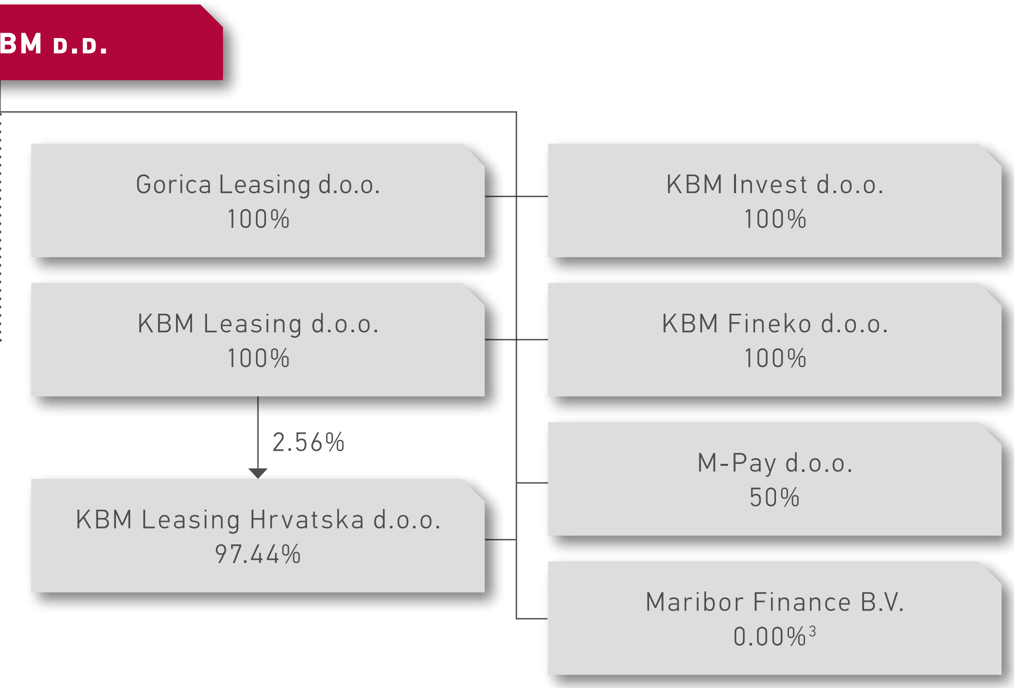
LEGEND:

Direct shareholding of Nova KBM in an entity.

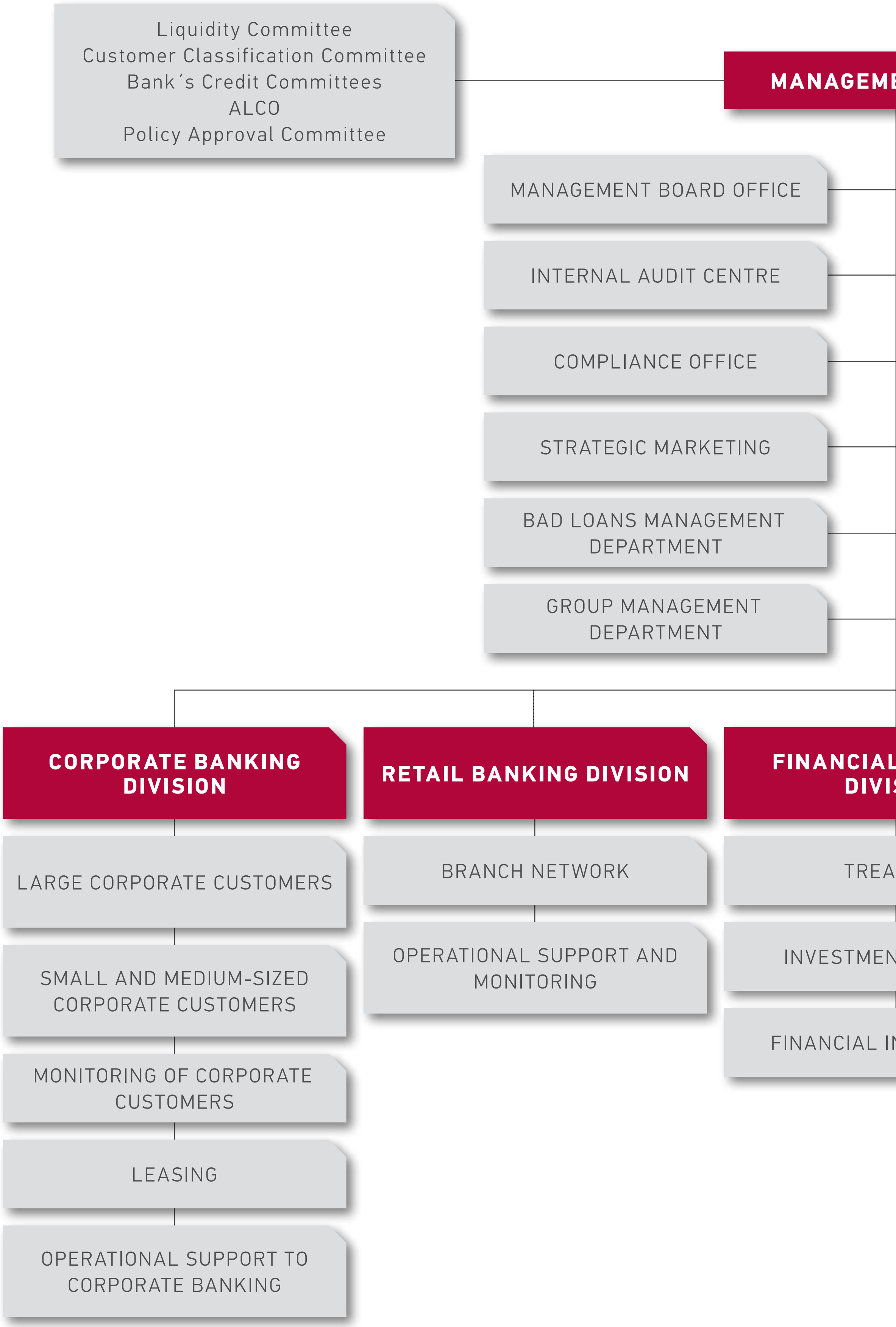
Direct shareholding of a Nova KBM subsidiary in an entity.

Direct shareholding of Nova KBM in its associated company.

Notes:
1 The Group's stake in the share capital of and voting rights in Adria Bank accounts for 50.54%, while its stake in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.
2 The Group's stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain amount of its own shares, the Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.
3 In accordance with an explanation given by the Standing Interpretation Committee (SOP 12), MB Finance is regarded as a special purpose vehicle controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity.


BM D.D.
Gorica Leasing d.o.o.
100%
KBM Leasing d.o.o.
100%
2.56%
KBM Leasing Hrvatska d.o.o.
97.44%
KBM Invest d.o.o.
100%
KBM Fineko d.o.o.
100%
M-Pay d.o.o.
50%
Maribor Finance B.V.
0.00%3

5.3.2 ORGANISATIONAL STRUCTURE OF NOVA KBM




ENT BOARD
SECRETARIAT
LEGAL OFFICE
HUMAN RESOURCE DEVELOPMENT
CORPORATE SECURITY AND CONTROL
BANK RESTRUCTURING
L MARKETS
SION
SURY
IT BANKING
NSTITUTIONS
FINANCE AND RISK MANAGEMENT DIVISION
ACCOUNTING
CONTROLLING
RISK MANAGEMENT
CREDIT ANALYSIS
COLLATERAL MANAGEMENT
DEVELOPMENT AND SUPPORT DIVISION
BUSINESS PROCESSES
PRODUCT AND SERVICE DEVELOPMENT
OPERATIONAL SUPPORT
PAYMENT TRANSACTIONS AND MODERN DISTRIBUTION CHANNELS
INFORMATION TECHNOLOGY
PROCUREMENT, INVESTMENTS AND COMMON INTERNAL SERVICES

5.3.3 GOVERNING BODIES OF NOVA KBM

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

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

Until the end of 2013, Nova KBM shares were quoted on the Ljubljana Stock Exchange and the Warsaw Stock Exchange. Nova KBM, as a public limited company, fully complies in its governance system with the principles laid down in the Corporate Governance Code for Public Limited Companies (hereafter also referred to as the 'Code'), which, in addition to accomplishing the main objectives of shareholders according to internal and external global orientations, has a significant impact on the Bank´s business performance and development. The currently applicable Corporate Governance Code for Public Limited Companies was adopted on 8 December 2009 and came into effect as of 1 January 2010. The Code contains, among other provisions and recommendations, a recommendation on formulating the Corporate Governance Policy.

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

By being admitted to the Warsaw Stock Exchange (WSE), Nova KBM complied in 2013 with the Code of Best Practice (corporate governance rules) for WSE listed companies. Nova KBM has formulated the Statement of Compliance with the WSE Code of Best Practice, setting out the recommendations which have not been complied with and the reasons for deviations.

As of 31 December 2013, Nova KBM shares were no longer quoted on the Ljubljana Stock Exchange and the Warsaw Stock Exchange due to being written off as a result of extraordinary measures imposed by the Bank of Slovenia. On 18 December 2013, the Republic of Slovenia recapitalised the Bank by subscribing for all of the newly issued shares, thus becoming its 100% shareholder. New shares issued by Nova KBM (ticker symbol: KBMS) are not quoted on a stock market.

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

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

Nova KBM Management Board remained composed of two members

As of 31 December 2013, the Nova KBM Management Board had the following two members: Aleš Hauc, President, and Igor Žibrik, Member.

On 15 October 2013, the Supervisory Board appointed Igor Hustič as the third member of the Management Board, with the start of his five-year term of office being set for 1 January 2014 or the day he received the approval of the Bank of Slovenia. By 31 December 2013, Igor Hustič had not received such an approval, as a result of which he withdrew as a candidate for the Nova KBM Management Board on 2 January 2014.

At the end of 2013, Aleš Hauc was the Chairman of the Supervisory Board of Moja naložba and KBM Infond, a Deputy Chairman of the Supervisory Board of PBS and Adria Bank, and a Supervisory Board member of the Bank Association of Slovenia.

Igor Žibrik was the Chairman of the Supervisory Board of KBM Banka and Adria Bank, and a member of the Supervisory Board of PBS and KBM Infond. He was also a Deputy Chairman of the Supervisory Board of KBM Projekt (now in the process of liquidation).

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

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

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

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

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

Further information about the work and competences of the Management Board is available in Section 12 'Corporate governance statement of Nova KBM'.

Other committees of Nova KBM

Credit Committee for Large Corporate Customers

After a new organisational structure of the Bank had been set up on 1 October 2012, the Credit Committee of the Bank was transformed into the Credit Committee for Large Corporate Customers, which is responsible for the management of credit risk and risks of large exposures during operations with large corporate customers. The members of the Credit Committee for Large Corporate Customers at the end of 2013 were: Jernej Močnik (Chairman), Anton Guzej (Deputy

Chairman), Aleksander Batič, Peter Kupljen and Irena Lah. Vladica Gregorčič acted as a substitute member. The Credit Committee for Large Corporate Customers meets once a week.

Credit Committee for SMEs and Sole Proprietors, and Credit Committee for Loans at Increased Risk
Following the introduction of the new organisational structure of the Bank on 1 October 2013, a decision was reached to set up the Credit Committee for SMEs and Sole Proprietors. The members of this credit committee at the end of 2013 were: Anton Guzej (Chairman), Helga Kerec (Deputy Chairman), Aleksander Batič, Saša Kebrič and Branka Vujanovič.

In addition, the Bank set up the Credit Committee for Loans at Increased Risk. The members of this credit committee at the end of 2013 were: Igor Žibrik (Chairman), Anton Guzej (Deputy Chairman), Suzana Lešnik, Marjetka Šušterič, Metka Čretnik Zavec and Borut Radolič.

Liquidity Committee
The Liquidity Committee reviews the provision of short-term liquidity. The members of the Liquidity Committee at the end of 2013 were: Sabina Župec Kranjc (Chairman), Valerija Pilih Grah, Aleš Hauc, Igor Žibrik, Jernej Močnik, Aleksander Batič, Peter Kupljen and Vlasta Brečko. Substitute members were Vojko Kalinić, Marjetka Šušterič and Helga Kerec. The Liquidity Committee meets daily.

Assets and Liabilities Committee (ALCO)
The ALCO reviews the statement of financial position structure, capital adequacy, interest rate risk, structural liquidity, market risks, currency risk, profitability and the performance of profit centres, financial plans, aggregate credit risk, regulatory requirements, tax aspects of operations and other risks associated with new products and services. The members of the ALCO at the end of 2013 were: Aleš Hauc (Chairman), Igor Žibrik (Deputy Chairman), Sabina Župec Kranjc, Peter Kupljen, Valerija Pilih Grah and Marjetka Šušterič. The ALCO meets once every month.

Policy Approval Committee
The Policy Approval Committee is responsible for: approving business policies and strategies, reconciling open issues with regard to business polices, methodologies for the calculation of adequate economic capital of the Bank, the risk matrix, assessment matrix and the risk profile, and the assessment of the Bank´s economic capital for covering risks for which the Bank does not calculate the adequate internal capital. The members of the Policy Approval Committee at the end of 2013 were: Aleš Hauc (Chairman), Igor Žibrik (Deputy Chairman), Jernej Močnik, Aleksander Batič, Vlasta Brečko, Sabina Župec Kranjc, Peter Kupljen, Uroš Lorenčič, Miha Šlamberger, Katarina Kolarič, Alenka Senčar, Suzana Slamek, Borut Radolič, Andreja Hojnik Šlamberger and Primož Britovšek.

Classification Committee
The Classification Committee is responsible for the review and approval of changes in customer classification. The members of the Classification Committee at the end of 2013 were: Peter Kupljen (Chairman), Jernej Močnik, Anton Guzej, Marjetka Šušterič, Irena Lah and Irena Komel. The Classification Committee meets on a monthly basis.

Nova KBM Supervisory Board
As of 31 December 2013, the Nova KBM Supervisory Board comprised the following members: Peter Kukovica (Chairman), Niko Samec (Deputy Chairman), Egon Žižmond, Andrej Fatur, Keith Charles Miles FCA, Miha Glavič, Karmen Dvorjak and Peter Kavčič.

On 10 June 2013, the Nova KBM Shareholders´ Meeting appointed Aljoša Tomaž as a new Supervisory Board member, replacing Dušanka Jurenec who resigned from this position on 21 November 2012.

Due to a conflict of interest (membership in the supervisory board of another regulated financial institution), Aljoša Tomaž stepped down as a member of the Nova KBM Supervisory Board on 12 September 2013.

Further information about the work and competences of the Supervisory Board is available in Section 12 'Corporate governance statement of Nova KBM'.

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

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

Egon Žižmond has been a Supervisory Board member since July 2012[16]. He has a PhD in Economics and is currently serving as a professor at the University of Primorska. He also heads the chair of economic sciences at the Faculty of Management in Koper. In the past, he was the Dean of the Faculty of Management in Koper, the Dean of the College of Management in Koper, and a professor at the University of Maribor, among other positions. He was a member of the Nova KBM Supervisory Board between 2008 and 2009.

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

Karmen Dvorjak has been a Supervisory Board member since July 2012[17]. She holds a BSc in Economics and is currently serving as the President of the Polzela Management Board, prior to which she was the Manager of the Economics Department at Livar, the Manager of Accounting, Finance and Controlling at Steklarna Rogaška Slatina, and the Manager of Steklarski Hram, among other roles.

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

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

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

In accordance with the decision passed by the Shareholders´ Meeting, the amount of attendance fees and other remuneration paid to members of the Supervisory Board and Supervisory Board committees has been aligned with the Criteria for the Remuneration of Members of Supervisory Bodies in Companies with State Capital Investments, and the Recommendations for Determining the Amounts of Attendance Fees and Remuneration paid to Supervisory Board members, as adopted by the Capital Assets Management Agency of the Republic of Slovenia in 2011. In 2013, the amount of

16 Egon Žižmond resigned as a member of the Nova KBM Supervisory Board in March 2014.
17 Karmen Dvorjak resigned as a member of the Nova KBM Supervisory Board in February 2014.

attendance fees and other remuneration paid to members of the Supervisory Board and Supervisory Board committees, and the method of their payment, was aligned with the Corporate Governance Code for State Capital Investments, and the Recommendations of the Manager of Direct and Indirect Capital Investments of the Republic of Slovenia regarding the remuneration paid to members of supervisory bodies. These documents, issued by SOD in April 2013, follow the recommendations given in the past by the Capital Asset Management Agency of the Republic of Slovenia[18] (AUKN). The total remuneration paid to Supervisory Board members consists of: a payment for holding the office, meeting attendance fees, liability insurance, and the reimbursement of costs incurred as a result of performing their duties, as well as participation fees, and costs related to the payment of participation fees.

Pursuant to the decision passed by the Shareholders´ Meeting on 22 July 2011, members of the Supervisory Board shall receive a gross attendance fee in the amount of €275. Members of Supervisory Board committees shall receive a gross attendance fee amounting to 80% of the attendance fees referred to in the previous sentence. The attendance fee for each correspondence meeting amounts to 80% of the regular attendance fee. In addition to attendance fees, each Supervisory Board member shall receive an annual basic gross payment of €13,000. The amount of extra remuneration paid to the Chairman and Deputy Chairman of the Supervisory Board and to chairmen of Supervisory Board committees, the method of payment and the limit on the total remuneration payable to them, as well as the reimbursement of costs incurred as a result of holding their office, have been adjusted to the Criteria and Recommendations of the Capital Asset Management Agency referred to above and, in 2013, to the recommendations issued by SOD.

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

Supervisory Board committees

The following committees carried out their work during 2013 in accordance with the Companies Act and the Banking Act: the Audit Committee, and the Remuneration and Nomination Committee.

Further information about the work and competences of Supervisory Board committees is set out in Section 12 'Corporate governance statement of Nova KBM'.

Nova KBM Shareholders´ Meeting

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

Information in respect of the convocation of a Shareholders´ Meeting, participation in the Shareholders´ Meeting, and on the method of decision-making at the Shareholders´ Meeting is set out in Section 12 'Corporate governance statement of Nova KBM'.

One Shareholders´ Meeting of Nova KBM was held in 2013.

At the Shareholders´ Meeting held on 10 June 2013, the shareholders of the Bank were informed about the 2012 internal audit report, the Supervisory Board´s opinion, the Annual Report of the Nova KBM Group and Nova KBM for the year 2012, and the auditor´s and the Supervisory Board´s report on the Annual Report examination of the Nova KBM Group and Nova KBM for 2012. The shareholders of the Bank were also informed of the amount and the method of covering

18 AUKN was dissolved at the end of 2012.

the Bank´s 2012 loss, and decided to grant a discharge to the Management and Supervisory Boards for the year 2012. Furthermore, the shareholders were informed about remuneration paid to the members of the management and supervisory bodies in 2012, and they elected Deloitte Revizija for the audit of the 2013 financial statements of Nova KBM and the Nova KBM Group. The Shareholders´ Meeting also passed a decision to increase the capital of the Bank by converting into equity of interest on a hybrid loan facility, and authorised the Supervisory Board to adopt amendments to the Bank´s Articles of Association to reflect the increase in share capital by an in-kind contribution. In addition, the Shareholders´ Meeting agreed to the amendments to the Bank´s Articles of Association, and appointed a substitute member of the Supervisory Board.

As a result of extraordinary measures imposed on Nova KBM, the duties of the Supervisory Board and Shareholders´ Meeting were performed by the Bank of Slovenia on 18 December 2013.

With the aim of eliminating the increased risk related to the operations of Nova KBM, to ensure conditions for the successful performance of Nova KBM and the Nova KBM Group in the long run, and to restore the stability of the Slovene financial system, on 17 December 2013 the Bank of Slovenia passed, in accordance with the first and third paragraphs of Article 261 and the first paragraph of Article 261(c) of the Banking Act, the Decision on Extraordinary Measures, based on which all qualified liabilities of the Bank were written off in order to cover its losses.

In accordance with Article 255(a) of the Banking Act, as of the date the Bank of Slovenia Decision on Extraordinary Measures was delivered to the Bank, the powers and duties of the Bank´s Supervisory Board and Shareholders´ Meeting were transferred to the Bank of Slovenia for the duration of extraordinary measures.

In order to have sufficient capital resources to achieve long-term capital adequacy, Nova KBM was also imposed an extraordinary measure to increase its share capital. As part of the recapitalisation process, on 18 December 2013 the Republic of Slovenia subscribed for and paid for all of the 10,000,000 newly issued shares of Nova KBM, in the total nominal amount of €870 million.

On 18 December 2013, in accordance with the sixth paragraph of Article 262(a) of the Banking Act, the Bank of Slovenia, as the body upon which the powers and duties of the Shareholders´ Meeting were conferred, approved the share capital increase requested by the Decision on Extraordinary Measures.

Following the entry of the share capital increase in the Companies Register and thus the assurance of long-term capital adequacy, on 18 December 2013 the Bank of Slovenia passed the Decision on the Suspension of Extraordinary Measures, by which, effective from the date of the decision, the Bank´s Shareholders´ Meeting and Supervisory Board again started exercising all their powers and duties as laid down in the applicable legislation and the Bank´s Articles of Association.

Further information regarding the stress tests, AQR, extraordinary measures of the Bank of Slovenia, and recapitalisation is set out in Section 4 'The landmark year of 2013'.

5.3.4 INTERNAL AUDIT CENTRE

The Internal Audit Centre (hereafter 'CNR') of Nova KBM performs its work in compliance with the Banking Act, the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors, and the Code of Principles of Internal Auditing. Its duties and competences are set out in the Charter of Internal Auditing, while the method of its work is regulated by the Rules Governing the Work of Internal Auditors. CNR has organised its work in such a way that the auditing of the Bank is performed separately from the audit reviews in the Bank´s subsidiary companies. CNR is responsible for coordinating the work of all internal auditors of the Nova KBM Group, and for the transfer of good practice.

The internal auditors give assurance of their organisational independence, which was not threatened in any way during 2013.

In 2013, the competent external authority carried out an assessment of the internal audit to establish whether the International Standards for the Professional Practice of Internal Auditing had been complied with by Nova KBM and PBS. Except for two standards for which partial compliance was established, the competent authority considered that Nova KBM had complied with the standards referred to above, while emphasising that improvements could be made, particularly in the following areas: team work; transfer of know-how; acquisition of professional titles; and the advisory and preventive role of internal auditors. For PBS, the assessment was made that compliance with the International Standards for the Professional Practice of Internal Auditing had been achieved to a significant degree, with the exception of the independence requirement, for which partial compliance was established, thereby stressing the need to update the competences of the Audit Committee and supervisory bodies.

Functioning of internal auditors and implementation of the annual programme of work

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

In addition to 16 internal auditors of the Nova KBM Group who carried out audit reviews in 2013, three contract auditors were hired to perform audit reviews of Adria Bank, KBM Leasing Hrvatska and KBM Infond. Throughout the year, CNR coordinated the regular reporting on the implementation of recommendations in the Nova KBM Group companies, and prepared quarterly reports on internal auditing at the Nova KBM Group level. These reports were submitted for review to the Nova KBM Management Board, the Audit Committee and the Supervisory Board. On 1 August 2013, a new director took over the running of the Internal Audit Centre. The Supervisory Board agreed that the term of office of the new director be limited until the end of 2013. At the end of 2013, the supervisors decided to extend the director´s term of office.

A total of 68 audit reviews were carried out last year, encompassing all segments of the operations of the Nova KBM Group. Apart from carrying out audit reviews, the internal auditors offered advice, coordinated audit reviews and inspections conducted by external auditors and the Bank of Slovenia, participated in due diligence reviews and other projects deemed important for the Nova KBM Group, and followed the implementation of given recommendations.

In 2013, a total of 394 recommendations were implemented to improve the operations and management of both individual Group companies and the Group as a whole. The number of non-implemented recommendations saw a significant improvement last year, falling from 51 in 2012 to 23 in 2013. Since last year, the implementation of recommendations given to each company within the Nova KBM Group has been regularly monitored and discussed at the meetings of the Nova KBM Management Board.

Accomplishing the objectives of internal auditing

The principal objectives of the internal auditors set out in the plan of internal auditing for 2013 were accomplished. The implementation of key findings and recommendations given by internal auditors to the management of the Group companies contributed to reducing risk to an acceptable level.

A description of audits performed during 2013 in individual divisions of the Nova KBM Group is set out below.

The **banking division** includes the following companies: Nova KBM, PBS, KBM Banka and Adria Bank.

In Nova KBM, a total of 19 regular audit reviews were carried out last year. Audits were carried of corporate and retail lending and of treatment of defaulting customers by the commercial departments of the Bank. Branch offices of the

Bank were subject to an audit of cash transactions. In addition, an audit review was conducted of the procedures related to the cash that is placed in the custody of the Bank by the Bank of Slovenia, as was an audit review of the central coin-storage facility. The annual audit review of disclosures requested under the Banking Act was also carried out. The audit of information systems focused on the implementation of applications and on the security and reliability of the Bank´s information systems. The costs of services provided to the Bank and the procedures employed by the Bank in case of any violations with respect to the provision of services were audited as well.

In addition to scheduled audit reviews, nine extraordinary audits were carried out, four of which were requested by the Bank´s Management Board and the Bank of Slovenia individually, while one was carried out at the request of SID Banka. Most of the external audit reviews focused on the revision of individual transactions and loans concluded in previous years, but attention was also devoted to loans approved recently to corporate customers by certain branch offices. As regards the review of individual past transactions, it was established that the Bank did not act with necessary care and diligence and that an inappropriate control environment was in place in the lending departments, especially in cases where short-term loans were given to finance long-term projects. The extraordinary audit reviews of the day-to-day operations of several branch offices revealed certain deficiencies in work processes and practices. These deficiencies were less frequent and less significant than in previous years and were related mainly to the management of credit risk, such as: failures to obtain from the Risk Management Department, in accordance with the applicable internal rules, an opinion on credit risk associated with the respective transaction; failures of representatives of the Risk Management Department to abstain from voting at credit committees; inappropriate valuation of collateral; non-compliance with the amended rules governing the Supervisory Board´s consent to large exposures; insufficient collateral coverage ratio; incomplete collateral documentation; and delays in transferring bad loans to the Bad Loans Management Department.

The audit findings disclosed that the system of controls in procedures related to lending to corporate customers and sole proprietors had not been of a sufficiently high standard in previous years and that internal controls had sometimes not worked. Over the coming years, increased attention must be given to the level of impairment losses, the recognition of which must be consistent with Nova KBM´s Methodology for the Assessment of Credit Risk Losses. An improvement in the lending procedures was noted after April 2012, but partial violations of the Bank´s operational and organisational regulations still occur from time to time. The partial incompliance with the applicable legislation, detected during the review of the treatment of defaulting customers, is being remedied. By implementing recommendations given by the internal auditors, an adequate control environment will be set up that will help improve the lending and recovery procedures. The responsible officers are implementing the recommendations with due diligence and within required deadlines.

The audit of transactions with households focused on the recovery of past due and unpaid loans and unauthorised account overdrafts. The recording of collateral provided for loans was also subject to an audit review. The implementation of recommendations and of the projected organisational changes will improve the loan recovery procedures and enable the centralised management of defaulting customers. The audit of cash operations in branch offices is carried out on an annual basis. The implementation of the findings of audit reviews ensures compliance of cash handling with internal rules as regards the cash handling processes, cash-storing sites, cash and information protection. In 2013, several significant violations of internal rules governing cash transactions were detected in some branch offices. Procedures related to the banknotes that are placed in the custody of the Bank by the Bank of Slovenia are in compliance with the rules and provisions set out in the agreement governing the custody of banknotes and the Decision on the Recycling of Euro Banknotes.

The scope and the type of disclosures provided by the Bank in its financial reports and other documents, which were reviewed by CNR, were in accordance with the Regulation on Disclosures by Banks and Savings Banks.

In the area of information and payment systems, audits were carried out of the following: the Moneta payment system; development tasks for the Loan and Collateral software; the software used to administer the guaranteed deposits;

and the suitability and physical security of the Bank´s primary computer centre. By implementing the recommendations given by the auditors, the Bank has appropriately limited risks identified in the following areas: the administration of the Moneta payment system; reporting on the performance of the Moneta payment system; management of risk associated with the Moneta payment system; control of access to protected premises of the administrator of the Moneta payment system; assignment of access rights; definition and implementation of security requirements and controls for the Loan and Collateral software; and the system of obligatory authorisation of collateral provided for all corporate loans. Also, based on a recommendation of CNR, additional staffing was provided to ensure timely and complete entry of data on collateral into the Loan and Collateral software. The implementation of recommendations will help the Bank reduce risks related to strategic planning as regards the development of the Moneta payment system, the cooperation with outsourcers, as well as the compilation of data used to prepare reports on guaranteed deposits and the documenting of the reporting process.

The audit review of the suitability and physical security of the Bank´s primary computer centre was carried out mainly with the aim of identifying risks related to the security reviews of information technology, to the preparation of a document defining the methods and the plan of protecting the Bank assets, to the cooperation with outsourcers, and to the management of access rights to the primary computer centre. The identified risks will be adequately limited following the implementation of the measures recommended by the internal auditors.

If any material violations or deficiencies had been detected, the Management Board took relevant measures against responsible persons and requested appropriate internal controls be set up.

In March 2013, as an additional part of the forensic audit review, a report was produced by the competent external institution on compliance with the new internal controls in the lending process of Nova KBM. Taking into consideration the past negative experience of the Bank, and based on the findings of the internal auditors and the forensic audit review, in 2013 significant changes were implemented in the corporate lending process, including the restructuring of the Bank, the amendment of internal rules used by the lending officers, the development of a information support system for loan approval procedures, and the provision of a training programme on the lending process.

A total of seven audit reviews were carried out in PBS last year, with focus being placed on the management of market and credit risks and on the corporate and retail loan portfolios. As regards the management of credit risk, audits were carried out of the loan approval competences and of the Credit Risk Management Department. The deficiencies detected during these reviews were related mainly to the following: the definition of criteria for the transfer and the transfer of bad loans to a special department; the assurance of an independent assessment of the value of collateral; the inadequacy of existing competences for transactions with households; and the inadequate functioning of the Credit Rating and Credit Risk Management Department.

In the area of risk management, an audit review was carried out of the management of risks related to the use of outsourcers. Apart from that, audits were carried out of PBS´s security policy, of the implementation of the access right policy, and of all policies that must be aligned with those of Nova KBM. These audit reviews revealed some deficiencies with respect to access rights. Also, it was established that the policies governing the use of outsourcers were not completely consistent with those adopted by Nova KBM.

In addition to scheduled audits, three extraordinary audit reviews were carried out in PBS. The audit of loans given to the group of related corporate customers was carried out based on a request of the PBS Management Board, while two audit reviews of a PBS branch office were carried out based on a request of the Bank of Slovenia. The audit of transactions with the group of related corporate customers revealed that the responsible persons did not act with the necessary diligence and that the internal regulations of PBS had not been fully complied with.

Based on the findings of the audits, recommendations were made to set up a more efficient system of internal controls and to improve risk management practices in the audited segments.

In KBM Banka, the auditors carried out seven regular and, in accordance with the decision of the Executive and Management Boards, six extraordinary audit reviews.

Regular audit reviews focused on lending operations in branch offices of KBM Banka, on the procedures for opening and closing accounts of households and legal entities, and on cash transactions. Based on the findings of these audits, it was established that, in most cases, the system of internal controls did not meet the required standard. It was also established that the Loan Recovery Department was not properly organised. As regards recommendations given by internal auditors, it was established that these were not implemented in a timely manner, especially those that had been given with respect to the information support to the lending processes. A legally required audit was carried out of KBM Banka´s operations to verify the compliance of its internal documents with the legislation governing the prevention of money laundering, and the compliance of its training programmes and methodologies with the implementation of the training of employees.

Four extraordinary audit reviews were carried out in some of KBM Banka´s branch offices (audit of cash and lending transactions), while the remaining two extraordinary audit reviews were related to the procurement and registration of fixed assets and to the implementation of recommendations given by the National Bank of Serbia. Severe breaches of rules were detected in cash transactions, as a result of which several employees were asked to terminate their employment. Moreover, it was established that internal controls in the lending process and in the procurement and registration of fixed assets had not functioned.

The management of KBM Banka was requested to improve the system of internal controls, especially in the lending process and in cash transactions. Currently, KBM Banka is restructuring its operations and adapting its processes to Nova KBM. The Executive and Management Boards are aware of the deficiencies and are therefore putting an increasing emphasis on the timely implementation of recommendations given by the internal auditors.

In Adria Bank, a total of four audits were carried out last year, with priority being given to the following areas: the quality of the loan portfolio; IT environment; anti-money laundering procedures; the internal capital adequacy assessment process (ICAAP); and the organisation of the Compliance Office. Based on the findings of the audit of the loan portfolio, it was established that the quality of the portfolio was poor (a significant proportion of NPLs were related to customers located in Slovenia and Croatia), as a result of which Adria Bank was asked to set aside additional provisioning expenses and to make every effort to acquire new transactions. Because of the high level of loan loss provisions, Adria Bank had an insufficient capital base and was therefore requested to adopt measures to strengthen its equity. The audit of the IT environment disclosed certain risks with respect to the migration to a new information system, while the audit of operational compliance warned of the inadequate organisation of the Compliance Office. No material breaches of the applicable legislation were identified in the area of protection against money laundering and terrorism financing.

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

In KBM Infond, a total of four audit reviews were carried out last year, with focus being placed on the following areas: records of holders of investment coupons, marketing of investment funds, the implementation of the amended legislation into the operations of the company, compliance of operations with the applicable regulations, and risk management. The audit reviews carried out last year paid particular attention to the records kept by KBM Infond on the holders of investment coupons. Based on the testing of data collected from a selected sample, it was established that the company complied with the applicable legislation and administered the records correctly. In 2012 and 2013, the company invested a great deal of energy into adapting its operations to the amended legislation. The work done in this regard was also the subject of the audit review. An assurance was given that the operations of the company had been adapted to the amended legislation and that the compliance and risk management functions had been set up in such a way as to ensure proper internal controls in the long run. No violations or irregularities in the operations of the company were detected during the audit reviews.

The four audit reviews that were carried out in Moja naložba in 2013 focused on the following areas: capital adequacy and liquidity position; annuity insurance; cooperation with external service providers, in particular with the certified actuary; and asset management from the point of view of asset valuation. The internal auditors established that the capital and liquidity risks were managed properly through the system of regular monitoring and reporting to the Management and Supervisory Boards. Based on the projections of balance sheet and income statement items, the company has prepared a plan of its capital position. In such a way, the company is capable of identifying, in a timely manner, any factors that may have an impact on its capital adequacy, and can take proper measures to strengthen its capital position. An assurance was given by an independent expert that the general terms and conditions provided by the company as well as the technical bases for the calculation of annuities were in compliance with the applicable legislation, as were the actuarial calculations used in the information system for administering annuity insurance plans, including the calculation of mathematical provisions on the basis of insurance technical provisions. As regards the company´s cooperation with external service providers, an assurance was given that the system of cooperation with external service providers was an adequate one, given the scope and characteristics of such cooperation. The audit review also considered the portfolios held by the company and its long-term funds, primarily with the aim of establishing whether the assets included in the portfolios had been properly valued. The internal auditors established that the valuation of assets had been carried out correctly and in accordance with IAS 39. No violations or irregularities in the operations of the company were detected during the audit reviews.

The **leasing and real estate activity division** includes KBM Leasing, Gorica Leasing, KBM Leasing Hrvatska and KBM Invest.

The companies included in this division are considerably exposed to credit and interest rate risks. While credit risk is diminishing for new transactions, a significant level of provisioning expenses set aside for loans approved in the past and a reduction in the business volume have a negative effect on the exposure of this division to credit risk. The proportion of overdue and unpaid receivables in the total receivables is increasing as a result of the deteriorating economic conditions. Interest rate risk has become a concern due to a declining proportion of interest-bearing assets, causing the interest margin earned by the division to be too low to cover the lack of income as a result of the company being unable to dispose of its high level of inventory. While all this has had a considerably negative effect on the performance of the division, some companies included in the division also face capital shortages. Exposure of the division to operational risk decreased somewhat following the set-up and implementation of a proper system of internal controls applicable to new transactions. However, it must be pointed out that the level of operational risk has declined also due to significantly lower business volumes as a result of the companies taking on excessive debt and therefore being unable to finance their current operations to such an extent as in previous years. The liquidity risk to which the division is exposed is managed with the support of Nova KBM, which keeps rolling over short-term loans given to the companies included in this division in order to enable most of them to maintain adequate liquidity positions. The crisis in the banking sector and some imprudent decisions taken in the past have caused the leasing and real estate activity division to be faced with a significant degree of uncertainty with regard to its future operations.

06 SHAREHOLDERS´ EQUITY OF NOVA KBM

The composition of Nova KBM´s shareholders´ equity at the end of 2013 and 2012 is presented in the table below.

€000

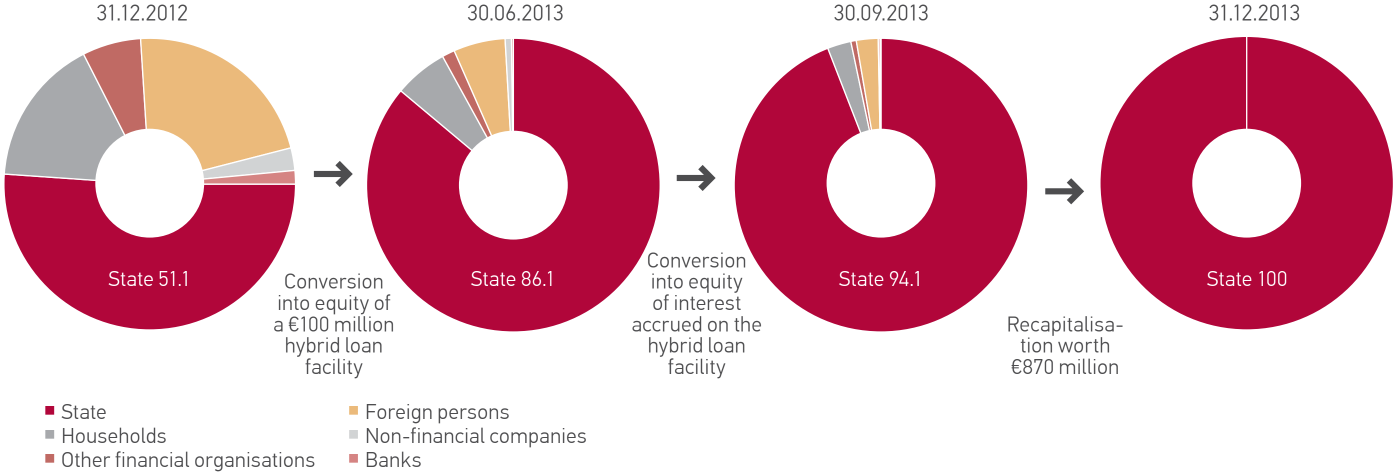
	31.12.2013	31.12.2012
1. Share capital	150,000	40,814
– ordinary shares – subscribed by non-financial companies	0	7,209
– ordinary shares – subscribed by the state	150,000	14,562
– ordinary shares – subscribed by banks	0	458
– ordinary shares – subscribed by other financial organisations	0	2,409
– ordinary shares – subscribed by households	0	7,952
– ordinary shares – subscribed by foreign investors	0	8,224
2. Share premium	360,572	165,775
– paid-in capital surplus	360,572	143,467
– share premium arising from the general capital revaluation	0	22,308
3. Revaluation reserves	7,140	(2,092)
4. Reserves from profit	0	275,044
– regulatory reserves	0	12,145
– statutory reserves	0	172,158
– other reserves from profit	0	90,741
5. Retained (loss) (including net loss for the financial year)	0	(286,972)
– retained loss from previous years	0	(83,717)
– net loss for the financial year	0	(203,255)
TOTAL	**517,712**	**192,569**

Nova KBM´s shareholders´ equity increased year-on-year by €168.8%, or €325,143,000, to €517,712,000 at the end of 2013. The increase in shareholders´ equity resulting from the 2013 capital injections worth €972,411,000 in total was partially offset by a net loss of €656,500,000 reported for 2013. The revaluation of securities equalling €9,232,000 due to restored confidence in government bonds at the end of 2013 also contributed to an increase in equity. By releasing regulatory, statutory and other reserves from profit (totalling €275 million), as well as share premium (totalling €668 million), the Bank covered both accumulated losses from previous years and the 2013 net loss. Further details regarding the movements in Nova KBM´s equity are given in the financial part of the Annual Report, in the notes to the financial statements.

Shareholder structure and share capital of Nova KBM

Following the government´s recapitalisation of Nova KBM in December 2013, the Republic of Slovenia became the only owner of all of the 10,000,000 ordinary no-par value shares issued by Nova KBM. The changes in the shareholder structure of Nova KBM in 2013 are presented in the chart below.

NOVA KBM SHAREHOLDER STRUCTURE (%)



In anticipation of the publication of the banks´ asset quality review results, on 2 December 2013 the Ljubljana Stock Exchange determined that not all of the conditions for fair, regulated and efficient trading in bank shares and subordinated instruments had been met. Therefore, in accordance with the applicable legislation and its competences, it decided to suspend the trading in KBMR shares as of that date. The last market price of a KBMR share was €0.10 (the last market capitalisation of Nova KBM, on 19 December 2013, totalled €32.3 million). On 12 December 2013, the Bank of Slovenia revealed the Report on Due Diligence of the Slovene Banking System, and presented the measures to be taken to stabilise the Slovene financial sector. Based on an extraordinary measure adopted by the Bank of Slovenia, all qualified liabilities of Nova KBM, which comprised obligations arising from the Bank´s share capital and obligations to the holders of its subordinated financial instruments, were written off. KBMR shares were delisted from the Ljubljana Stock Exchange on 20 December 2013.

In December 2013, the European Commission agreed to the restructuring programme for Nova KBM in order to ensure the long-term financial stability of the Bank and, consequently, of the Slovene banking system. Based on the consent of the European Commission regarding the provision of state aid for five Slovene banks, including Nova KBM, on 18 December 2013 the Ministry of Finance of the Republic of Slovenia infused €870 million of fresh capital into Nova KBM. A total of 10,000,000 new ordinary no-par value shares, with the ticker symbol KBMS, were issued in exchange for the capital contribution made by the Republic of Slovenia. KBMS shares are not quoted on a regulated capital market.

As of 31 December 2013, the share capital of Nova KBM totalled €150,000,000 and was split into 10,000,000 ordinary no-par value shares. Nova KBM has issued only one class of shares which are all freely transferable and bear the same rights. Each ordinary share entitles its holder to one vote at the Bank´s Shareholders´ Meeting. The rights of the holders of ordinary shares are set out in the relevant legislation of the Republic of Slovenia.

INFORMATION ON SHARES

	31.12.2013	31.12.2012	31.12.2011	31.12.2010
Number of shareholders	1	97,429	98,354	100,295
Number of ordinary shares	10,000,000	39,122,968	39,122,968	26,081,979
Share price on the last trading date (€)	-	1.30	3.16	10.20
Market capitalisation (€000)	-	50,860	123,629	266,036

	Nova KBM				Nova KBM Group			
	2013	2012	2011	2010	2013	2012	2011	2010
Book value per share[19] (€)	51.77	4.92	9.55	14.39	56.67	5.37	10.07	15.22
Net earnings/(losses) per share[20] (€)	(65.65)	(5.20)	(2.42)	0.36	(63.05)	(5.25)	(2.38)	0.41
P/E ratio[21]	-	(0.25)	(1.31)	28.33	-	(0.25)	(1.33)	24.88

Note: As a result of the December 2013 state-sponsored recapitalisation, the Republic of Slovenia became the sole owner of 10,000,000 ordinary no-par value shares issued by Nova KBM. New shares, which bear the ticker symbol KBMS, are not traded on a regulated capital market. In the calculation of the 2013 loss per share, a total of 10,000,000 KBMS shares were taken into account in the denominator, while the weighted average number of KBMR shares was taken into account in the calculation of the 2012 loss per share.

KBMR shares

In December 2007, Nova KBM launched the initial public offering of its shares, the first in Slovenia. The shares were offered to the public at a price of €27 per share. Following the placement of shares, Nova KBM had over 100,000 retail shareholders, which made it the company with the largest number of retail shareholders in Slovenia. Nova KBM shares with the ticker symbol KBMR were admitted to the Ljubljana Stock Exchange. The trading in KBMR shares started on 10 December 2007, ending the day at €36.758 per share. The highest share price, at €43.981, was reached on 24 December 2007. The first recapitalisation of the Bank was carried out in October 2008, when KBMR shares were offered to the public at a price of €19.50 each, and the Bank raised over €53 million of fresh capital. In the second recapitalisation, carried out in May 2011, KBMR shares were offered at a price of €8 to investors in Poland and Slovenia. This time, over €104 million was paid in by investors. Nova KBM was the first company in Slovenia to have its shares traded simultaneously on the local and a foreign stock market, i.e. the Warsaw Stock Exchange. In 2013, the Republic of Slovenia recapitalised Nova KBM by converting into equity a hybrid loan facility worth just over €102 million, thus becoming a more than 90% shareholder of Nova KBM. The Ljubljana Stock Exchange suspended the trading in KBMR shares in December 2013, with the price of a KBMR share on the last trading date standing at €0.10. On 17 December 2013, the Bank of Slovenia passed a decision to impose extraordinary measures on Nova KBM, according to which all KBMR shares were written off.

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

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

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

That day, tenor Mario Lanza sang on the radio. His magical voice stunned me. At that moment, I knew I only wanted one thing: To sing with the same resounding power and caressing softness. I tried to copy him. A note followed a note, until I completed the first phrase. Knowing I can do that filled me with immeasurable happiness. Final success was still far away, but from that moment on, I knew what my mission was.

For me, 1972 was a landmark year.

Janez Lotrič

Janez Lotrič, tenor

RISK MANAGEMENT

07 RISK MANAGEMENT

The Group ensures the security of its operations, assumes risk in a thoughtful and responsible manner, and complies with the highest standards of risk management. The Group is aware of all the risks that are inherent in its operations, and categorizes these according to the type of risk, individual organisational units, business processes, and employees. The policies, methodologies and regulations adopted by the Group clearly define the amount of risk the Group is capable and willing to accept in order to manage it successfully.

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

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

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

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

The decision-maker in respect of the methodologies for measuring, monitoring, and managing risks in the Group is Nova KBM. The banking companies within the Nova KBM Group take over the methodologies that are used by Nova KBM. This allows comparability of accepted risks. Non-banking companies in the Nova KBM Group manage risks in accordance with methodologies that reflect their activities and volume of operations, while taking legal requirements into consideration.

Persons responsible in the Bank for individual risk policies are acquainted with the method of managing respective risks across all Group companies and have the opportunity and obligation to influence the setting up of adequate methods of managing risks in all Group companies. Risk management procedures are conducted independently at the level of each Group company. The Group has set up methods of reporting on individual risk, which stipulate the content, the frequency, and recipients of reports.

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

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

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

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

Credit risk

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

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

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

In 2013, Nova KBM set up the rules and methodologies for determining upper lending limits for customers of the Nova KBM Group, which describe in detail the procedures and criteria to be applied when defining credit exposure limits for individual customers and groups of related customers.

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

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

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

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

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

Liquidity risk

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

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

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

The Bank´s principal objectives with respect to liquidity risk management are as follows:
- continuous provision of liquidity
- daily settlement of all on- and off-balance sheet liabilities that are due, across all currencies
- compliance with all regulatory requirements
- setting up liquidity risk limits which are regularly reviewed and monitored
- setting up and managing an adequate pool of assets used for securing claims of the central bank
- efficient management of daily liquidity surpluses and the creation of an adequate liquidity reserve
- monitoring the liquidity gap.

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

During 2013, the Bank managed liquidity risk in accordance with the policy and methodologies approved by the ALCO. It fully complied with the regulations on minimum requirements concerning liquidity position, which prescribe as obligatory the Category One Liquidity Ratio (0 to 30 days), while the Category Two Liquidity Ratio (0 to 180 days) is calculated for information purposes only. The prescribed Category One Liquidity Ratio is set at 1.0. The ALCO reviews regular reports on the diversification of funding and on the results of the dynamic liquidity gap analysis. The latter takes into consideration the time component of cash flows and is used for the early detection of negative moments in the anticipated liquidity position. The main cash flows are assessed on the basis of a statistical analysis of time series data on liquidity items. Negative liquidity position may arise very quickly and unexpectedly. In order to be prepared to deal with such situations, the Bank has drawn up three different stress scenarios, at two difficulty levels, the aim of which is to support the management of the Bank to adopt adequate measures for reducing liquidity risk. Stress tests are carried out on a monthly basis. The main goal of carrying out stress tests is to provide a sufficient level of liquidity reserves in strictly defined future periods, taking into account the limit on the cumulative net liquidity gap depending on the type of stress scenario. The results of stress tests are reviewed by the ALCO.

Market risks

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

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

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

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

Interest rate risk is a risk of loss arising due to unexpected changes in market interest rates, and derives from maturity mismatches of interest-sensitive assets and liabilities. To manage interest rate risk, the Bank calculates monthly the impact on its net interest income of interest rate changes in the next three months, as well as of the parallel shift of the yield curve by 200 basis points. The impact of changes in interest rates on the Bank´s profit or loss is measured for a one-year period. The exposure to interest rate risk of the loan portfolio and deposit portfolio, other than current deposits and securities, is controlled by the system of limits, which is approved by the ALCO and reviewed at least on an annual basis.

Operational risk

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

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

Operational risk loss events are systematically registered. The reporting on loss events captures all costs centres of the Bank and is carried out on a monthly, quarterly, half-yearly and yearly basis. The Bank has defined as an operational risk loss event any event that has a negative financial and/or material effect on its operations and is recorded in its accounts. The Bank classifies operational risk loss events by operating segment and by type of loss events, in accordance with the Basel directives. The majority of loss events recorded in 2013 related to the category 'Commercial Banking', followed by 'Retail Banking' and 'Payment and Settlement'. In terms of type, the majority of loss events occurred in the category 'Clients, Products and Business Practice', followed by 'Execution, Delivery and Process Management' and 'Damage to Physical Assets'. As regards the structure of loss events, the occurrence of a loss event related to the deferral of loan approval fees was the most significant operational risk identified last year.

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

Capital risk and ICAAP

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

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

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

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

Adequate economic capital is calculated as the sum of capital requirements for the following types of risk:
- credit risk: in accordance with Pillar I
- market risks (other than currency risk): in accordance with Pillar I
- operational risk: in accordance with Pillar I
- interest rate risk of the banking book: an internal methodology based on stress testing
- currency risk: an internal methodology based on VaR

- liquidity risk: an internal methodology based on the calculation of costs of substituting an unexpected loss of liquidity
- capital risk: availability of fresh capital
- reputational risk: an expert assessment
- strategic risk: an expert assessment
- profitability risk: an internal methodology based on deposit interest rates.

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

Prevention of money laundering

The internal policy for detection and prevention of money laundering and the financing of terrorism is an integral part of the Bank´s and the Group´s implementation of strategic objectives. It is based on the Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT) and on guidelines published by the Bank of Slovenia. In 2013, a great deal of effort was invested in further development of the system used to monitor suspicious transactions, and in the upgrade of preventive and control measures employed to limit the possibility of abusing the Bank for the purpose of money laundering and terrorism financing.

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

The guiding principle of the Bank and all companies of the Group in conducting their business is a good knowledge of customers (KYC) and of the legal activity customers are engaged in. Operations of customers are closely monitored and any unusual business practices thoroughly analysed.

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

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

The Bank does not conduct any business with shell banks. When doing business with a politically exposed person, an in-depth review of such person is carried out prior to entering into a business relationship. The customer relationship officer must obtain a written approval from his/her superior to enter into business relationship with a politically exposed person. The Bank does not open or maintain anonymous accounts or other products, and does not enter into any business relationship, that could, directly or indirectly, enable the concealment of a person´s identity.

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

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

08 STRATEGIC DEVELOPMENT PROGRAMME OF THE NOVA KBM GROUP AND NOVA KBM FOR THE PERIOD 2014 TO 2018

In 2013, the Bank drafted its strategic development programme for the period 2014 to 2018, the proposal of which was approved by the Supervisory Board in October 2013. The strategic development programme is aligned with the adopted restructuring programme of the Bank and the Group. In case the Bank is sold to a new owner, all commitments set out in the restructuring programme, as well as the adopted strategic directions, will be cancelled or amended.

The strategic development programme outlines, in particular, the following key components of the Bank´s and the Group´s future business models:
- mission
- vision
- corporate values
- corporate strategic directions
- strategic directions for individual business segments.

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

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

Mission

Nova KBM, as the leading company within the Nova KBM Group, operates as a modern, stable and reliable bank. It builds its reputation on its more than 150 years of tradition of providing contemporary banking and other financial services that help it establish successful partnerships with its customers, other stakeholders, and its broader environment. At the same time, it considers the satisfaction of its shareholder, investors and all other stakeholders as well as proper management of all types of risk (credit, market, liquidity, operational, etc.) to be the core principles of its business.

Vision

The vision of the Bank is to ensure the stability of the business it conducts in the local area and the region in which it is present, this being supported by strong operational efficiency in all key segments, and by its ability to generate a steady return. By 2018, the Bank will retain its position as the second largest Slovene bank and as a systemically important bank. Nova KBM, as the leading company within the Nova KBM Group, would like to continue doing business with trustworthy stakeholders to whom it will endeavour to provide contemporary products and services. In its efforts to perform successfully and profitably, the Bank will favour stability (i.e. ensuring the quality of its loan portfolios and proper management of all types of risk) over business growth as this will increase its safety and the safety of all its stakeholders.

Corporate culture

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

Strategic directions

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

- focus on customers
- European orientation and consistent compliance with banking industry commitments
- safety and stability of operations and deposits
- process organisation
- application of advanced business models
- efficiency and profitability of operations
- achievement of target key performance indicators (set on the basis of appropriate criteria)
- provision of resources necessary to accomplish strategic objectives (capital, funding, human resources)
- formulation and implementation of measures to achieve short-term objectives
- social responsibility.

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

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

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

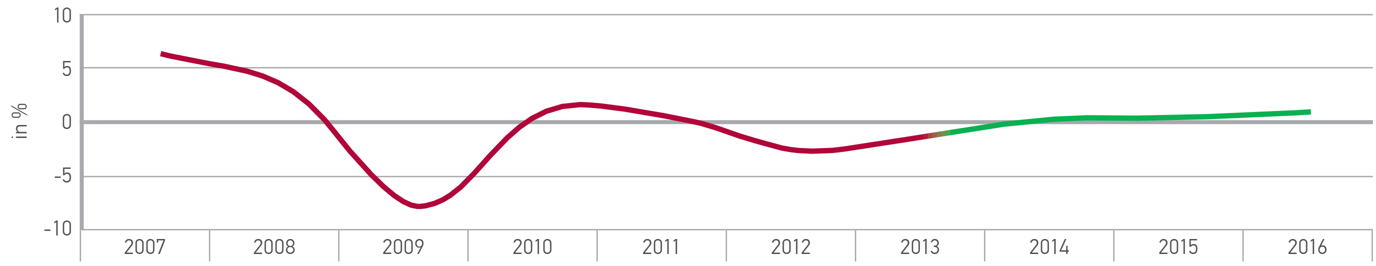
09 BUSINESS ANALYSIS

9.1 MACROECONOMIC ENVIRONMENT

Economic growth

According to recent statistical data, Slovenia broke free from the grip of the economic crisis at the end of 2013. Economic activity, as measured by gross domestic product (GDP), decreased in 2013[22] by 1.1% in real terms. In nominal terms, GDP amounted to €35,275 million, down 0.1% on 2012, with GDP per capita standing at €17,128.

SLOVENIA´S ANNUAL GDP GROWTH RATES FROM 2007 TO 2013 AND IMAD´S PROJECTION OF GDP GROWTH UNTIL 2016



Sources: SURS, IMAD

The improvement in the international economic environment was reflected in a 1.9% increase in Slovene exports, while the imports saw a rise of only 1.3%. Household and government consumption registered a year-on-year decline of 5.9% and 2.0%, respectively. With an increase of 0.2% in gross fixed capital formation, investment spending was more favourable than a year ago, with growth in construction activities and more successful drawing of European funds contributing the most to this positive trend. The change in the volume of inventory had a negative effect of 0.5% on Slovene GDP last year.

Year	2011				2012				2013			
Quarter	I	II	III	IV	I	II	III	IV	I	II	III	IV
GDP Q/(Q-4)	2.8	1.5	0.6	(2.0)	(0.2)	(3.5)	(3.0)	(3.3)	(4.6)	(1.4)	(0.5)	2.1
Quarterly GDP (deseas.) Q/(Q-1)	0.0	0.3	(0.3)	(0.5)	(0.4)	(1.3)	(0.6)	(0.9)	0.1	0.2	0.4	1.2

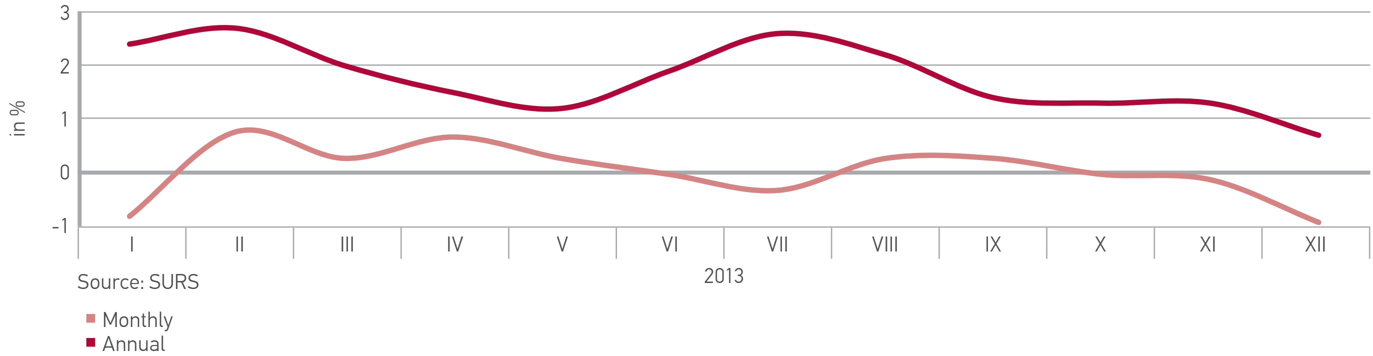
Inflation

In 2013, movements in consumption goods prices were driven mainly by a slowdown of economic activities, strained conditions in the labour market, and the tax policy measures (mainly the increase in the VAT rate). The annual rate of

22 According to the first estimate of the Statistical Office of the Republic of Slovenia (SURS); February 2014.

inflation, measured from December 2012 to December 2013, reached 0.7%, which was the lowest annual rate of inflation recorded in Slovenia since its independence. The months of January, July, November, and in particular December (due to a number of price reductions), were marked by deflation, while the average prices in June and October remained flat compared to the preceding months. The largest increase in prices in 2013 was registered by the prices of housing (by 5.2%), while the largest drop in prices was seen in the categories of miscellaneous goods and services (by 3.2%), and clothing and footwear (by 2.9%). The prices of financial services went up by 7.5% on average, mainly as a result of the introduction of the financial services tax, the burden of which was passed on to consumers.

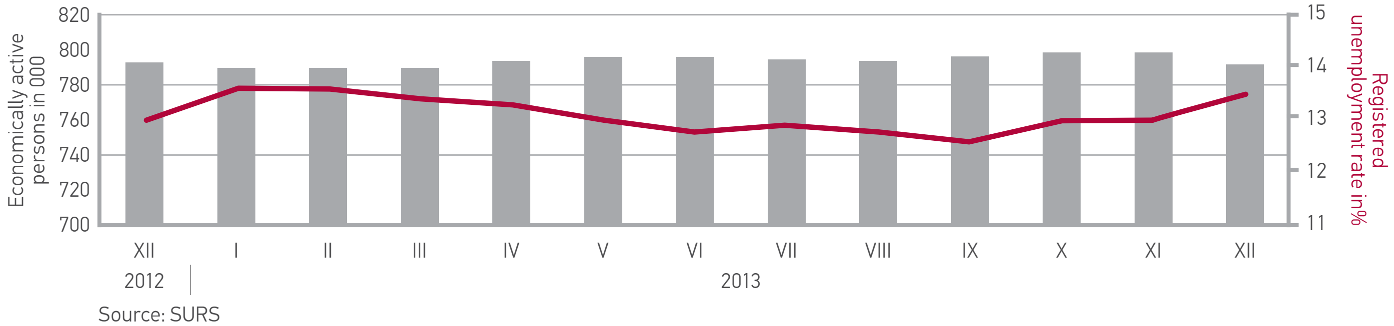
INFLATION IN SLOVENIA IN 2013, BY MONTH



Employment

The conditions in the labour market deteriorated at the end of the year. A strong increase in the rate of registered unemployment was the result of a number of fixed-term employment contracts, especially in the construction industry, coming to an end, which was not offset by the number of new recruitments. The rate of registered unemployment declined gradually from January to June, after which it took off to reach 13.5% at the end of December. According to the statistical register, the number of economically active persons decreased year-on-year by 1,625, or 0.2%, while the number of registered unemployed persons climbed by 5,954, or 5.0%. At the end of December 2013, there were 124,015 registered unemployed persons in Slovenia, while the number of economically active persons stood at 791,323.

ACTIVE POPULATION AND THE REGISTERED UNEMPLOYMENT RATE IN SLOVENIA IN 2013, BY MONTH



Basic macroeconomic aggregates

Slovenia's general government deficit in 2013 was estimated[23] at €5,178 million, or 14.7% of GDP; without the costs associated with the financial crisis, the deficit totalled €1,545 million, or 4.4% of GDP, while in 2012, after a routine revision, the deficit stood at €1,414 million, or 4.0% of GDP. The main reason for the increase in the current deficit in 2013 was the recapitalisation of banks worth €3,633 million (10.3% of GDP), but the expenditures of €104 million (0.3% of GDP) related to the third part of the wage and salaries reform in the public sector, and the compensations of €126 million (0.4% of GDP) paid to persons that had been erased from public records also had a negative impact on the government deficit. Without taking into account the costs related to the banking crisis, the wage and salaries

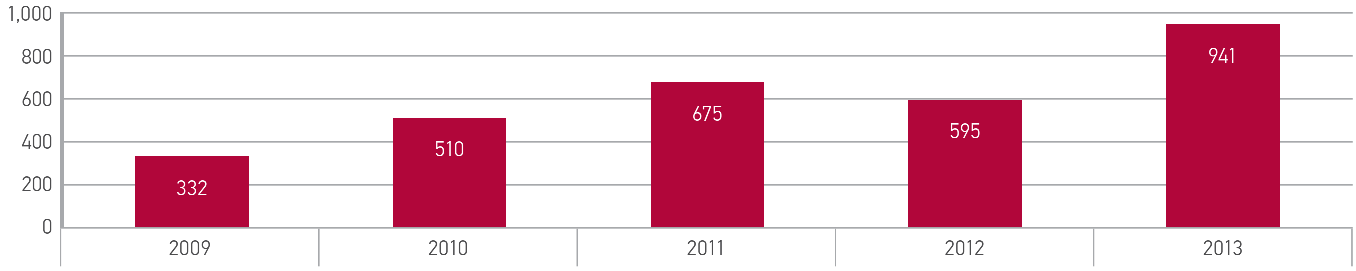
23 According to the data published at the end of March 2014 by the Statistical Office of the Republic of Slovenia (SURS).

reform, and the compensations paid to persons erased from public records, the 2013 deficit of the general government amounted to €1,316 million (3.7% of GDP).

Bankruptcies of companies and private undertakings

Amendments to the relevant legislation eased the rules governing insolvency proceedings, causing the number of bankruptcies to increase considerably in 2013. As a result, the total number of companies and private undertakings filing for bankruptcy by the end of September exceeded the number recorded in 2012 as a whole. Year-on-year, the number of companies and private undertakings filing for bankruptcy increased by 58.2%.

NUMBER OF NEW BANKRUPTCIES IN THE YEARS 2009 TO 2013



Source: AJPES and Nova KBM´s own data

Banking system

The measures that the Government of the Republic of Slovenia and the Bank of Slovenia adopted in December 2013 to strengthen the stability of the Slovene financial system had a considerable impact on all categories of bank balance sheets. According to the preliminary information of the Bank of Slovenia about the performance of banks last year, the total assets of the Slovene banking system shrank in 2013 by €5.1 billion, or 11%, partially as a result of banks discharging their liabilities to the participants in the international wholesale financial markets, and partially due to a high level of provisioning expenses that the banks set aside last year. The banks´ capital erosion due to incurred losses was offset by state-sponsored recapitalisation carried out by the conversion into equity of state deposits, and through an in-kind contribution in the form of government bonds. Household deposits did not see the usual seasonal growth at the end of the year, but remained a stable funding source for banks, despite the difficult economic conditions. On average, the dynamics of the decline in household deposits reached one-quarter of the balance sheet shrinkage during the year, while year-on-year household deposits dropped by 3.1%. On the assets side of bank balance sheets, the largest decline was in loans and advances to the non-banking sector, with loans and advances to non-financial companies falling by as much as €11.6 billion. Year-on-year, loans and advances given to non-financial companies by large domestic banks, small domestic banks and majority foreign-owned banks fell by 36.5%, 33.5% and 16%, respectively. Loans and advances given to households decreased year-on-year by €376 million, or 4.2%.

9.2 PERFORMANCE OF THE NOVA KBM GROUP AND NOVA KBM

9.2.1 NOVA KBM GROUP

INCOME STATEMENT

For the year ended 31 December 2013, the Group reported a pre-tax, pre-provision profit from continuing operations of €66,689,000. As a result of high provisioning expenses set aside during last year, the Group incurred a net loss, which totalled €684,908,000. Last year, all Group companies apart from KBM Invest and KBM Fineko incurred higher impairment losses than in 2012, with Nova KBM registering the largest increase.

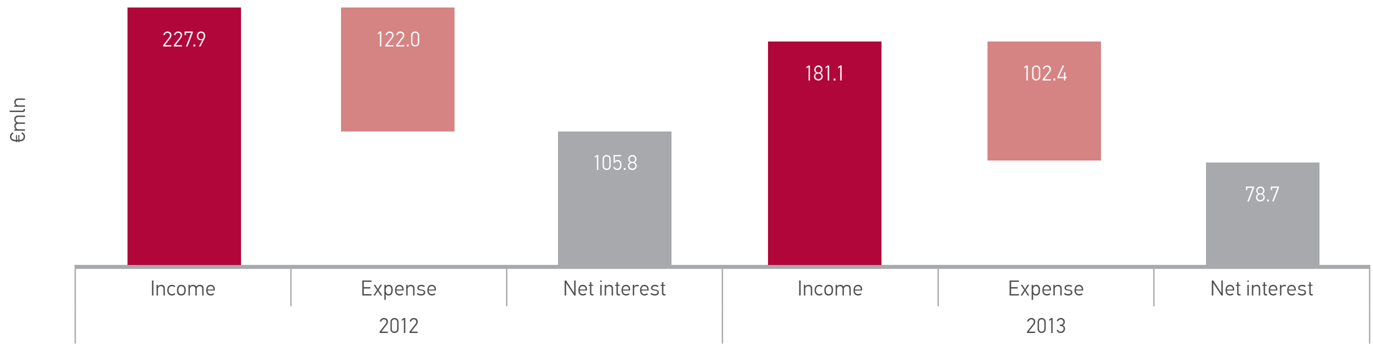
All banks in the Group, the leasing division, KBM Invest, and Moja naložba, the Group´s associated company providing voluntary supplementary pension insurance, posted a net loss for 2013.

Net interest income

The net interest income generated by the Group in 2013 amounted to €78,683,000, a decrease of 25.7% on 2012. The year-on-year decrease in net interest income was the result of a 20.5% drop in interest income, partially offset by a fall in interest expenses, which registered a decline of 16.1%. Lower interest income was attributable mainly to a decrease in interest earned by the Group banks, reflecting a change in the structure of their assets and a high level of interest impairment. Of the Group companies, the largest decline in interest expenses was registered by Nova KBM, partially as a result of a drop in the volume of deposits from banks and the non-banking sector, and partially due to a change in the ECB reference interest rate.

The Group´s interest margin decreased from 1.87% in 2012 to 1.52% in 2013.

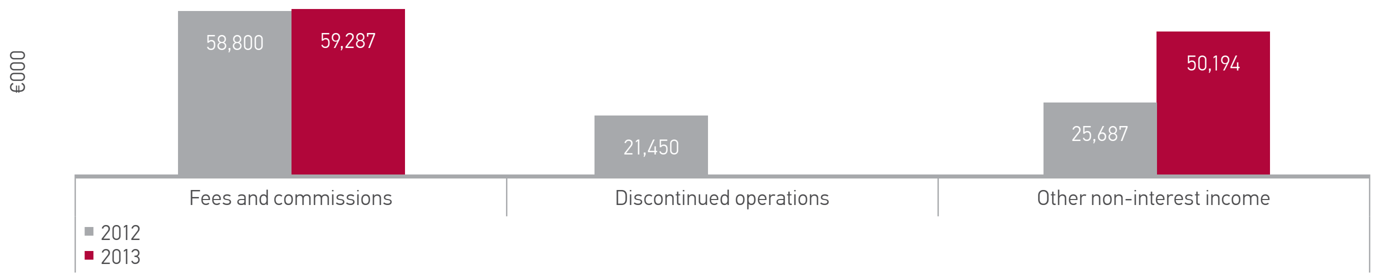
NOVA KBM GROUP´S INTEREST INCOME AND EXPENSE IN 2012 AND 2013



Non-interest income

In 2013, the Group earned non-interest income of €109,481,000, an increase of 3.3% on 2012.

NOVA KBM GROUP´S NON-INTEREST INCOME IN 2012 AND 2013



Net fee and commission income accounted for 54.2% of the total non-interest income and amounted to €59,287,000, up 0.8% on 2012.

The 2013 dividend income of the Group equalled €1,387,000, which was 50% less than in 2012.

Realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss related in 2013 mainly to the deletion of Nova KBM securities from the register kept by KDD, while, in 2012, they were attributable to the early redemption of hybrid notes by Nova KBM.

In 2012, a gain of €21,450,000 from discontinued operations was generated by the Group on the sale of Nova KBM´s shareholding in Zavarovalnica Maribor.

Operating costs

Operating costs incurred by the Group in 2013 totalled €121,475,000, an increase of 0.8% on 2012. The year-on-year decrease in staff and material costs was offset by higher costs of services owing to the extraordinary costs related to the restructuring and a due diligence review, as well as to advisory costs associated with the recapitalisation of the Bank and the sale of Zavarovalnica Maribor.

The Group´s cost-to-income ratio was 64.56% in 2013, compared to 56.90% reported for 2012.

Net provisions and impairment losses

In 2013, the Group set aside net provisioning expenses of €725,269,000, double the amount of 2012. The year-on-year increase in provisioning expenses was attributable mainly to Nova KBM, which recognised impairment losses and provisions of €702,957,000 in 2013. The structure of impairment losses set aside by the Group is presented in the financial part of the Annual Report.

STATEMENT OF FINANCIAL POSITION

Total assets

At the end of 2013, the Group´s total assets amounted to €4,810,793,000, down €511,017,000, or 9.6%, on the end of 2012. The decline in total assets was in line with the commitments set out in the Group´s restructuring programme.

Deposits from customers

Deposits from customers totalled €3,079,299,000 at the end of 2013, a decline of 14.9% on 2012, with deposits from the state and households placed with Nova KBM registering the largest drop. PBS and Adria Bank managed to increase the volume of their customer deposits.

Loans from banks

Loans from banks decreased year-on-year by 28.0% to €414,883,000 at the end of 2013. A decrease in loans from banks was recorded across the entire Group, with the largest being seen at Nova KBM, as a result of its early repayment of two long-term loan facilities and scheduled repayments of loans taken from SID Banka in the past.

Debt securities

The balance of debt securities held by the Group decreased by €27,619,000 to €60,973,000, primarily due to the maturing of several series of certificates of deposit.

Subordinated liabilities

The balance of subordinated liabilities went down in 2013 as a result of the extraordinary measure to write off all of the qualified liabilities of Nova KBM in order to cover its losses.

Provisions

Provisions set aside by the Group increased year-on-year by 114.8% to €100,163,000, of which the largest proportion was attributable to provisions for off-balance sheet liabilities.

Equity

The increase in the Group´s total equity at the end of 2013 was attributable mainly to an €870 million capital injection into Nova KBM, which the Ministry of Finance of the Republic of Slovenia provided after all of the qualified liabilities of Nova KBM had been written off. The capital injection made by the state was partially offset by a net loss incurred by the Group, so the total equity of the Group amounted to €560,028,000 at the end of 2013.

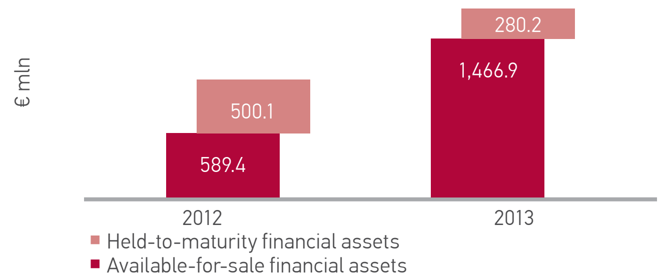
Loans and advances to customers

Loans and advances given to customers equalled €2,231,765,000 at the end of 2013, down €1,166,135,000 on 2012. The decrease in net loans and advances to customers, which was suffered by all of the Group companies, was mainly the result of additional impairment losses set aside for the loan portfolio, and the transfer of bad loans to BAMC, with the remaining decrease being attributable to a lower level of lending than the one seen in 2012.

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

The largest increase in the balance of these assets was registered by Nova KBM, but other Group banks also saw an increase in this category. The main reasons for the increase were the recapitalisation of Nova KBM, which was partially carried out by an in-kind contribution in the form of Republic of Slovenia bonds, and the bonds received from BAMC in exchange for bad loans.

NOVA KBM GROUP´S AVAILABLE-FOR-SALE AND HELD-TO-MATURITY FINANCIAL ASSETS



Other assets

The balance of other assets decreased year-on-year by one-half, partially as a result of the impairment of inventory kept by KBM Invest, and partially owing to the impairment of tangible and intangible fixed assets which Nova KBM received in settlement of certain of its claims.

Investments in the equity of associates and joint ventures

Investments in the equity of associates and joint ventures saw a decrease in 2013, the details of which are provided in the financial part of the Annual Report.

9.2.2 NOVA KBM

INCOME STATEMENT

For the year ended 31 December 2013, Nova KBM reported a pre-tax, pre-provision profit of €69,463,000, up 30.4%, or €16,198,000, on 2012. The net loss incurred by Nova KBM in 2013 totalled €656,500,000 (2012: a net loss of €203,255,000).

Net interest income

Net interest income decreased year-on-year by 15.5%, or €11,108,000, as a result of a 17.6%, or €31,119,000, decrease in interest income and a 19.0%, or €20,011,000, decrease in interest expenses.

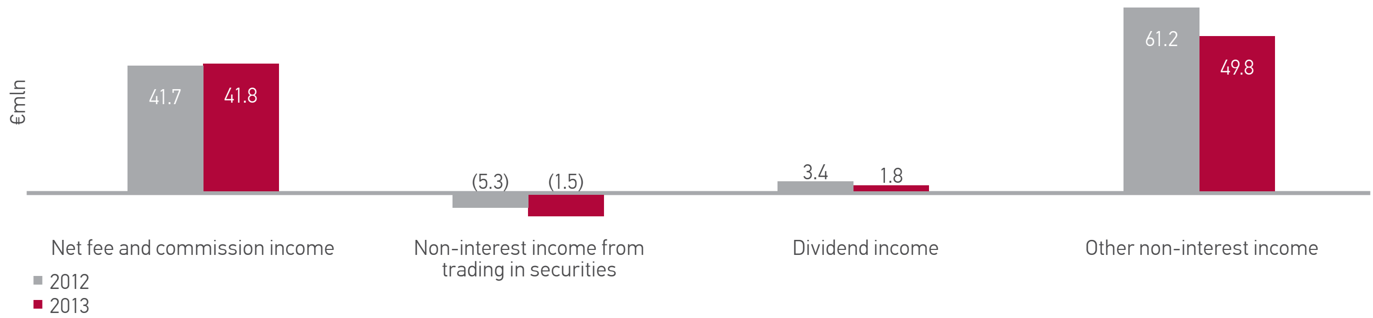
A year-on-year drop in interest income was primarily the result of a change in the structure of assets (shifting away from loans to assets with lower returns), a decrease in the average balance of gross loans given to the non-banking sector (by 8.0%, or €288,790,000), a reduction in the reference interest rate (the average 6M EURIBOR fell from 0.830% in 2012 to 0.336% in 2013), and an increase in interest impairment (as a result of both a change in the classification due to a deterioration in the loan portfolio, and an increase in the interest impairment rate).

Interest expenses decreased by €20,011,000 relative to 2012, of which €18,773,000 was attributable to a decline in interest paid on customer deposits, while €1,322,000 was attributable to a decline in interest paid on liabilities to the central bank. The 2013 drop in Nova KBM´s interest expenses was the result of the following factors: the conversion of a hybrid loan facility (CoCo bonds) into equity; the early repayment of two long-term loan facilities and scheduled repayments of loans to SID Banka (the total balance of loans taken from SID Banka decreased in 2013 by 28.6%); a drop in deposits from the non-banking sector (by a total of €553.2 million, of which a drop of €310.8 million was registered in December as a result of the conversion of state deposits into equity of Nova KBM); a change in the ECB reference interest rate; and the implementation of an amended interest rate policy.

Non-interest income

Non-interest income generated by the Bank in 2013 totalled €91,865,000 (2012: €101,057,000, of which €37,385,000 was attributable to a profit after tax from discontinued operations, referring to the sale of Zavarovalnica Maribor).

NOVA KBM´S NON-INTEREST INCOME FROM CONTINUING OPERATIONS IN 2012 AND 2013



The 2013 dividend income earned by the Bank amounted to €1,811,000, while its net fee and commission income totalled €41,755,000 (2012: €41,735,000).

Fluctuations in fee and commission income during 2013 were mainly due to monthly movements in fees earned on domestic payment transactions, while fluctuations in fee and commission expenses were due to monthly movements in fees paid to domestic banks for their services.

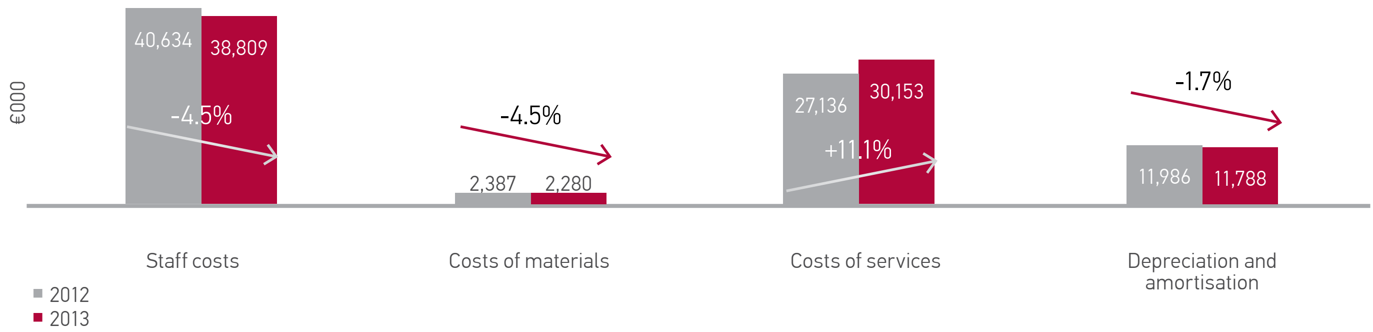
Fees paid for the prepayment of two long-term loan facilities to SID Banka accounted for a significant proportion of the total fees paid by the Bank last year. The December increase in fee and commission expenses was attributable mainly to the deletion of Nova KBM securities from the register kept by KDD.

Operating costs

Operating costs (administration costs, including depreciation and amortisation) incurred by the Bank in 2013 totalled €83,030,000, compared to €82,143,000 reported for 2012.

Staff costs, which account for the largest proportion of operating costs, decreased year-on-year by €1,825,000, or 4.5%, with the number of employees falling by 79 in 2013.

NOVA KBM´S OPERATING COSTS IN 2012 AND 2013



The costs of services increased year-on-year by €3,017,000, or 11.1%, mainly due to the extraordinary costs related to the restructuring and a due diligence review, auditing costs, and advisory costs associated with the recapitalisation of the Bank and the sale of Zavarovalnica Maribor.

The cost-to-income ratio was 54.45% in 2013, compared to 47.54% reported a year earlier. The deterioration in the ratio, which indicates a reduction in cost efficiency, was, on one hand, the result of a lower-than-projected decrease in operating costs, and, on the other, due to a year-on-year decline in net income. Without the Bank incurring extraordinary costs of advisory services (€4,437,000), and paying severance benefits (€1,137,000) and interest on CoCo bonds (€2,411,000), the cost-to-income ratio would have stood at 50.0%.

Net provisions and impairment losses
In 2013, the Bank recorded €659,659,000 in net impairment losses and €43,298,000 in net provisions (for off-balance sheet liabilities).

Net impairment losses of €478,718,000 were set aside in 2013 for loans and other financial assets.

In addition, the Bank recorded €18,475,000 in impairment losses on financial assets measured at cost, €22,683,000 in impairment losses on available-for-sale financial assets, €119,483,000 in impairment losses on investments in the equity of subsidiaries, associates and joint ventures, and €17,941,000 in impairment losses on real estate received in settlement of certain of its claims.

Income tax related to profit or loss from continuing operations
In December, the Bank reversed all deferred tax assets relating to the tax loss, which resulted in net deferred tax expenses of €23,006,000 in 2013.

Reversal and non-recognition of long-term deferred tax assets relating to the tax loss are the result of uncertainty with respect to the management assessment regarding the predictability of assumptions about future business events.

Comprehensive loss
The comprehensive loss after tax equalled €647,268,000 in 2013. The net loss reported for the year was partially offset by gains in respect of available-for-sale financial assets, totalling €10,740,000 (the largest proportion of which was attributable to the recovery in value of the Republic of Slovenia bonds), and by actuarial net gains on benefit pension plans recognised in retained losses, in the amount of €293,000. Income tax relating to components of other comprehensive income amounted to €1,801,000.

STATEMENT OF FINANCIAL POSITION

Total assets
As of 31 December 2013, Nova KBM´s total assets amounted to €3,909,983,000, down 9.9%, or €428,585,000, on 2012.

Loans and advances to customers

In December, following an independent review of the quality of its assets requested by the European Commission, the Bank transferred its bad loans to BAMC, as result of which the Bank´s total assets saw a considerable shrinkage. The balance of net loans and advances to customers totalled €1,826,371,000 at the end of 2013, down 36.8% on 2012. The year-on-year decrease was mainly attributable to a €1,191 million decline in loans to the non-banking sector (of which gross loans to non-financial companies accounted for the largest proportion), partially offset by a €126.4 million reversal of impairment losses (the largest proportion of which related to loans given to non-financial companies).

The Bank´s market share[24] in terms of loans to the non-banking sector declined from 9.3% to 7.5%, with its market share in loans to non-financial companies and households falling by 2.7 percentage points to 6.8% and by 0.4 percentage points to 10.4%, respectively.

Deposits from customers

Deposits from customers were down 19%, or €553,113,000, from the end of 2012, with the largest decline being registered in deposits from the state, which fell by €403,804,000. The decline in deposits from the state at the beginning of the year was the result of the Bank book-transferring the €100 million deposit from the Ministry of Finance to subordinated liabilities, in accordance with the Hybrid Loan Facility Agreement, and later converting it into equity. Another significant decrease in deposits was registered in December, again as a result of the conversion of state-provided deposits (in the total amount of €361.6 million) into equity. This conversion was carried out by the Bank in accordance with the extraordinary measure regarding the increase in share capital, imposed by the Bank of Slovenia. Deposits from households also saw a decline last year, falling by 6.1%, or €118,802,000, with the result that the Bank´s market share in this segment decreased from 13.4% to 13.0%.

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

Available-for-sale and held-to-maturity financial assets increased year-on-year by €589,004,000. The increase was chiefly attributable to bonds (RS62, RS67 in RS69) worth €250 million, provided to the Bank by the Republic of Slovenia as part of the recapitalisation scheme, and bonds worth €377.6 million, which the Bank received in exchange for transferring bad loans to BAMC.

Tax assets

Tax assets saw a decline of €24,810,000 as a result of a reversal of all claims in respect of deferred taxes.

Loans from banks

Loans from banks decreased by €143.5 million, of which €60 million was related to the early repayment of two long-term loan facilities to SID Banka, while the remaining amount was attributable to scheduled repayments of loans taken from SID Banka in the past.

Subordinated liabilities

The balance of subordinated liabilities fell to €0 as a result of the extraordinary measure imposed by the Bank of Slovenia, based on which all of the qualified liabilities of the Bank were written off in order to cover its losses (the balance of subordinated liabilities at the end of 2012 totalled €88,190,000).

Equity

At the end of 2013, the Bank´s total equity stood at €517,712,000, an increase of €325,143,000, or 168.8%, on 2012. The increase in equity resulting from the 2013 capital injections worth €972,411,000 in total was partially offset by a net loss of €656,500,000 reported by the Bank for 2013. The revaluation of securities equalling €9,232,000 also contributed to an increase in equity.

Further details in this regard are provided in the notes to the financial statements.

24 According to the data published by the Bank of Slovenia on 12 February 2014.

9.3 PROFILE OF THE NOVA KBM GROUP COMPANIES[25]

The following table[26] sets out the key performance indicators of individual Group business segments for 2013. The banking, leasing and real estate segments reported a net loss for last year, while the fund management segment and the segment that includes the provision of other Group services had a positive effect on the Group´s results.

Business segment	Country of incorporation	Company	Number of employees	Net profit or (loss) (€000)	Income** (€000)	Total assets (€000)	ROAE after tax	ROAA after tax
Banking segment	Slovenia	Nova KBM	1,201	(656,500)	193,897	3,909,983	(258.48)	(15.57)
	Slovenia	PBS	239	(57,164)	66,144	775,642	(142.20)	(7.05)
	Austria	Adria Bank	34	(30,238)	7,700	122,695	(121.89)	(18.69)
	Serbia	KBM Banka	290	(6,491)	11,669	110,208	(29.49)	(5.07)
Fund management segment	Slovenia	KBM Infond	37	1,458	5,764	13,776	10.91	9.51
	Slovenia	Moja naložba[1]	15	(387,28)	3,112	110,024	(5.64)	(0.33)
Leasing segment	Slovenia	KBM Leasing	10	(40,584)	1,971	64,491	*	(39.08)
	Slovenia	Gorica Leasing	12	(24,031)	1,706	36,214	*	(40.66)
	Croatia	KBM Leasing Hrvatska	8	(6,818)	2,296	27,740	*	(18.76)
Real estate segment	Slovenia	KBM Fineko (in liquidation)	1	755	555	30,306	22.17	2.51
	Slovenia	KBM Invest	9	(16,446)	0	18,347	*	(50.94)
Other services	Slovenia	M-Pay	0	11	6	209	5.41	5.39

1 Associated company.
* Not calculated due to negative average capital.
** Includes interest income, dividend income and fee and commission income.

As set out in the restructuring programme, the Nova KBM Group companies are divided into key and non-key companies. The key companies are the following: PBS (provision of banking services in Slovenia), KBM Banka (provision of banking services in Serbia), KBM Infond and Moja naložba (management of mutual funds and pension savings in Slovenia). On the other hand, non-key companies are the following: Adria Bank (provision of banking services), KBM Leasing (leasing operations), Gorica Leasing (leasing operations), KBM Leasing Hrvatska (leasing operations), KBM Invest (real estate operations) and KBM Fineko (a company providing real estate and advisory services, now in the process of liquidation).

In 2013, the Nova KBM Group companies took a number of steps and actions to improve and streamline their operations, with focus being placed on divestment of inventory, the sale of unnecessary assets, and the reduction of operating costs.

In accordance with the restructuring programme, the Bank invested a great deal of energy into reducing its exposure to companies within the Nova KBM Group, taking into consideration the principles of corporate governance.

Special attention was devoted to the implementation of unified standards applied to the management of bad loans across the entire Group, the purpose of which was to improve the loan recovery rate.

Poštna banka Slovenije d.d.
Year of establishment: 1991
Website: www.pbs.si
E-mail: info@pbs.si
Nova KBM´s shareholding as of 31 December 2013 (%): 99.12
Management as of 31 December 2013:
President of the Management Board: Robert Senica; Management Board Member: Viktor Lenče
Supervisory Board as of 31 December 2013:
Boris Novak (Chairman), Aleš Hauc (Deputy Chairman), Igor Žibrik, Miha Šlamberger and Vinko Filipič

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

Activity

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

Business performance in 2013

PBS´s total assets decreased year-on-year by 3% to €775,642,000 at the end of 2013. Despite this shrinkage in the volume of its business, PBS´s market share strengthened from 1.73% to 1.89% of the Slovene banking system assets.

Financial liabilities measured at amortised cost totalled €679,933,000, of which €30,313,000 was in deposits from banks, €9,020,000 was in subordinated liabilities, and €634,506,000 was in customer deposits, which registered an increase of €8,255,000, or 1%, from 2012. Household deposits registered the largest increase within customer deposits, growing by €24,323,000, with their proportion in the total customer deposits going up by 2.9 percentage points to 87.5%. PBS´s funds borrowed through longer-term refinancing operations with the central bank remained flat at €45,668,000. On the assets side of the statement of financial position we saw an increase of €16,196,000 in cash and balances with the central bank, with the balance of this item standing at €59,882,000 at the end of the year. Loans and advances given to banks declined by €10,977,000, or 15%, while net loans and advances to customers registered a drop of €82,813,000, or 19%, reflecting high impairment losses set aside for the loan portfolio, the transfer of bad loans to BAMC, and a decrease in the business volume. The balance of securities totalled €283,231,000 at the end of the year, up €54,082,000 on 2012. For 2013, PBS posted a pre-tax, pre-provision profit of €6,065,000. Due to a considerably high level of impairment losses and provisions of €63,102,000, combined with a year-on-year fall in interest income, PBS ended the year with a net loss of €57,164,000, after absorbing the impact of deferred taxes. The statement of comprehensive income, which includes the valuation of securities that are otherwise fairly valued through equity, showed a loss of €55,647,000.

To ensure its viability after it had incurred a significant loss, in December Nova KBM and Pošta Slovenije, as its owners, injected additional capital into PBS. The recapitalisation was carried out by the conversion into core capital of hybrid instruments that formed a component of additional capital, and by the provision of an in-kind contribution, in addition to Nova KBM making, through the institute of authorised capital, a cash and an in-kind contributions, the latter being done in the form of the Republic of Slovenia bonds. The recapitalisation changed the shareholder structure of PBS, resulting in an increase of Nova KBM´s shareholding to 99.12%.

Projections for 2014

Also in 2014, PBS will focus on the implementation of its development strategy, on enhanced marketing activities in cooperation with Pošta Slovenije, and on the accomplishment of the Group´s strategic development objectives. In partnership with Pošta Slovenije, PBS will continue its efforts to motivate and train staff of Pošta Slovenije to sell the personal and savings accounts offered by PBS, thereby achieving growth in the volume in this segment.

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

- to set up an appropriate NPL management system
- to actively acquire new customers, with focus being placed on households and SMEs
- to retain the current level of customer deposits
- to maintain its capital adequacy as required by the applicable regulations
- to reduce operating costs and the number of staff
- to generate profits.

Adria Bank AG

Year of establishment: 1980
Website: www.adriabank.at
E-mail: headoffice@adriabank.at
Nova KBM´s shareholding as of 31 December 2013 (%): 50.54[27]
Management as of 31 December 2013:
President of the Management Board: Gregor Kaiser; Management Board Member: Udo Amadeus Szekulics
Supervisory Board as of 31 December 2013:
Igor Žibrik (Chairman), Aleš Hauc (Deputy Chairman), Miha Šlamberger, Maruša Kosovinc Dragonja and Nima Motazed

Activity

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

Adria Bank focuses its operations mainly on the markets of SE Europe, especially Slovenia and Croatia, but also Russia. Having good knowledge and vast experience of doing business in the southern Balkans, Adria Bank centres its operations on providing financial services to its own customers and the customers of the Nova KBM Group that trade with counterparties located in the aforementioned regions, while expanding its operations in Austria´s principal markets.

Business performance in 2013

In 2013, Adria Bank incurred a net loss of €30,238,000. Net interest income totalled €3,946,000, while net fee and commission income amounted to €662,000. The net fee and commission income earned by Adria Bank last year was sufficient to cover 13.74% of its total operating costs.

Operating costs increased year-on-year by €711,000. Net provisioning expenses recorded by Adria Bank in 2013 were €30,402,000.

As of 31 December 2013, the total assets of Adria Bank equalled €122,695,000, with net loans and advances to banks and to customers standing at €3,323,000 and €58,377,000, respectively. Deposits from banks were €95,146,000 at the end of 2013, and the total equity of Adria Bank amounted to €354,000.

Projections for 2014

Corporate customers and financial institutions, particularly those located in the markets of SE Europe, have traditionally been the target customers of Adria Bank. Adria Bank has been present in these markets for over 30 years. The experience it has gained during this period help Adria Bank provide appropriate financial solutions to local and regional companies and financial institutions that focus their operations on these markets.

As a member of the Nova KBM Group, Adria Bank has access to customers of the Group that operate in Slovenia, Austria, Croatia and Serbia. By being a niche bank, Adria Bank offers complementary products and services to members of the Nova KBM Group as well as their customers.

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

KBM Banka a.d.

Year of establishment: 1955
Website: www.kbm.rs
E-mail: kabinet@kbm.rs
Nova KBM´s shareholding as of 31 December 2013 (%): 89.53[28]
Management as of 31 December 2013:
President of the Executive Board: Alojz Kovše; Executive Board members: Vesna Užnik Đorić and Ljubinka Lovčević
Management Board as of 31 December 2013:
Igor Žibrik (Chairman), Miha Šlamberger (Deputy Chairman), Drago Bahun, Milorad Bjelopetrović and Dobrosav Milovanović

Activity

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

Business performance in 2013

The operations of KBM Banka underwent significant changes in 2013. In the first half of the year, KBM Banka devoted its attention to the overhaul of its IT system and the implementation of the RAST project, while the most important activities in the second half of the year were the change of the bank´s name, the rebranding and adaptation of its branch offices, an improvement in the system of internal controls, and the adoption of the strategy action plan.

In 2013, KBM Banka incurred a net loss of €6,491,000. The loss of €7,074,000 from continuing operations was partially offset by a gain arising from a decrease in deferred tax liabilities and a creation of deferred tax assets, totalling €583,000. Net interest income totalled €3,831,000, while net fee and commission income reached €2,718,000. Operating costs equalled €7,138,000, which was slightly less than in 2012. Total provisioning expenses amounted to €5,642,000 in 2013.

At the end of 2013, KBM Banka´s total assets were €110,208,000, down 21% on 2012, with its equity standing at €17,274,000. Financial liabilities totalled €91,862,000, of which €5,000,000 was in subordinated liabilities and €72,997,000 related to customer deposits. Loans and advances to customers and to banks amounted to €41,868,000 and €6,650,000 respectively. Loans and advances given to banks decreased year-on-year by €22,696,000, partially as a result of a decline in overnight and current loans, and partially owing to reduced balances kept in the accounts of correspondent banks.

Projections for 2014

The main objectives of KBM Banka for 2014 are as follows:

- to revitalise its business processes
- to grow its business and to increase its markets share while maintaining an accepted level of risk
- to reduce operating costs
- to downsize and modernise its branch office network and to divest unnecessary assets
- to reduce costs of financing
- to actively manage NPLs in order to maximise the loan recovery rate and reduce any losses.

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

Year of establishment: 1993
Website: www.infond.si
E-mail: info@infond.si
Nova KBM´s shareholding as of 31 December 2013 (%): 72.73[29]
Management as of 31 December 2013:
President of the Management Board: Matjaž Lorenčič; Management Board Member: Samo Stonič

28 In December 2013, the put option of the Republic of Serbia on its 12.89% shareholding in KBM Banka was exercised at the exercise price of €5,641,000. Thus, Nova KBM increased its shareholding and voting rights in KBM Banka to 89.53%.

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

Supervisory Board as of 31 December 2013:
Aleš Hauc (Chairman), Igor Žibrik (Deputy Chairman), Miha Šlamberger, Drago Cotar and Vito Bobek

Activity
At the end of 2013, the company managed the Infond PBGS Mixed Mutual Fund, and the Infond Umbrella Fund with eighteen sub-funds, of which thirteen were equity sub-funds, one was a bond sub-fund, one was a money market sub-fund, and three were mixed sub-funds.

According to the available data, the total market capitalisation of all mutual funds managed by companies headquartered in Slovenia was €1,838,857,000 at the end of 2013. Net asset value of all mutual funds managed by KBM Infond totalled €240,736,000, giving the company a market share of 13.09%.

Business performance in 2013
For 2013, the company reported a net profit of €1,458,000, an increase of 17.49% on 2012.

The company´s total equity amounted to €12,672,000 as of 31 December 2013, down 4.44% on the previous year, while its total assets stood at €13,776,000, a decrease of 17.91% on 2012.

On 16 October 2013, the company started managing the Infond Money-EURO Money Market sub-fund. Also in October, the company received a permit to remove the Infond PBGS Mixed Mutual Fund from trading on the regulated market of the Ljubljana Stock Exchange.

Projections for 2014
The main objectives of KBM Infond for 2014 are as follows:
- to remove the Infond PBGS Mixed Mutual Fund from the regulated market of the Ljubljana Stock Exchange
- to promote the sale of existing products and to develop new combined products within the Nova KBM Group
- to develop the Nova KBM branch office network into the main sales and advisory channel for its products
- to strengthen cooperation with institutional investors, principally pension management companies
- to look for acquisition targets
- to reconsider entry into the Serbian market through KBM Banka
- to ensure an adequate capital base.

KBM Fineko d.o.o. (in the process of liquidation)
Year of establishment: 1991
E-mail: info@kbm-fineko.si
Nova KBM´s shareholding as of 31 December 2013 (%): 100.00
Management as of 31 December 2013:
Liquidator: Andrej Šporin

Activity
In 2013, the company mainly offered the same services as in the previous year, albeit at a reduced volume. These services were as follows:
- recovery of claims against retail customers arising from outstanding loans that the company took over, in return for payment, from Nova KBM
- real estate services, including purchase and sale of real estate and management of real estate owned by Nova KBM.

Taking into consideration the commitments set out in the Nova KBM Group´s restructuring programme, a request of the Bank of Slovenia, and the termination of the Agreement on Cooperation between Nova KBM and KBM Fineko, the KBM Fineko Shareholders´ Meeting passed a decision to liquidate the company. The company filed for liquidation on 29

November 2013, as a result of which its 2013 financial year ended on 28 November 2013.

The period from January through November 2013 was marked by an unpredictable operating environment and unfavourable trends in the labour market, causing the company´s debt recovery activities to experience difficulties.

Business performance in 2013
In spite of the unfavourable and unpredictable operating conditions, the company delivered a sound performance in 2013, generating a total income of €1,732,000, with the most promising financial results being achieved in the debt recovery segment. The total expenses incurred by the company reached €741,000, and the net income was €755,000. As of 31 December 2013, the company´s total assets equalled €30,306,000.

Projections for 2014
In 2014, KBM Fineko will continue to operate as a company under liquidation until its operations are ceased (presumably in the last quarter of 2014) by deleting the company from the Companies Register. Out of nine employees, who worked at the company last year, only three will continue to hold their positions for a maximum of six months, resulting in a reduction in staff costs. The costs of materials will go down too. The company expects to generate a profit of between €60,000 and €80,000 in each month of its operations in 2014.

KBM Invest d.o.o.
Year of establishment: 1998
Website: www.kbminvest.si
E-mail: kbm-invest@kbminvest.si
Nova KBM´s shareholding as of 31 December 2013 (%): 100.00
Management as of 31 December 2013:
Manager: Nada Kolmanič
Supervisory Board as of 31 December 2013:
Uroš Lorenčič (Chairman), Anton Guzej, Peter Kupljen and Borut Radolič

Activity
In 2013, the company carried out the following activities:
- investment engineering, and maintenance services and management of Nova KBM´s large real estate investments, as set out in the adopted annual plan, focusing on investment-maintenance works and refurbishment of the Bank´s business premises
- construction and sale of real estate in the market.

Business performance in 2013
The current economic downturn caused the conditions in the real estate market to further deteriorate in 2013, leading to a reduced demand for real estate units and a fall in their prices. For 2013, the company reported a net loss of €16,446,000. The sales income generated by the company was not sufficient to cover the costs of its inventory of real estate units built for the market. The largest proportion of the 2013 net loss was incurred on impairment losses set aside by the company in order to comply with IFRSs, and on impairment losses recorded as a result of a discount in the prices of real estate units that were to be transferred to BAMC. At the end of 2013, impairment losses for the company´s inventory and for investment property totalled €11,495,000 and €1,447,000, respectively. The total income earned by the company in 2013 was 25.15% above the projection and equalled €6,612,000. The higher-than-projected income was attributable mainly to the sale of 35 apartments and 35 parking spaces to the Housing Fund of the Republic of Slovenia at the beginning of 2013. Net sales income of €6,519,000 was partially derived from the sale of the inventory of completed real estate units, and partially from investment engineering services provided to Nova KBM. Total expenses incurred by the company last year amounted to €22,469,000, of which the largest proportion, totalling €12,962,000, related to impairment losses set aside for inventory, investment property and receivables, with the remaining expenses being attributable mainly to projects

of constructing real estate for the market. Financial expenses of €2,343,000, partially disclosed in operating costs and partially in financing expenses, related to interest on loans raised for the financing of projects and inventory.

The company´s total assets were €18,347,000 at the end of 2013, down 49.38% on 2012, mainly as a result of a decrease in inventory following its impairment in accordance with IFRSs, but also due to the sale of a certain number of real estate units the company had kept in its inventory. The balance of inventory decreased year-on-year by 50.94% and totalled €16,064,000 at the end of 2013, which made up 87.56% of the company´s total assets. Because it was undercapitalised, in 2013 the company requested Nova KBM to provide additional capital of €21,000,000. After the necessary approvals had been received from the competent authorities, the company was recapitalised by way of a debt-to-equity swap in December 2013.

Projections for 2014

In 2014, the company will carry on the work arising from its changed role within the Nova KBM Group. In agreement with Nova KBM, it will take an active part in resolving problems related to real estate projects financed by loans that Nova KBM gave to construction companies or investors that later filed for receivership or bankruptcy.

KBM Leasing d.o.o.

Year of establishment: 1989
Website: www.kbm-leasing.si
E-mail: leasing@nkbm.si
Nova KBM´s shareholding as of 31 December 2013 (%): 100.00
Management as of 31 December 2013:
Manager: Damjan Kozjak
Supervisory Board as of 31 December 2013:
Uroš Lorenčič (Chairman), Anton Guzej, Peter Kupljen and Borut Radolič

Activity

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

Business performance in 2013

No new lease agreements have been concluded by the company since the second half of 2012. The company used all the proceeds received, either under the outstanding lease agreements or from the sale of inventory, to pay off its financial obligations. The high level of inventory of equipment seized under lease agreements, and the negative net worth were the main burdens on the company´s operations last year. In March 2013, the company drafted a document setting out an analysis of its financial position and measures to be taken to improve its performance. In accordance with the performance projections included in this document, Nova KBM recapitalised the company by €25,000,000, enabling it to continue running its operations. To release itself from the burden of inventory, the company was involved in the project of transferring bad assets to BAMC. At the end of 2013, the company´s impairment losses and provisions totalled €34,597,000. This high figure, combined with the release of deferred tax assets in the amount of €3,815,000, caused the company to end the year with negative net worth and a net loss, despite the fresh capital it received at the end of 2013.

For the year ended 31 December 2013, the company reported a net loss of €40,584,000 and negative net worth of €37,624,000. The company´s total assets decreased year-on-year by €47,024,000, or 42%. The value of the company´s inventory and non-current assets held for sale totalled €57,410,000, or €12,670,000 net, after absorbing the impact of impairment losses set aside for these assets. Inventory and non-current assets held for sale made up 20% of the company´s total assets. The balance of claims under outstanding lease agreements totalled €30,261,000, of which €3,631,000, or 12%, was in overdue and unpaid claims. Impairment losses of €7,930,000 have been recorded for these claims. The balance of investment property equalled €27,277,000, of which the largest proportion related to the Mercator Shopping Centre.

Projections for 2014

In 2014, the company plans to transfer part of its inventory to BAMC, and hopes to sell the remaining inventory of unnecessary assets as soon as possible.

Gorica Leasing d.o.o.

Year of establishment: 1998
Website: www.gorica-leasing.si
E-mail: info@gorica-leasing.si
Nova KBM´s shareholding as of 31 December 2013 (%): 100.00
Management as of 31 December 2013:
Manager: Marko Černe
Supervisory Board as of 31 December 2013:
Uroš Lorenčič (Chairman), Peter Kupljen and Borut Radolič

Activity

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

Business performance in 2013

In 2013, the company saw a decline in its business, with its income decreasing year-on-year by 35% and expenses rising by 10%. Net impairment losses and write-offs totalled €22,031,000, up 18% on 2012. The costs of depreciation and amortisation were down 12% from 2012, financial income earned on given loans was down 45%, and financial expenses registered a year-on-year decline of 24%. After the company had prepared the restructuring programme and proposed steps to be taken to improve its performance, at the end of 2013 Nova KBM injected €22,000,000 of fresh capital into the company and involved it in the project of transferring bad assets to BAMC.

For 2013, the company reported a pre-tax loss and an after-tax loss of €24,027,000 and €24,031,000, respectively, compared to a pre-tax loss of €19,573,000 and an after-tax loss of €20,905,000 reported a year earlier. As of 31 December 2013, the company´s net worth was negative, at €20,122,000, with its total assets decreasing year-on-year by €29,553,000, or 55%. Claims of the company under outstanding lease and loan agreements totalled €33,151,000, of which €17,778,000 was in overdue and unpaid claims. Impairment losses set aside for these claims amounted to €15,226,000 at the end of 2013.

Projections for 2014

In 2014, the company will continue carrying out some of the measures set out in its financial restructuring programme, adopted in 2103. Apart from that, it will take an active part in the process of transferring part of its inventory and receivables to BAMC.

KBM Leasing Hrvatska d.o.o.

Year of establishment: 2006
Website: www.kbm-leasing.hr
E-mail: info@kbm-leasing.hr
Nova KBM´s shareholding as of 31 December 2013 (%): 97.44
Management as of 31 December 2013:
President of the Management Board: Jure Hartman; Management Board Member: Koraljka Kociančić
Supervisory Board as of 31 December 2013:
Uroš Lorenčič (Chairman), Peter Kupljen and Borut Radolič

Activity

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

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

Business performance in 2013

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

The company reduced its total assets to €27,740,000, which was a decrease of €11,470,000 relative to 2012. Taking into consideration the recapitalisation worth €5.5 million in the form of a debt-to-equity swap, the company last year repaid loans of €9 million, in addition to selling inventory worth €1.151 million. The terms of transactions concluded by the company after the adoption of the restructuring programme were within the defined time limits.

Projections for 2014

The main objectives of KBM Leasing Hrvatska for 2014 are as follows:

- to reduce the inventory of movable and immovable property to a sustainable level (which means a reduction of between 10% and 15% of the total portfolio)
- to reduce total assets and to continue discharging loans
- to reduce operating costs, as part of the RAST project
- to make every effort to match the terms of funding with those of financing transactions
- to raise fresh capital.

M-PAY d.o.o.

Year of establishment: 2004
Website: www.moneta.si
E-mail: dkorosec@nkbm.si
Nova KBM´s shareholding as of 31 December 2013 (%): 50.00
Management as of 31 December 2013:
Manager: Dean Korošec
Supervisory Board as of 31 December 2013:
Vasilij Koman (Chairman), Klavdij Godnič (Deputy Chairman), Simon Hvalec, Marjan Heričko and Marko Jagodič

Activity

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

Business performance in 2013

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

In 2013, the total income of the company equalled €18,000, while its total expenses reached €5,000. The net profit reported by the company for the last year was €11,000.

At the end of 2013, the company´s total assets stood at €209,000, up 5% on 2012.

Projections for 2014

The volume of the company's business was kept at a minimum level in 2013, and this situation is expected to remain also in 2014.

Moja naložba, pokojninska družba, d.d.

Year of establishment: 2000
Website: www.moja-nalozba.si
E-mail: info@moja-nalozba.si
Nova KBM's shareholding as of 31 December 2013 (%): 45.00
Management as of 31 December 2013:
President of the Management Board: Lojze Grobelnik; Management Board Member: Igor Pšunder
Supervisory Board as of 31 December 2013:
Aleš Hauc (Chairman), Katrca Rangus (Deputy Chairman), Uroš Lorenčič, Jure Korent, Mojca Androjna, Irena Šela (representative of policyholders), Irena Žnidaršič (representative of policyholders) and Igor Marinič (representative of policyholders)

Activity

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

Business performance in 2013

As of 31 December 2013, the company's total assets amounted to €110,024,000, which was 11% below the projection. This deviation from the plan was mainly the result of the implementation of the new Pension and Disability Insurance Act (ZPIZ-2), which caused the company to earn lower income from its principal activity, and to incur additional costs as a result of employers being given the option to have their employees insured with more than one supplementary pension insurance provider. In addition, ZPIZ-2 reduced the time given to the pension companies to pay out the funds to policyholders whose insurance premiums are paid by the employer and who have the right to terminate their insurance after a 10-year insurance period. This caused the dynamics of payments from the pension plan to accelerate, putting pressure on the company's assets. In March and April, the company paid out funds that would have otherwise been paid out five months later. As a result, in 2013 the company made payments to policyholders as if the year had 16 months, causing a decrease of €11,411,000 in the company's assets under management. A total of €38,068,000 was withdrawn in 2013 from the company's long-term business fund for voluntary pension savings.

In December 2013, following the entry into force of the amended Banking Act which provided for expropriation of holders of shares and subordinated instruments issued by banks that were entitled to state-sponsored recapitalisation, the company and its long-term business funds had to write off their investments in shares and subordinated bonds issued by NLB and Banka Celje. This caused the company to incur a net loss of €387,000 in 2013, as opposed to the projected net profit of €371,000.

Projections for 2014

The key competitive advantage of Moja naložba is providing an efficient balance between safety (sound shareholding structure, above-average guaranteed return) and the return of assets managed (active asset management, above-average return under any market conditions). In 2014, the company will continue carrying out activities to acquire new policy holders, targeting both employers that are not yet included in the system of voluntary pension insurance and those that already pay premiums for their employees. As regards the latter, the company will make an effort to become the second-choice voluntary pension insurance provider, given that the regulations governing pension insurance provide for such an option and that the to-date results suggest that several additional agreements on voluntary pension insurance could be signed with employers. Following the receipt of necessary approvals and permits, the company will enable policy holders to be included in the life-cycle funds. In this way, it will offer policyholders the chance to join two additional funds without a guaranteed return. For 2014, the company expects to report positive results in all segments of its operations.

9.4 MARKETING STRATEGY AND MARKETING ACTIVITIES

Marketing strategy and marketing activities were formulated on the basis of the business strategy and objectives of the Bank and the Nova KBM Group, taking into consideration the changed market conditions and customer needs. The Bank carried out various marketing activities in a prudent and effective fashion, all with the aim of achieving optimal results without compromising on customer satisfaction.

In the challenging market conditions that marked the year of 2013, the Bank made every effort to retain its existing customers, their trust in the Bank, and their satisfaction with the services provided, while at the same time trying to widen and strengthen its cooperation with them.

To boost the use of its services and those offered by other Nova KBM Group companies, as well as to popularise the wide range of modern distribution channels it offers, during 2013 the Bank conducted a number of marketing campaigns, including sales promotion, advertising, cross-selling, and internal marketing, among others. Special attention was devoted to activities aimed at encouraging customers to continue using or even to take out additional loan, deposit and insurance products, and to carry out their banking transactions through the Bank´s online facilities, Bank@Net and mBank@Net. In addition, the Bank promoted the use of payment cards, the security SMS service, and in particular the Visa prepaid card that the Bank offered for the first time to its customers in the middle of 2013.

By implementing alternative, often innovative marketing campaigns, the Bank also approached young people. It offered them the possibility to be involved in interesting projects and organised several events and prize competitions for them, thereby establishing the first contact and providing them with a positive experience.

Marketing activities were also focused on the acquisition of new customers, especially in the regions where the Bank wanted to increase its market share. To that effect, it undertook several efforts to improve its visibility, strengthen its reputation, and gain confidence, in addition to creating special offers and service packages and employing refreshing marketing approaches.

In planning marketing actions, it took into consideration the diversity of different target customer groups and their specific needs, while in carrying them out the Bank´s prime concerns were cost-efficiency and measurable results. The Bank also conducted market surveys and analyses to obtain feedback on its performance. Through a survey on customer satisfaction carried out at the end of 2012 and the beginning of 2013, it was established that 95% of Nova KBM customers were satisfied with the service provided, while according to a Slovenia-wide survey, Bank Tracking, conducted by RMplus in May 2013, just over 93% of Nova KBM customers expressed satisfaction. The results of the latter survey also showed that, in the opinion of the respondents, Nova KBM retained its position as the second-best bank in Slovenia. The findings of these surveys suggest opportunities for the Bank and warn of the challenges that must be dealt with more intensely in the future. These findings will be taken into consideration as much as possible when planning future marketing actions.

The cooperation with corporate customers and sole proprietors was strengthened by maintaining business relationships in a professional manner, presenting the Bank´s products and services at several business events, and conducting numerous activities within the Entrepreneur Centre, among other efforts.

The Bank tried to build up its reputational capital by providing appropriate communication support to its operations, which helped it strengthen its reputation, and by effective internal and external communication. It used a systematic and focused communication approach to retain the trust the customers had placed in it and to keep the customers updated on any changes and new products in its offerings. For its communication efforts, the Bank used a variety of tools and channels, including contemporary ones such as websites, social networks and others. Its communication with the media, investors and other interested parties was handled in a correct manner. Further details in this regard are given in Section 11 'Social responsibility'. By organising different corporate events and social gatherings, and through networking, the Bank managed to retain the confidence of, and intensify relationships with its key customers as well as to strengthen cooperation with its business partners.

Other companies of the Nova KBM Group were occasionally involved in marketing activities and thus supplemented the range of products and services offered by the Bank. For example, Nova KBM, KBM Invest, KBM Leasing, Gorica Leasing, KBM Leasing Hrvatska and PBS launched a joint website, www.nkbm.si/nepremicnine, where over 260 real estate units owned by these companies are offered for sale and where potential buyers of real estate can find useful information about the real estate market.

Several other marketing campaigns and cross-selling initiatives were also carried out in cooperation between the Bank and other Nova KBM Group companies, as were some other promotional activities and a joint reception for business partners.

The Bank devoted a great deal of attention to internal communication. For that purpose, it carried out various actions throughout the year, and prepared several communication guidelines to ensure the employees were better informed, to facilitate the hierarchical flow of information, and to increase the loyalty of employees, thus achieving benefits for both the employees and the wider community. In addition, it overhauled its intranet in terms of content and graphic design, providing its employees with even more useful information. Throughout the year, the Bank employees took part in various internal projects in the area of charity, health, and internal marketing, just to mention a few.
More information about internal communication is set out in Section 11 'Social responsibility'.

9.5 NEW AND UPGRADED SERVICES AND DISTRIBUTION CHANNELS

In 2013, the Bank pursued its strategic direction of getting closer to its customers by developing new services and distribution channels.

During 2013, the Bank worked intensively with other companies in the Group and some other business partners to design and launch several new products and upgrade both services and modern distribution channels, the development of which was carried out both in-house and in partnership with external service providers. New and upgraded products and services provided by the Bank are presented in the table below.

Business segment	New products and services and upgrade of existing ones
Payment cards	• Visa prepaid (can be ordered at most Pošta Slovenije offices). • Application 'Design your own payment card'. • Elimination of paper-based monthly account statements for online banking facility users, replacing them with electronic ones that are posted to the online banking facility (Bank@Net and Poslovni Bank@Net) inboxes.
Moneta	• Elimination of paper-based monthly account statements for Moneta for online banking facility users, replacing them with electronic ones that are posted to the online banking facility (Bank@Net and Poslovni Bank@Net) inboxes.
Transactions at ATMs	• Fund transfers between accounts. • Change of PIN for Visa prepaid cards at ATMs of Nova KBM.
Online banking service for retail customers	• Possibility to take out instant loans of up to €3,000 and with maturity of up to 36 months. • Upgrade of ZA-TO! savings accounts, along with the necessary upgrade at bank tellers (long-term ZA-TO! savings accounts). • Common site for posting requests. • Upgrade of the account review facility to include transactions on Visa prepaid cards. • Entry of request for L/C opening.
Online banking service for corporate customers	• Entry of request for L/C opening or amendment. • Review of transactions on all corporate payment cards. • Inclusion of Visa prepaid cards, along with the functionality to top-up the cards. • Replacement of paper-based statements for various transactions with electronic ones (deposits, current accounts, payment card statements, Moneta, securities, loans, etc.) • Export of several notices at the same time, as requested by a customer. • Additional password for qualified digital certificates. • Upgrade for devices with iOS.
Web services	• Joint website for the sale of real estate.
Mobile banking service	• Upgrade of the account review facility to include transactions on Visa prepaid cards.
E-invoices	• Automation of issuing monthly invoices to participants of the E-invoice system and issuers of e-invoices within Nova KBM.

9.6 MODERN DISTRIBUTION CHANNELS

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

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

The use of modern distribution channels is indirectly linked to the functioning of payment systems. As in previous years, in 2013 a number of significant changes were implemented in the area of payment systems:

- In line with the plan and measures adopted as part of the RAST project, the following changes took place with respect to the SWIFT system: (i) the BICplusIBAN register was replaced by a cheaper IBANplus register; (ii) the scope of the SWIFT Alliance Access licence was reduced; and (iii) KBM Banka was integrated into SWIFT through Nova KBM.
- In accordance with the 2013 business plan, the archived documents of the Clearance Centre (cheques, money order forms, payment order forms and payment card slips) were transferred from portable storage media to a server.
- The following changes were implemented in the central payment system application (CAPS):
  - changes in the rights of the super-user, by which the option to amend payment transaction data in CAPS was limited
  - changes due to modifications of payment systems and amendments to the legal framework governing payment transactions
  - changes due to amendments of rules governing the functioning of systems used for the processing of SEPA credit transfers and direct debits, and due to the introduction of a common uniform technical platform of the TARGET2 payment system
  - changes due to amendments of the Bank´s cost centres
  - changes aimed at improving the efficiency of payments processing in the Bank
- As part of the Bank´s restructuring, two organisational units dealing with payment processing were merged into one. Effective from 1 October 2013, the processing of domestic, cross-border and international payments is conducted by the Payment Processing Section. Within the restructuring activities, and in order to further rationalise its operations, at the end of 2013 the Bank submitted a request to SWIFT to deactivate the BIC code KBMASI2XGOR. As a result, since 4 January 2014, only the BIC code KBMASI2X has been used by the Bank.

Branch offices

At the end of 2013, Nova KBM had three branches, under which a total of 68 branch offices were operating. Certain banking services for households may also be provided at more than 500 locations of Pošta Slovenije and branch offices of PBS.

ATMs

The total number of Nova KBM´s ATMs at the end of 2013 was 258, which gives a market share of 14.5%. All of the ATMs have been upgraded to comply with the EMV standard required by EuroCard, MasterCard™ and Visa™.

POS terminals

A POS terminal is a computer substitute for a cash register. As of 31 December 2013, Nova KBM had 3,321 static and mobile POS terminals in operation, down 4.51% on 2012. Nova KBM´s market share in POS terminals was slightly over 9% at the end of 2013. The Bank registered a 26% increase in the number of transactions at POS terminals, from 5.07 million in 2012 to 6.39 million in 2013. At the end of 2013, Nova KBM had 19,210 POS contracts (Activa, Maestro™, MasterCard™, Visa™ and Karanta™) in place.

Payment cards

As of 31 December 2013, the Bank had 401,563 active payment cards outstanding to retail and corporate customers, an increase of 0.61% on 2012. Nova KBM´s market share in Slovenia with respect to payment cards issued is just over 12%. The total number of transactions with payment cards increased year-on-year by 4.36% and reached 14,592,397 in 2013.

Moneta

In 2013, the volume of payments made through Moneta once again registered high growth. Total payments were worth €30 million, up 19% on 2012.

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

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

Bank@Net

The number of retail customers using Bank@Net has been steadily increasing. At the end of 2013, there were 66,742 Bank@Net users, up 18.44% on 2012. The total number of transactions made through Bank@Net in 2013 was 4,877,032, an increase of just over 65,000, or 1.36%, on 2012.

Poslovni Bank@Net

The number of Poslovni Bank@Net users at the end of 2013 was 8,719, up 0.26% on 2012. Compared to 2012, the number of domestic payment transactions sent over Poslovni Bank@Net decreased by 4.53%, while the number of international payment transactions saw an increase of 4.66%.

Telephone banking and Western Union

The number of transactions executed through the telephone banking service of Nova KBM, TeleBanka, increased year-on-year by 14.8%, with the total value of these transactions rising by 19.15% relative to 2012. The number of Western Union Money Transfer transactions saw an increase of 4.7%, while the total value of these transactions went up by 4.2% relative to 2012.

Day-night safes and collecting money at agreed upon places

As of 31 December 2013, Nova KBM had in place 1,520 contracts with corporate customers and sole proprietors for the use of a total of 2,152 cash collection points (day-night safes and agreed-upon sales points). The total volume of daily proceeds accepted through these two channels in 2013 exceeded €1,060 million.

9.7 CORPORATE BANKING

Lending operations

The economic crisis deepened further in 2013 and presumably reached its climax in all business segments, including banking, imposing severe challenges on the operations of the Bank.

Throughout Slovenia, the Bank carried out its role as a socially and economically responsible institution, taking account of its capital capabilities and available liquidity. In its lending business, the Bank focused principally on the Podravje and Severna Primorska regions, where, in terms of loans given to customers, it maintains a market share of over 30%.

The lending activity slowed down, particularly in the second half of the year. Companies were demanding mainly working capital financing, while the project financing came to an almost complete standstill in 2013.

Last year, the Bank devoted a great deal of attention to the restructuring of companies and rescheduling of their loans, but also to other initiatives that could help over-indebted corporate customers continue their operations normally.

In 2013, the Bank strengthened further its advisory role in the area of corporate banking. In partnership with some other institutions (the Slovene Enterprise Fund, the Institute for Entrepreneurship Research), it helped existing and new customers get access to information relevant to their operations, and offered them support in obtaining EU grants or other types of funding to finance their projects.

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

For financing corporate customers, in 2013 the Bank obtained long-term funds from SID Banka. Most of these funds were used to finance projects aimed at developing an eco-friendly society and encouraging competitiveness of companies. Funds were also given to provide fixed and working capital. Most funds were granted to SMEs.

In cooperation with the Slovene Enterprise Fund that acted as the guarantor, in 2013 the Bank provided low interest rate loans, mainly to SMEs.

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

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

Other banking products
In the factoring segment, in 2013 the Bank purchased receivables worth €30 million. Despite a year-on-year drop in the business volume, the Bank managed to generate an income of €0.42 million on these transactions, up €0.13 million on 2012.

Notwithstanding the fact that the financial crisis, which started in 2008 and deepened further during 2013, had a significant impact on its operations, the Bank continued to provide a comprehensive range of products and services to its corporate customers, thus having a direct or indirect impact on solving problems that occur in day-to-day operations of the economy.

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

Compared to 2012, the volume of international payments processed by the Bank fell by 8.9%, with incoming and outgoing payments decreasing by 8.9% and 6.4%, respectively.

The number of corporate current accounts held at the Bank did not change significantly during 2013; there were 11,590 corporate current accounts maintained by the Bank at the end of 2013, compared to 11,605 at the end of 2012, which constitutes a decrease of 0.002%.

The aggregate credit balance in all corporate current accounts held by the Bank was €167 million at the end of 2013. Total debit and credit items across all corporate customer accounts amounted to €26,829 million and €26,859 million, respectively, a year-on-year increase of 4.3% in aggregate.

9.8 RETAIL BANKING

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

In 2013, the Bank downsized its branch office network by closing some less profitable units. At the same time, it strengthened its presence and visibility by refurbishing and relocating several branch offices, thereby getting even closer to its customers. The Bank wants to be perceived as a partner by its customers throughout their lives. This is why it devoted special attention in 2013 to young people, to whom it continued providing services specifically adapted to their needs and wishes through modern distribution channels. The products and services of the Bank have always been developed to suit the needs of all segments of customers – from the youngest primary school children, pupils and students, through first-time entrepreneurs, to adults and pensioners.

In spite of restricted access to funding, in 2013 the Bank provided normal support to households. In doing business with sole proprietors, the segment in which the Bank maintains a high market share, it strengthened its partner role and helped entrepreneurs find solutions to their financial problems.

At the end of 2013, there were 11,923 sole proprietors and 301,685 households who maintained a current account with Nova KBM. The Bank is present in all Slovene regions through its extensive branch network. The Bank provides the following banking products to its customers also at all post offices: cash and non-cash transactions; approval of loans; and opening of personal and deposit accounts. By being able to use post offices for its retail banking services, it has enhanced its presence in locations where there are no Bank branch offices and has approached new customers, thus ensuring first-class banking services can be provided anywhere in Slovenia.

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

Lending operations
Demand for loans in 2013 was weak due to the difficult economic conditions and an increasing number of unemployed. Despite relatively favourable prices of real estate, the economic downturn caused citizens to become more reluctant to take out housing loans. For the similar reason, sole proprietors decided not to undertake new projects for which funding would be required.

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

The total number of consumer loans at the end of 2013 was 40,076 totalling €187 million, with the majority of these loans having the maturity of five years. The loan product called 'Kredit takoj' *(Instant loan)* accounted for the largest proportion among consumer loans. The total number of housing loans outstanding at the end of 2013 was 23,956 totalling €573 million, with a maximum maturity of up to 25 years.

At the end of 2013, the Bank´s market share in loans to households accounted for 10.4% of the total deposits placed by households with Slovene banks, a marginal decrease on 2012, while its market share in loans to sole proprietors remained broadly at the 2012 level.

Deposit operations

In response to the strained market conditions, in 2013 the Bank devoted a great deal of effort to attracting customer deposits. Public mistrust in the Slovene banking system caused the total volume of customer deposits to decline in the first half of last year. This negative trend slowed down thereafter, only to gain momentum again in the last quarter of the year, when the Bank registered larger outflows of customer deposits.

In spite of this negative trend, the Bank continued pursuing its goals set for the retail banking segment. It adjusted its interest rate policy to the prevailing market conditions and carried out several marketing campaigns to attract longer-term deposits. At the end of 2013, the Bank´s market share in non-current household deposits stood at 15.8%, with the majority of these deposits exceeding €10,000. In terms of number, non-current household deposits accounted for as much as 68% of the total customer deposits. The Bank´s market share in household deposits was 13.0% at the end of 2013, a small decline on 2012. The total number of current and non-current deposits stood at 63,000. In addition, the Bank had 70,000 savings accounts with a notice period and 18,000 pension savings accounts.

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

Marketing of other Group products and services

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

It has been very successful in selling the products of Zavarovalnica Maribor. At branch offices of the Bank, customers may take out life insurance policies upon taking a loan, arrange travel insurance for themselves and their family, take out different types of investment life insurance, accident insurance, payment card loss insurance, and similar. Selling and collecting payments for KBM Infond mutual funds is also part of the offering at branch offices. Because of their mistrust in banks, customers were willing to accept a higher level of risk to potentially earn better returns by investing their money in mutual funds. Almost 5,300 different insurance policies were taken out, and a total of €1.5 million was collected for KBM Infond mutual funds at branch offices of Nova KBM in 2013.

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

9.9 INTERNATIONAL OPERATIONS

Nova KBM did not contract any new loans in international markets in 2013.

In June 2013, Nova KBM repaid early two long-term loan facilities, worth €60,000,000 in total, to SID Banka. Later in the year, two loan agreements, one each in August and September, were signed with SID Banka, pursuant to which Nova KBM raised a total of €51,900,000 to finance competitive projects developed by its corporate customers.

The credit rating downgrade trend continued throughout 2013. The deteriorating economic position of the Eurozone was reflected in credit rating downgrades of some European countries, including Slovenia. The Slovenia´s sovereign downgrade, in turn, led to Slovene banks being downgraded. Following the December recapitalisation and the transfer of bad loans to BAMC, Fitch Ratings upgraded Nova KBM´s viability rating to b-.

Ratings of Nova KBM as of 31 December 2013 were as follows:

Fitch Ratings:	BB-/B (negative outlook)
Moody´s Investors Service:	Caa2/Non-Prime/E (negative outlook)

9.10 TREASURY

The Bank managed its liquidity in 2013 in such a way as to ensure the settlement of all obligations that became due. By applying a conservative approach, the Bank created an adequate secondary liquidity reserve, consisting of ECB-eligible securities and interbank loans that the Bank may use for securing claims in borrowings through the instruments of the ECB, while the ECB-eligible securities may also be used for entering into repos in the interbank market.

During the year ended 31 December 2013, the Bank fully complied with the regulations on minimum liquidity which require the banks to maintain the Category One Liquidity Ratio (up to 30 days). The prescribed liquidity ratio is 1.0. The Bank also complied with the Bank of Slovenia regulations on obligatory deposits.

The Bank manages its liquidity at both the operational and structural level. At the operational level, the Bank manages its daily liquidity in the domestic and international interbank money markets, and by participating in auctions of the Ministry of Finance and the Eurosystem monetary policy operations. In 2013, the Bank placed daily surpluses of liquidity in the interbank money market, and did not participate in the ECB refinancing auctions.

In order to help strengthen the stability and liquidity of the European banking system, in 2013 the ECB continued implementing non-standard monetary policy measures. The main refinancing and long-term refinancing operations carried out through a fixed-rate tender procedure with full allotment will continue until July 2015.

In November 2013, the ECB cut the key interest rates as follows: the main refinancing operations rate to 0.25%, the marginal lending facility rate to 0.75%, and the marginal deposit facility rate to 0%.

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

Banking book portfolio of debt securities

The banking book securities are mainly used for the provision of an adequate liquidity reserve and for managing interest rate risk. The Bank created the portfolio of debt securities in accordance with the Policy of Managing Nova KBM´s Banking Book Debt Securities Portfolio. As of 31 December 2013, the total value of the banking book debt securities portfolio was €1,373,416,000, up 84.2% on 2012. Government securities and securities with state guarantee accounted for 94.5% of the total banking book portfolio, followed by securities issued by prime banks, which accounted for 1.7% of the portfolio, and securities issued by other issuers, which had a 3.8% share of the portfolio. The increase in the proportion of government securities was partially the result of the state-sponsored recapitalisation – a part of which was carried out by an in-kind contribution in the form of government bonds – and partially due to the receipt of government bonds in exchange for bad loans transferred to BAMC.

Certificates of deposit

In line with its financial plan, in 2013 the Bank also issued certificates of deposit. The total amount of certificates of deposit issued by the Bank and outstanding at the end of 2013 was €22,929,000.

Interest rate policy

The interest rate policy of the Bank was carried out in accordance with the adopted guidelines and on the basis of its business policy and financial plan for 2013. The policy was adjusted by the Bank to reflect current conditions in the local and international financial markets, and developments in the economic environment.

Trading

A total of 1,871 currency trading transactions were concluded by the Bank in 2013. The bulk of trading in foreign exchange markets was in the most important currencies such as the euro, US dollar and Swiss franc. The number of foreign currency cash transactions reached 3,522 last year.

The average daily position of short-term funds placed or borrowed in respect of currency trading in 2013 was €521,000. In 2013, the Bank entered into a total of three reverse repo transactions in debt securities and 147 transactions in derivatives.

The Bank acts as a primary dealer for the treasury bills issued by the Ministry of Finance. Last year, at auctions carried out by the Ministry of Finance, it purchased, both on behalf of customer accounts and for its own account, treasury bills of various maturities worth about €396,786,000 in total, which made up 19.5% of the total value of treasury bills issued by the Ministry of Finance last year.

9.11 BROKERAGE SERVICES

A total of 6,969 transactions were concluded by the Bank last year in domestic and foreign markets. In terms of value, transactions concluded in the domestic market were on the increase.

On the Ljubljana Stock Exchange, Nova KBM concluded transactions worth €49,817,000 in total, while the total amount of transactions concluded in 2013 in the international capital markets was €38,045,000. The value of transactions carried out through unregulated capital markets reached €1,676,000.

In 2013, Nova KBM introduced a new product enabling customers to have their funds managed within the KBM Infond Cover Fund. It is expected that the assets of this fund will increase also as a result of the new product being attractive to customers.

The average daily value of trading portfolios of equity instruments was €251,000 in 2013. The return generated by the Bank in 2013 on the average value of trading portfolios of equity instruments was negative, at 13.45%, compared to a return of 17.95% reported for the EUROSTOXX 50 index. The volume of trading in securities fell by 3% in 2013, mainly as a result of a reduced trading by customers in foreign markets.

9.12 HUMAN RESOURCE MANAGEMENT

The staff policy is formulated in such a way as to support the accomplishment of the operational and strategic objectives of Nova KBM as well as the objectives set out in the restructuring programme, taking into consideration the values and mission of the Bank as laid down in the Ethical Code of Nova KBM. The policy incorporates measures that contribute to the successful education of staff in order to meet the objectives of the Bank, with focus being placed on training, an appropriate balance between professional and family lives, and the management of staff performance, among others.

At the end of 2013, Nova KBM had 1,201 employees, while the average number of employees in 2013 was 1,267. The results of the management of the number of staff, as part of the strategic objective of reducing staff costs, were reflected in a 6.2% decline in the number of employees relative to 2012.

The number of Nova KBM employees in 2013 is presented in the table below:

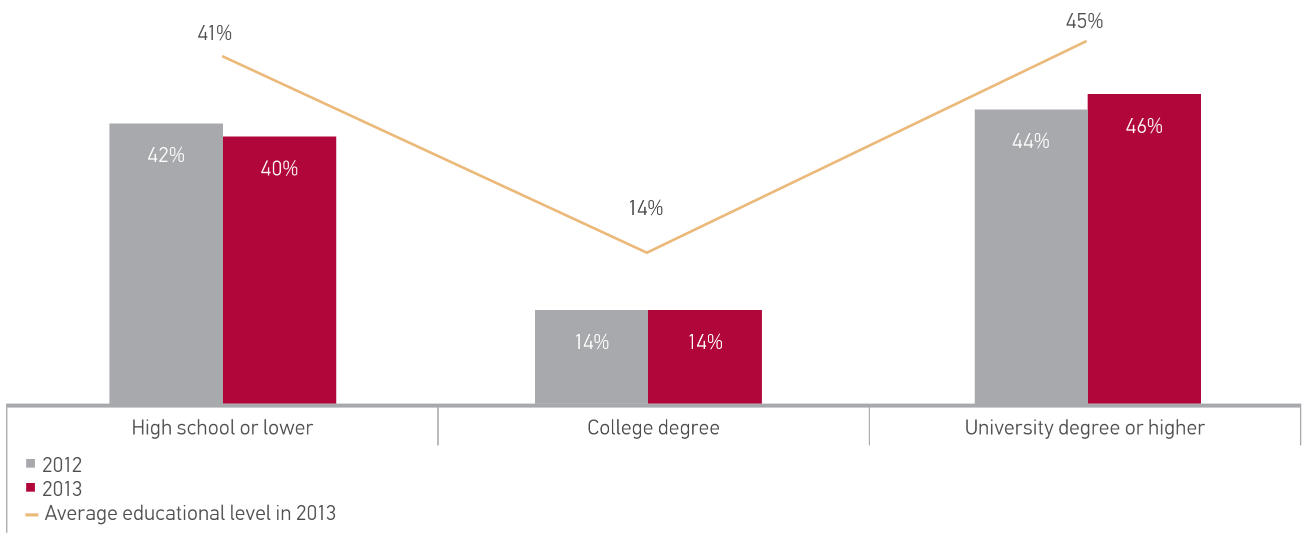
Total number of employees on 31 December 2013	1,201
The average number of employees in 2013*	1,267
Number of new employees in 2013	14
Number of employees who left in 2013	93
Number of permanent employees	1,189
Number of fixed-term employees	12
Number of disabled employees	39

* Arithmetic mean; on the last day of the year.

The measures aimed at reducing the number of employees, which is one of the objectives set out in the restructuring programme, included principally the so-called soft methods, such as encouraging employees to retire, but redundancies were also made as an inevitable result of the Bank´s restructuring, a part of which was the centralisation of certain functions. Pursuing the objectives set out in the restructuring programme, the Bank covered any needs for new staff principally from internal sources. In transferring staff within the Bank, the tools for measuring the competences of employees were used by the certified internal staff experts.

In exceptional cases where the need for staff could not have been covered by internal transfers, and the failure to fill the vacancy would result in a breach of the requirements imposed by the regulator, or in disruption of the work process and a delay in the accomplishment of development objectives, staff were hired from outside the Bank, and also through student work agencies if less qualified positions had to be filled. A total of 14 new employees were hired in 2013, while the number of employees who left the Bank was 93. This had an impact on the educational structure of the staff, with highly-qualified personnel with specific skills and experiences making up a greater proportion of the total number of employees. Among other factors, this trend is a consequence of the Bank´s staff policy over the last few years, as a response to the requirements dictated by the regulator, market and business environment.

The educational structure of Nova KBM employees at the end of 2012 and 2013 as well as the average educational level in 2013 are presented in the chart below:



The optimisation of the number of staff additionally confirmed the correctness of a decision the Bank took in the past with respect to the introduction of a mechanism to monitor and evaluate the performance of employees, while at the same time it stressed even more the importance of providing remuneration based on the work results of employees. In 2013, the Bank continued rewarding employees through a variable salary component, while promotions were rare, in line with a more restrictive remuneration policy. Through the system of assessing and rewarding work performance, the Bank was able to identify the necessary training programmes and measures to be taken to increase the satisfaction level of employees, in addition to receiving information about the possible and desired methods to improve the performance of employees. With the support of the 360º Assessing Method, in 2013 the Bank conducted an analysis of the competences of different employee segments.

As in previous years, in 2013 the Bank gave its employees the option to join the voluntary supplementary pension insurance scheme in accordance with the adopted policy regulating this issue. The Bank strives to maintain an open dialogue with its employees, including through the so-called staff portal within the upgraded intranet site, where employees can access basic information regarding their rights and obligations.

Nova KBM, as a socially responsible company and a holder of the basic 'Family-Friendly Company Certificate', continued undertaking activities aimed at promoting its social responsibility. Further information about the Bank´s commitment to social responsibility is set in the section headed 'Social responsibility'.

In the areas of staffing and training the Bank pursues the objective of cost reduction. Because of a reduction in funds earmarked for education and training, in 2013 the majority of employees acquired additional skills and knowledge from internal banking experts through in-house training programmes, workshops, presentations, seminars and consultations. In-house training programmes have several advantages, including significantly lower costs and tailor-made content, meaning they are adapted to the specific needs of the Bank.

The Bank endeavours to provide training to as many employees as possible. To that effect, 91% of the staff participated in in-house or external training programmes in 2013. Despite a reduction in funds available for training, a total of more than 4,000 participants were involved in training programmes last year, with 95% of this figure being attributed to internally prepared and organised courses. Thirty-three different internal training programmes adapted to the needs of the Bank were carried out 120 times, involving a total of almost 3,900 participants. On average, each employee spent 15 hours in training.

Preference was given to training programmes on banking topics, but a great deal of effort was also devoted to developing the soft skills of employees, such as management and sales techniques, since the Bank is aware that only competent employees are able to develop, maintain and upgrade customer relationships.

In 2013, the Bank introduced internal consultations with the purpose of providing employees with information regarding important changes and strategic directions of the Bank in a timely and correct manner. Such partially formal, partially informal meetings are of significant importance for the accurate transfer of information, while having a considerable impact on a positive organisational climate and employees´ loyalty to the Bank.

A great deal of focus and energy was directed towards introducing internal training programmes with mobile trainers, which proved to have a substantial effect on the reduction of costs and time needed to acquire necessary skills. Besides being cost-efficient due to the Bank having less demand for external training, the use of internal mobile trainers enabled the launch of one-to-one training programmes, ensured the harmonisation of training standards, and facilitated a constant transfer of skills, information and good practice between employees.

9.13 INTERNAL DEVELOPMENT OF NOVA KBM

9.13.1 CHANGES IN THE BUSINESS PROCESSES

The restructuring of Nova KBM carried out in 2013 had the following objectives:

- to introduce the 'one face to the customer' principle, the aim of which was to improve and unify customer service and to standardise customer-related procedures and processes
- to centralise and streamline the operations of commercial departments
- to downsize the branch office network
- to ensure the necessary professional support directly within commercial departments in order to provide for more efficient and effective business solutions and relieve commercial departments from non-commercial activities
- to set up a product development function (separately from the technology and business processes) with the aim of efficiently adapting the offerings of the Bank to the current market conditions and to ensure that the product range always reflects the needs of customers
- to set up a business processes function and to integrate the organisation development function in order to ensure a more efficient flow of business processes and to evolve towards a process organisation
- to merge support and monitoring functions into a single department with a view to optimising human and technical resources and improving efficiency.

As part of the restructuring and in order to boost its customer service, the Bank set up operational support functions, one each in the corporate and retail banking divisions, charging them with the responsibility to ensure, support and monitor the delivery of superb service.

The Bank is aware of the importance of quality management. To that effect, it carried out an internal assessment of its quality management system in the retail banking division also in 2013. Throughout the year, the Bank monitored the quality and timeliness of solving customer complaints. In addition, through a group appointed for continuous implementation of improvements, it upgraded operational procedures, services and other areas of its business.

9.13.2 TECHNOLOGICAL DEVELOPMENT OF NOVA KBM

Nova KBM develops technological support for its business processes independently and then, in cooperation with outsourcers, upgrades its decision support systems and applications. Development process is to a large extent carried out by the Bank´s own resources. In 2013, the Bank started working intensively on the consolidation of its vital business information systems and on their integration into the Bank´s own development environment. Activities in the development of the core banking system were devoted to the upgrade and optimisation of operations with corporate customers. To reduce IT costs and optimise resources, the Bank started reviewing and renegotiating agreements with its hardware and system software vendors. Efforts aimed at standardising internal reporting procedures and consolidating the IT environment within the Nova KBM Group continued throughout last year.

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

In 2013, the Bank devoted its development activities mainly with tasks and projects that were included in the 2013 development plan and whose implementation was necessary for the Bank to accomplish its business objectives.

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

In accordance with the adopted information technology support strategy, the installation of new UNIX central servers (Power 7) was completed at the beginning of March after the successful migration of relevant data and applications, affirming the Bank´s commitment to having its hardware upgraded on a regular basis.

Furthermore, a comprehensive project of migrating ESX systems to new hardware was successfully concluded by using in-house know-how. Apart from migrating several servers to the new platform, the necessary conditions were ensured to enable the transfer of the data warehouse.

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

Extensive preparation work was done for internal consolidation of the IT infrastructure in the area of server environment virtualization and databases. Also, the Bank signed a letter of intent to participate in the project, run by Bankart, the aim of which was to consolidate the IT infrastructure in order to enable its use by several Slovene banks.

9.13.3 INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Investments in information technology support

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

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

In 2013, the Bank continued replacing and upgrading ATMs and POS terminals according to the plan, but also as part of the implementation of PCI standards in the card operations segment.

Investments in buildings

Due to the adverse economic conditions, the investments in buildings were undertaken in a most rational manner. In 2013, the Bank continued to refurbish its branch offices and other facilities with the aim of arranging them in such a way as to create an optimum working environment and a place where customers can be served effectively.

During 2013, the Bank relocated the Dolenjska-Posavje Branch, refurbished offices on the third and fourth floors of its headquarters building in Maribor, and rearranged offices used by the Dealing Department, also in its headquarters building. Apart from that, it carried out some smaller works to extend the lifetime of several of its buildings.

Investments in the mechanographic and other equipment

Purchases of mechanographic equipment are being made in line with the plan, taking into account the actual need or the wear and tear of equipment. The amount of funds spent in 2013 on this equipment was slightly lower than projected, in part reflecting overall reductions in investment spending.

Just like the life in our house revolved around music, as a child I used to hang around the radio and sing continuously. This is probably why I still hear music in the background, wherever I go. Everything follows a rhythm: speech has a melody, words have a ring to them and the wind rhymes with the bedroom whispering. But these sounds could not drown out my internal voice that insisted I should write songs. I gladly followed its instructions. When the announcer's voice at the Slovene song festival spoke my name as I won the New Artist of the Year award, I knew everything was in harmony.

For me, 1998 was a landmark year.

Andraž Hribar

Andraž Hribar, singer

PLANS FOR 2014

10 PLANS FOR 2014

The Bank´s Supervisory Board consented to the 2014 plan of the Bank and the Nova KBM Group at its regular meeting on 14 February 2014. The planning of the business policy and financial plan of the Group and the Bank for the year 2014 was carried out in several stages from September 2013 to January 2014 on the basis of macroeconomic projections that were supported mainly by the autumn forecasts of the IMAD, taking into consideration commitments set out in the restructuring programme. The following macroeconomic projections were taken into account in the drafting of the 2014 financial plan:

MACROECONOMIC PROJECTIONS USED IN THE PLAN	2014 (%)
GDP growth	(0.8)
ILO unemployment rate	11.0
Exports (real growth)	3.0
Imports (real growth)	(2.1)
Domestic consumption (real growth), of which	(2.4)
- fixed capital formation	(4.0)
- private consumption	(2.7)
- government consumption	(1.5)
Inflation rate (annual average)	(1.9)

Source: IMAD; Autumn Forecast; September 2013.

Simultaneously with drafting the 2014 financial plan, the Bank made amendments to its restructuring programme for the period 2013 to 2017 to comply with the requirements of the EC for the approval of state aid, and underwent stress tests and an AQR. The results of the stress tests and the AQR, published in December 2013, were taken account of in the restructuring programme. The principal commitments of the Bank laid down in the restructuring programme are as follows:

- transfer of a portion of NPLs to BAMC (the book-transfer took place in December 2013, while the physical transfer is being carried out in several tranches) and a reduction in the proportion of the remaining NPLs in the Bank´s loan portfolio
- gradual downsizing of total assets (by 2017, total assets are to be reduced by 7% relative to 2012)
- a reduction in operating costs and streamlining of business processes (by 2017, operating costs are to be reduced by 12.6% relative to 2012), and the strengthening of the cost-to-income ratio to below 55%
- disposal or liquidation of seven subsidiaries (Adria Bank, the leasing division, and subsidiaries specialising in the real estate business) and focus of the Nova KBM Group on the banking business
- a reduction in the lending volume and in business with foreign customers, as well as closure of several branch offices (by 2017, risk-weighted assets are to be reduced by 23% relative to 2012)

- divestment, i.e. the sale of non-strategic assets
- improvements in the corporate governance system
- improvements in the risk management and the loan origination models.

At the end of 2013, when the planning for 2014 was carried out, a number of institutions involved in forecasting macroeconomic movements revised their economic growth predictions for Slovenia for the end of 2013 and for 2014 considerably downwards. After the Bank of Slovenia had adopted necessary measures to restore the stability of the national financial system, which has led to state-sponsored recapitalisation of several banks, the economic forecast for Slovenia improved.

Nova KBM Group
The Nova KBM Group consists of complementary companies that are active in the financial intermediation industry. The 2014 business plan envisages the sale of KBM Leasing and Gorica Leasing as well as the end of the liquidation proceedings against KBM Fineko. The **total assets** of the Group are projected to reach approximately €4,506 million by the end of 2014, down 6.3% on 2013.

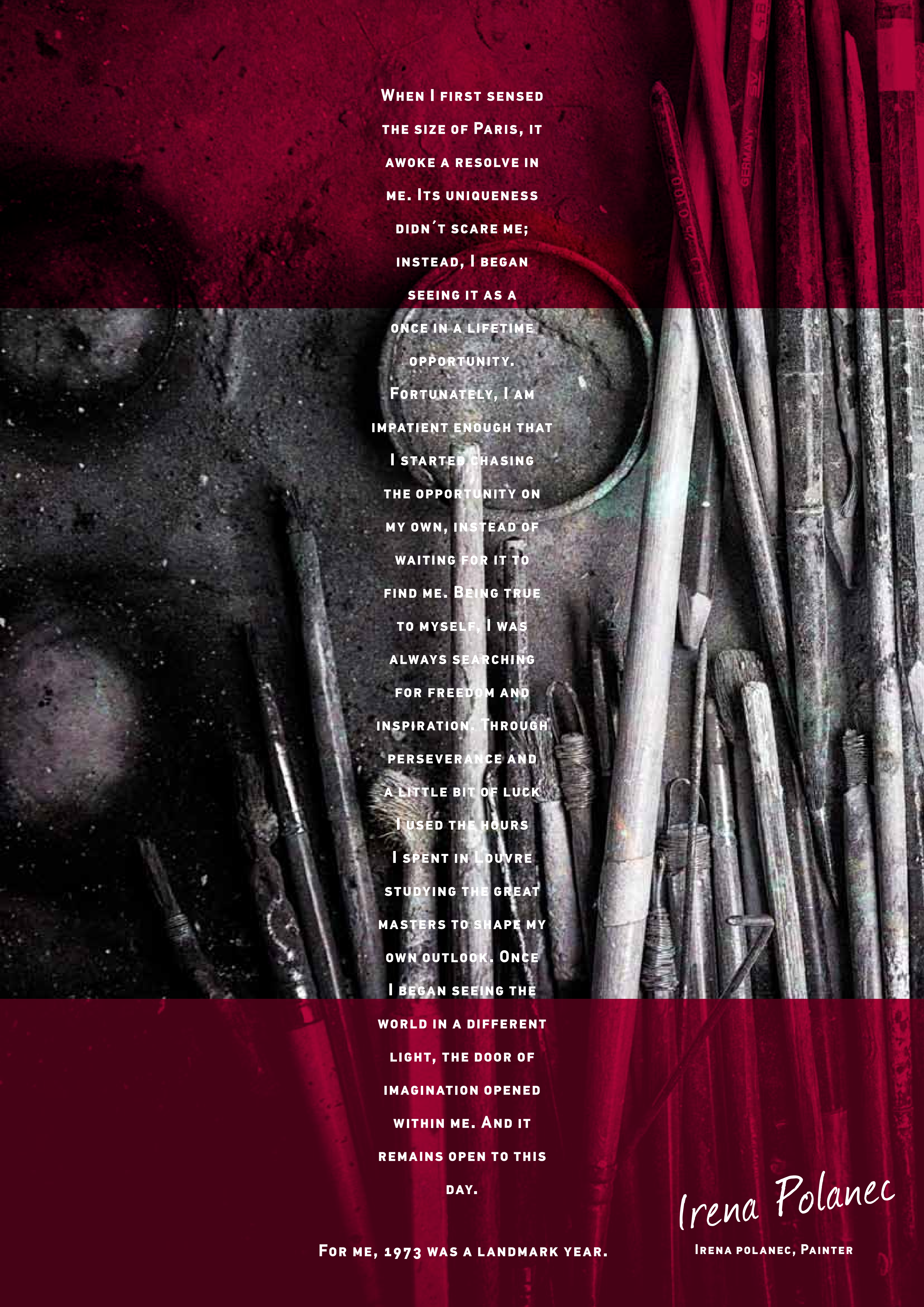
Interest income is forecast to be approximately €168 million, while interest expenses are projected to be approximately €64 million, providing **net interest income** of approximately €104 million, an increase of 32.2% relative to 2013. The **interest margin**, calculated as the ratio between net interest income and the average total assets, is projected to be approximately 2.23%. **Net fee and commission income** is projected to amount to approximately €61 million, up 3.2% on 2013.

Operating costs are projected to be approximately €115 million, a decrease of 5.4% relative to 2013. Net provisioning expenses will be significantly lower than they were in 2013, accounting for only 6.5% of the figure reported for last year. According to the projection, the operating result of the Group for 2014 is expected to be close to break-even.

Nova KBM
The management forecasts that the **total assets** of the Bank will reach approximately €3,603 million by the end of 2014, a decrease of 7.8% relative to the 2013 year-end.

Interest income is forecast to be approximately €129 million, while interest expenses are projected to be approximately €48 million, providing **net interest income** of approximately €81 million, an increase of 34.2% relative to 2013, when net interest income was strongly affected by high level of interest impairment. The **interest margin**, calculated as the ratio between net interest income and the average total assets, is projected to be 2.17%. **Net fee and commission income** is projected to amount to approximately €44 million, up 4.5% on 2013.

Operating costs are projected to be approximately €80 million, a decrease of 4.2% relative to 2013 (providing a cost-to-income ratio of 64.9%). The number of employees is expected to be reduced as a result of the projected rationalisation and overhaul of business processes. **Net provisioning expenses** are projected to be significantly lower than they were in 2013, reaching only about one-twentieth of last year´s figure. The Bank plans to end the financial year 2014 with a pre-tax profit of €9 million from **continuing operations**.



When I first sensed the size of Paris, it awoke a resolve in me. Its uniqueness didn´t scare me; instead, I began seeing it as a once in a lifetime opportunity. Fortunately, I am impatient enough that I started chasing the opportunity on my own, instead of waiting for it to find me. Being true to myself, I was always searching for freedom and inspiration. Through perseverance and a little bit of luck I used the hours I spent in Louvre studying the great masters to shape my own outlook. Once I began seeing the world in a different light, the door of imagination opened within me. And it remains open to this day.

For me, 1973 was a landmark year.

Irena Polanec

Irena polanec, Painter

SOCIAL RESPONSIBILITY

11 SOCIAL RESPONSIBILITY

Main guidelines in the area of social responsibility and concern for sustainable development in 2013
By having the Social Responsibility and Sustainable Development Programme as an integral part of their strategy, both the Bank and the Group have demonstrated their awareness of the important role of the banking industry in the business world. During 2013, the Bank enhanced its social responsibility and concern for sustainable development, while at the same time making efforts to include employees in the projects undertaken in this area.

Priority objectives which the Bank pursues in the area of social responsibility and sustainable development are as follows:
- to enhance the reputation of the Bank and the trust placed in it by the public
- to build sound relationships with all stakeholders
- to improve its competitive position
- to increase the loyalty of employees.

The Bank demonstrates its social responsibility in several ways, and by developing proper attitudes towards its business and social environment, the details of which are set out below:
- attitude towards shareholders and investors,
- concern for the natural environment,
- attitude towards customers and suppliers,
- building the loyalty of employees,
- attitude towards the media,
- integration into the local environment and broader community.

Areas of social responsibility and sustainable development	Major achievements in 2013
Attitude towards shareholders and investors	• Provision of correct, comprehensive and up-to-date information to all stakeholders, in accordance with the applicable legal requirements and good business practices.
Concern for the natural environment	• Purchase of bin stations for separate collection of waste. • Paperless communication with customers through electronic channels.
Attitude towards customers and suppliers	• Development of a new Visa prepaid card for retail and corporate customers. • Increased involvement in the education of young people. • Upgrade of website for visually impaired persons. • Implementation of a joint procurement policy to reduce costs.
Building the loyalty of employees	• A total of 727 employees took part in internal actions aimed at building up loyalty between the Bank and its employees. • Communication guidelines were developed in order to keep employees better informed about the most relevant topics, and to help them provide adequate information to customers and business partners. • One-day consultations with employees were introduced with the aim of building the loyalty of employees and keeping them better informed.

Attitude towards the media	• Proactive communication of the topics most relevant to the Bank´s operations. • Campaigns aimed at boosting positive publicity for the Bank.
Integration into the local environment and broader community	• A well-received humanitarian action was carried out in cooperation with the foundation 'Anina zvezdica' *(Ana´s little star)*, through which, by grants and the participation of employees, food was collected for 500 vulnerable families.

ATTITUDE TOWARDS SHAREHOLDERS AND INVESTORS

In 2103, Nova KBM saw significant changes in its shareholder structure. In accordance with a decision passed by the Bank of Slovenia, the Republic of Slovenia became the sole owner of the Bank.

Further details in this regard are given in Section 6 'Shareholders´ equity of Nova KBM'.

Through the state-sponsored recapitalisation, carried out in accordance with the Bank of Slovenia decision, the Republic of Slovenia increased its shareholding in the Bank to 100%, effective from 18 December 2013. As a result, Nova KBM shares with the ticker symbol KBMR, which were traded on the Ljubljana Stock Exchange and the Warsaw Stock Exchange, were deleted from the register kept by KDD and delisted from the stock markets, while the Bank´s liabilities to the holders of its KBM9 notes and bonds with characteristics of innovative instruments were written off. Upon the recapitalisation, the Republic of Slovenia announced that it intends to sell its entire shareholding in the Bank, presumably in 2016.

During the year ended 31 December 2013, the Bank informed the owners, investors and the public in general of all topics relevant to its operations, always in accordance with the applicable legislation and in a transparent manner. It made 108 public announcements (in English and Slovene) through the SEOnet system, and promptly responded to enquiries of shareholders, investors and other interested members of the public. In the year in which changes in its shareholder structure were announced and implemented, the Bank upgraded its regular communication with shareholders by holding an exclusive meeting between the Bank´s Management Board and Bank shareholders, and by releasing a special statement setting out the reasons for the Bank of Slovenia to adopt extraordinary measures.

Several meetings were held last year with representatives of various international institutions, the purpose of which was to present the Bank´s senior management´s views on the development of the Group´s banking division and to discuss the development prospects for Slovenia.

The Bank also maintained its relationships with investors through conference calls and by holding individual meetings, and communicated regularly with analysts who assessed the performance of Nova KBM and its shares.

CONCERN FOR THE NATURAL ENVIRONMENT

The Bank continued its efforts to raise ecological awareness and to encourage employees to separate waste at source, thereby contributing to lower cleaning costs. During the summer months, bin stations for separate collection of organic waste, packaging and mixed waste were placed in larger office buildings and branch offices of the Bank.

To demonstrate its concern for the natural environment, the Bank started to provide the users of its online banking service with electronic correspondence, instead of delivering paper-based documents, thus reducing the amount of paper used.

As far as is possible, the Bank purchases equipment that is the most energy-efficient and the operation of which has minimum negative effects on the environment.

ATTITUDE TOWARDS CUSTOMERS AND SUPPLIERS

Customers

In planning its marketing activities for 2013, the Bank devoted a great deal of attention to the needs and wishes of its customers. It launched a new Visa prepaid card for retail and corporate customers, the main feature of this being that the customers may design their own cards using their favourite pictures. Another distinctive feature of the Visa prepaid card is its virtual form, which entails lower costs, in addition to being suitable for purchases over the internet. The Bank plans to further develop and upgrade its product called 'Varčevalnik' (*Saver*), initially by offering savings accounts without a notice period through its online banking service. It introduced the option to use ATMs to request transfers of funds between accounts, while the option to request an SMS receipt for this service is planned to be introduced soon.

In 2013, the Bank set up an internal marketing model, the purpose of which was to identify employees as customers of the Bank and to help them gain better knowledge and understanding of the products and services provided by the Bank. By implementing this model, the employees have started to take a role as ambassadors of the Bank´s brand name and promoters of its services.

At the end of 2013, a special application was designed to upgrade the Bank´s website in such a way as to enable easier browsing and reading by visually impaired persons. This was the first time that the Bank´s socially responsible conduct was transferred onto the internet.

To keep its customers informed of the developments related to its operations and to increase the level of trust placed in it, the Bank enhanced communication with its customers at all levels. At various professional and social gatherings the Bank strengthened relations with customers and business partners of the entire Group.

Providing advice to corporate customers – Entrepreneur Centre

In line with its strategic policies, the Bank devotes a great deal of attention to small and medium-sized companies, and encourages entrepreneurship and innovative thinking.

The advisory role of the Bank was also strengthened through the work of its Entrepreneur Centre (in partnership with the Institute for Entrepreneurship Research). Several free workshops and consultations were carried out by this centre at which advice was given to businesses on how to apply for EU funds and prepare project documentation. The Bank participated actively in the PODIM international conference and in the Business Financial Fair.

Raising financial awareness among young people

The Bank devotes a great deal of energy to teaching children and young people about the proper and prudent handling of money. To further raise financial awareness among young people, it published a variety of educational articles in youth-focused magazines, used its website 'Sveta vladar' *(Ruler of the world)* to provide information for young people on money handling, and supported the educational and social activities of the Slovene Association of Friends of Youth. Work was also started to change the Bank´s mascot Sitko and redesign its website for the youngest children. By giving child-adapted presentations on different financial topics, the Bank strengthened its cooperation with primary schools. The Bank also continued its work in the 'Vesela šola' *(Happy school)* project.

The Bank listens to the needs of young people and devotes attention to their development. During the summer holidays, it gave them an opportunity to take on a vacation job, and selected 50 young ambassadors to promote its services across Slovenia, thereby gaining useful work experience.

In 2013, the Bank took a role in the creation of a better future for young people by joining a global youth think tank Challenge:Future, which each year encourages young people to look for innovative solutions, test their entrepreneur skills, and activate their potential. The workshop under the theme 'How to further improve the offering for young people' was the Bank´s challenging contribution to this global project last year.

Environmentally-friendly products

As part of its concern for the natural environment, the Bank is focused on introducing products and customer relations procedures that are environmentally-friendly. In 2013, the Bank started intensively reducing the amount of paper correspondence sent to customers, replacing it with electronically delivered forms, thus proving its socially responsible attitude. Among the products it offers, the Bank includes special purpose eco-loans, which are granted at more favourable interest rates compared to standard commercial loans, thereby supporting its customers in their environmental protection efforts.

Suppliers

In the middle of 2013, the Bank adopted a procurement policy that defines the guidelines and a platform for the functioning of procurement in both the Bank and the Group. By setting up an adequate procurement process, the Bank aims to provide all other business processes with a comprehensive supply solution, the purpose of which is to ensure the optimum quality and the best prices of the purchased goods and services. Procurement is carried out in accordance with the prescribed procedure and in a transparent manner, on the basis of long-term partner relationships with suppliers that guarantee the stability of supply. All potential suppliers are informed of the selection criteria and are treated equally. Such organisation of the procurement process contributes to the Bank´s efforts in cost-cutting and achieving profitability, while at the same time encourages other Group companies to adopt the Bank´s good business practices in this regard.

BUILDING THE LOYALTY OF EMPLOYEES

The Bank continued implementing measures, adopted as part of the programme to promote its family-friendly status, to help employees balance their professional and private lives as this not only has a positive effect on the health and well-being of employees, but also increases their performance. In accordance with the adopted child time bonus measure, parents of children enrolling in an educational institution (primary school or kindergarten) were also last year entitled to paid work absence. Fifty-four parents took advantage of this measure, approximately the same number as in 2012. In collaboration with the trade union, the Bank provided Christmas gifts to children, and, during the public sector strike, gave its employees the opportunity to take a vacation or use accrued personal business time, or even bring their children with them to the office. The Bank continued to pay attention to the health of employees. To that effect, it organised for them preventive health check-ups and offered them the opportunity to get vaccinated against seasonal flu. Also, each working day employees may take advantage of anonymous psychological help.

Information about the needs of employees is received through continuous dialogue and open communication with them, and also through annual interviews, which have been going on for a number of years. These interviews are not meant only to monitor the satisfaction of employees and to determine realistic and measurable goals, but also to provide information about the career wishes and plans of employees and about their desire to acquire additional skills. Last but not least, possibilities and proposals are discussed at interviews regarding how to properly balance professional and family lives. To make the employees feel involved in its development, the Bank last year introduced one-day consultations between the Management Board and employees, the purpose of which is to keep employees better informed and to build their loyalty.

Internal communication and internal programmes for employees

In the area of internal communication, in 2013 the Bank continued implementing measures necessary to ensure the employees were better informed about issues relevant to the operations of the Bank, with an improved hierarchical flow of information being one of the most important innovations. Several steps were taken aimed at nurturing a pleasant and productive working atmosphere, resulting in the employees feeling more committed and cared for by the management. As part of an internal programme for employees operated under the umbrella name 'Pripravljeni na…' *(Ready for…)*, six different initiatives were carried out in the areas of charity, health, responsibility towards the environment, good relations in the workplace, and promotion of the use of modern services provided by the Bank.

These initiatives were supported by a large proportion of staff, with 121 employees per initiative on average taking part.

At the end of the year, instead of giving gifts to its business partners, the Bank decided to participate in a charity campaign run by a foundation called **'Anina zvezdica'** *(Ana´s little star)* and to dedicate a certain amount of funds to 350 families in financial distress. Apart from the Bank´s financial aid, a total of 388 of its employees supported a campaign called **'Be a little star'** by collecting food for underprivileged families. Within this campaign, a ton and a half, or 60 large boxes, of food was collected and provided to 150 families, so in total the Bank and its employees supplied 500 vulnerable families with five tons of food.

The Bank pursued its policy of distributing all information relevant to the operations of the Bank via e-circulars, while at the same time introducing new communication channels and improving the flow of information through face-to-face communication. A total of 141 circulars were received by the Bank employees last year, with an additional six circulars being distributed to all the employees of the Group. In addition, several issues of the internal newspaper Med Nami were released last year.

In order to achieve synergy effects, the Bank worked actively with other Group companies throughout 2013 to develop common marketing activities across a variety of communication channels.

In 2013, the Bank started developing communication guidelines in order to keep its employees better informed about the most relevant topics, and to help them provide adequate information to customers and business partners. A total of six communication guidelines were provided to employees last year. In addition, several recommendations were given to managers on how to effectively pass on relevant information to their subordinates. A survey carried out at the end of 2013 showed that 83.7% of the employees were effectively following the communication guidelines on the most relevant business topics.

ATTITUDE TOWARDS THE MEDIA

The Bank recognises the importance of the media, and supports it in its role as a provider of objective information, just as it supports the public´s right to information. In 2013, the Bank upgraded its well-maintained relationship with the media by holding an increased number of personal meetings with journalists, by responding quickly to journalists´ enquiries, and through proactive communication of topics most relevant to its operations, all of which helped it create positive publicity about itself.

During 2013, the Bank held two press conferences and organised 14 interviews with the President of the Management Board for the most relevant media. Personal meetings of key Bank speakers with journalists were also a regular practice last year. It issued 27 press releases, responded to over 3,000 requests from journalists, and was mentioned more than 8,920 times in the media, an increase of 10% relative to 2012.

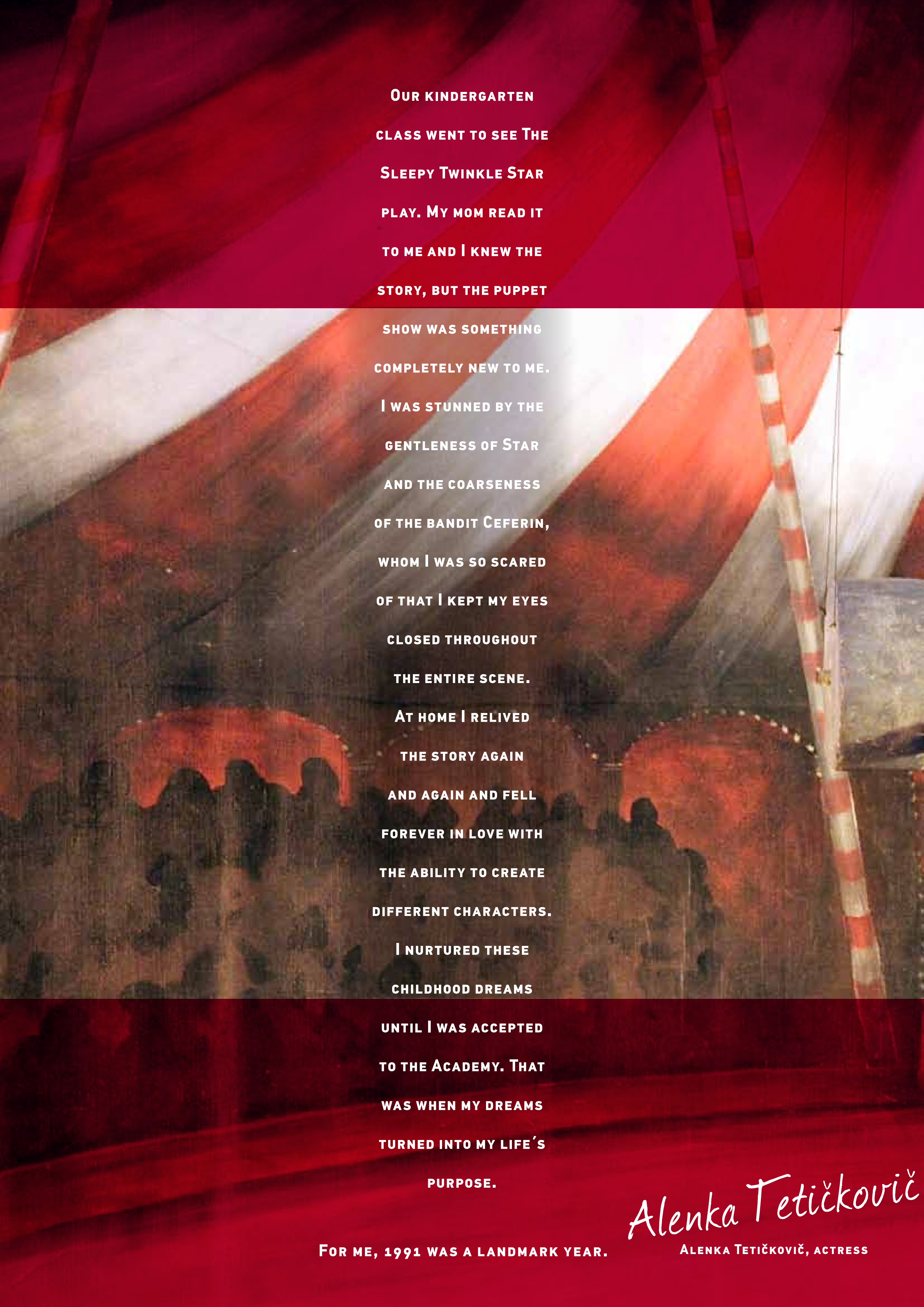
The efficiency of the Bank´s media relations was assessed on the basis of its press coverage, and by conducting daily analyses and regular in-depth analyses of news published about the Bank. Despite the strained financial and economic conditions, and the decision of competent authorities regarding its ownership and recapitalisation that has created negative public opinion, the Bank recorded last year an average positive press publicity of 43.2%, up three percentage points on 2012.

INTEGRATION INTO THE LOCAL ENVIRONMENT AND BROADER COMMUNITY

Sponsorships and grants

The Bank is aware of its role as a supporter and promoter of important events and activities taking place in its broader social environment. In 2013, the Bank supported a number of individuals and organisations in the area of sports, culture and education, in addition to supporting numerous humanitarian initiatives and actions as a donor. It continued its practice of providing a grant to selected organisations or for certain activities in local communities in which it opened new branch offices, instead of giving gifts to its business partners. In collaboration with a foundation called 'Anina zvezdica' *(Ana's little star)*, it dedicated a portion of its funds to underprivileged families.

In the area of sports, it supported the Golden Fox Women Ski Competition, the Maribor Basketball Club, the Nova KBM Branik Volleyball Club, the NK Maribor Football Club, and some smaller sports events. To demonstrate its attitude towards culture, the Bank continued its long-standing support of the Lent Festival and the Ljubljana Festival, the Slovene National Theatre in Maribor and the Slovene National Theatre in Nova Gorica. In addition, it supported the Portorož Business Conference, the PODIM conference on innovation and entrepreneurship, as well as a global project for young people called Challenge:Future.



Our kindergarten class went to see The Sleepy Twinkle Star play. My mom read it to me and I knew the story, but the puppet show was something completely new to me. I was stunned by the gentleness of Star and the coarseness of the bandit Ceferin, whom I was so scared of that I kept my eyes closed throughout the entire scene. At home I relived the story again and again and fell forever in love with the ability to create different characters. I nurtured these childhood dreams until I was accepted to the Academy. That was when my dreams turned into my life´s purpose.

For me, 1991 was a landmark year.

Alenka Tetičkovič

Alenka Tetičkovič, actress

REGULATORY PART

12 CORPORATE GOVERNANCE STATEMENT OF NOVA KBM

1 CORPORATE GOVERNANCE CODE

The Corporate Governance Code comprises:
- **Corporate Governance Code for Public Limited Companies (application and deviation)**
- **Code of Best Practice for WSE Listed Companies (application and deviation)**
- **Corporate Governance Code for State Capital Investments (application and deviation), including recommendations given by the manager of direct and indirect capital investments of the Republic of Slovenia**

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

During 2013, Nova KBM shares were quoted on the Ljubljana Stock Exchange and the Warsaw Stock Exchange. The Bank has set out the reasons for deviations from the provisions of the Code applied during 2013 in the section headed 'Corporate governance statement of Nova KBM', which is an integral part of the Bank´s 2013 Annual Report.

In setting up and developing a transparent, clear and successful governance and management system, during 2013 the Bank endeavoured, as far as practicable, to comply with regulatory provisions and the highest standards of responsible and well thought-out governance of the Bank, as laid down in the Code, thus further increasing the confidence of domestic and foreign investors, employees, and the wider public in the governance of the Bank.

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

The Bank and its bodies endeavoured to fully observe the provisions of the Code that was in effect and used in 2013. However, in certain instances the Bank´s operations deviated from individual provisions of the Code. In compliance with the Preamble of the Code (and the principle of 'comply or explain'), the Bank sets out below the reasons for such deviations. The reasons were mainly related to the specific circumstances under which the Bank operated due to changed conditions in the Bank and in its environment (market); to payment characteristics of the banking sector; to the specific ownership structure of the Bank; and to other circumstances which had an impact on the governance and management of the Bank.

As a result of being listed on the Warsaw Stock Exchange (WSE), in 2013 Nova KBM also complied with the Code of Best Practice for WSE Listed Companies. In its Statement of Compliance with the Code of Best Practice for WSE Listed Companies, which is an integral part of the Bank´s Corporate Governance Statement, Nova KBM has provided justification and explanation for which recommendations of this code had not been complied with in 2013.

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

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

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

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

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

Corporate Governance Code for Public Limited Companies

Point 1
Code provision
The key objective of a joint-stock company engaged in a revenue-generating business is to maximise the company´s value. This, as well as the company´s other objectives pursued in the course of its business, such as the long-term value creation for shareholders and the social and environmental aspects ensuring a sustainable development of its business, is stated in the company´s articles of association.

Reason for deviation
The objectives of the Bank are set out in each year´s business policy and financial plan, and in the Bank´s strategy. They are also laid down in the Corporate Governance Policy of Nova KBM. In 2013, the Management Board decided to incorporate the main and other objectives that the Bank pursues in carrying out its operations into the Bank´s Articles of Association.

Point 5.7

Code provision

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

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

Reason for deviation

In 2013, remuneration of the Management Board complied with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors.

Point 22.7

Code provision

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

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

Reason for deviation

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

In 2013, the Nova KBM Supervisory Board adopted the currently applicable remuneration policy. The disclosure of remuneration provided to Management Board members in 2013 is compliant with the remuneration policy and follows the recommendations of the Code.

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

Nova KBM sets out below a brief description of its non-compliance with certain provisions of the Code of Best Practice for WSE Listed Companies in 2013.

Recommendation I. 1 with respect to the scope of a company´s website
Nova KBM maintained on its website information for investors that conformed to the Slovene market standards. Nova KBM did not enable on-line broadcasts of its Shareholders´ Meetings over the internet, nor did it record Shareholders´ Meetings or publish the recordings on its website.

Rules II. 1.7 with respect to the publication on a company´s website of shareholders´ questions on issues on the agenda of a Shareholders´ Meeting
In 2013, Nova KBM did not publish shareholders´ questions on its website because, according to Slovene legislation, shareholders do not have the right to submit questions concerning the agenda of a Shareholders´ Meeting.

Rules II. 1.9 (a) with respect to the publication, in audio and video form, on a company´s website of the minutes of a Shareholders´ Meeting
The minutes of Shareholders´ Meetings are prepared in the form of a notarial record, and published as such on the Bank´s website.

Rules IV. 2 with respect to the amendment of the rules of Shareholders´ Meetings
Rules of Shareholders´ Meetings are not mandatory under Slovene legislation and Nova KBM has not adopted such rules.

Rules IV. 6 with respect to the date of setting the right to dividend and the date of dividend payment
Nova KBM has usually paid dividends after the date of setting the right to dividend, within a period longer than 15 business days, as laid down in the Code of Best Practice for WSE Listed Companies.

Rules IV. 7 with respect to a conditional dividend payment
Conditional dividend payments are not allowed under Slovene legislation.

Rules IV. 10 with respect to a company´s duty to broadcast on-line its Shareholders´ Meetings and to enable its shareholders to exercise their right to vote at Shareholders´ Meetings using electronic communication means
In 2013, Nova KBM did not enable on-line broadcasts of Shareholders´ Meetings, nor did it enable its shareholders to exercise their right to vote at Shareholders´ Meetings using electronic communication means.

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

Point 75
Code provision
SOD will strive for companies with equity investments of the state to establish nomination committees as a special commission of the supervisory board. These will ensure adequate mechanisms regarding the selection of candidates for members of the supervisory board and overcome conflicts of interests which the supervisory board is faced with in the preparation of the proposal for the composition of the supervisory board. The nomination committee performs selection procedures of candidates and proposes to the supervisory board a list of candidates for appointment at the shareholders´ meeting. The nomination committee may support the supervisory board in all other matters which directly relate to the interests of the members of the supervisory board and require consent of the shareholders´ meeting (for example, the proposals concerning the remuneration of the members of the supervisory board).

Reason for deviation

The Nova KBM Supervisory Board appointed the Remuneration and Nomination Committee in 2011. Its competences comply with the Banking Act and implementing regulations of the Bank of Slovenia. In 2013 the appropriate procedures for the assessment and selection of candidates for members of the Supervisory Board were entirely carried out by the Remuneration and Nomination Committee.

Point 87

Code provision

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

Reason for deviation

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

Remuneration of Management Board members complies with the currently applicable remuneration policy, which was adopted by the Bank´s Supervisory Board in 2013. In accordance with the provisions of the Companies Act, the supervisory board of a company must adopt the remuneration policy in cases where the shareholders´ meeting fails to do so.

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

Individual recommendations of SOD

Recommendation No. 2 – Remuneration of external members of supervisory board committees and other external experts with whom the supervisory board cooperates in its work

Reason for deviation

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

The remuneration provided in 2013 to external members of the Supervisory Board committees and other external experts with whom the Supervisory Board cooperates in its work was adjusted in accordance with the Corporate Governance Code for State Capital Investments, and the Recommendations of the Manager of Direct and Indirect Capital Investments of the Republic of Slovenia regarding the remuneration provided to external members of supervisory board committees and other external experts with whom the supervisory board cooperates in its work. These documents, issued in April by SOD, largely follow the content of recommendations issued by the Capital Asset Management Agency of the Republic of Slovenia.

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

Recommendation No. 4 – Work of the audit committee

Reason for deviation

The Bank does not comply with this recommendation as regards the part referring to the frequency of meetings of the Audit Committee. Meetings of the Audit Committee are convened in accordance with the decisions passed by the Supervisory Board, taking into consideration the competences of the Audit Committee, as laid down in the applicable legislation, and recommendations of good business practice applicable to the work of audit committees, and depending on the need to resolve specific issues.

Recommendation No. 5 – Three-year business planning by a company/group

Reason for deviation

The explanation of deviation given under the recommendation No. 6 (Quarterly reporting of the performance of a company/group) can be, mutatis mutandis, applied also to this recommendation. The Bank does not prepare three-year business plans, but prepares a standard document for each year – a Business Policy and Financial Plan of the Bank and the Group. This document is formulated by the Management Board and agreed by the Supervisory Board. The summary of this document is published on the Bank´s website. The planning is based on the adopted strategy.

Recommendation No. 6 – Quarterly reporting of the performance of a company/group

Reason for deviation

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

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

Recommendation No. 7 – Transparency of procedures of making business deals involving company expenditure (ordering goods and services, grants, sponsorships)

Reason for deviation

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

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

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

Recommendation No. 8 – Optimisation of labour costs in 2013 and 2014

Reason for deviation

In 2012 and 2013, the Management Board of the Bank adopted certain cost-cutting measures and adjusted the remuneration policy to the current economic conditions. These measures have been set out by the Management Board in the Strategy of the Bank and the Group for the period from 2010 to 2013, and in the Business Policy and Financial Plan of the Bank and the Group for 2013 and 2014. Following the initiative of the Remuneration and Nomination Committee, the Supervisory Board of the Bank requested the Management Board to reduce the operating costs across the entire Group and to start negotiations with the aim of adjusting the collective agreement to weak performance of the Bank.

Information about pay-outs relating to other types of remuneration provided under individual contracts (severance benefit paid to employees who are made redundant for business reasons, severance benefit paid upon retirement, compensation for a non-competition clause, and some other remuneration under employment contracts) is disclosed in the financial part of Nova KBM´s annual reports and is publicly available.

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

Recommendation No. 9 – Risk management, internal control and internal auditing

Risk management, internal control

Reason for deviation

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

Internal auditing

Reason for deviation

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

Recommendation No. 11 – Attaining quality and excellence in the operations of a company/group

In 2013, the Bank continued to hold the ISO 9001:2008 certificate (issued by the International Organization for Standardization) for its retail operations. This standard specifies the requirements for an efficient quality management system that meets the demands of customers. In terms of content, the requirements of the standard do not deviate from the criteria used by the EFQM Excellence Model to assess the development of excellence and quality improvement.

Recommendation No. 12 – Shareholders´ Meetings

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

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

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

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

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

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

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

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

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

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

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

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

In order to strengthen the Bank´s capital base to ensure its long-term capital adequacy, on 17 December 2013 the Bank of Slovenia imposed an extraordinary measure on the Bank, requesting it to increase its share capital. On 18 December 2013, the Republic of Slovenia subscribed for and paid for all of the 10,000,000 newly issued shares of the Bank, thereby increasing its share capital by €150,000,000 (of which €43,103,340 was provided in an in-kind contribution, and €106,896,660 was provided in cash). The total issue value of shares was €870,000,000.

As of 31 December 2013, the Republic of Slovenia was a 100% shareholder of Nova KBM.

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

As of 31 December 2013, Nova KBM had a total of 10,000,000 ordinary registered no-par value shares outstanding. All shares are of the same class and bear the same rights, meaning that no special controlling rights are attached to Nova KBM shares.

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

In accordance with the Bank´s Articles of Association, no restrictions apply to the voting rights attached to the issued shares.

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

Management Board

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

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

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

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

Supervisory Board

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

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

- if he/she gives a written notice, or
- if he/she is recalled by the Shareholders´ Meeting.

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

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

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

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

Competences of the Shareholders´ Meeting

The Shareholders´ Meeting shall decide about:

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

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

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

Call of the Shareholders´ Meeting

The Shareholders´ Meeting is called by the Management Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The power of attorney remains deposited with the Bank.

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

Further information regarding the functioning of the Shareholders´ Meeting is set out in Nova KBM´s Annual Report for 2013, in Section 5.3.3 'Governing bodies of Nova KBM'.

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

MANAGEMENT BOARD

As of 31 December 2013, the Nova KBM Management Board had the following two members: Aleš Hauc, President, and Igor Žibrik, Member.

On 15 October 2013, the Supervisory Board appointed Igor Hustič as the third member of the Management Board, with the start of his five-year term of office being set for 1 January 2014 or the day he received the approval of the Bank of Slovenia. By 31 December 2013, Igor Hustič had not received such an approval, as a result of which he withdrew as a candidate for the Nova KBM Management Board on 2 January 2014.

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

Duties of the Management Board

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

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

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

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

Decision-making by the Management Board

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

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

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

Representation of the Bank

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

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

Further details with respect to the composition and competences of the Management Board are set out in Nova KBM´s Annual Report for 2013, in Section 5.3.3 'Governing bodies of Nova KBM'.

SUPERVISORY BOARD

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

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

The function of a Supervisory Board member may terminate before expiry of his/her term of office in the following cases:
- if he/she gives a written notice, or
- if he/she is recalled by the Shareholders´ Meeting.

As of 31 December 2013, the composition of the Nova KBM Supervisory Board was as follows: Peter Kukovica (Chairman), Niko Samec (Deputy Chairman), Egon Žižmond, Andrej Fatur, Keith Charles Miles FCA, Miha Glavič, Karmen Dvorjak and Peter Kavčič.

On 10 June 2013, the Nova KBM Shareholders´ Meeting appointed Aljoša Tomaž as a new Supervisory Board member, replacing Dušanka Jurenec who resigned from this position on 21 November 2012. Aljoša Tomaž stepped down as a member of the Nova KBM Supervisory Board on 12 September 2013.

Conditions for the Supervisory Board membership

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

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

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

Competences and duties of the Supervisory Board

In addition to the powers vested in the Supervisory Board under the Companies Act and the Banking Act, the Supervisory Board also gives consent to the Management Board with respect to:
- Bank´s business policy
- Bank´s financial plan

- organisation of the system of internal controls
- draft annual plan of work of the Internal Audit Centre
- new issues of own securities exceeding €30 million
- all transactions regarding the acquisition and disposal of equity holdings in companies and other legal entities whose book value exceeds €550,000
- acquisition and disposal of investments in equity instruments with the purpose of portfolio investments, if such investment in any one issuer exceeds 5% of the Bank´s equity
- any decisions in respect of actions resulting in status changes in companies and other legal entities in which the Bank holds a controlling stake
- formation of a banking and/or financial group or groups
- writing off claims over €1 million
- raising funds and contracting other liabilities for the Bank which in one financial year, individually or in total, exceed 25% of the Bank´s equity
- concluding legal deals which, considering the Bank´s total exposure, would result in the Bank´s large exposure to a customer or a group of related persons, and concluding legal deals as a result of which the Bank´s large exposure to a customer or a group of related persons would be increased by so much as to reach or exceed 15% of the Bank´s equity, and each subsequent 5% of its equity
- concluding a transaction that results in the Bank becoming exposed to a person having a special relationship with the Bank within the meaning of provisions of Article 167 of the Banking Act
- other matters in accordance with the regulations.

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

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

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

The Supervisory Board adopts the annual report.

Decision-making by the Supervisory Board
The Supervisory Board constitutes a quorum if more than one half of its members are present.

The Supervisory Board adopts its decisions with a simple majority of votes cast by the members present at the vote.

In case of an equal number of votes, the Chairman of the Supervisory Board has the casting vote.

Remuneration of, and reimbursement of costs incurred by, members of the Supervisory Board and Supervisory Board committees

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

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

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

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

External members of committees and working bodies shall receive remuneration to be determined by the Supervisory Board.

In addition to reimbursement of costs for performing the office, each Supervisory Board member shall also receive an attendance fee for the attendance and time spent at the meeting, the amount of which shall be determined by a Shareholders´ Meeting resolution.

External members of committees and working bodies shall receive, in addition to reimbursement of costs for performing the office, an attendance fee for the attendance and time spent at the meeting, the amount of which shall be determined by the Supervisory Board.

Further information about the activities of the Bank´s Supervisory Board is set out in Nova KBM´s Annual Report for 2013, in Section 3 'Report of the Supervisory Board'.

SUPERVISORY BOARD COMMITTEES

The following committees carried out their work during 2013 in accordance with the Companies Act and the Banking Act: the Audit Committee, and the Remuneration and Nomination Committee.

Audit Committee

On 30 August 2012, the newly appointed Supervisory Board elected the following members to the Audit Committee: Keith Charles Miles FCA and Andrej Fatur, as representatives of the Nova KBM Supervisory Board, and Aleksander Igličar, as an external expert. On 25 October 2012, the Supervisory Board appointed John Harris, an external expert, as the fourth member of the Audit Committee. Peter Kavčič, a Supervisory Board member, was appointed as a member of the Audit Committee on 24 June 2013, while John Harris resigned as an external member of the Audit Committee on 18 December 2013.

The Audit Committee supports the Supervisory Board in overseeing the management of the Bank and the Group companies, in particular with regard to legitimacy and business ethics of their operations, the risk management systems, internal audit and the internal control systems, and financial reporting. In addition, the Audit Committee cooperates with external auditors and monitors the efficiency, objectivity and independence of their work, and undertakes duties laid down in the Bank´s Articles of Association, documents of the Audit Committee and Supervisory Board resolutions.

The Audit Committee carries out its activities in accordance with the law, the Bank´s Articles of Association, and the Charter which regulates the purpose and the composition of the Audit Committee, methods and conditions of its work as well as competences and responsibilities of its members. The area and the method of work of the Audit Committee, its decision-making process and all other issues deemed important for its work are regulated by the Rules of Procedure of the Audit Committee.

As a rule, the Audit Committee members adopt decisions at meetings. A quorum is constituted if at least one half of the Audit Committee members are present at the meeting, one of whom shall be Chairman or Deputy Chairman.

The Audit Committee adopts its decisions with a simple majority of votes cast by the members present at the vote. Each member has one vote. In case of an equal number of votes, the Chairman of the Audit Committee has the casting vote.

On 22 July 2011, the Shareholders´ Meeting passed a resolution according to which members of the Supervisory Board who are simultaneously also members of the Audit Committee shall receive, apart from an attendance fee for their attendance and time spent at the meeting, a basic remuneration for holding their office. External members of the Audit Committee are entitled to an attendance fee, the amount of which is determined by the Shareholders´ Meeting. They are also entitled to the reimbursement of costs for performing the office, the amount of which is determined by the Shareholders´ Meeting as well. External members are entitled to the reimbursement of costs in the same amount as Supervisory Board members.

The Audit Committee regularly reports to the Supervisory Board about its work at the meetings of the Supervisory Board.

Further information about the activities of the Audit Committee is set out in Nova KBM´s Annual Report for 2013, in Section 3 'Report of the Supervisory Board'.

Remuneration and Nomination Committee

On 30 August 2012, the newly appointed Supervisory Board elected the following members to the Remuneration and Nomination Committee: Peter Kukovica, Peter Kavčič and Niko Samec, as representatives of the Nova KBM Supervisory Board, and Romana Košorok and Jure Srhoij, as external members.

Jure Srhoij resigned as an external member of the Remuneration and Nomination Committee on 6 December 2012.

On 25 April 2013, the Supervisory Board appointed Adriana Rejc Buhovac as a new external member of the Remuneration and Nomination Committee.

The Remuneration and Nomination Committee is primarily responsible for providing support to the Supervisory Board in selecting candidates for the Supervisory and Management Board of the Bank, in helping the Supervisory Board controlling and assessing the work of members of the Supervisory and Management Board, and for providing support in formulating proposals in respect of the remuneration policy, reimbursement of costs and other benefits of Management Board members. Further, it helps the Supervisory Board prepare the Bank´s bonus policy and proposals with respect to the improvement of the Bank´s governance policy. Support and help to the Supervisory Board is provided by the Remuneration and Nomination Committee also in all other issues and tasks laid down in the Rules of Procedure of the Supervisory Board Remuneration and Nomination Committee.

The area and the method of work of the Remuneration and Nomination Committee, its decision-making process and all other issues important for its work are regulated by the Rules of Procedure of the Supervisory Board Remuneration and Nomination Committee.

Provisions with respect to remuneration of, and reimbursement of costs incurred by, members of the Audit Committee shall be, mutatis mutandis, applied also to the Remuneration and Nomination Committee.

This Corporate Governance Statement is an integral part of Nova KBM´s 2013 Annual Report and will be available in the Ljubljana Stock Exchange electronic information dissemination system, SEOnet, and published on the Bank´s website.

Maribor, 14 February 2014

Management Board of Nova KBM d.d.

Igor Žibrik
Member

Aleš Hauc
President

Supervisory Board of Nova KBM d.d.

Peter Kukovica
Chairman

13 STATEMENT OF MANAGEMENT´S RESPONSIBILITIES

(pursuant to Article 110 of the Financial Instruments Market Act)

By signing this statement, the members of the Nova KBM Management Board, i.e. **Aleš Hauc, President, and Igor Žibrik, Member**, confirm to the best of their knowledge that:

- the financial statements have been drawn up in accordance with the appropriate accounting framework of reporting and that they provide a true and fair view of the assets, liabilities, the financial position and the profit and loss of the Bank and other companies included in the consolidation as a whole, and
- the business report gives a fair view of the development and results of the Bank´s operations and its financial position, including the description of principal risks the Bank and other companies included in the consolidation are exposed to.

Maribor, 4 April 2014

Management Board of Nova KBM d.d.

Igor Žibrik
Member

Aleš Hauc
President

14 TYPE OF SERVICES FOR WHICH NOVA KBM HAS THE AUTHORISATION OF THE BANK OF SLOVENIA

Nova KBM has the authorisation to perform banking services pursuant to Article 7 of the Banking Act (Official Gazette of the Republic of Slovenia, No. 99/10 – official consolidated text (No. 52/11 – amendment), No. 9/11 – Act Amending Payment Services and Systems Act, Nos. 35/11, 59/11, 85/11, 48/12, 105/12, 56/13, 63/13 and 96/13); hereafter: ZBan-1. Banking services are the acceptance of deposits from the public and the granting of loans for its own account.

The Bank also has the authorisation to perform mutually recognised and additional financial services.

Pursuant to Article 10 of ZBan-1, the Bank may perform the following mutually recognised financial services:

1. Acceptance of deposits.
2. Granting of loans, including:
   - consumer loans
   - mortgage loans
   - factoring (with our without recourse)
   - financing of commercial transactions, including forfeiting.
3. Financial leasing: financial leasing of assets of which the duration approximately equals the expected useful life of the asset which is the object of the lease and for which the lessee acquires most of the benefit from the use of the asset and accepts the full risk of the transaction.
4. Payment services.
5. Issuance and management of other payment instruments (i.e. travellers´ cheques and bankers´ drafts) in the part in which this service is not included in service of Point 4 above.
6. Issuance of guarantees and other commitments.
7. Trading for own account and for account of customers in:
   - money market instruments
   - foreign exchange, including currency exchange transactions
   - financial futures and options
   - exchange and interest-rate instruments
   - transferable securities.
8. Participation in the issuance of securities and services related to such issues.
9. Advice and services related to mergers and the purchase of undertakings.
10. Portfolio management and advice.
11. Safekeeping of securities and other services related to safekeeping of securities.
12. Renting of safe deposit boxes.
13. Investment services and operations and ancillary investment services from the first paragraph of Article 10 of the Financial Instruments Market Act.

The Bank may perform the following additional financial services in accordance with Article 11 of ZBan-1:

- insurance brokerage in accordance with the law governing the insurance business
- administration of payment systems
- marketing of investment funds and the sale of investment coupons or shares in investment funds.

Furthermore, within additional financial services provided in accordance with Point 6 of the first paragraph of Article 11 of ZBan-1, the Bank may be engaged in the brokerage of voluntary supplementary pension insurance.

15 NOVA KBM BRANCH NETWORK

Branch Network Department
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2505 Maribor
Telephone: +386 2 229 28 39
Telefax: +386 2 252 64 08

Slovenia-East Branch
Razlagova ulica 4
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Telefax: +386 2 252 64 08

Centrala Branch Office
Ulica Vita Kraigherja 4
2505 Maribor
Telephone: +386 2 229 20 60
Telefax: +386 2 252 64 58

Tyrševa Branch Office
Tyrševa ulica 2
2505 Maribor
Telephone: +386 2 229 20 73
Telefax: +386 2 229 28 09

Melje Branch Office
Partizanska cesta 42
2505 Maribor
Telephone: +386 2 229 15 70
Telefax: +386 2 252 64 88

Ljubljanska Branch Office
Ljubljanska ulica 1-3
2505 Maribor
Telephone: +386 2 229 15 20
Telefax: +386 2 333 83 03

Europark Branch Office
Pobreška cesta 18
2505 Maribor
Telephone: +386 2 229 15 10
Telefax: +386 2 331 71 42

Cesta zmage Branch Office
Cesta zmage 98
2505 Maribor
Telephone: +386 2 229 17 20
Telefax: +386 2 332 33 33

Koroška vrata Branch Office
Turnerjeva ulica 17a
2505 Maribor
Telephone: +386 2 229 16 60
Telefax: +386 2 252 36 08

Tabor Branch Office
Dvořakova ulica 7
2505 Maribor
Telephone: +386 2 229 16 70
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Pobrežje Branch Office
Cesta XIV. divizije 34
2505 Maribor
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Telefax: +386 2 471 24 85

Tezno Branch Office
Ptujska cesta 105
2505 Maribor
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Telefax: +386 2 333 83 24

Maistrov dvor Branch Office
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2505 Maribor
Telephone: +386 2 229 16 10
Telefax: +386 2 238 01 54

Šentilj Branch Office
Maistrova ulica 2
2212 Šentilj v Slovenskih Goricah
Telephone: +386 2 229 15 50
Telefax: +386 2 651 01 36

Ruše Branch Office
Jamnikova ulica 2
2342 Ruše
Telephone: +386 2 229 17 50
Telefax: +386 2 662 42 91

Hoče Branch Office
Miklavška cesta 63
2311 Hoče
Telephone: +386 2 229 17 40
Telefax: +386 2 618 14 60

Lovrenc na Pohorju Branch Office
Gornji trg 20
2344 Lovrenc na Pohorju
Telephone: +386 2 229 18 40
Telefax: +386 2 671 97 05

Lenart Branch Office
Partizanska cesta 1
2230 Lenart v Slovenskih Goricah
Telephone: +386 2 229 15 80
Telefax: +386 2 729 55 08

Novi trg Branch Office
Novi trg 1
2250 Ptuj
Telephone: +386 2 229 19 24
Telefax: +386 2 229 19 64

Breg Branch Office
Zagrebška cesta 4a
2250 Ptuj
Telephone: +386 2 229 18 90
Telefax: +386 2 783 78 01

Kidričevo Branch Office
Mladinska ulica 10
2325 Kidričevo
Telephone: +386 2 229 18 65
Telefax: +386 2 787 22 22

Videm Branch Office
Videm pri Ptuju 43
2284 Videm pri Ptuju
Telephone: +386 2 229 19 75
Telefax: +386 2 761 95 14

Gorišnica Branch Office
Gorišnica 61
2272 Gorišnica
Telephone: +386 2 229 17 85
Telefax: +386 2 740 80 54

Rogoznica Branch Office
Špindlerjeva ulica 3
2250 Ptuj
Telephone: +386 2 229 17 35
Telefax: +386 2 746 89 05

Rabelčja vas Branch Office
Ulica 25. maja 13
2250 Ptuj
Telephone: +386 2 229 17 10
Telefax: +386 2 771 95 71

Ormož Branch Office
Ptujska cesta 2
2270 Ormož
Telephone: +386 2 229 18 70
Telefax: +386 2 741 07 50

Titova Branch Office
Ljubljanska cesta 11
2310 Slovenska Bistrica
Telephone: +386 2 229 18 15
Telefax: +386 2 818 21 29

Zgornja Bistrica Branch Office
Partizanska cesta 61
2310 Slovenska Bistrica
Telephone: +386 2 229 17 90
Telefax: +386 2 844 39 05

Poljčane Branch Office
Bistriška cesta 60
2319 Poljčane
Telephone: +386 2 229 18 30
Telefax: +386 2 802 52 71

Pragersko Branch Office
Kolodvorska ulica 7
2331 Pragersko
Telephone: +386 2 229 18 50
Telefax: +386 2 803 72 36

Oplotnica Branch Office
Ulica Pohorskega bataljona 7
2317 Oplotnica
Telephone: +386 2 229 18 60
Telefax: +386 2 801 98 36

Dravograd Branch Office
Meža 10
2370 Dravograd
Telephone: +386 2 229 17 65
Telefax: +386 2 878 45 04

Ravne Branch Office
Prežihova ulica 5
2390 Ravne na Koroškem
Telephone: +386 2 229 16 40
Telefax: +386 2 821 69 07

Murska Sobota Branch Office
Kocljeva ulica 11
9000 Murska Sobota
Telephone: +386 2 229 17 78
Telefax: +386 2 530 47 81

Ljutomer Branch Office
Glavni trg 4
9240 Ljutomer
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Telefax: +386 2 581 12 07

Gornja Radgona Branch Office
Partizanska cesta 26
9250 Gornja Radgona
Telephone: +386 2 229 19 70
Telefax: +386 2 564 81 75

Lendava Branch Office
Trg ljudske pravice 11
9220 Lendava
Telephone: +386 2 229 16 30
Telefax: +386 2 578 81 30

Celje Branch Office
Cankarjeva ulica 1
3000 Celje
Telephone: +386 3 620 30 75
Telefax: +386 3 425 32 36

Slovenia-Centre Branch
Tivolska cesta 48
1000 Ljubljana
Telephone: +386 1 620 30 00
Telefax: +386 1 300 97 55

Ljubljana Branch Office
Tivolska cesta 48
1000 Ljubljana
Telephone: +386 1 620 30 00
Telefax: +386 1 431 40 30

Ljubljana Center Branch Office
Stritarjeva ulica 2
1000 Ljubljana
Telephone: +386 1 620 30 30
Telefax: +386 1 432 11 09

Kranj Branch Office
Koroška cesta 2
4000 Kranj
Telephone: +386 4 620 31 04
Telefax: +386 4 236 82 46

Žiri Branch Office
Loška cesta 15
4226 Žiri
Telephone: +386 4 620 31 30
Telefax: +386 4 518 43 04

Novo mesto Branch Office
Rozmanova ulica 24
8000 Novo mesto
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Telefax: +386 7 393 59 56

Brežice Branch Office
Cesta prvih borcev 6
8250 Brežice
Telephone: +386 7 620 31 47
Telefax: +386 7 496 17 52

Krško Branch Office
Cesta krških žrtev 137
8270 Krško
Telephone: +386 7 620 31 70
Telefax: +386 7 492 28 78

Slovenia-West Branch
Kidričeva ulica 11
5000 Nova Gorica
Telephone: +386 5 331 70 00
Telefax: +386 5 331 73 83

Centrala Branch Office
Kidričeva ulica 11
5000 Nova Gorica
Telephone: +386 5 331 72 64
Telefax: +386 5 331 70 06

Mestna hranilnica Branch Office
Tumova ulica 1
5000 Nova Gorica
Telephone: +386 5 331 74 60
Telefax: +386 5 302 31 00

Šempeter Branch Office
Cesta Prekomorskih brigad 9
5290 Šempeter pri Gorici
Telephone: +386 5 331 70 60
Telefax: +386 5 303 15 74

Solkan Branch Office
Trg J. Srebrniča 2
5250 Solkan
Telephone: +386 5 331 74 80
Telefax: +386 5 333 43 93

Rožna Dolina Branch Office
Vipavska cesta 2
5000 Nova Gorica
Telephone: +386 5 331 70 75
Telefax: +386 5 333 18 33

Brda Branch Office
Trg 25. maja 5
5212 Dobrovo v Brdih
Telephone: +386 5 331 74 85
Telefax: +386 5 395 95 46

Kanal Branch Office
Trg svobode 23
5213 Kanal
Telephone: +386 5 331 74 70
Telefax: +386 5 305 10 32

Branik Branch Office
Branik 75
5295 Branik
Telephone: +386 5 331 70 86
Telefax: +386 5 305 78 21

Miren Branch Office
Miren 125a
5291 Miren
Telephone: +386 5 331 70 80
Telefax: +386 5 305 41 70

Deskle Branch Office
Srebrničeva ulica 20
5210 Deskle
Telephone: +386 5 331 74 75
Telefax: +386 5 331 03 91

Dornberk Branch Office
Gregorčičeva ulica 11
5294 Dornberk
Telephone: +386 5 331 70 85
Telefax: +386 5 301 81 66

Renče Branch Office
Trg 40
5292 Renče
Telephone: +386 5 331 70 56
Telefax: +386 5 305 30 24

Ajdovščina Branch Office
Goriška cesta 25
5270 Ajdovščina
Telephone: +386 5 331 70 14
Telefax: +386 5 366 20 28

Obrtni dom Branch Office
Vipavska cesta 4
5270 Ajdovščina
Telephone: +386 5 331 70 45
Telefax: +386 5 364 49 38

Vipava Branch Office
Cesta 18. aprila 4
5271 Vipava
Telephone: +386 5 331 70 50
Telefax: +386 5 366 44 84

Idrija Branch Office
Lapajnetova ulica 41
5280 Idrija
Telephone: +386 5 331 70 91
Telefax: +386 5 377 14 25

Cerkno Branch Office
Glavni trg 5
5282 Cerkno
Telephone: +386 5 331 71 30
Telefax: +386 5 372 31 63

Spodnja Idrija Branch Office
Slovenska cesta 17
5281 Spodnja Idrija
Telephone: +386 5 331 71 35
Telefax: +386 5 372 80 62

Tolmin Branch Office
Trg maršala Tita 14
5220 Tolmin
Telephone: +386 5 331 71 47
Telefax: +386 5 381 10 50

Bovec Branch Office
Trg golobarskih žrtev 47
5230 Bovec
Telephone: +386 5 331 71 65
Telefax: +386 5 389 61 48

Kobarid Branch Office
Trg svobode 2
5222 Kobarid
Telephone: +386 5 331 71 70
Telefax: +386 5 388 51 59

Most na Soči Branch Office
Most na Soči 60a
5216 Most na Soči
Telephone: +386 5 331 71 75
Telefax: +386 5 388 70 63

Podbrdo Branch Office
Podbrdo 33a
5243 Podbrdo
Telephone: +386 5 331 71 80
Telefax: +386 5 380 80 07

Koper Branch Office
Ferrarska ulica 12
6000 Koper
Telephone: +386 5 331 71 96
Telefax: +386 5 662 54 28

Lucija Branch Office
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6320 Lucija
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Note: Euro figures in the text are stated as whole numbers, rounded to the nearest thousand.

LIST OF ABBREVIATIONS
AQR = Asset Quality Review
AJPES = Agency of the Republic of Slovenia for Public Legal Records and Related Services
ALCO = Nova KBM´s Assets and Liabilities Committee
AUKN = Capital Asset Management Agency of the Republic of Slovenia
BAMC = Bank Asset Management Company
BIC = Bank Identifier Code
CIR = Cost-to-Income Ratio
CoCo bond = Contingent Convertible bond
DNT = Day-Night Safe
EBA = European Banking Authority
EC = European Commission
ECB = European Central Bank
EFQM = European Foundation for Quality Management
EURIBOR = a daily reference rate based on the averaged interest rates at which Eurozone banks offer to lend unsecured funds to other banks in the euro wholesale money market
ICAAP = Internal Capital Adequacy Assessment Process
IFRSs = International Financial Reporting Standards
ILO = International Labour Organization
IMAD = Institute of Macroeconomic Analysis and Development
IS = Income Statement
ISO = International Organization for Standardization
KDD = Central Securities Clearing Corporation
LJSE = Ljubljana Stock Exchange
MF = Ministry of Finance
NPL = Non-Performing Loan
POS = Point-Of-Sale
RAST = Nova KBM´s project aimed at reducing operating costs
RS = Republic of Slovenia
SEC = Securities
SEPA = Single Euro Payments Area
SID Banka = Slovene Export and Development Bank
SOD = Slovenska odškodninska družba d.d. (Central ownership entity of Slovenia)
SWIFT = Society for Worldwide Interbank Financial Telecommunication
TARGET2 = the pan-European real-time gross settlement (RTGS) system for payments in euro owned and operated by the Eurosystem
VaR = Value-at-Risk
WSE = Warsaw Stock Exchange
ZBan = Banking Act
ZGD = Companies Act
ZPIZ = Pension and Disability Insurance Act
ZPPDFT = Prevention of Money Laundering and Terrorist Financing Act
ZSDH = Slovene Sovereign Holding Act
ZTFI = Financial Instruments Market Act
ZUKSB = Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability

Everyone thought I had already peaked. But I thought otherwise. My confidence was shaken when I had a knee injury and a short slump, but once again I was saved by my stubbornness. Through hard work, strong will and perseverance I decided to take what´s mine: A spot at the top. I still remember the moments before the final match: I felt like a winner and doubters had no other choice but to admit defeat. The Paris final was not my first. But it means the most to me.

For me, 1983 was a landmark year.

Mima Jaušovec

Mima Jaušovec, tennis player

FINANCIAL REPORT OF THE NOVA KBM GROUP

01 AUDITOR´S REPORT ON THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

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INDEPENDENT AUDITOR'S REPORT
to the owners of Nova KBM d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the bank Nova KBM d.d. and its subsidiaries (hereinafter: "the Group"), which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Nova KBM Group as at 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 4 April 2014

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

02 FINANCIAL STATEMENTS OF THE NOVA KBM GROUP

1 INCOME STATEMENT – NOVA KBM GROUP

€ 000

ITEM DESCRIPTION	Notes	Year ended 31.12.2013	Year ended 31.12.2012
Interest income	8	181,082	227,856
Interest expense	8	(102,399)	(122,012)
Net interest income	**8**	**78,683**	**105,844**
Dividend income	**9**	**1,387**	**2,572**
Fee and commission income	10	92,331	94,185
Fee and commission expense	10	(33,044)	(35,385)
Net fee and commission income	**10**	**59,287**	**58,800**
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	11	63,430	25,972
Net gains/(losses) on financial assets and liabilities held for trading	12	2,532	(5,306)
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	13	(1,229)	2,656
Net exchange rate differences	14	(1,674)	736
Net gains on derecognition of assets excluding non-current assets held for sale	15	544	15
Other net operating income/(loss)	16	(13,720)	2,451
Administration costs	17	(105,021)	(104,059)
Depreciation and amortisation	18	(16,454)	(16,443)
Provisions	19	(54,637)	(9,072)
Impairment losses	20	(670,632)	(300,394)
Share of profits/(losses) of associates and joint ventures accounted for using the equity method	21	(174)	144
Net (losses) from non-current assets held for sale and liabilities associated therewith	-	(902)	(3,553)
(LOSS) FROM CONTINUING OPERATIONS	**-**	**(658,580)**	**(239,637)**
Income tax related to profit or loss from continuing operations	22	(26,328)	12,490
NET (LOSS) FROM CONTINUING OPERATIONS	**-**	**(684,908)**	**(227,147)**
Total profit after tax from discontinued operations	23	0	21,450
NET (LOSS) FOR THE FINANCIAL YEAR	**-**	**(684,908)**	**(205,697)**
a) Attributable to owners of the parent	-	(630,456)	(205,589)
– continuing operations	-	(630,456)	(227,039)
– discontinued operations	-	0	21,450
b) Attributable to non-controlling interest	-	(54,452)	(108)
Basic (loss) per share (€)	24	(63.05)	(5.25)
Diluted (loss) per share (€)	24	(63.05)	(5.25)

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

2 STATEMENT OF OTHER COMPREHENSIVE INCOME – NOVA KBM GROUP

€ 000

ITEM DESCRIPTION	Year ended 31.12.2013	Year ended 31.12.2012
NET (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**(684,908)**	**(205,697)**
OTHER COMPREHENSIVE INCOME AFTER TAX	**10,885**	**22,234**
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**274**	**0**
Actuarial net gains on defined benefit pension plans recognised in retained earnings	300	0
Income tax on items that will not be reclassified subsequently to profit or loss	(26)	0
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**10,611**	**22,234**
Foreign currency translation differences arising from consolidation	(139)	(2,474)
– translation (losses) taken to equity	(139)	(2,274)
– transferred to profit or loss	0	(200)
Available-for-sale financial assets	12,889	29,704
– valuation gains taken to equity	7,039	18,909
– transferred to profit or loss	5,850	10,795
Share of other recognised comprehensive income of associates and joint ventures accounted for using the equity method	41	53
Discontinued operations	0	971
Income tax on items that may be reclassified subsequently to profit or loss	(2,180)	(6,020)
TOTAL COMPREHENSIVE (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**(674,023)**	**(183,463)**
a) Attributable to owners of the parent	(620,447)	(183,880)
b) Attributable to non-controlling interest	(53,576)	417

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

3 STATEMENT OF FINANCIAL POSITION – NOVA KBM GROUP

€ 000

ITEM DESCRIPTION	Notes	31.12.2013	31.12.2012
Cash and balances with the central bank	25	435,478	223,882
Financial assets held for trading	26	1,786	1,572
Financial assets designated at fair value through profit or loss	27	24,586	34,563
Available-for-sale financial assets	28	1,466,864	589,413
Loans and advances	-	2,379,322	3,633,260
– loans and advances to banks	29	129,674	162,408
– loans and advances to customers	30	2,231,765	3,397,900
– other financial assets	31	17,883	72,952
Held-to-maturity financial assets	32	280,153	500,108
Non-current assets and disposal groups classified as held for sale and discontinued operations	39	7,868	2,282
Property, plant and equipment	33	73,677	86,765
Investment property	34	38,426	53,317
Intangible assets	35	32,863	37,485
Investments in the equity of associates and joint ventures accounted for using the equity method	36	2,957	3,090
Tax assets	37	11,699	41,317
– current tax assets	37	960	2,424
– deferred tax assets	37	10,739	38,893
Other assets	38	55,114	114,756
TOTAL ASSETS	**-**	**4,810,793**	**5,321,810**
Financial liabilities to the central bank	40	482,891	485,149
Financial liabilities held for trading	41	1,422	1,658
Financial liabilities measured at amortised cost	42	3,650,942	4,528,517
– deposits from banks	42	60,271	107,077
– deposits from customers	42	3,074,748	3,612,206
– loans from banks	42	414,883	576,004
– loans from customers	42	4,551	6,370
– debt securities	42	60,973	88,592
– subordinated liabilities	42	1,250	98,069
– other financial liabilities	42	34,266	40,199
Provisions	43	100,163	46,630
Tax liabilities	37	96	0
– current tax liabilities	37	88	0
– deferred tax liabilities	37	8	0
Other liabilities	44	15,251	6,652
TOTAL LIABILITIES	**-**	**4,250,765**	**5,068,606**
Share capital	45	150,000	40,814
Share premium	46	360,572	165,775
Revaluation reserves	47	8,981	(1,149)
Translation reserves	-	(2,486)	(2,365)
Reserves from profit	48	663	289,741
Treasury shares	-	0	(1,412)
Retained earnings/(losses) (including net loss for the financial year)	49	48,937	(281,237)
SHAREHOLDERS´ EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**-**	**566,667**	**210,167**
Non-controlling interest	-	(6,639)	43,037
TOTAL SHAREHOLDERS´ EQUITY	**-**	**560,028**	**253,204**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**-**	**4,810,793**	**5,321,810**

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

4 STATEMENT OF CASH FLOWS – NOVA KBM GROUP

€ 000

Designation	ITEM DESCRIPTION	Year ended 31.12.2013	Year ended 31.12.2012
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	**Total (loss) before tax from continuing operations**	**(658,580)**	**(239,637)**
	Depreciation and amortisation	16,454	16,443
	Impairment of available-for-sale financial assets	41,152	13,327
	Impairment of loans and advances	561,987	230,046
	Impairment/(reversal of impairment) of held-to-maturity financial assets	708	(21)
	Impairment of tangible assets, investment property, intangible assets and other assets	66,785	57,042
	Share of (profits)/losses of associates and joint ventures accounted for using the equity method	174	(144)
	Net (gains)/losses from exchange rate differences	1,674	(736)
	Net losses from held-to-maturity financial assets	3,392	58
	Net (gains)/losses from the sale of tangible assets and investment properties	(367)	22
	Other (gains) from investing activities	(14,005)	(19,690)
	Other (gains)/losses from financing activities	(89,209)	10,079
	Net unrealised losses from non-current assets held for sale and discontinued operations and liabilities associated therewith	902	3,553
	Other adjustments to total net profit or loss before tax	54,652	10,623
	Cash flow from operating activities before changes in operating assets and liabilities	(14,281)	80,965
b)	**Decrease in operating assets (excluding cash equivalents)**	**16,249**	**367,336**
	Net (increase)/decrease in financial assets held for trading	(216)	7,154
	Net decrease in financial assets designated at fair value through profit or loss	9,795	3,897
	Net (increase)/decrease in available-for-sale financial assets	(285,056)	126,460
	Net decrease in loans and advances	281,546	242,901
	Net (increase)/decrease in non-current assets held for sale	(436)	732
	Net (increase)/decrease in other assets	10,616	(13,808)
c)	**(Decrease) in operating liabilities**	**(762,207)**	**(223,224)**
	Net increase/(decrease) in financial liabilities to the central bank	(2,258)	69,671
	Net increase/(decrease) in financial liabilities held for trading	194	(827)
	Net (decrease) in deposits and loans taken, measured at amortised cost	(740,096)	(318,343)
	Net increase/(decrease) in debt securities in issue, measured at amortised cost	(27,619)	39,619
	Net increase/(decrease) in other liabilities	7,572	(13,344)
d)	**Cash flow from operating activities (a + b + c)**	**(760,239)**	**225,077**
e)	**Income taxes (paid)/refunded**	**1,558**	**(779)**
f)	**Net cash flow from operating activities (d + e)**	**(758,681)**	**224,298**

€ 000

Designation	ITEM DESCRIPTION	Year ended 31.12.2013	Year ended 31.12.2012
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Receipts from investing activities**	**324,451**	**120,263**
	Receipts from the sale of tangible assets and investment properties	2,888	8,472
	Receipts from the sale of intangible assets	0	4
	Receipts from the disposal of associates – discontinued operations	50,034	15,000
	Receipts from non-current assets or liabilities held for sale	639	562
	Receipts from the sale of held-to-maturity financial assets	270,890	94,193
	Other receipts from investing activities – discontinued operations	0	2,032
b)	**Cash payments on investing activities**	**(57,642)**	**(152,000)**
	(Cash payments to acquire tangible assets and investment properties)	(6,817)	(14,342)
	(Cash payments to acquire intangible assets)	(3,699)	(11,651)
	(Cash payment for the investment in the equity of subsidiaries)	(5,641)	0
	(Cash outflow to non-current assets or liabilities held for sale)	0	(2)
	(Cash payments to acquire held-to-maturity financial assets)	(41,485)	(126,005)
c)	**Net cash flow from investing activities (a + b)**	**266,809**	**(31,737)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Cash proceeds from financing activities**	**720,001**	**0**
	Cash proceeds from the issuance of subordinated liabilities	100,000	0
	Cash proceeds from the issuance of shares and other equity instruments	620,001	0
b)	**Cash payments on financing activities**	**(509)**	**(101,567)**
	(Dividends and share in profits paid)	(95)	(634)
	(Repayments of subordinated liabilities)	(414)	(99,933)
	(Other cash payments related to financing activities)	0	(1,000)
c)	**Net cash flow from financing activities (a + b)**	**719,492**	**(101,567)**
D.	**Effects of change in exchange rates on cash and cash equivalents**	**(2,896)**	**(4,248)**
E.	**Net increase in cash and cash equivalents (Af + Bc + Cc)**	**227,620**	**90,994**
F.	**Opening balance of cash and cash equivalents**	**332,522**	**245,776**
G.	**Closing balance of cash and cash equivalents (D + E + F)**	**557,246**	**332,522**

Net receipts generated from investing activities in respect of discontinued operations (proceeds received from the sale of Zavarovalnica Maribor) totalled €50,034,000 in 2013, compared to €17,032,000 reported for 2012.

Reconciliation of cash and cash equivalents as of 31 December 2013 with the statement of financial position items is presented in Note 25.1.

Cash Flows from Interest, Dividends and Participation in Profits

€ 000

	Year ended 31.12.2013	Year ended 31.12.2012
Interest paid	(121,349)	(120,355)
Interest received	240,882	208,084
Dividends and participation in profits paid	(95)	(634)
Dividends and participation in profits received	1,312	4,591

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

5 STATEMENT OF CHANGES IN EQUITY – NOVA KBM GROUP

Statement of Changes in Equity for the year ended 31 December 2013

€ 000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Translation reserves	Reserves from profit	Retained earnings/ (losses) (including net loss for the financial year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Non-controlling interest	Total shareholders' equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**40,814**	**165,775**	**(1,149)**	**(2,365)**	**289,741**	**(281,237)**	**(1,412)**	**210,167**	**43,037**	**253,204**
Total comprehensive (loss) for the financial year after tax	**0**	**0**	**10,130**	**(121)**	**0**	**(630,456)**	**0**	**(620,447)**	**(53,576)**	**(674,023)**
New share capital subscribed (paid)	252,411	720,000	0	0	0	0	0	972,411	0	972,411
Recapitalisation of subsidiaries	0	0	0	0		4,538	0	4,538	4,070	8,608
Derecognition of treasury shares	0	0	0	0	0	(1,412)	1,412	0	0	0
Appropriation of (accounting for) dividends	0	0	0	0	0	0	0	0	(95)	(95)
Transfer of net profit to reserves from profit	0	0	0	0	91	(91)	0	0	0	0
Covering of the losses brought forward and of the loss for the financial year	0	(668,428)	0	0	(289,169)	957,598	0	1	0	1
Other	(143,225)	143,225	0	0	0	(3)	0	(3)	(75)	(78)
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**8,981**	**(2,486)**	**663**	**48,937**	**0**	**566,667**	**(6,639)**	**560,028**

Line 'Other': the decrease in share capital and the related increase in share premium are attributable to the decision of the Bank of Slovenia to write off all of the qualified liabilities of Nova KBM in order to cover its losses (Note 45).

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

Statement of Changes in Equity for the year ended 31 December 2012

€ 000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Translation reserves	Reserves from profit	Retained (losses) (including net loss for the financial year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Non-controlling interest	Total shareholders´ equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**40,815**	**165,775**	**(25,096)**	**(127)**	**300,726**	**(86,628)**	**(1,412)**	**394,053**	**41,510**	**435,563**
Total comprehensive (loss) for the financial year after tax	**0**	**0**	**23,947**	**(2,238)**	**0**	**(205,589)**	**0**	**(183,880)**	**417**	**(183,463)**
Payment of dividends	0	0	0	0	0	0	0	0	(631)	(631)
Transfer of net profit to reserves from profit	0	0	0	0	787	(787)	0	0	0	0
Other	(1)	0	0	0	(11,772)	11,767	0	(6)	1,741	1,735
CLOSING BALANCE FOR THE FINANCIAL YEAR	**40,814**	**165,775**	**(1,149)**	**(2,365)**	**289,741**	**(281,237)**	**(1,412)**	**210,167**	**43,037**	**253,204**

Line 'Transfer of net profit to reserves from profit': the increase of €787,000 in reserves from profit relates to the transfer of net profit of €99,000 and retained earnings of €688,000 to reserves.

Line 'Other': the decrease in reserves from profit and the related increase in retained earnings, in the amount of €11,772,000, relate to the derecognition of investment in the equity of Zavarovalnica Maribor.

Line 'Other': the increase in non-controlling interest relates to the derecognition of negative non-controlling interest in KBM Projekt, an ex-subsidiary.

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

03 NOTES TO THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP

1 GENERAL INFORMATION

Nova KBM d.d. (hereafter also referred to as the 'Bank') is the parent company of the Nova KBM Group (hereafter also referred to as the 'Group') which, as of 31 December 2013, comprised the parent company and 11 subsidiary companies.

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

As of 31 December 2013, the share capital of the Bank totalled €150,000,000 and was split into 10,000,000 ordinary no-par value shares, all of which were held by the Republic of Slovenia.

The Bank is obliged to prepare consolidated financial statements.

1.1 DEFINITION OF THE GROUP

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

Company	Position in the Group	Group´s voting rights in the company (%)
Nova Kreditna banka Maribor d.d.	parent bank	
Poštna banka Slovenije d.d.	subsidiary bank	99.12
Adria Bank AG	subsidiary bank	50.54[1]
KBM Banka a.d.	subsidiary bank	89.53
KBM Fineko d.o.o. (in liquidation)[2]	subsidiary company	100.00
KBM Infond d.o.o.	subsidiary company	72.73[3]
KBM Leasing d.o.o.	subsidiary company	100.00
KBM Invest d.o.o.	subsidiary company	100.00
Gorica Leasing d.o.o.	subsidiary company	100.00
M-PAY d.o.o.	subsidiary company	50.00
KBM Leasing Hrvatska d.o.o.	subsidiary company	100.00
MB Finance B.V.	subsidiary company	00.00[4]

1 The Group´s stake in the share capital of and voting rights in Adria Bank accounts for 50.54%, while its stake in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.
2 KBM Fineko filed for liquidation on 29 November 2013. Since the company is still controlled by Nova KBM, it is fully consolidated in the Group´s financial statements.
3 The Group´s stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain amount of its own shares, the Group´s stake in the capital of and voting rights in KBM Infond equals 72.73%.
4 In accordance with an explanation given by the Standing Interpretation Committee (SOP 12), MB Finance is regarded as a special purpose vehicle controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Group.

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

In September 2013, Credy banka changed its name to KBM Banka.

In July 2013, Nova KBM injected fresh capital into KBM Leasing Hrvatska, the proceeds of which, totalling €5,477,000, were used to repay a loan to Nova KBM.

In December 2013, equity infusion in the form of debt-to-equity swaps was provided by Nova KBM to the following subsidiaries:

- KBM Leasing, in the amount of €25,000,000
- Gorica Leasing, in the amount of €22,000,000
- KBM Invest, in the amount of €21,000,000.

In December 2013, the put option of the Republic of Serbia on its 12.89% shareholding in KBM Banka was exercised at the exercise price of €5,641,000. Thus, Nova KBM increased its shareholding and voting rights in KBM Banka to 89.53%.

Also in December 2013, Nova KBM injected €42,474,000 of fresh capital into PBS, thus increasing its shareholding in PBS from 55.00% to 99.12%.

The company Istra Plan, which is 100% owned by KBM Fineko (now in the process of liquidation), is not regarded as a business entity, as a result of which only assets of this company, totalling €1,156,000, are included in the consolidated financial statements.

The company KBM Projekt is no longer a member of the Group. On 30 October 2012, the company filed for liquidation, with the result that the Group lost control of it.

2 BASIS FOR THE PRESENTATION OF FINANCIAL STATEMENTS

The financial statements of the Nova KBM Group for the year ended 31 December 2013 were authorised for issue on 3 April 2014 by the Nova KBM Management Board.

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

2.1 STATEMENT OF COMPLIANCE AND PURPOSE OF FINANCIAL STATEMENTS

The financial statements are prepared in accordance with International Financial Reporting Standards (hereafter 'IFRSs') as endorsed by the European Union. The financial statements are intended to comply with annual reporting requirements and to provide general use historical financial information.

The financial statements are intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

2.2 BASIS OF VALUATION

The financial statements are prepared under the historical cost convention, except for the following items for which fair value has been applied:

- financial assets designated at fair value through profit or loss
- available-for-sale financial assets
- derivatives
- investment property.

The fair value assessment methods are set out below.

2.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRSs requires the use of certain accounting estimates and judgements, which may affect the value of reported assets and liabilities and of potential assets and liabilities as of the reporting date, and income and expense for the period then ended.

The most important judgements relate to the classification of financial instruments, in particular to the distribution between the held-to-maturity portfolio and the portfolio held for trading. The classification of financial instruments is carried out in line with the Group´s policy prior to the initial recognition of a financial instrument.

Estimates are used for: impairment of loans to customers; impairment of available-for-sale financial assets; fair value of financial assets and liabilities; provisions for off-balance sheet risks; depreciation of property, plant and equipment and amortisation of intangible assets; potential tax items; provisions for liabilities to employees; and provisions for pending legal issues.

Changes in estimates for impairment losses have an especially important impact on financial position of operations. These estimates are subject to adjustment in the future as a result of changes in economic conditions, customers´ ability to repay loans, and realisation of collateral values for defaulted loans (Note 4.1.5). Currently available information about the state of the economy indicated that it is likely that additional impairments will occur in the future and the future adjustments required could be material.

2.4 PRESENTATION AND FUNCTIONAL CURRENCY

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 CONSOLIDATION

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interest
- derecognises the cumulative translation differences, recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent´s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree´s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer´s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group´s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Subsidiaries

Subsidiary entities are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into consideration. Financial statements of subsidiary entities are included in the consolidated financial statements from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. Business combinations achieved in stages are accounted for as separate steps. Any additional acquired share of interest does not affect previously recognised goodwill.

When necessary, accounting policies for subsidiary entities have been changed to ensure consistency with the policies adopted by the Group. The reporting dates are unified across the whole Group. All subsidiary entities are fully consolidated.

In the statement of financial position, non-controlling interest is reported as a separate item within equity. Shares of non-controlling interest are eliminated from all equity items in proportion to the share of non-controlling interest in the share capital.

Associated entities

Associated entities are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting rights of another entity.

Associated entities are accounted for using the equity method and are initially recognised at cost. The Group´s investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group´s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date the significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group´s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses and dividends arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from intra-group transactions and recognised in assets are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Exchange rate differences are recognised in profit or loss.

Assets and liabilities items denominated in foreign currency are translated and disclosed in the consolidated financial statements by applying the European Central Bank´s reference exchange rates in effect on the reporting date. The effects of translating foreign currency into the euro are recognised in profit or loss as net gain/loss from exchange rate differences.

Translation differences on non-monetary items, such as equity instruments designated at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equity instruments designated as available for sale are included in other comprehensive income, together with the fair value measurement effect.

Financial statements of the Group companies that have functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities are translated at the rate of exchange prevailing at the reporting date
- profit or loss is translated at the average exchange rate for the period.

Translation differences are in the statement of financial position recognised in translation reserves, and are recognised in profit or loss only after the investment is disposed of.

3.3 CASH EQUIVALENTS

Cash equivalents are current, highly liquid investments that can be quickly converted into a known amount of cash and for which the risk of changes in value is negligible.

The Group includes the following items among cash equivalents:
- cash and balances in settlement and current accounts
- loans to banks with an original maturity of up to three months
- investments in available-for-sale debt securities with an original maturity of up to three months.

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

3.4 FINANCIAL ASSETS

3.4.1 CLASSIFICATION OF FINANCIAL ASSETS

Upon initial recognition, the Group classifies financial assets with regard to the purpose of the acquisition, the period held, and the type of the financial asset into one of the following categories:
- Financial assets designated at fair value through profit or loss are classified into financial instruments held for trading and other financial instruments designated at fair value through profit or loss. Financial assets held for trading are those instruments in which the Group intends to actively trade and earn profit from short-term price differences. Equity instruments, debt securities and derivatives, except those held for hedging purposes, are classified into this category. Financial assets are upon initial recognition designated at fair value through profit or loss when doing so provides more relevant information of measurement or recognition.
- Held-to-maturity financial assets are assets with fixed or determinable payments and a fixed maturity, for which the Group attests the purpose and capacity to hold them until maturity.
- Available-for-sale financial assets are assets which the Group did not acquire for the purpose of trading but intends to hold them for an undetermined period of time, and which can be sold for the reason of liquidity requirements, changes in interest rates, exchange rates or the prices of financial instruments.
- Loans and advances are financial assets with fixed or determinable payments which are not traded on an active market.

The Group uses financial instruments for the purpose of economic hedging of another financial instrument. In its accounting, the Group does not apply the rules of hedge accounting because the effects of measurement of both the underlying and the hedge financial instrument are taken simultaneously to profit or loss.

The Group does not hold instruments for which hedge accounting would be required.

3.4.2 RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS

Buying and selling of financial assets, except loans and advances, is recognised on the trading date (day when the contract is made). Loans and advances are recognised when funds are advanced to borrowers.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition (the Group transferred all rights and risks under the financial asset). Should the Group transfer the financial asset, but retain practically all risks and rights, derecognition of the asset is not carried out.

If a financial asset is derecognised in full, the difference between the carrying value of the asset and the sum of any compensations received (including the value of new assets received less the newly assumed liability), together with accrued gains or losses which were recognised directly in equity, is recognised in profit or loss.

3.4.3 MEASUREMENT OF FINANCIAL ASSETS

Financial assets, except financial assets carried at fair value through profit or loss, are initially measured at fair value plus any transaction costs.

Financial assets carried at fair value through profit or loss are initially measured at fair value, and the transaction costs are expensed in profit or loss on the purchase date.

After they are initially recognised, financial assets held for trading and available-for-sale financial assets are measured at fair value. Fair value of financial assets is based on current bid prices as valid on the reporting date or, if such are not available, closing prices. If a quoted market price is not available, the fair value of the financial instrument is estimated using comparative pricing models or discounted cash flow techniques.

Derivatives, including foreign currency forward transactions, interest rate swaps, currency options and forward transactions in securities, are used by the Group for trading and hedging purposes and are measured at their fair value. The fair value of derivatives equals unrealised gains or losses on the valuation of derivatives at market prices or at contractual forward prices.

Available-for-sale equity instruments for which the fair value cannot be reliably estimated are measured at cost (acquisition cost increased by transaction costs and decreased by appropriate allowance for impairment).

Loans and receivables are measured at amortised cost using the effective interest rate method.

Loans and receivables are reported at their outstanding unpaid principal balances increased by any accrued interest and fees and reduced by appropriate allowance for impairment.

Held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated as the initially recognised amount of the receivable, reduced by repayments of the principal, increased or decreased by the accumulated difference between the initial amount and the amount due for payment, and reduced by appropriate allowance for impairment.

3.4.4 GAINS AND LOSSES

Gains and losses arising from the change in fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss in the period in which they are incurred.

Gains and losses arising from the change in fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for losses due to impairment and foreign exchange gains and losses, until the financial asset is derecognised at which time the effect previously included in equity is recognised in profit or loss. Interest on available-for-sale debt securities, calculated by applying the effective interest rate method, is recognised directly in profit or loss.

'Day one profit'

Where the transaction price of an instrument in a non-active market is different to the fair value from other observable market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value in profit or loss as the 'day one profit or loss'. In cases where the data used for valuations are not 'fully marketable', the difference between the transaction price and the price based on the valuation technique is recognised in profit or loss only after the market becomes relevant, or if the instrument is disposed of.

3.4.5 RECLASSIFICATION OF FINANCIAL ASSETS

During the years ended 31 December 2013 and 2012, the Group did not reclassify any of its financial assets into another category.

3.4.6 IMPAIRMENT OF FINANCIAL ASSETS

Available-for-sale financial assets

At each reporting period the Group assesses whether there is objective evidence that available-for-sale financial assets are impaired. A significant or prolonged decline in the fair value of a financial asset below its acquisition cost is taken into consideration when determining whether the asset is impaired. The decision regarding what is to be considered as a significant or prolonged decline in the fair value is based on estimates. In making such estimates, the Group, in addition to other variables, takes into account the price volatility of securities.

If an available-for-sale debt instrument is impaired, the cumulative loss recognised within other comprehensive income is transferred to profit or loss. The loss so recognised may be reversed.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurred after the impairment loss had been recognised, the impairment loss is reversed through profit or loss.

In case of impairment of available-for-sale equity instruments, the loss due to impairment of an instrument is recognised in profit or loss. Reversal of impairment of an equity instrument is not carried out through profit or loss, but is, in case of a subsequent increase in fair value, disclosed directly within other comprehensive income.

Held-to-maturity financial assets

At each reporting period the Group assesses whether there is objective evidence that held-to-maturity financial assets are impaired.

The amount of impairment loss is measured as the difference between the instrument´s carrying value and the present value of future cash flows discounted by the original effective interest rate. The amount of loss is recognised in profit or loss.

Loans and receivables

The Group classifies each customer into the adequate credit rating category using an internal methodology. The classification of customers depends on their financial standing and performance, their ability to provide cash flow needed for the repayment of debts, the timely payment of their liabilities, the industry sector risk, and on subjective criteria.

The Group continuously, or at least quarterly, assesses whether impartial evidence exists, or events have occurred since recognition of an asset, and whether these events have an impact on the future cash flows of a financial asset or a group of financial assets which can be reliably assessed.

Taking into consideration the risks associated with a customer and the transaction entered into, an appropriate impairment of a financial asset is made in accordance with IFRSs and an internal methodology. Significant financial assets are assessed individually for impairment. If impairment is established in an individual assessment of an asset, such asset shall be impaired individually, otherwise it shall be classified into the adequate debtor or financial asset risk category and impaired collectively. Individually insignificant financial assets are also assessed collectively for impairment.

For individually assessed financial assets, the amount of loss due to impairment is calculated as the difference between the asset´s carrying value and the present value of future cash flows discounted at the contractual interest rate. If the Group possesses prime or adequate collateral, it also takes into account expected cash flows from the realisation of any such collateral.

For collectively assessed financial assets, the Group uses a model that is based on the probability of a customer becoming a defaulting customer, taking into account the amount of loss incurred by each category of defaulting customers. The probability of default and the amount of loss are calculated for each individual category of loans on the basis of information about previous defaults and losses.

The adequacy of collective impairment rates is verified on an annual basis. Collective impairment rates are calculated separately for the portfolio of loans given to retail customers and the portfolio of loans given to corporate customers.

The carrying value of an impaired asset is reduced directly, or through the allowance account. Impairment loss is recognised in profit or loss.

If the amount of impairment decreases in a subsequent period, the previously recognised impairment loss shall be reversed. The amount of reversed loss is recognised in profit or loss.

If a customer is located in a higher-risk country, the sovereign risk also has to be taken into consideration when assessing losses due to impairment.

Whenever possible, the Group strives to restructure loans rather than liquidate collateral. The restructuring of a loan can be made by extending the term of the loan or negotiating new terms and conditions for the loan. Once new terms and conditions are agreed, the loan is no longer classified as being due; however, a customer´s credit rating cannot be upgraded only on the basis of a loan being restructured. If a loan is restructured, the Group constantly checks the borrower´s compliance with the terms of the restructured loan and monitors the probability of future repayments. Such loans remain subject to collective or individual impairment calculated using the original effective interest rate of the loan.

3.5 OFFSETTING

Financial assets and liabilities are offset in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.6 SALE AND REPURCHASE AGREEMENTS

Securities purchased under agreements to resell (repos) are retained in the financial statements as loans and advances to banks or customers, as appropriate. According to the agreements on temporarily purchasing an instrument, the Group does not enter into any risk and does not enjoy any benefits from the instrument. The contractual relation is classified as a secured loan, and instruments which are defined in the repo contract are pledged as security. The difference between the purchase and the sale price is treated as interest income and is accrued over the life of the repo agreements using the effective interest rate method.

3.7 LEASES

Assets leased to customers under lease agreements, which transfer substantially all the risks and rewards of ownership of an item of property, plant and equipment, with or without ultimate legal title, are classified as finance leases. Depending on the lease agreement, the asset leased may be bought or returned to the lessor. As a rule, such a lease agreement cannot be unilaterally terminated. For depreciating leased assets, the same accounting policy is applied as for the Group´s own assets.

A lease which is not a finance lease is an operating lease.

The Group is the lessee

Payments made under operating leases are included in profit or loss on a straight-line basis over the period of the lease.

An asset obtained on the basis of a finance lease is included within property, plant and equipment. Its acquisition cost equals the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. Lease payments are recognised as interest expense. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The Group is the lessor

Assets leased under operating lease agreements are included within investment property or property, plant and equipment. Lease income is recognised in profit or loss on a straight-line basis over the period of the lease.

When assets are held subject to a finance lease, the present value of future lease payments is recognised as a receivable under the finance lease. Income from the finance lease, which is disclosed as interest income, is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor.

3.8 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are assets which the Group uses for conducting its business. They are recorded at historical cost less accumulated depreciation and any impairment loss. Transaction costs directly attributable to the acquisition of an asset are included in the initial cost recognition.

Subsequent costs are included in the asset carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss in the financial period in which they are incurred.

The Group starts to depreciate items of property, plant and equipment when these assets are available for use. Depreciation of assets is provided individually on a straight-line basis over their estimated useful lives.

The following depreciation rates were applied in both 2013 and 2012:

- buildings 1.1% to 5%
- computer equipment 20% to 50%
- motor vehicles 12.5% to 20%
- other equipment 5% to 33.33%

Land is recognised separately from buildings and, as it generally has an unlimited beneficial life, is not depreciated.

For co-divided ownership of commercial space, the value of the associated land is included in the Group´s acquisition cost of the respective part of the building.

Items of property, plant and equipment are assessed due to possible impairment each time when there are indicators that, due to events or changes in the circumstances, the carrying value of an asset may not be recovered. If the estimated recoverable value of an asset is lower than its carrying amount, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in 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 carrying amount of an item of property, plant and equipment, and are recognised net in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

3.9 INVESTMENT PROPERTY

Items of investment property are tangible assets that the Group does not use directly in its operations; they are held with the intention of renting them out commercially.

Upon recognition, they are measured at acquisition cost, and later the Group measures items of investment property using the fair value model.

A licensed real estate appraiser verifies the fair value of items of investment property at the end of each financial year.

Gains or losses arising from changes in fair value are included in profit or loss in the period to which they relate.

3.10 INTANGIBLE ASSETS

The Group possesses only intangible assets with a determinable period of useful life.

Initial recognition of an acquisition cost includes costs which are directly linked to the acquisition of an asset and are necessary for the asset to be put into use. The Group depreciates intangible assets on a straight-line basis over their estimated useful lives.

The following amortisation rates were applied in both 2013 and 2012:

- licences 10% to 33.33%
- other investments 5% to 33.33%

The Group stops amortising intangible assets when they are defined as non-current assets for sale, or when they are derecognised as the Group no longer expects any further economic benefits.

Intangible assets are tested for impairment when there are indicators that the carrying value may not be recovered. If the assessed recoverable amount of an asset is lower than its carrying value, the carrying value should be reduced to the recoverable amount and the reduction recognised as an impairment loss in profit or loss. The recoverable amount is the higher of the fair value less costs of sale and the value in use.

3.11 INVENTORY

Items of inventory are measured at the lower of cost and net realisable value. Net realisable value is the estimated sales price achieved in the ordinary course of business net of estimated costs of completion and costs of sale. Inventories are not revalued as a result of the increase in value.

Finished goods and work-in-progress (real estate for sale) are initially measured at direct production costs that are related directly to individual projects, and indirect production costs.

Upon initial recognition, the Group measures items of real estate received in settlement of receivables on the basis of an appraiser´s report. The Group holds the items of real estate so acquired with the intention of selling them.

The acquisition cost of inventories seized under lease agreements consists of the debt of the lessee (overdue and unpaid and outstanding and not yet due principal, overdue and unpaid interest and other costs which may be charged to the lessee).

3.12 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of book and fair value, reduced by the costs of sale. These assets are not depreciated.

3.13 FINANCIAL LIABILITIES

Financial liabilities include liabilities to the central bank, financial liabilities held for trading and financial liabilities measured at amortised cost.

Financial liabilities held for trading include liabilities arising from the valuation of forward sale of securities, and are measured at fair value.

Financial liabilities measured at amortised cost are deposits and loans from banks and customers, debt instruments issued, and other financial liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After they are initially recognised, the liabilities are measured at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss using the effective interest rate method.

A financial liability is derecognised only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying value of a financial liability that is cancelled, or transferred to another party, and the compensation paid is recognised in profit or loss.

3.14 PROVISIONS

The Group recognises non-current provisions for liabilities and expenses due to present obligations (legal or constructive) arising from past events for which it is possible that an outflow of resources embodying economic benefits will be required to settle the obligations and a reasonable estimate of the obligation can be made. The Group creates provisions for employee benefits and similar liabilities, for off-balance sheet liabilities, for pending legal issues, and other provisions.

The Group recognises provisions for pensions and similar liabilities that reflect the present value of liabilities for 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 corporate bonds of an issuer with a high credit rating, issued in a currency that is the same as the currency of the employer´s liabilities; the discount rate used for 2013 was 4.1% (2012: 4.6%). The Group recognises provisions for every employee in such a manner that severance benefits at retirement provided for by the employment contract are taken into account, as well as the costs of expected loyalty bonuses for the total years of service at the company until retirement, while taking into consideration, among other factors, employee turnover in the range of 0.4% to 1.7% (2012: 0.4% to 1.1%) and the projected increase in salaries in the range of 1.4% to 1.9% (2012: 0.0% to 3.0%). A certified actuary performs the calculation of liabilities for the Group.

Recognition and derecognition of provisions for employee benefits are recognised in profit or loss, except for actuarial gains/losses related to severance benefits, which, since 2013, have been recognised in the statement of comprehensive income.

The Group recognises provisions for off-balance sheet liabilities on the basis of risk classification of the customer and the transaction concluded, taking into consideration similar criteria as for the impairment of loans.

Provisions for pending legal issues represent reliably assessed amount of liability on the reporting date. Provisions are estimated on the basis of known facts of the legal proceeding, previous experiences with similar proceedings, and opinions of legal experts.

Provisions for the restructuring of the Group are recognised based on the adopted restructuring programme. Only direct expenses that will occur as a result of restructuring are taken into account in the restructuring provisions.

3.15 SHAREHOLDERS´ EQUITY

Share capital of the Bank is split into ordinary no-par value shares.

Treasury shares are deducted from equity.

Shares issued by the Bank are freely transferrable and in book-entry form. The Bank has issued only one class of shares. Holders of Bank shares have the following rights: pro-rata right to participate in the voting at the Bank´s Shareholders´ Meetings; participation in profits of the Bank (dividend); and pro-rata distribution of residual assets in case of bankruptcy or liquidation of the Bank, as stipulated by the applicable legislation. All shares have been fully paid for.

In accordance with its Articles of Association, the Bank establishes regulatory reserves until the aggregate amount of regulatory reserves and paid-in capital surplus (share premium) equals four times the amount of share capital.

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.

Statutory reserves are established up to the amount which equals eight times the amount of the Bank´s share capital.

Dividends on shares are recognised as a financial liability for the period in which the Shareholders´ Meeting approves the dividend payment.

3.16 COMMITMENTS AND CONTINGENCIES

The Group undertakes transactions in financial instruments that carry off-balance sheet risk, such as financial and service guarantees, letters of credit and credit lines.

Financial guarantees

Off-balance sheet commitments under guarantees represent irrevocable obligations that the Group will make payments in the event a customer cannot fulfil its obligations vis-à-vis third parties.

Fees received are amortised to profit or loss using the straight-line method.

Risks associated with off-balance sheet financial commitments and contingent liabilities are assessed similarly as for loans. Any increase in liability as a result of estimated expenses required for the settlement of contractual obligations is included in provisions.

3.17 INTEREST INCOME AND INTEREST EXPENSE

Income is recognised when a probability of future economic benefits exists, and such benefits can be reliably measured.

Interest income and expense are recognised in accrued amounts at a level, with maturities, and in the manner set out in the Group´s decision on interest rates, or as stipulated in the agreement between the Group and the customer.

All interest income and expense from operations in financial assets are recognised in profit or loss using the effective interest rate method.

The following items are included in interest income: regular, default and accrued interest, as well as prepaid fees for costs of repaying non-current loans given to households. These fees are transferred to income in line with the loan repayment period.

Income from finance lease is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor; it is disclosed as interest income.

All interest on deposits, securities issued, loans received and other expenses on financial liabilities are included in interest expense.

3.18 DIVIDEND INCOME

Dividends or participating interests received from equity investments in companies are included in the dividend income. The Group recognises dividend income in profit or loss upon obtaining the right to dividend.

3.19 FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSE

Fee and commission income includes fees and commissions for services rendered by the Group. Fee and commission expense includes amounts paid for the services of others.

Fee and commission income and expense are recognised in profit or loss when the service is rendered.

3.20 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Realised gains and losses on available-for-sale financial assets, loans measured at amortised cost and held-to-maturity financial assets are recognised in profit or loss upon selling the asset, at maturity, or upon other derecognition of the financial asset.

3.21 NET GAINS AND LOSSES ON FINANCIAL ASSETS HELD FOR TRADING

Net gains and losses from trading include realised and unrealised gains and losses on financial assets held for trading, valuation of derivatives and net gains from buying and selling foreign currency.

3.22 OTHER NET OPERATING INCOME OR LOSS

Other net operating income or loss includes realised gains and losses from non-banking activities (income from leases and from selling inventory, expenses for memberships and contributions, other expenses).

3.23 IMPAIRMENTS

Included within impairments are impairments of financial assets not measured at fair value through profit or loss; impairments of items of property, plant and equipment; impairments of intangible assets; and impairments of items of investment property.

3.24 TAXES

Income tax is disclosed in the amount as accounted for by the Group companies on the basis of the applicable local legislation. Deferred taxes are calculated for all temporary differences between the value of assets and liabilities for tax purposes and their carrying value. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

The most significant temporary differences arise from the valuation of financial instruments, and from provisions.

Deferred 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 charged.

Deferred taxes related to the valuation of available-for-sale financial instruments and measured at fair value are disclosed directly within other comprehensive income.

3.25 REPORTING BY SEGMENTS

A segment is recognisable as an integral part of the Group engaged in marketing of products or services (operating segment) and is subject to risks and returns different from those in other segments. Reporting by segments for management purposes is the same as presented in the financial statements.

With the aim of effectively managing its operations, the Group has divided its business into five operating segments based on products and services provided. These segments are presented in the table below.

Banking	Banking and financial services provided in accordance with the Banking Act: Acceptance of deposits, granting of loans, factoring and financing commercial transactions, payment transaction services, issuance and management of payment instruments, issuance of guarantees and other commitments.
Fund management	Management of financial funds.
Leasing	Finance and operating leasing of movable property, equipment and real estate.
Real estate activity	Real estate operations, investment engineering and project financing.
Other services	Coordination of the Moneta system development.

The management monitors the results of operating segments to make proper investment decisions and to assess the performance of segments. Segment performance is assessed based on operating profit or loss which, in certain respects, is different to operating results disclosed in the consolidated financial statements.

The Group does not gather information by geographical regions because more than 90% of its operations are carried out in the domestic market.

3.26 STANDARDS AND INTERPRETATIONS

The accounting policies used to prepare the financial statements are consistent with those of the previous financial year, except for new and amended standards and interpretations effective as of 1 January 2013, as presented below:

- **Disclosures required by IAS 8.28** – information regarding initial application of particular new regulations.

In the current period, the following amendments to existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- **IFRS 13** – Fair Value Measurements; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 1** – First-time Adoption of IFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 1** – First-time Adoption of IFRSs – Government Loans; adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 7** – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IAS 1** – Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income; adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012).
- **Amendments to IAS 12** – Income Taxes – Deferred Tax: Recovery of Underlying Assets; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IAS 19** – Employee Benefits – Improvements to the Accounting for Post-employment Benefits; adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2009 – 2011) resulting from the annual improvement project of IFRSs (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording; adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013).
- **IFRIC 20** – Stripping Costs in the Production Phase of a Surface Mine; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

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

Standards and interpretations issued by the IASB and adopted by the EU but not yet effective

At the date of authorisation of the financial statements included in this report the following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU were in issue but not yet effective:

- **IFRS 10** – Consolidated Financial Statements; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IFRS 11** – Joint Arrangements; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

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

Standards and interpretations issued by the IASB but not yet adopted by the EU

At present, IFRSs as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 4 February 2014:

- **IFRS 9** – Financial Instruments and subsequent amendments (effective date has not been yet determined).
- **Amendments to IAS 19** – Employee Benefits – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2010 – 2012) resulting from the annual improvement project of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2011 – 2013) resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **IFRIC 21** – Levies (effective for annual periods beginning on or after 1 January 2014).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Group´s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39** – Financial Instruments: Recognition and Measurement, would not significantly impact the financial statements, if applied as at the balance sheet date.

The Group has not early adopted any standard or interpretation issued but not yet effective.

The Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on its financial statements in the period of initial application.

4 RISK EXPOSURE

The Group revises the document Strategy of the Nova KBM Group on an annual basis. The Strategy is the key document in the preparation of annual business plans.

The Bank´s Management Board delegates risk oversight and management to the senior management (policy holders). The policy holders, together with officers responsible for particular policies, determine the method of measuring individual risks. The responsible officers are specialised in defining, measuring and controlling individual risks. The organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the rules of procedure, each risk management policy has to be approved by the committee in charge of overseeing risk management policies and, in addition, agreed by the President of the Management Board or his deputy. The Group companies may use their own approach in managing individual risks, taking into consideration the importance of risk and the regulatory framework.

4.1 CREDIT RISK

Credit risk is the risk of loss resulting from the failure of a Group´s debtor to discharge its liabilities. The Group is exposed to credit risk through its loan portfolio.

The management of credit risk is carried out at the customer level, by individual Group members, as well as at the Group level. The Bank controls credit risk to which the Group companies are exposed through its representatives on supervisory boards and credit committees of subsidiary companies.

The Group manages credit risk in several ways, such as by:

- identifying the risk related to debtors and recognising impairment of financial assets and provisions for off-balance sheet liabilities in accordance with IFRSs
- providing capital to ensure sufficient capital coverage of credit risks
- setting exposure limits for debtors, groups of related persons, industry sectors and market segments
- properly securing financial assets.

The Group´s exposure to credit risk arising from loans and advances given to banks and customers is described below.

4.1.1 BAD AND DOUBTFUL LOANS

The Group defines as non-performing loans (NPLs) such loans for which it reasonably believes that the debtor will not discharge all of its liabilities within the contractual period. In a narrower sense, loans to D- and E-rated customers are treated as NPLs, while in a broader sense, loans to C-rated customers are also included in NPLs.

The following customers are classified into the D and E credit rating category:

- customers that have been over 180 days late in paying their liabilities to any of the Group companies
- customers that have filed for receivership
- customers that have filed for bankruptcy
- customers for whom the Group has information which indicates that they may be incapable of paying their liabilities to any of the Group companies.

The Group defines as doubtful loans such loans that are classified in the C credit rating category. The following customers are classified into this category:

- customers that have been over 90 days late in paying a significant amount due to any of the Group companies
- customers for whom substantial likelihood exists that their future cash flows will not set off their liabilities to any of the Group companies
- customers for whom the Group has negative information on their performance
- customers who have shown insufficient or negative capital in their financial statements.

4.1.2 INTEREST RATES AND LOAN APPROVAL FEES

Interest rates are determined in accordance with the adopted credit policies of the Group companies. Interest rates depend on the basic interest rate, the purpose of a loan, the borrower´s track record of cooperation with the Group companies, the borrower´s rating, the maturity of a loan, and the type of collateral provided for a loan.

Loan approval fees are determined in accordance with the applicable decisions adopted by the management board of individual Group companies, and in accordance with their respective lending policies.

4.1.3 EXPOSURE LIMITS

With respect to limiting its exposure, the Group takes into account all applicable regulatory limitations. In compliance with Slovene banking laws and other regulations governing the banking business, exposure to a single customer or to a group of related customers shall not exceed 25% of the Group´s equity.

4.1.4 LOAN COLLATERAL POLICY

As a rule, loans are not granted without the borrower providing at least one type of collateral.

Unsecured loans are exception and are approved only to risk-free customers. Loans granted to all other customers are secured by at least one type of collateral. The type of collateral required depends on:

- type of a customer (including its legal status)
- customer´s credit rating
- type and maturity of a loan
- customer´s repayment capabilities
- customer´s relationship with the Group and with other customers
- customer´s track record of cooperation with the Group.

Banks in the Group determine eligibility criteria for collateral to be provided in their loan collateral policies. With respect to the adequacy of collateral provided to mitigate credit risk, the following classification has been adopted:

- prime collateral
- adequate collateral
- pledge of movable or immovable property
- other types of collateral.

Leasing companies in the Group are legal owners of assets leased under lease agreements.

Non-banking Group companies define the type of collateral to be provided in their risk management policies.

4.1.5 COUNTERPARTY CREDIT RISK

As of 31 December 2013, the share of performing loans (A- and B-rated loans) accounted for 56.50% of the total loans, compared to 59.73% at the 2012 year-end.

The following table sets forth, for the periods indicated, the structure of the loan portfolio by credit rating category:

	31.12.2013	31.12.2012
Credit rating	**% of portfolio**	**% of portfolio**
A	42.91	39.05
B	13.59	20.68
C	13.17	18.06
D	16.26	5.15
E	14.07	17.06

Analysis of exposure to credit risk

	Loans to customers		Loans to banks	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Net disbursed loans	**2,231,765**	**3,397,900**	**129,674**	**162,408**
Individual impairment				
Gross amount	1,057,140	1,326,563	9,617	37,781
Impairment	(509,385)	(547,759)	(2,547)	(2,878)
Net amount	547,755	778,804	7,070	34,903
Collective impairment				
Credit rating A	1,026,876	1,313,927	0	0
Credit rating B	409,305	890,162	0	0
Credit rating C	207,286	370,368	0	0
Credit rating D	16,146	20,319	0	0
Credit rating E	59,831	41,297	0	0
Gross amount	**1,719,444**	**2,636,073**	**0**	**0**
Impairment	**(80,572)**	**(93,599)**	**0**	**0**
Net amount	**1,638,872**	**2,542,474**	**0**	**0**
Net non-impaired loans	**45,138**	**76,622**	**122,604**	**127,505**
Total net loans	**2,231,765**	**3,397,900**	**129,674**	**162,408**

The total amount of disbursed loans decreased year-on-year by 33.67% to €2,361,439,000 as of 31 December 2013.

Loans of €1,066,757,000 were individually impaired, with impairment losses of €511,932,000 being set aside for this portion of the portfolio. Loans in the amount of €1,719,444,000 were collectively impaired, and impairment losses of €80,572,000 were recognised for this portion of the portfolio.

The following table shows net exposure by credit rating and impairment method, without taking account of collateral provided:

Analysis of net exposure without taking account of collateral

	31.12.2013	31.12.2012
Individual impairment	**677,429**	**941,212**
Collective impairment		
Credit rating A	1,062,317	1,346,640
Credit rating B	401,659	891,839
Credit rating C	194,787	360,683
Credit rating D	9,659	11,173
Credit rating E	15,588	8,761
Total net exposure	**2,361,439**	**3,560,308**

Credit risk by market segments

The following tables set forth, for the periods indicated, the volume of loans and total impairment losses by market segments:

Analysis of loans by market segments

	31.12.2013	31.12.2012
Large corporate customers	608,872	1,078,571
Micro enterprises and SMEs	762,602	1,376,791
Sole proprietors	108,213	146,792
Households	967,071	1,016,742
Other	507,185	585,648
Domestic banks	30,889	65,551
State	20,840	21,741
Non-profit household service providers	3,922	4,969
Foreign banks	101,332	99,735
Foreign customers	311,898	338,066
Customers not classified by market segment	38,304	55,586
Total gross loans	**2,953,943**	**4,204,544**

Analysis of total loan impairment losses by market segments

	31.12.2013	31.12.2012
Large corporate customers	112,176	180,137
Micro enterprises and SMEs	203,915	307,444
Sole proprietors	21,863	14,305
Households	37,128	33,431
Other	217,422	108,919
Domestic banks	2	13
State	495	752
Non-profit household service providers	345	158
Foreign banks	2,545	2,865
Foreign customers	180,987	82,530
Customers not classified by market segment	33,048	22,601
Total loan impairment losses	**592,504**	**644,236**

Overdue and unpaid claims

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

	31.12.2012				
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	0	0	0	2,585	2,585
State	149	1	0	2	152
Legal entities	51,010	21,044	13,605	797,255	882,914
Households	4,801	2,909	923	42,477	51,110
Total	**55,960**	**23,954**	**14,528**	**842,319**	**936,761**

Overdue but not impaired claims

31.12.2013			
Up to 30 days	31 to 90 days	Over 90 days	Total
3,148	2,676	47,980	53,804

31.12.2012			
Up to 30 days	31 to 90 days	Over 90 days	Total
1,703	5,462	44,081	51,246

Outstanding loan recovery

Banks in the Group have special departments in charge of bad and doubtful loan recovery. These departments are responsible for monitoring and resolving outstanding and bad loans in accordance with regulatory requirements as well as internal instructions and documents.

The Bad Loans Management Department is responsible for monitoring and resolving outstanding and bad loans in accordance with regulatory requirements and internal documents. The latter determine the method of transferring bad loans to the Bad Loans Management Department for recovery. If a debtor is in default on a materially significant amount for more than 90 days, the Group declares such customer as a delinquent customer and undertakes all the necessary steps to collect the debt, or restructures the loan if this might mitigate the loss incurred by the Group.

Where an obligation is overdue for more than 180 days, or if the debtor declares the implementation of an insolvency procedure, the collection of the debt is transferred to the Bad Loans Management Department or Legal Office. As long as the overdue period does not exceed 180 days, the collection of debts is managed within the commercial departments, with the professional support provided by the Bad Loans Management Department. In cooperation with the relevant departments, the Bad Loans Management Department is preparing amendments to the internal regulations (policy, rules of procedure and instructions) governing the management of NPLs, which, among other changes, will redefine the overdue period applying to the transfer of NPLs to the Bad Loans Management Department.

When outstanding loans are transferred to the Bad Loans Management Department, the department evaluates all available information, particularly collateral coverage of outstanding loans, on the basis of which it assesses the expected loss. The Bad Loans Management Department also evaluates the underlying reasons for default to prevent future loans from becoming bad loans.

Together with the debtor, the Bad Loans Management Department tries to find out the options for restructuring the loan in order to restore the borrower´s ability to resume repayments of liabilities to the Group (extension of maturity date, possible grace period on the principal, change of interest rate). In such cases, the Bad Loans Management Department also tries to obtain additional collateral. If the loan is restructured, the Bad Loans Management Department monitors the borrower´s compliance with the terms of the restructured loan.

Amendments to the internal regulations governing the management of NPLs, as well as the practice applied by the Bad Loans Management Department, will incorporate the preventive restructuring proceedings and other novelties related to the debt collection, as introduced by the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act. If a loan cannot be restructured, or if another solution acceptable to the Group cannot be agreed upon, the Bad Loans Management Department lodges a request for carrying out appropriate court procedures under which the Group and the debtor try to reach an in-court or out-of-court settlement (e.g. through mediation). The Bad Loans Management Department might try to reach an agreement with a debtor together with other companies in the Nova KBM Group, or through bank syndicates. Sometimes additional measures can be taken to recover some or all of the given funds, such as selling Group´s rights to third parties.

In carrying out its work, the Bad Loans Management Department complies with internal rules and applicable legislation and, as needed, collaborates with legal and other experts, both in-house and outside the Group. Bad loans are written off after the Bad Loans Management Department has taken all the necessary and sufficient measures provided by law and internal regulations to recover the loan.

NPLs of the total loan portfolio

	31.12.2013	31.12.2012
Total gross loan portfolio	2,953,943	4,204,544
Total net loan portfolio	2,361,439	3,560,308
Net NPLs (overdue over 90 days; ratings D and E)	424,407	608,010
Net NPLs/total net loan portfolio (%)	17.97	17.08

In accordance with the Decree on the Implementation of Measures to Strengthen Bank Stability, in 2013 the Group transferred a portion of its bad loans to BAMC (Note 7). For the purpose of transferring loans to BAMC, assets at risk held on the books of the Group were valued on the basis of their long-term realistic economic value calculated according to the methodology described in the decree referred to above. The transfer value, which was equal to the book value of the assets on the day of their transfer to BAMC, was determined on the basis of the long-term realistic economic value of the assets. The assessment of the long-term realistic economic value of the assets, and of the transfer value, was approved by a certified independent auditor.

Bad loans were transferred to BAMC in order for the Group to improve its capital adequacy and performance in the long run. In exchange for bad loans received from the Group, BAMC issued and transferred to the Group bonds guaranteed by the Republic of Slovenia.

In addition, in order to comply with an implementing technical standard of the EBA, which was developed and published in 2013 and came into effect on 1 January 2014, at the end of 2013 the Group adopted a rigorous principle of classifying its loans as non-performing, causing the proportion of NPLs in the Group´s total loan portfolio to increase.

In 2013, the Group continued to collect the unpaid obligations of customers by liquidating instruments of collateral through regular court proceedings and in out-of-court settlements.

The Group has set aside adequate impairment losses for NPLs on the basis of anticipated cash flows generated from the liquidation of collateral. The parameters used to calculate individual impairments are verified at least once a year.

If a customer is willing to actively cooperate in the out-of-court settlement, and on the condition that the Group (i) holds a mortgage that has all the elements of a suitable mortgage, (ii) possesses a valid appraisal of the property provided to it as security for the loan, and (iii) is registered as the first-priority mortgage creditor, the expected cash flow generated from the liquidation of pledged property, which is used to determine the level of impairment losses, is calculated by taking into account 70% to 80% of the appraised value of pledged property, and the liquidation period of between six months and one year.

If the out-of-court settlement is not successful, the Bad Loans Management Department assesses the expected cash flow generated from the liquidation of pledged property by generally taking into account 50% of the appraised value of pledged property and the liquidation period of five years.

In cases where the property cannot be sold at auctions, it is purchased by KBM Invest, a subsidiary company engaged in the sale and brokerage of real estate.

Other types of security for loans may be taken into account in the calculation of individual impairments only if the expected cash flow and the repayment period can be realistically assessed.

Analysis of loans and the percentage of NPLs by industry sectors

The following table sets forth, for the periods indicated, the total net loans and NPLs by industry sector of debtors, and the percentage of NPLs within each industry sector:

	31.12.2013			31.12.2012		
Industry sector	Total net loans	Net NPLs	Share of NPLs (%)	Total net loans	Net NPLs	Share of NPLs (%)
Households	929,943	26,030	2.80	983,311	14,959	1.52
Agriculture and hunting, forestry, fishing	31,667	5,602	17.69	37,937	4,922	12.97
Mining	1,307	252	19.28	3,537	2,656	75.09
Manufacturing industry	436,937	121,969	27.91	713,509	159,883	22.41
Electricity, gas and steam supply	64,646	10,808	16.72	104,725	357	0.34
Water supply, waste and sewage management, rehabilitation of the environment	16,701	808	4.84	14,261	2,359	16.54
Construction	87,809	31,042	35.35	302,532	152,947	50.56
Trade, maintenance and repair of motor vehicles	236,731	78,014	32.95	368,895	62,344	16.90
Transportation and storage	58,917	1,266	2.15	74,725	7,376	9.87
Accommodation and food service activities	45,143	17,447	38.65	134,982	37,318	27.65
Information and communication activities	30,520	7,946	26.04	56,516	17,633	31.20
Financial intermediation	203,651	23,296	11.44	371,461	46,881	12.62
Real estate activities	48,323	32,454	67.16	97,005	46,496	47.93
Professional, scientific and technical activities	69,533	22,427	32.25	145,482	32,630	22.43
Other various business activities	10,818	2,768	25.59	14,407	3,719	25.81
Public administration and defence services, compulsory social security activities	14,643	189	1.29	19,153	0	0.00
Education	3,628	329	9.07	5,013	950	18.95
Health and welfare security	24,423	9,150	37.46	32,619	9,145	28.04
Arts, entertainment and recreation	35,802	31,064	86.77	66,849	3,835	5.74
Other activities	10,297	1,546	15.01	13,389	1,600	11.95
Total net loans	**2,361,439**	**424,407**	**17.97**	**3,560,308**	**608,010**	**17.08**

Valuation of real estate

For the purpose of secured lending, financial reporting, purchase or sale of real estate, and renting out of real estate, valuation of real estate is regulated by the Nova KBM Group Methodology for Real Estate Valuation. The Group must obtain the value and assess the quality of real estate collateral to be provided prior to reaching any decision regarding the acceptance of the respective real estate as security for its exposure to credit risk, and must monitor the movements in the value and quality of real estate collateral during the entire period of its exposure to credit risk.

The assessment of the value of real estate that must comply with the International Valuation Standards (IVSs) must be conducted by an independent real estate appraiser appointed by the Slovene Auditing Institute or the Ministry of Justice of the Republic of Slovenia.

For the valuation of residential real estate with a value of up to €500,000, the Group may use the generalised market value as determined in the process of the mass real estate valuation, and published by the Surveying and Mapping Authority of the Republic of Slovenia. The market value of real estate as set out in the applicable sales agreement may also be used for the needs of establishing collateral.

Because of the complexity of real estate valuations, the following two valuation methods are used:

- Simple valuation method: this method is used for the valuation of real estate whose value does not exceed €100,000, in particular for family houses, apartments, building plots, individual agricultural land parcels, individual business premises, and smaller industrial buildings.
- Complex valuation method: this method is used for the valuation of real estate of high value, specialised real estate, investment property under construction, and trade-related property as defined under IVS 310. This method is also used for the valuation of real estate for the purpose of financial reporting.

In the case of complex valuations, the Group selects appraisers to carry out the value assessment. Selection is through a tender process.

Valuation reports requested by the Group are checked by the Credit Analysis Department, which confirms whether the valuation carried out is appropriate for the Group´s needs. The independent review of the Group´s loan portfolio, carried out in 2013, focused on the following: the Group´s exposure to credit risk; the valuation of real estate received as collateral; the value assessments of real estate carried out in 2012 and 2013; and complex valuations of real estate. Statistical revaluation is used by the Group as the method to assess changes in the value of real estate over time.

Analysis of collateral – value of collateral for given loans

		31.12.2013	31.12.2012
1.	**Collateral for individually impaired loans**	**1,225,731**	**1,502,097**
	– movable and immovable property	856,213	1,164,227
	– debt securities	1,935	0
	– equity instruments	82,336	79,180
	– other	285,247	258,690
2.	**Collateral for collectively impaired loans**	**2,712,587**	**4,287,650**
	– movable and immovable property	2,273,070	3,268,668
	– debt securities	157	241
	– equity instruments	43,073	168,402
	– other	396,287	850,339
3.	**Collateral for non-impaired loans**	**53,315**	**104,152**
	– movable and immovable property	2,923	962
	– debt securities	0	2,900
	– equity instruments	0	898
	– other	50,392	99,392
4.	**Total**	**3,991,633**	**5,893,899**

As of 31 December 2013, the total amount of collateral in the form of movable and immovable property was €3,132,206,000, of which 72.57% related to collectively impaired loans, 27.34% related to individually impaired loans, and 0.09% related to non-impaired loans.

Collateral of €2,092,000 was in the form of debt securities, of which €1,935,000 related to individually impaired loans and €157,000 related to collectively impaired loans.

Collateral in the form of equities amounted to €125,409,000, of which 34.35% related to collectively impaired loans and 65.65% related to individually impaired loans.

A significant proportion of the Group´s loan portfolio is secured by real estate and equities. The estimated value of this collateral, which may have a material effect on the financial statements owing to inactivity of the Slovene real estate market, is based on market data. In addition, a number of equities pledged as security for loans are not quoted on a stock exchange and are not traded in markets. There is uncertainty as to the future economic situation, which may have an impact on the value of collateral and the time needed for its realisation.

Analysis of exposure by market segments and regions

	Loans to customers		Loans to banks	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
CARRYING (NET) AMOUNT	**2,231,765**	**3,397,900**	**129,674**	**162,408**
By market segment	**2,231,765**	**3,397,900**	**129,674**	**162,408**
– non-financial companies	1,032,247	1,902,645	0	0
– other monetary financial organisations	0	0	30,885	65,535
– other financial intermediaries, except insurance companies and pension funds	24,473	86,978	0	0
– auxiliary financial service providers	3,912	11,137	0	0
– insurance companies and pension funds	7	7	0	0
– central government	8,824	5,495	0	0
– local government	6,874	8,315	0	0
– social security funds	1	0	0	0
– households	1,014,535	1,115,799	0	0
– non-profit household service providers	3,015	4,811	0	0
– foreign persons	137,877	262,713	98,789	96,873
By region	**2,231,765**	**3,397,900**	**129,674**	**162,408**
– Slovenia	2,093,888	3,135,187	30,885	65,535
– European Monetary Union	4,989	14,003	81,324	61,700
– other European Union	71,971	1,019	2,480	5,208
– republics of the former Yugoslavia	55,948	243,972	24	21,003
– other	4,969	3,719	14,961	8,962

As of 31 December 2013, net loans given to banks and to customers totalled €129,674,000 and €2,231,765,000, respectively. Of the latter figure, the largest proportion related to non-financial companies (46.25%), followed by households (45.46%).

Loans given to customers headquartered in the Republic of Slovenia accounted for 93.82% of the total loans to customers. Of the non-banking loans granted to foreign persons, the largest proportion, i.e. 3.22% of the total loans to customers, related to customers residing in the EU countries.

Loans given to local banks accounted for 23.82% of the total loans to banks. At 62.71%, loans given to banks residing in the EMU accounted for the largest proportion of the total loans to foreign banks.

4.2 LIQUIDITY RISK

Liquidity risk arises from maturity mismatches between assets and liabilities. The Group companies monitor daily liquidity in accordance with regulatory requirements and methodologies, taking into account their activities and the volume of operations. In its liquidity projections, the Bank takes into account liquidity needs of the Group companies. The Group uses a harmonised method for monitoring structural liquidity.

During the year ended 31 December 2013, the Group managed liquidity risk in accordance with the Policy of Managing Liquidity Risk in the Nova KBM Group which sets out the methods and responsibilities for managing assets and liabilities to provide for sufficient cash inflows within a certain period of time. The Policy sets out the measures for assessing, measuring, managing and monitoring liquidity. The Policy includes liquidity planning for the timely repayment of obligations, measures to be adopted under adverse liquidity conditions, and procedures for checking variables on the basis of which the policy for managing liquidity risk has been formulated.

The Group companies have prepared business continuity plans for managing liquidity risk that set out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position. The Group carries out, on a monthly basis, liquidity stress tests in compliance with the Methodology for Implementing Stress Scenarios of Liquidity Risk in the Nova KBM Group. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on the Group´s liquidity position, and for preparing measures to mitigate the liquidity risk.

Net liquid assets

The Group uses an internal methodology for determining net liquid assets, which represent the difference between the portion of assets that can be converted into liquid funds within a short period of time, and the unstable portion of liabilities. The unstable portion of liabilities is the portion of the Group´s liabilities that may become due in the same short period of time. According to an internal regulation, at least a positive amount of net liquid assets must be maintained for ensuring the Group´s operational and regulatory liquidity.

Liquidity gap

The liquidity gap, which is regularly monitored and thoroughly analysed by individual time buckets, is a measure of the level of maturity matching of assets and liabilities. The Group cannot avoid the liquidity gap, but can manage it effectively. A positive gap represents a surplus of funds that can be invested profitably. On the other hand, a negative gap is a sign of a shortage of funds that needs to be provided for.

Analysis of liquidity risk as of 31 December 2013

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

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with maturity of up to and over five years.

Non-derivative balance sheet liabilities as of 31 December 2013

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities to the central bank	484,067	91	3,175	797	480,004	0
Financial liabilities held for trading	1,422	1,422	0	0	0	0
Financial liabilities measured at amortised cost	3,804,475	1,751,749	487,191	983,564	456,875	125,096
Other liabilities	675,538	18,278	5,922	40,536	47,021	563,781
Total liabilities	**4,965,502**	**1,771,540**	**496,288**	**1,024,897**	**983,900**	**688,877**
Guarantees	**295,381**	**34,533**	**22,504**	**95,624**	**97,614**	**45,106**

The table above shows non-discounted contractual balance sheet liabilities. A significant portion of the Group´s liabilities falls due within a one-month period, referring to sight deposits. The Group monitors the stability of sight deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in sight deposits.

Derivatives as of 31 December 2013

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	85,242	36,802	48,440	0	0	0
inflow	84,933	36,681	48,252	0	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	998	446	399	153	0	0
inflow	566	0	405	161	0	0
TOTAL OUTFLOW	**86,240**	**37,248**	**48,839**	**153**	**0**	**0**
TOTAL INFLOW	**85,499**	**36,681**	**48,657**	**161**	**0**	**0**

The table above presents non-discounted cash flows on derivatives. The figures were translated into the euro at the ECB exchange rate effective on 31 December 2013. The table takes into account the method of settlement, which is in most cases done on a gross amount basis.

Analysis of liquidity risk as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	223,882	223,881	0	0	0	1
Financial assets held for trading	1,572	1,572	0	0	0	0
Financial assets designated at fair value through profit or loss	34,563	34,043	0	520	0	0
Available-for-sale financial assets	589,413	589,413	0	0	0	0
Loans and advances	3,633,260	1,046,893	194,814	662,115	1,092,463	636,975
Held-to-maturity financial assets	500,108	23,615	2,012	210,454	231,613	32,414
Other assets*	339,012	101,496	5,687	10,409	38,162	183,258
Total assets	**5,321,810**	**2,020,913**	**202,513**	**883,498**	**1,362,238**	**852,648**
Liabilities						
Financial liabilities to the central bank	485,149	0	8,004	0	477,145	0
Financial liabilities held for trading	1,658	1,658	0	0	0	0
Financial liabilities measured at amortised cost	4,528,517	1,784,165	539,743	1,155,013	859,867	189,729
Other liabilities*	306,486	9,058	7,028	14,528	18,865	257,007
Total liabilities and equity	**5,321,810**	**1,794,881**	**554,775**	**1,169,541**	**1,355,877**	**446,736**
Assets-liabilities (including equity) mismatch	**0**	**226,032**	**(352,262)**	**(286,043)**	**6,361**	**405,912**
Guarantees	**294,654**	**31,544**	**29,378**	**95,240**	**88,318**	**50,174**

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with a maturity of up to and over five years.

Non-derivative balance sheet liabilities as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities to the central bank	492,660	259	8,522	2,331	481,548	0
Financial liabilities held for trading	1,658	1,658	0	0	0	0
Financial liabilities measured at amortised cost	4,741,714	1,794,847	553,959	1,209,057	972,363	211,488
Other liabilities	306,486	9,058	7,028	14,528	18,865	257,007
Total liabilities	**5,542,518**	**1,805,822**	**569,509**	**1,225,916**	**1,472,776**	**468,495**
Guarantees	**294,654**	**31,544**	**29,378**	**95,240**	**88,318**	**50,174**

The table above shows non-discounted contractual balance sheet liabilities. A significant portion of the Group´s liabilities falls due within a one-month period, referring to sight deposits. The Group monitors the stability of sight deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in sight deposits.

Derivatives as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	90,691	7,125	20,820	62,746	0	0
inflow	90,813	7,173	20,802	62,838	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	1555	930	625	0	0	0
inflow	809	174	635	0	0	0
TOTAL OUTFLOW	**92,246**	**8,055**	**21,445**	**62,746**	**0**	**0**
TOTAL INFLOW	**91,622**	**7,347**	**21,437**	**62,838**	**0**	**0**

The table above presents non-discounted cash flows on derivatives. The figures were translated into the euro at the ECB exchange rate effective on 31 December 2012. The table takes into account the method of settlement, which is in most cases done on a gross amount basis.

4.3 MARKET RISKS

The Group monitors market risks of trading book and markets risks of banking book separately. The method of monitoring and reporting as well as of limiting exposure to market risks is set out in the respective risk management policies. The Group companies monitor market risks in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

4.3.1 POSITION RISK

Position risk is a risk of loss arising due to a change in the price of financial instrument that the Group holds in its portfolio for the purpose of trading on its proprietary account.

The trading limit methodology is based on the value-at-risk (VaR) measure and is compliant with Basel requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The basis for determining trading limits is the capital requirement set out in the financial plan. The Group measures the market value of all trading items on a daily basis. The volume of transactions by specific type of financial instruments is defined in detail by the methodology for setting limits.

The Group monitors VaR of trading portfolios on a daily basis.

The aggregate value-at-risk of the Group´s trading portfolios for the year 2013 demonstrates with a 99% probability that, by holding the unchanged position in securities, the portfolio loss over the 10 consecutive working days would not exceed €112,000.

10-day VaR in 2013

Maximum	Minimum	Average
€112,000	€49,000	€84,000

10-day VaR in 2012

Maximum	Minimum	Average
€475,000	€78,000	€140,000

4.3.2 INTEREST RATE RISK

Interest rate risk is the risk of loss arising due to changes in interest rates or the structure of interest rates for maturity mismatches of interest-bearing assets and liabilities with regard to interest rate repricing and the remuneration method.

Interest rate risk management of trading book items is included in the methodology for monitoring trading limits. Interest rate risk management of non-trading book items is carried out using an interest rate matching methodology.

The Group monitors interest-bearing statement of financial position items and off-balance sheet items with regard to maturity of variable interest rate items, separated by the key currencies and reference interest rates in which it operates.

The Group calculates, on a quarterly basis, the results of the standardised stress test for interest rate risk as the impact of a parallel shift in the interest rate curve on its equity and net interest income in a period of one year.

The impact of the results of the standardised stress test on the Group´s equity, as of 31 December 2013

Currency	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(23)	(319)	(5,083)	(40,596)	(25,783)	(71,804)
USD	0	0	0	0	0	0
RSD	(15)	0	0	0	0	(15)
Total	**(38)**	**(319)**	**(5,083)**	**(40,596)**	**(25,783)**	**(71,819)**

The impact of the results of the standardised stress test on the Group´s equity, as of 31 December 2012

Currency	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(34)	(235)	(2,650)	(24,246)	(13,034)	(40,199)
USD	0	0	0	0	0	0
RSD	(6)	0	0	0	0	(6)
Total	**(40)**	**(235)**	**(2,650)**	**(24,246)**	**(13,034)**	**(40,205)**

The tables above show the decline in the fair value of the debt securities portfolio in case of a parallel rise in the interest rate curve by 200 basis points. The change in fair value is reflected in equity.

The impact of the results of the standardised stress test on the Group´s net interest income, as of 31 December 2013

Currency	+ 200 basis points	– 200 basis points
EUR	(457)	(62)
CHF	715	(6)
USD	238	(13)
HRK	21	(4)
RSD	402	(403)
Other	61	(36)
Total	**980**	**(524)**

The impact of the results of the standardised stress test on the Group´s net interest income, as of 31 December 2012

Currency	+ 200 basis points	– 200 basis points
EUR	10,527	(990)
CHF	854	(1)
USD	296	(14)
HRK	1	0
RSD	171	(172)
Other	53	(53)
Total	**11,902**	**(1,231)**

The tables above show the impact of a shift in the interest rate curve on the Group´s net interest income in a period of one year.

In addition to the standardised stress test analysis, the Group calculates its exposure to interest rate changes as the change of the net current value of the difference between assets and liabilities subject to variable interest rate in a given period and the expected interest rate changes in the next three months. The expected interest rate changes are calculated as the difference between current and term interest rates, separated for each currency and maturity handled. An analysis of interest rate risk at the Group level is made on a quarterly basis. The Group companies monitor interest rate risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The analysis treats net positions in individual interest rate repricing periods as fixed-coupon debt securities. A longer interest rate repricing period has a larger impact on net current value of assets and liabilities. The interest rate risk analysis made for the Group showed, for the 2013 year-end, a probable negative effect on the net present value of all interest-sensitive items in the total amount of €2,981,000, compared to €1,882,000 a year earlier. The main advantage of this analysis when compared to the standardised interest rate stress test lies in anticipation of probable interest rate changes in the observed period. The Group is exposed mainly to interest rates for EUR, USD, CHF, HRK and RSD.

The impact of interest rate changes on profit or loss is measured for a one-year period. For calculating the change in interest income, the current interest rate is used for the period until the change of interest rate, after which date and until the end of a one-year period the changed interest rate is taken into consideration. The average interest rate repricing period by individual time buckets is used to calculate interest. For the 2013 year-end, the anticipated interest rate change in a three-month period would result in an annual decrease of €136,000 in interest income, compared to an increase of €1,350,000 reported for a year earlier.

A more detailed breakdown of the Group´s statement of financial position by maturity as of 31 December 2013 and 2012 is disclosed in the table Analysis of interest rate risk which shows the distribution of items with regard to the interest rate repricing periods. Exposure to changes in interest rates is managed using an interest rate matching methodology, taking into account the characteristics of individual items.

Analysis of interest rate risk as of 31 December 2013

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

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

Analysis of interest rate risk as of 31 December 2012

	Total	Non-Interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	223,882	70,690	153,192	153,192	0	0	0	0
Financial assets held for trading	1,572	1,572	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	34,563	34,563	0	0	0	0	0	0
Available-for-sale financial assets	589,413	80,535	508,878	61,934	82,677	19,240	272,923	72,104
Loans and advances	3,633,260	146,996	3,486,264	1,706,218	762,654	892,194	112,286	12,912
Held-to-maturity financial assets	500,108	2,094	498,014	22,998	612	207,474	235,353	31,577
Other assets	114,756	114,756	0	0	0	0	0	0
Total assets	**5,097,554**	**451,206**	**4,646,348**	**1,944,342**	**845,943**	**1,118,908**	**620,562**	**116,593**
Liabilities								
Financial liabilities to the central bank	485,149	416	484,733	8,083	8,004	0	468,646	0
Financial liabilities held for trading	1,658	891	767	767	0	0	0	0
Financial liabilities measured at amortised cost	4,528,517	28,095	4,500,422	1,919,785	580,554	1,511,244	486,967	1,872
Other liabilities	6,652	6,652	0	0	0	0	0	0
Total liabilities	**5,021,976**	**36,054**	**4,985,922**	**1,928,635**	**588,558**	**1,511,244**	**955,613**	**1,872**
Assets-liabilities mismatch	**75,578**	**415,152**	**(339,574)**	**15,707**	**257,385**	**(392,336)**	**(335,051)**	**114,721**

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

Average interest rates (%)

	31.12.2013	31.12.2012
Average interest rate on assets	4.04	4.28
Average interest rate on liabilities	1.50	2.16

4.3.3 CURRENCY RISK

Currency risk represents a potential loss arising from an open foreign currency position and the volatility of foreign exchange rates. The Bank controls currency risk exposure by maintaining neutral position in individual foreign currencies.

The Group controls exposure to currency risk by maintaining target positions in individual currencies. The Group companies monitor currency risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The Group regularly monitors the exposure of the statement of financial position and off-balance sheet items to currency risk. The Group is exposed to currency risk against USD, CHF and HRK.

A more detailed breakdown of the open foreign currency position as of 31 December 2013 and 2012 is presented in the tables below.

Analysis of currency risk as of 31 December 2013

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

The table above presents only the statement of financial position items in which the Group has a position also in currencies other than euro.

Analysis of currency risk as of 31 December 2012

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	205,405	647	1,456	764	15,610	223,882
Financial assets held for trading	1,447	0	0	0	125	1,572
Financial assets designated at fair value through profit or loss	34,563	0	0	0	0	34,563
Available-for-sale financial assets	582,492	0	0	0	6,921	589,413
Loans and advances	3,418,112	42,295	111,740	31,604	29,509	3,633,260
Held-to-maturity financial assets	496,542	0	0	0	3,566	500,108
Other assets	317,589	0	0	7,431	13,992	339,012
Total assets	**5,056,150**	**42,942**	**113,196**	**39,799**	**69,723**	**5,321,810**
Liabilities						
Financial liabilities to the central bank	485,149	0	0	0	0	485,149
Financial liabilities held for trading	1,658	0	0	0	0	1,658
Financial liabilities measured at amortised cost	4,409,815	42,776	25,355	384	50,187	4,528,517
Other liabilities	316,904	3	0	(6,623)	(3,798)	306,486
Total liabilities and equity	**5,213,526**	**42,779**	**25,355**	**(6,239)**	**46,389**	**5,321,810**
Assets-liabilities (including equity) mismatch	**(157,376)**	**163**	**87,841**	**46,038**	**23,334**	**0**
Derivatives	87,953	0	(87,831)	0	0	122
Assets-liabilities (including equity and derivatives) mismatch	**(69,423)**	**163**	**10**	**46,038**	**23,334**	**122**

The table above presents only the statement of financial position items in which the Group has a position also in currencies other than euro.

Foreign currency sensitivity analysis

Currency	31.12.2013		31.12.2012	
	Exchange rate change against EUR (%)	Impact on profit or loss	Exchange rate change against EUR (%)	Impact on profit or loss
USD	+9	11	+9	15
CHF	+11	(195)	+5	1
HRK	+2	839	+2	921
Other currencies	+9	2,791	+8	1,867

The impact of exchange rate changes on equity is negligible and is therefore not presented separately.

4.4 GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES AS OF 31 DECEMBER 2013

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	435,478	394,713	40,765	16,785	23,980	0
Financial assets held for trading	1,786	1,643	143	21	122	0
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	0	0
Available-for-sale financial assets	1,466,864	1,286,824	180,040	157,638	22,402	0
Loans and advances	2,379,322	2,153,738	225,584	139,618	65,191	20,775
Held-to-maturity financial assets	280,153	212,480	67,673	67,426	247	0
Other assets	222,604	204,167	18,437	3,666	14,771	0
Total assets	**4,810,793**	**4,278,151**	**532,642**	**385,154**	**126,713**	**20,775**
Liabilities						
Financial liabilities to the central bank	482,891	471,671	11,220	11,165	55	0
Financial liabilities held for trading	1,422	428	994	994	0	0
Financial liabilities measured at amortised cost	3,650,942	3,441,773	209,169	86,834	117,985	4,350
Other liabilities	675,538	714,575	(39,037)	(28,689)	(10,461)	113
Total liabilities and equity	**4,810,793**	**4,628,447**	**182,346**	**70,304**	**107,579**	**4,463**
Assets-liabilities (including equity) mismatch	**0**	**(350,296)**	**350,296**	**314,850**	**19,134**	**16,312**

Available-for-sale financial assets of foreign issuers

Country of issuer	31.12.2013	31.12.2012
Austria	28,325	31,246
Belgium	14,568	7,443
Denmark	0	9,987
France	32,001	9,289
Italy	7,990	9,876
Luxembourg	5,377	2,866
Germany	31,118	10,958
The Netherlands	18,781	19,013
Portugal	9,897	9,302
Slovakia	9,581	2,236
Serbia	22,402	12,496
Great Britain	0	22,016
USA	0	29,422
Total	**180,040**	**176,150**

Geographical analysis of assets and liabilities as of 31 December 2012

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	223,882	194,811	29,071	1,590	27,481	0
Financial assets held for trading	1,572	1,183	389	74	208	107
Financial assets designated at fair value through profit or loss	34,563	34,563	0	0	0	0
Available-for-sale financial assets	589,413	413,263	176,150	134,232	12,496	29,422
Loans and advances	3,633,260	3,263,221	370,039	86,940	270,118	12,981
Held-to-maturity financial assets	500,108	427,939	72,169	68,603	3,566	0
Other assets	339,012	314,583	24,429	2,714	21,715	0
Total assets	**5,321,810**	**4,649,563**	**672,247**	**294,153**	**335,584**	**42,510**
Liabilities						
Financial liabilities to the central bank	485,149	469,061	16,088	16,088	0	0
Financial liabilities held for trading	1,658	375	1,283	1,226	0	57
Financial liabilities measured at amortised cost	4,528,517	4,219,224	309,293	148,028	150,841	10,424
Other liabilities	306,486	299,142	7,344	9,214	(2,388)	518
Total liabilities and equity	**5,321,810**	**4,987,802**	**334,008**	**174,556**	**148,453**	**10,999**
Assets-liabilities (including equity) mismatch	**0**	**(338,239)**	**338,239**	**119,597**	**187,131**	**31,511**

4.5 OPERATIONAL RISK

The Group has adopted the Operational Risk Management Policy based on recommendations of the Basel standards. The Group companies report on the operational risk loss events on a monthly basis (through the APIS application).

All organisational units of the Bank and each Group company are responsible for identifying, assessing and managing operational risk – each unit for the cost centres that are headed by the manager of the respective unit. The main aim of this is to ensure the functioning of the system of internal controls. In assessing the risk profile of the Group as a whole, each Group company has to give its subjective assessment of operational risk on an annual basis.

Operational risk is managed on a decentralised basis by each organisational unit and Group company, with the following Bank officers being responsible for all the procedures in this regard:

- The operational risk analyst (i) is the administrator of the operational risk loss events data base; (ii) prepares monthly, quarterly, half-yearly and annual reports for the Bank´s Management Board; (iii) guides the self-assessment of operational risk by individual organisational units and business processes; (iv) calculates the capital requirement for operational risk on an annual basis; and (v) conducts interim assessments of operational risk (simulations). In addition, the analyst must once a year produce risk profiles of the Bank and the Group, taking account of all nine types of risk according to the regulation of the Bank of Slovenia, including operational risk.
- The head of the Bank´s information system security, whose position falls under the Corporate Security and Control Department, is responsible for all the activities set out in the Information Protection Policy of Nova KBM (e.g. prevention of information security-related incidents and attacks, prevention of data misuse and hacking, etc.), as well as for collecting, recording and reporting on data regarding information system incidents.
- The business continuity administrator, whose position falls under the Corporate Security and Control Department, is responsible for coordinating activities related to business continuity, as well as for collecting, recording and reporting on relevant data.
- The adviser on the prevention of money laundering and terrorism financing, whose position falls under the Compliance Office, is responsible for collecting, recording and reporting on data related to AML activities.

- The adviser on regulatory compliance, whose position falls under the Compliance Office, is responsible for ensuring the Bank adheres to applicable regulations, as well as for collecting, recording and reporting on data related to compliances practices, policies and procedures.
- The adviser on security, whose position falls under the Corporate Security and Control Department, is responsible for physical and technical protection of the Bank´s facilities.

During the year ended 31 December 2013, the Group monitored operational risk and calculated capital requirements for operational risk in accordance with the basic indicator approach.

In terms of type, the majority of loss events recorded in 2013 related to (according to the Basel standards) 'Execution, Delivery and Process Management' (48%), followed by 'External Fraud' (29%) and 'Damages to Physical Assets' (10%). In 2012, the majority of loss events related to 'Execution, Delivery and Process Management' (41%), followed by 'External Fraud' (31%) and 'Damages to Physical Assets' (21%).

Most loss events recorded in 2013 by the Group were attributable to PBS (46%), followed by Nova KBM (34%) and KBM Banka (15%).

By ensuring systematic reporting on operational risk loss events through the APIS application, the Group successfully accomplished its short-term objective in respect of operational risk management. The mid-term objective remains the development of software to produce all the data needed to assess operational risk and prepare the document 'Risk Profile of the Group'. The Group´s long-term objective in respect of operational risk is to build up a risk management culture and to limit the scope and the amount of losses to an acceptable level.

4.6 CAPITAL RISK

Capital risk arises from inadequate size of capital, inadequate structure of capital with regard to the volume and diversity of business conducted by the Group, or from difficulties in acquiring new capital. The Group has set up appropriate procedures and mechanisms to ensure adequate structure and size of its capital.

The Group manages its capital by:
- monitoring current and projected assessments of its regulatory capital and complying with capital requirements for credit, market and operational risks
- monitoring available capital and examining options to increase its additional capital by raising subordinated debt, taking into account regulatory restrictions
- monitoring movements in its capital adequacy.

For the purpose of capital risk management, the Group monitors current and anticipated capital needs and capital requirements, as well as the movements in the capital adequacy ratios, in accordance with the applicable legislation and internal methodology.

The capital adequacy ratio requirement is set at 8%.

The Group calculates capital requirements for credit risk using the standardised approach. As a reference export agency for the category 'Exposure to Central Governments and Central Banks', the Group nominated SID Banka. As a reference external rating agency for the category 'Exposure to Institutions, Including Exposure to Institutions with a Short-term Rating', the Group nominated the rating agency Moody´s.

The Group calculates capital requirements for market risks in accordance with the applicable regulations and does not use internal models for the time being. The capital requirement for operational risk is calculated according to the basic indicator approach.

For assessing adequate internal capital of the Group, the same methodology is used as for the Bank.

Following the December 2013 recapitalisation of Nova KBM worth €870,000,000, and the transfer of bad assets to BAMC, the capital adequacy ratios of the Group increased to the level required by the European Commission, the European Banking Authority and the Bank of Slovenia. Further details regarding the movements in the Group´s capital are provided in Note 45 'Share capital'.

Composition of regulatory capital and capital requirements

	31.12.2013	31.12.2012
Original own funds		
Paid-up share capital	150,000	40,814
(-) Treasury shares	0	(1,301)
Share premium	360,572	165,775
Reserves and retained earnings or losses	68,381	216,105
(-) Interim result used in the calculation (unaudited)	0	(203,773)
Revaluation excesses (PP) – prudential filters	(18,319)	(5,688)
Non-controlling interest	(6,639)	43,037
Hybrid instruments as a component of original own funds	0	125,930
(-) Intangible long-term assets	(32,863)	(37,485)
(-) Other country specific deductions	(22)	11,360
Total	**521,110**	**354,774**
Additional own funds I		
Hybrid instruments and preferential cumulative shares	0	38,254
Subordinated debt I	1,000	1,000
Other	2,565	5,446
Total	**3,565**	**44,700**
(-) Deductions from original own funds and additional own funds I		
(-) Deductions from original own funds	(1,479)	(1,545)
(-) Deductions from additional own funds I	(1,479)	(1,545)
Total	**(2,958)**	**(3,090)**
Total equity (for solvency purposes)	**521,717**	**396,384**
Capital requirements		
Capital requirements for credit risk	**196,510**	**313,058**
Regional governments and local authorities	251	327
Administrative bodies	445	378
Institutions	10,728	15,674
Corporates	55,607	125,971
Retail banking	67,916	72,871
Secured by real estate	3,120	4,324
Past due items	7,340	19,942
Items belonging to regulatory high-risk categories	32,941	41,215
Collective investment undertakings	823	1,812
Other items	17,339	30,544
Total capital requirements for market risks	**5,854**	**3,063**
Debt securities	193	578
Equity instruments	4,113	532
Foreign exchange	1,548	1,953
Capital requirement for operational risk	**27,791**	**29,796**
Total	**230,155**	**345,917**
Total capital adequacy ratio	18.13%	9.17%
Tier I capital ratio	18.06%	8.17%
Core Tier I capital ratio	18.06%	5.26%
Core Tier I capital ratio (EBA methodology)	18.06%	7.57%

4.7 THE RESTRUCTURING PROGRAMME FOR THE NOVA KBM GROUP

The restructuring programme for the Nova KBM Group was approved by the European Commission on 18 December 2013. Nova KBM was obliged to prepare the restructuring programme in accordance with the rules of the European Union because it benefited from state aid through capital injections in 2012 and 2013.

The restructuring programme encompasses 16 umbrella commitments, of which some of the most important are as follows:

- transfer of a portion of NPLs to BAMC (the book-transfer took place in December 2013, while the physical transfer is being carried out in several tranches in 2014) and a reduction in the proportion of the remaining NPLs in the Group´s loan portfolio
- gradual downsizing of total assets (by 2017, total assets are to be reduced by 7% relative to 2012)
- a reduction in operating costs and streamlining of business processes (by 2017, operating costs are to be reduced by 12.6% relative to 2012), and the strengthening of the cost-to-income ratio to below 55%
- disposal or liquidation of seven subsidiaries (Adria Bank, the leasing division, and subsidiaries specialising in the real estate business) and focus of the Group on the banking business
- a reduction in the lending volume and in business with foreign customers, as well as closure of several branch offices (by 2017, risk-weighted assets are to be reduced by 23% relative to 2012)
- divestment, i.e. the sale of non-strategic assets
- improvements in the corporate governance system
- improvements in the risk management and the loan origination models.

The main goal of the restructuring programme is to restore the profitability and vitality of the Group.

5 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	31.12.2013		31.12.2012	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and balances with the central bank	435,478	435,478	223,882	223,882
Financial assets held for trading	1,786	1,786	1,572	1,572
Financial assets designated at fair value through profit or loss	24,586	24,586	34,563	34,563
Available-for-sale financial assets	1,466,864	1,466,864	589,413	589,413
Loans and advances to banks	129,674	134,665	162,408	162,259
Loans and advances to customers	2,231,765	2,239,964	3,397,900	3,408,314
Other financial assets	17,883	17,883	72,952	72,952
Held-to-maturity financial assets	280,153	280,605	500,108	501,743
Financial liabilities				
Financial liabilities to the central bank	482,891	482,274	485,149	486,931
Financial liabilities held for trading	1,422	1,422	1,658	1,658
Deposits from banks	60,271	60,354	107,077	107,563
Deposits from customers	3,074,748	3,084,106	3,612,206	3,636,160
Loans from banks	414,883	416,038	576,004	578,304
Loans from customers	4,551	4,555	6,370	6,377
Debt securities	60,973	66,132	88,592	95,790
Subordinated liabilities	1,250	1,250	98,069	99,729
Other financial liabilities	34,266	34,266	40,199	40,199

The Group determines fair values according to the following hierarchy: market value; valuation based on market interest rates; acquisition cost. The table above sets forth fair values of individual balance sheet items. The fair value of items measured at amortised or acquisition cost is determined on the basis of a model that takes into account market interest rates. The fair value is calculated for items with a fixed interest rate and residual maturity of over one year. As for other items, the Bank deems that there is no material difference between the book and fair values.

The fair value of each item is established on the basis of discounted cash flows, taking into consideration the market interest rates prevailing at the reporting date.

Analysis of fair value hierarchy

	31.12.2013				31.12.2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Derivatives	612	0	612	0	1,178	0	1,178	0
Financial assets held for trading	1,174	1,174	0	0	394	394	0	0
– debt securities	7	7	0	0	84	84	0	0
– equity instruments	1,167	1,167	0	0	310	310	0	0
Available-for-sale financial assets	1,466,864	1,434,154	29,543	3,167	589,413	504,070	73,739	11,604
– debt securities	1,432,102	1,402,559	29,543	0	515,379	457,620	57,759	0
– equity instruments	34,762	31,595	0	3,167	74,034	46,450	15,980	11,604
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	34,563	24,886	9,677	0
– debt securities	0	0	0	0	0	0	0	0
– equity instruments	24,586	24,586	0	0	34,563	24,886	9,677	0
Financial liabilities								
Derivatives	1,422	0	1,422	0	1,658	0	1,658	0

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

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

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

Financial assets designated at fair value through profit or loss (equity financial instruments) form part of forward sales and are valued in connection with the underlying forward contracts.

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

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

	31.12.2012		
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 3
Financial assets held for trading	0	0	0
Available-for-sale financial assets	12,154	23,943	0
– debt securities	12,154	23,943	0
– equity instruments	0	0	0
Financial assets designated at fair value through profit or loss	0	0	0

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

Movements in financial assets included in Level 3

	Available-for-sale financial assets		
	Total	Equity instruments	Participating interests
1 January 2012	**10,219**	**8,675**	**1,544**
Acquisition	2,444	2,327	117
Change due to the liquidation of KBM Projekt	(1,059)		(1,059)
31 December 2012	**11,604**	**11,002**	**602**
1 January 2013	**11,608**	**11,002**	**606**
Acquisition	13		13
Transfer of shares to BAMC	(9,238)	(9,238)	
Revaluation of shares	(743)	(738)	(5)
Transition to Level 3 due to valuation of shares	1,527	1,527	
31 December 2013	**3,167**	**2,553**	**614**

The table above presents changes within Level 3 of the fair value hierarchy. Following a marginal increase in available-for-sale financial assets as a result of several purchases of these assets at the beginning of last year, available-for-sale financial assets included in Level 3 saw a significant drop at the end of 2013, mainly owing to the transfer of certain shares to BAMC. The remaining shares, which are not traded on a market, were valued at their fair value using an internal methodology.

6 REPORTING BY OPERATING SEGMENTS

Analysis by operating segments as of 31 December 2013

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationships	Relationships to third parties
A. Net income/expense	**187,780**	**(1,653)**	**4,865**	**(707)**	**18**	**190,303**	**1,063**	**189,240**
Interest income	189,891	5,882	3	547	6	**196,329**	15,247	**181,082**
Interest expense	(104,629)	(9,753)	(55)	(2,236)	0	**(116,673)**	(14,274)	**(102,399)**
Net interest income	**85,262**	**(3,871)**	**(52)**	**(1,689)**	**6**	**79,656**	**973**	**78,683**
Dividend income	**1,835**	**0**	**1**	**2**	**0**	**1,838**	**451**	**1,387**
Fee and commission income	87,684	91	5,760	6	0	**93,541**	1,210	**92,331**
Fee and commission expense	(33,002)	(212)	(796)	(50)	0	**(34,060)**	(1,016)	**(33,044)**
Net fee and commission income	**54,682**	**(121)**	**4,964**	**(44)**	**0**	**59,481**	**194**	**59,287**
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	62,876	(444)	42	1,055	0	**63,529**	99	**63,430**
Net gains/(losses) on financial assets and liabilities held for trading	1,934	0	(109)	0	0	**1,825**	(707)	**2,532**
Net (losses) on financial assets and liabilities designated at fair value through profit or loss	(1,229)	0	0	0	0	**(1,229)**	0	**(1,229)**
Net exchange rate differences	(1,438)	(235)	(1)	0	0	**(1,674)**	0	**(1,674)**
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	329	220	0	(4)	0	**545**	1	**544**
Other net operating income/(loss)	(16,471)	2,798	20	(27)	12	**(13,668)**	52	**(13,720)**
B. Other items by segments	**(919,473)**	**(65,962)**	**(3,401)**	**(14,190)**	**(4)**	**(1,003,030)**	**(155,210)**	**(847,820)**
Administration costs	(99,181)	(2,783)	(2,159)	(1,242)	(4)	**(105,369)**	(348)	**(105,021)**
Depreciation and amortisation	(14,550)	(827)	(1,050)	(38)	0	**(16,465)**	(11)	**(16,454)**
Provisions	(44,879)	(1,323)	(16)	58	0	**(46,160)**	8,477	**(54,637)**
Impairment losses	(761,230)	(59,760)	(176)	(12,968)	0	**(834,134)**	(163,502)	**(670,632)**
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	**0**	174	**(174)**
Net gains/(losses) from non-current assets held for sale and liabilities associated therewith	367	(1,269)	0	0	0	**(902)**	0	**(902)**
C. Profit or loss								
Profit/(loss) from continuing operations	(731,693)	(67,615)	1,464	(14,897)	14	**(812,727)**	(154,147)	**(658,580)**
Income tax related to profit or loss from continuing operations	(21,419)	(3,819)	(6)	(1,056)	(2)	**(26,302)**	26	**(26,328)**
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(753,112)	(71,434)	1,458	(15,953)	12	**(839,029)**	(154,121)	**(684,908)**
D. Segment assets and liabilities								
Total assets	4,918,528	128,445	13,776	48,653	209	**5,109,611**	298,818	**4,810,793**
- non-current assets held for sale and discontinued operations	6,560	1,309	0	0	0	**7,869**	1	**7,868**
- investments in the equity of associates and joint ventures accounted for using the equity method	54,139	0	0	0	0	**54,139**	51,182	**2,957**
Liabilities (excluding equity) by segments	4,340,311	191,005	1,105	58,213	0	**4,590,634**	339,869	**4,250,765**
Total equity	578,217	(62,560)	12,671	(9,560)	209	**518,977**	(41,051)	**560,028**
Increase in property, plant and equipment and intangible assets	8,047	116	32	20	0	**8,215**	0	**8,215**

The column 'Inter-segment relationships' includes the following items: intra-Group income and expense; income from dividends from subsidiaries; additional impairments/reversal of impairments as a result of using a harmonised customer classification methodology across the Group; impairment of investments in the equity of subsidiaries and of loans given to subsidiaries; effects of valuation of the associated company using the equity method; receivables and liabilities between Group companies; investments in subsidiaries and the proportional share of equity of subsidiaries; and other consolidation entries.

Analysis by operating segments as of 31 December 2012

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationships	Relationships to third parties
A. Net income/expense	**184,304**	**3,630**	**4,800**	**762**	**22**	**193,518**	**(222)**	**193,740**
Interest income	231,784	9,741	30	929	6	**242,490**	14,634	**227,856**
Interest expense	(123,915)	(11,231)	(145)	(1,859)	0	**(137,150)**	(15,138)	**(122,012)**
Net interest income	**107,869**	**(1,490)**	**(115)**	**(930)**	**6**	**105,340**	**(504)**	**105,844**
Dividend income	**3,378**	**0**	**1**	**5**	**0**	**3,384**	**812**	**2,572**
Fee and commission income	89,923	259	5,279	26	0	**95,487**	1,302	**94,185**
Fee and commission expense	(35,438)	(256)	(660)	(112)	0	**(36,466)**	(1,081)	**(35,385)**
Net fee and commission income	**54,485**	**3**	**4,619**	**(86)**	**0**	**59,021**	**221**	**58,800**
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	24,432	2	240	1,298	0	**25,972**	0	**25,972**
Net (losses) on financial assets and liabilities held for trading	(8,079)	0	(1)	0	0	**(8,080)**	(2,774)	**(5,306)**
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	2,633	0	22	0	0	**2,655**	(1)	**2,656**
Net exchange rate differences	773	(19)	0	(18)	0	**736**	0	**736**
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	34	(27)	0	7	0	**14**	(1)	**15**
Other net operating income/(loss)	(1,221)	5,161	34	486	16	**4,476**	2,025	**2,451**
B. Other items by segments	**(438,786)**	**(49,473)**	**(3,558)**	**(17,947)**	**(6)**	**(509,770)**	**(76,393)**	**(433,377)**
Administration costs	(97,564)	(2,858)	(2,572)	(1,756)	(5)	**(104,755)**	(696)	**(104,059)**
Depreciation and amortisation	(14,333)	(1,098)	(971)	(49)	(1)	**(16,452)**	(9)	**(16,443)**
Provisions	(10,163)	11	(15)	18	0	**(10,149)**	(1,077)	**(9,072)**
Impairment losses	(317,123)	(41,578)	0	(16,160)	0	**(374,861)**	(74,467)	**(300,394)**
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	**0**	(144)	**144**
Net gains/(losses) from non-current assets held for sale and liabilities associated therewith	397	(3,950)	0	0	0	**(3,553)**	0	**(3,553)**
C. Profit or loss								
Profit/(loss) from continuing operations	(254,482)	(45,843)	1,242	(17,185)	16	**(316,252)**	(76,615)	**(239,637)**
Income tax related to profit or loss from continuing operations	11,545	(1,334)	(1)	49	(3)	**10,256**	(2,234)	**12,490**
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(242,937)	(47,177)	1,241	(17,136)	13	**(305,996)**	(78,849)	**(227,147)**
Total profit after tax from discontinued operations	37,385					**37,385**	15,935	**21,450**
D. Segment assets and liabilities								
Total assets	5,461,263	216,492	16,781	66,290	198	**5,761,024**	439,214	**5,321,810**
- non-current assets held for sale and discontinued operations	310	1,972	0	0	0	**2,282**	0	**2,282**
- investments in the equity of associates and joint ventures accounted for using the equity method	55,980	33	0	0	0	**56,013**	52,923	**3,090**
Liabilities (excluding equity) by segments	5,164,656	260,086	3,521	81,168	1	**5,509,432**	440,826	**5,068,606**
Total equity	296,607	(43,594)	13,260	(14,878)	197	**251,592**	(1,612)	**253,204**
Increase in property, plant and equipment and intangible assets	10,335	7,727	6,864	18	0	**24,944**	0	**24,944**

The column 'Inter-segment relationships' includes the following items: intra-Group income and expense; income from dividends from subsidiaries and associates; consolidation entries in respect of derecognition of investments in the equity of Zavarovalnica Maribor and the ex-subsidiary KBM Projekt; additional impairments/reversal of impairments as a result of using a harmonised customer classification methodology across the Group; impairment of investments in the equity of subsidiaries and of loans given to subsidiaries; effects of valuation of associates using the equity method; receivables and liabilities between Group companies; investments in subsidiaries and the proportional share of equity of subsidiaries; and other consolidation entries.

7 TRANSFER OF ASSETS TO BAMC

In December 2012, as part of the programme to stabilise the Slovene financial system, the Parliament of the Republic of Slovenia adopted the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability. One of the measures aimed at stabilising the financial system was the foundation of BAMC. Among other issues, this act provides for specific procedures and requirements under which banks are entitled to benefit from measures designed to ensure their viability.

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

Because measures aimed at stabilising bank stability are regarded as state aid, the European Commission had to confirm that these measures complied with the EU rules regarding state aid. According to the measures adopted for the Nova KBM Group, it was agreed that assets worth €1,031,981,000 gross were to be transferred to BAMC. On 18 December 2013, the European Commission consented to this transfer of assets.

For the purpose of transferring assets to BAMC, assets at risk held on the books of the Group were valued on the basis of their long-term realistic economic value calculated according to the methodology described in the decree referred to above. The assessment of the long-term realistic economic value of the assets was approved by a certified independent auditor.

In exchange for transferring the assets, Nova KBM received from BAMC state-guaranteed bonds worth €389,800,000 (Note 28.2), in accordance with the agreement signed between Nova KBM and BAMC. Because the transfer value of the assets was slightly below the figure referred to in the previous sentence, the Bank paid the difference in cash to BAMC.

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

The effect of transferring the assets to BAMC was reflected in the following statement of financial position items:

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

NOTES TO THE INCOME STATEMENT ITEMS

8 INTEREST INCOME AND EXPENSE

8.1 ANALYSIS OF INTEREST BY TYPE

	2013		2012	
	Income	Expense	Income	Expense
Regular interest	161,863	102,399	214,136	122,012
Default interest	19,219	0	13,720	0
Total	**181,082**	**102,399**	**227,856**	**122,012**
Net interest income	**78,683**		**105,844**	

8.2 ANALYSIS OF INTEREST BY MARKET SEGMENTS

	2013		2012	
	Income	Expense	Income	Expense
Non-financial companies	81,625	5,723	106,174	4,538
State	34,287	18,890	28,928	21,696
Banks	5,203	20,725	11,066	35,161
Other financial organisations	2,971	6,948	5,847	9,625
Households	51,292	47,730	61,499	49,177
Foreign persons	5,499	2,031	14,026	1,486
Non-profit household service providers	205	352	316	329
Total	**181,082**	**102,399**	**227,856**	**122,012**
Net interest income	**78,683**		**105,844**	

8.3 ANALYSIS OF INTEREST INCOME AND EXPENSE BY TYPE OF ASSETS AND LIABILITIES

	2013		2012	
	Current	Non-current	Current	Non-current
Interest income				
Balances with the central bank (measured at amortised cost)	673	0	575	0
Financial assets held for trading	175	0	77	0
Financial assets designated at fair value through profit or loss	0	0	0	34
Available-for-sale financial assets	13,445	11,649	12,175	4,952
Loans and advances (including finance leases)	40,443	100,574	60,875	129,110
Held-to-maturity financial assets	792	13,138	1,777	17,902
Other financial assets	193	0	379	0
Total by maturity	**55,721**	**125,361**	**75,858**	**151,998**
Total	**181,082**		**227,856**	
Interest expense				
Financial liabilities to the central bank (measured at amortised cost)	0	2,610	121	3,965
Financial liabilities held for trading	0	169	0	85
Financial liabilities measured at amortised cost	23,893	75,372	26,812	90,752
Other financial liabilities (including finance leases)	355	0	277	0
Total by maturity	**24,248**	**78,151**	**27,210**	**94,802**
Total	**102,399**		**122,012**	
Net interest income	**78,683**		**105,844**	

8.4 AVERAGE INTEREST RATES

	2013	2012
Average interest rate on assets (%)	4.04	4.28
Average interest rate on liabilities (%)	1.50	2.16

9 DIVIDEND INCOME

	2013	2012
Financial assets held for trading	**23**	**73**
– shares and participating interests in other issuers	23	73
Financial assets designated at fair value through profit or loss	**1,077**	**1,218**
– shares and participating interests in other issuers	1,077	1,218
Available-for-sale financial assets	**287**	**1,281**
– shares and participating interests in other issuers	287	1,281
Total	**1,387**	**2,572**

10 FEE AND COMMISSION INCOME AND EXPENSE

10.1 ANALYSIS OF FEES AND COMMISSIONS BY TYPE

	2013	2012
Fee and commission income	**92,331**	**94,185**
Fees from guarantees	3,712	3,784
Domestic payment transactions	48,663	51,392
Transactions under current accounts	12,893	10,563
Payment card operations	8,418	9,150
International payment transactions	2,952	2,290
Brokerage and agency services	575	310
Transactions in securities for customers	346	303
Lending operations	8,529	9,859
Safekeeping of objects and valuables	81	82
Other services	6,162	6,452
Fee and commission expense	**33,044**	**35,385**
Domestic banking services	6,668	5,163
Banking services abroad	896	2,071
Brokerage and agency services	616	468
Stock exchange transactions and other transactions in securities	653	610
Payment transactions	22,919	25,747
Other services	1,292	1,326
Net fee and commission income	**59,287**	**58,800**

10.2 ANALYSIS OF FEES AND COMMISSIONS BY MARKET SEGMENTS

	2013	2012
Fee and commission income	**92,331**	**94,185**
Non-financial companies	45,310	51,823
State	1,222	997
Banks	5,458	3,411
Other financial organisations	7,266	7,011
Households	29,856	27,328
Foreign persons	3,047	2,829
Non-profit household service providers	172	786
Fee and commission expense	**33,044**	**35,385**
Net fee and commission income	**59,287**	**58,800**

10.3 FEE AND COMMISSION INCOME AND EXPENSE RELATING TO FIDUCIARY ACTIVITIES

	2013	2012
Income from fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**6,125**	**5,637**
Receipt, transmission and execution of orders	731	624
Management of financial instruments	5,356	4,969
Administration of book-entry securities accounts of customers	38	40
Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings	0	4
Expenses for fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**375**	**278**
Fees and commissions in connection with the Central Securities Clearing Corporation and similar organisations	313	245
Fees and commissions in connection with the stock exchange and similar organisations	62	33

11 REALISED GAINS ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013			2012		
	Realised gains	Realised losses	Net realised gains/(losses)	Realised gains	Realised losses	Net realised gains/(losses)
Available-for-sale financial assets (Note 28.2)	1,473	25,703	(24,230)	672	1,325	(653)
Loans and advances (including finance leases and other financial assets)	2,349	740	1,609	2,420	280	2,140
Held-to-maturity financial assets (Note 32.1)	903	4,295	(3,392)	916	974	(58)
Financial liabilities measured at amortised cost	89,443	0	89,443	24,543	0	24,543
Total	**94,168**	**30,738**	**63,430**	**28,551**	**2,579**	**25,972**

Realised losses on available-for-sale financial assets relate mainly to the write-off of subordinated notes, due to their cancellation.

In accordance with a decision of the Bank of Slovenia, liabilities arising from subordinated notes issued by Nova KBM, including accrued interest, were written off, as a result of which the Group recognised gains of €89,443,000.

12 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2013			2012		
	Gains	Losses	Net gains/ (losses)	Gains	Losses	Net gains/ (losses)
Trading in equity instruments	436	435	1	561	457	104
Trading in debt securities	30	0	30	23	1	22
Trading in foreign exchange (purchase/sale)	1,618	556	1,062	2,386	1,121	1,265
Trading in derivatives	3,806	2,409	1,397	4,093	10,790	(6,697)
– futures/forwards	2,843	1,518	1,325	3,667	10,400	(6,733)
– swaps	528	212	316	426	390	36
– other derivatives	435	679	(244)	0	0	0
Trading in financial liabilities	47	5	42	0	0	0
Total	**5,937**	**3,405**	**2,532**	**7,063**	**12,369**	**(5,306)**

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

13 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013			2012		
	Gains	Losses	Net (losses)	Gains	Losses	Net gains
Financial assets designated at fair value through profit or loss	9,134	10,363	(1,229)	7,023	4,367	2,656
Total	**9,134**	**10,363**	**(1,229)**	**7,023**	**4,367**	**2,656**

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

14 NET EXCHANGE RATE DIFFERENCES

	2013	2012
Foreign exchange gains	27,886	28,913
Foreign exchange losses	29,560	28,177
Net foreign exchange gain/(loss)	**(1,674)**	**736**

15 NET GAINS ON DERECOGNITION OF ASSETS EXCLUDING NON-CURRENT ASSETS HELD FOR SALE

	2013			2012		
	Gains	Losses	Net gains	Gains	Losses	Net gains/ (losses)
Derecognition of tangible fixed assets	214	139	75	83	102	(19)
Derecognition of investment property	361	69	292	22	25	(3)
Derecognition of other assets other than those held for sale	179	2	177	62	25	37
Total	**754**	**210**	**544**	**167**	**152**	**15**

16 OTHER NET OPERATING INCOME OR LOSS

	2013	2012
Income	**14,314**	**13,742**
Income from non-banking services	512	830
Income from investment property given under operating lease	3,953	3,970
Other operating income	9,849	8,942
Expense	**28,034**	**11,291**
Taxes	6,397	1,249
Contributions	602	554
Other charges	269	244
Membership fees and similar fees	274	270
Expense for investment property given under operating leases	52	31
Other operating expenses	20,440	8,943
Other net operating income/(loss)	**(13,720)**	**2,451**

The largest proportion of other income earned by the Group in 2013, totalling €6,370,000 (2012: €4,838,000), and of other expenses incurred by the Group in 2013, in the amount of €6,965,000 (2012: €5,495,000), relates to the sale of real estate by KBM Invest.

Income from rents of €1,099,000 (2012: €1,607,000) and income of €860,000 (2012: €1,544,000) earned by Gorica Leasing from the sale of energy made up the largest proportion of other operating income generated in 2013.

The 2013 increase in tax expenses is attributable mainly to the financial services tax, introduced last year. A total of €3,446,000 of this tax was paid by the Group in 2013.

Other operating expenses, in the amount of €10,061,000, relate to the deferral of loan approval fees charged in previous years. Of the remaining other operating expenses incurred by the Group in 2013, the largest proportion, totalling €600,000 (2012: €1,066,000), relates to the costs associated with the generation of electrical and heating energy by Gorica Leasing.

17 ADMINISTRATION COSTS

	2013	2012
Staff costs	**59,295**	**61,235**
Gross salaries	43,858	45,593
Social security contribution	4,297	4,412
Pension insurance contribution	3,755	3,963
Other contributions from gross salaries	361	420
Transportation allowance	1,193	1,203
Meal allowance	1,469	1,457
Employee bonuses	11	44
Severance benefits and early retirement payments	1,434	1,064
Supplementary pension insurance premiums	680	957
Pay for annual leave	1,312	1,755
Solidarity help and jubilee benefits	26	35
Other staff costs under employment contracts	899	332
General and administrative costs	**45,726**	**42,824**
Costs of material	1,872	1,914
Costs of energy	1,504	1,556
Costs of specialised text books	106	130
Other costs of material	329	322
Costs of renting business premises	3,220	3,290
Postal costs	2,553	2,645
Transport costs	1,897	2,077
Information system costs	5,482	5,358
Costs of other services	5,946	5,935
Business travel expenses	378	383
Maintenance costs of fixed assets	6,629	6,763
Advertising costs	3,397	3,800
Entertainment costs	193	326
Consulting, auditing, accounting and other services	9,681	6,180
School fees, scholarships and other training costs	321	393
Cost of insurance	1,267	1,045
Other administrative costs	951	707
Total administration costs	**105,021**	**104,059**

The year-on-year increase in the costs of consulting, auditing, accounting and other services was principally due to the following costs: the costs related to the AQR, totalling €2,158,000; the advisory costs incurred in relation to the recapitalisation of the Bank, totalling €875,000; the advisory costs incurred in relation to the restructuring of the Bank, totalling €575,000; and the costs of extraordinary audit reviews, totalling €448,000.

Remuneration of auditors

	2013	2012
Audit of the annual report	406	352
Other audit services	23	21
Total	**429**	**373**

18 DEPRECIATION AND AMORTISATION

	2013	2012
Depreciation of items of property, plant and equipment (Note 33)	8,134	8,743
Amortisation of intangible assets (Note 35)	8,320	7,700
Total	**16,454**	**16,443**

19 PROVISIONS

	2013	2012
Provisions for pensions and similar benefits (Note 43)	(116)	566
Provisions for restructuring costs (Note 43)	11,280	0
Provisions for off-balance sheet liabilities (Note 43)	29,919	7,650
Provisions for tax claims and other pending legal issues (Note 43)	13,554	874
Other provisions (Note 43)	0	(18)
Total	**54,637**	**9,072**

20 IMPAIRMENT LOSSES

	2013	2012
Financial assets not measured at fair value through profit or loss	603,847	243,352
Other assets	66,785	57,042
Total impairment losses	**670,632**	**300,394**

20.1 IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013	2012
Financial assets measured at cost (Note 28.2)	18,482	1,740
Available-for-sale financial assets designated at fair value (Note 28.2)	22,670	11,587
Loans and advances (including finance leases and other financial assets) measured at amortised cost	561,987	230,046
– loans and advances to banks (Note 29.1)	(908)	(114)
– loans and advances to customers (Note 30.1)	567,596	222,630
– other financial assets (Note 31.1)	(4,701)	7,530
Held-to-maturity financial assets measured at amortised cost	708	(21)
Total impairment of financial assets not measured at fair value through profit or loss	**603,847**	**243,352**

20.2 IMPAIRMENT OF OTHER ASSETS

	2013	2012
Property, plant and equipment	873	1,687
Investment property (Note 34)	17,071	3,521
Intangible assets	31	0
– other intangible assets	31	0
Other assets (Note 38.1)	48,810	51,834
Total impairment of other assets	**66,785**	**57,042**

21 SHARE OF PROFITS OR LOSSES OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

	2013	2012
Moja naložba d.d.	(174)	144
Total	**(174)**	**144**

22 INCOME TAX RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS

	2013	2012
Income tax expense related to profit or loss from continuing operations	374	361
Deferred tax from continuing operations (Note 37.3)	25,954	(12,851)
Total	**26,328**	**(12,490)**

22.1 RECONCILIATION OF EFFECTIVE TAX RATE

	2013	2012
(Loss) before tax according to IFRSs	(658,580)	(218,187)
Income tax calculated using the official tax rate (2013: 17%; 2012: 18%)	(111,959)	(39,274)
Increased tax base – 5% of the dividend income, income similar to dividends and gains made on disposal of equity holdings	56	215
Tax relief in the current year	(260)	(384)
Non-allowable tax expenses	27,023	4,912
Income that reduces the tax base	(1,246)	(4,311)
Adjustment of expenses to the level of tax allowable expenses (increase)	(3,558)	(9)
Income adjustment to the level of taxable income (increase)	0	86
Adjustments due to changes in the tax legislation (increase/decrease of tax rate)	(1,376)	7,271
Other adjustments to profit or loss	7,557	18,373
Non-recognised tax losses	113,103	1,037
Effect of reduced tax rate	3,012	(406)
Total income tax	**26,328**	**(12,490)**
Effective tax rate (%)	**/**	**/**

The effective tax rate for 2013 has not been calculated because the income tax liability has not been accounted for by most of the Group companies. The amount of €26,328,000 represents the difference between income and expenses in respect of deferred taxes arising from the reversal and non-recognition of deferred long-term tax assets related to the tax loss. As of 31 December 2013, the cumulative tax loss of the Group totalled €958,048,000.

The Group did not recognise deferred long-term tax assets in respect of the tax loss because it assessed that there was a high level of uncertainty as regards the covering of these assets. In making this assessment, the Group observed the provisions of IFRSs and the Corporate Income Tax Act, while at the same time taking into consideration the uncertainty related to the assumptions about future business events.

The year-on-year increase in the line 'Adjustment of expenses to the level of tax allowable expenses' relates mainly to impairments of available-for-sale securities, which were non-deductible in previous years, but which were recognised as a deductible item in 2013.

Adjustments due to changes in the tax legislation relate mainly to the adjustment of the tax rate applicable to the deferred long-term tax assets from 15% to 17%.

23 TOTAL PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS

	2013	2012
Share of profit from investment in the equity of Zavarovalnica Maribor d.d., accounted for using the equity method	0	3,355
Gains realised on the derecognition of investment in the equity of Zavarovalnica Maribor d.d.	0	18,095
Total profit after tax from discontinued operations	**0**	**21,450**

Deferred taxes in respect of gains earned on Zavarovalnica Maribor shares totalled €5,608,000 in 2012.
Further details regarding the sale of equity stake in Zavarovalnica Maribor are given in Note 36.1.

24 BASIC LOSS PER SHARE

	2013	2012
Net (loss) for the financial year (€000)	(630,456)	(205,589)
Weighted average number of ordinary no-par value shares	10,000,000	39,122,968
Basic (loss) per share (€)	**(63.05)**	**(5.25)**

As a result of the December 2013 state-sponsored recapitalisation, the Republic of Slovenia became the sole owner of 10,000,000 ordinary no-par value shares issued by Nova KBM. New shares, which bear the ticker symbol KBMS, are not traded on a regulated capital market. In the calculation of the 2013 loss per share, a total of 10,000,000 KBMS shares were taken into account in the denominator, while the weighted average number of KBMR shares was taken into account in the calculation of the 2012 loss per share.

NOTES TO THE STATEMENT OF FINANCIAL POSITION ITEMS

25 CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2013	31.12.2012
Cash in hand	68,994	59,839
Obligatory deposits with the central bank	357,130	153,025
Other deposits with the central bank	9,354	11,018
Total	**435,478**	**223,882**

The year-on-year increase in obligatory deposits with the central bank was due to the recapitalisation of the Bank being partially provided in cash.

25.1 CASH AND CASH EQUIVALENTS

	31.12.2013	31.12.2012
Cash and balances with the central bank	435,478	223,882
Loans and advances to banks	121,768	108,640
Total	**557,246**	**332,522**

26 FINANCIAL ASSETS HELD FOR TRADING

	31.12.2013	31.12.2012
Derivatives	**612**	**1,178**
Equity instruments	**1,167**	**310**
– of banks	51	59
– of other issuers	1,116	251
Debt securities	**7**	**84**
– bonds of other issuers	7	84
Total	**1,786**	**1,572**
Quoted	364	394
Unquoted	1,422	1,178
Total	**1,786**	**1,572**

No financial assets held for trading are pledged as collateral and none of these assets have the characteristics to qualify as subordinated debt.

26.1 MOVEMENTS IN FINANCIAL ASSETS HELD FOR TRADING

	2013	2012
1 January	**1,572**	**8,741**
Increase during the year	**4,828**	**12,841**
– acquisition	4,136	12,490
– change in fair value (recovery and reversal of impairment)	136	63
– other (deferred interest, realised gains)	556	288
Decrease during the year	**4,614**	**20,010**
– disposal (sale and redemption)	3,879	12,474
– change in fair value (impairment and reversal of recovery)	663	7,306
– exchange rate differences	2	16
– other (deferred interest, realised losses)	70	214
31 December	**1,786**	**1,572**

27 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2013	31.12.2012
Equity instruments	24,586	34,563
Total	**24,586**	**34,563**
Quoted	24,586	24,372
Unquoted	0	10,191
Total	**24,586**	**34,563**

As of 31 December 2013, no assets of this portfolio were pledged as collateral, and during 2013, the Group did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

Financial assets designated at fair value through profit or loss include equity instruments for which a joint-selling agreement has been made by the Group.

The effects of valuation of financial assets designated at fair value through profit or loss and the effects of valuation of derivatives are recorded through profit or loss.

None of the instruments included in the portfolio of financial assets designated at fair value through profit or loss have the characteristics to qualify as subordinated debt.

27.1 MOVEMENTS IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013	2012
1 January	**34,563**	**38,475**
Increase during the year	**9,134**	**7,120**
– acquisition	0	22
– change in fair value (recovery and reversal of impairment)	9,134	6,936
– deferred interest	0	34
– exchange rate differences	0	1
– other	0	127
Decrease during the year	**19,111**	**11,032**
– disposal (sale and redemption)	8,046	6,488
– change in fair value (impairment and reversal of recovery)	2,252	4,191
– interest received	0	120
– exchange rate differences	0	19
– transfer to BAMC	182	0
– other	8,631	214
31 December	**24,586**	**34,563**

The 2013 decrease stated in the line 'Other' was mainly the result of the transfer of certain assets previously included in the portfolio of financial assets designated at fair value through profit or loss to the portfolio of available-for-sale financial assets, due to the termination of expired forward contracts that had not been executed.

28 AVAILABLE-FOR-SALE FINANCIAL ASSETS

28.1 ANALYSIS BY TYPE AND MARKET SEGMENTS

	31.12.2013	31.12.2012
Equity instruments designated at fair value	**33,125**	**50,810**
– equity investments in banks	20	18
– equity investments in other financial organisations	14,805	27,460
– equity investments in non-financial organisations	18,295	23,331
– equity investments in other foreign persons	5	1
Equity instruments measured at cost	**1,636**	**23,225**
– equity investments in banks	0	11,629
– equity investments in other financial organisations	5	5
– equity investments in non-financial organisations	1,623	11,583
– equity investments in other foreign persons	8	8
Debt securities	**1,432,103**	**515,378**
– issued by the state and the central bank	1,294,634	302,186
– issued by banks	105,402	176,662
– issued by other issuers	32,067	36,530
Total	**1,466,864**	**589,413**
Quoted	1,451,551	542,640
Unquoted	15,313	46,773
Total	**1,466,864**	**589,413**

As of 31 December 2013, assets of this portfolio worth €691,686,000 were pledged as collateral. Assets worth €681,183,000 were pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors, while assets worth €10,503,000 were pledged with the ECB. In 2013, the Group did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

Of the assets included in this portfolio, ZVM2 bonds totalling €1,813,000, which made up 0.12% of the total portfolio, qualified as subordinated debt.

28.2 MOVEMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2013	**50,810**	**23,225**	**515,378**	**589,413**
Recognition of new financial assets	8,343	10,763	1,162,938	1,182,044
Interest	0	0	9,741	9,741
Net exchange rate differences	11	0	(136)	(125)
Net revaluation through equity	161	0	12,728	12,889
Net impairment through profit or loss (Note 20.1)	(14,440)	(18,482)	(8,230)	(41,152)
Derecognition of financial assets upon disposal	(11,359)	0	(30,200)	(41,559)
Derecognition of financial assets at maturity	0	0	(206,852)	(206,852)
Transfer to BAMC	0	(13,305)	0	(13,305)
Net gains/(losses) on sale (Note 11)	(401)	(565)	(23,264)	(24,230)
31 December 2013	**33,125**	**1,636**	**1,432,103**	**1,466,864**

Recognition of new financial assets relates to the following items: the purchase of treasury bills; the Republic of Slovenia bonds worth €249,999,000, provided as an in-kind contribution in the process of recapitalisation of Nova KBM; and state-guaranteed bonds worth €389,800,000, provided by BAMC in exchange for bad loans.

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2012	**67,752**	**21,429**	**610,422**	**699,603**
Recognition of new financial assets	234	4,596	124,141	128,971
Interest	0	0	(2,952)	(2,952)
Net exchange rate differences	(6)	0	(295)	(301)
Net revaluation through equity	5,544	0	24,160	29,704
Net impairment through profit or loss (Note 20.1)	(11,588)	(1,740)	1	(13,327)
Derecognition of financial assets upon disposal	(11,652)	(1,060)	(8,486)	(21,198)
Derecognition of financial assets at maturity	0	0	(230,434)	(230,434)
Net gains/(losses) on sale (Note 11)	526	0	(1,179)	(653)
31 December 2012	**50,810**	**23,225**	**515,378**	**589,413**

29 LOANS AND ADVANCES TO BANKS

	31.12.2013	31.12.2012
Sight deposits	25,447	32,033
Impairment of sight deposits	(1)	0
Current loans	106,709	102,067
Impairment of current loans	(2,501)	(2,585)
Non-current loans	65	31,186
Impairment of non-current loans	(45)	(293)
Total – net amount	**129,674**	**162,408**
Impairment	**2,547**	**2,878**
Total – gross amount	**132,221**	**165,286**

29.1 MOVEMENTS IN IMPAIRMENT OF LOANS AND ADVANCES TO BANKS

	2013	2012
1 January	**2,878**	**3,429**
Net impairment of principal (Note 20.1)	(908)	(114)
– additional impairment of principal	5,273	1,761
– reversal of impairment of principal	(6,181)	(1,875)
Additional impairment of interest	653	1
Write-off of loans and advances to banks	0	(96)
Exchange rate differences	(76)	(342)
31 December	**2,547**	**2,878**

Recognition of additional impairment/reversal of impairment of interest on loans given to banks is reflected in profit or loss (Note 8: Interest income and expense).

30 LOANS AND ADVANCES TO CUSTOMERS

	31.12.2013	31.12.2012
Current loans	623,657	877,873
Impairment of current loans	(183,970)	(178,699)
Non-current loans	2,187,224	3,138,356
Impairment of non-current loans	(398,338)	(450,718)
Claims under guarantees	10,841	23,029
Impairment of claims under guarantees	(7,649)	(11,941)
Total – net amount	**2,231,765**	**3,397,900**
Impairment	**589,957**	**641,358**
Total – gross amount	**2,821,722**	**4,039,258**

30.1 MOVEMENTS IN IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

	2013	2012
1 January	**641,358**	**443,321**
Net impairment of principal (Note 20.1)	567,596	222,630
– additional impairment of principal	811,451	362,044
– reversal of impairment of principal	(243,855)	(139,414)
Additional impairment of interest	30,794	21,817
Additional impairment of fees	4	59
Write-off of loans and advances to customers	(19,967)	(45,332)
Exchange rate differences	(98)	(298)
Transfer to BAMC	(640,039)	0
Other	10,309	(839)
31 December	**589,957**	**641,358**

Recognition of additional impairment/reversal of impairment of interest and fees on loans given to customers is reflected in profit or loss (Note 8: Interest income and expense, and Note 10: Fee and commission income and expense).

31 OTHER FINANCIAL ASSETS

	31.12.2013	31.12.2012
Cheques	278	136
Claims for fees and commissions	1,890	2,210
Claims for advance payments	0	7
Accounts receivables	1,014	948
Surplus arising from authorised transactions for customers	16	0
Other financial assets	14,685	69,651
Total – net amount	**17,883**	**72,952**
Impairment	**4,853**	**10,053**
Total – gross amount	**22,736**	**83,005**

The 2013 decrease of €50,033,000 in other financial assets relates to the proceeds received from the sale of a 51% shareholding in Zavarovalnica Maribor (€45,000,000 was received from Slovenska odškodninska družba and €5,033,000 was received from Pozavarovalnica Sava).

31.1 MOVEMENTS IN IMPAIRMENT OF OTHER FINANCIAL ASSETS

	2013	2012
1 January	**10,053**	**2,789**
Net impairment of principal (Note 20.1)	(4,701)	7,530
– additional impairment of principal	3,277	8,314
– reversal of impairment of principal	(7,978)	(784)
Additional impairment of interest	29	18
Additional impairment of fees	498	242
Write-off of other financial assets	(384)	(446)
Exchange rate differences	22	(80)
Transfer to BAMC	(668)	0
Other	4	0
31 December	**4,853**	**10,053**

Recognition of additional impairment/reversal of impairment of interest and fees on other financial assets is reflected in profit or loss (Note 8: Interest income and expense, and Note 10: Fee and commission income and expense).

32 HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2013	31.12.2012
Debt securities	**280,153**	**500,108**
– current securities issued by the state and the central bank	35,722	37,787
– non-current securities issued by the state and the central bank	210,770	399,951
– non-current securities issued by banks and savings banks	24,791	50,172
– current securities issued by other issuers	248	3,566
– non-current securities issued by other issuers	8,622	8,632
Total	**280,153**	**500,108**
Quoted	279,906	496,543
Unquoted	247	3,565
Total	**280,153**	**500,108**

As of 31 December 2013, assets of this portfolio worth €243,360,000 were pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.

32.1 MOVEMENTS IN HELD-TO-MATURITY FINANCIAL ASSETS

	2013	2012
1 January	**500,108**	**449,605**
Increase during the year	**56,128**	**145,703**
– acquisition	41,485	126,005
– gains (Note 11)	903	916
– reversal of impairment	108	52
– other (deferred interest)	13,632	18,730
Decrease during the year	**276,083**	**95,200**
– disposal (sale and redemption)	259,511	83,226
– losses (Note 11)	4,295	974
– impairment	816	31
– exchange rate differences	39	0
– other (interest received)	11,422	10,969
31 December	**280,153**	**500,108**

The following Republic of Slovenia treasury bills matured in 2013: OZ1, in the amount of €180,000,000, SZ55, in the amount of €20,000,000, and DZ44, in the amount of €10,000,000.

33 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2013	**113,019**	**33,183**	**38,631**	**3,606**	**188,439**
Transfer between types of assets	(8,416)	2,423	417	(3,407)	(8,983)
Additions	0	888	377	2,505	3,770
Disposals	(319)	(1,237)	(2,533)	(663)	(4,752)
Exchange rate differences	(180)	(17)	(46)	(1)	(244)
31 December 2013	**104,104**	**35,240**	**36,846**	**2,040**	**178,230**
Accumulated depreciation					
1 January 2013	**46,384**	**27,047**	**27,947**	**296**	**101,674**
Transfer between types of assets	(2,550)	1	(1)	49	(2,501)
Additions	0	27	0	0	27
Depreciation (Note 18)	2,508	3,161	2,465	0	8,134
Disposals	(250)	(1,230)	(2,043)	0	(3,523)
Revaluation	0	1	236	636	873
Exchange rate differences	(91)	(12)	(28)	0	(131)
31 December 2013	**46,001**	**28,995**	**28,576**	**981**	**104,553**
Carrying amount as of 1 January 2013	**66,635**	**6,136**	**10,684**	**3,310**	**86,765**
Carrying amount as of 31 December 2013	**58,103**	**6,245**	**8,270**	**1,059**	**73,677**

Most of the 2013 transfers between types of assets were related to the transfer of real estate to the non-current assets held for sale. The net transfer value of assets totalled €6,389,000.

As of 31 December 2013, the acquisition cost of completely depreciated items of property plant and equipment that are still used by the Group totalled €44,026,000 (2012: €39,847,000).

The Group´s liabilities to suppliers of items of property plant and equipment equalled €265,000 at the end of 2013 (2012: €1,392,000).

None of the items of property, plant and equipment are pledged as collateral.

	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2012	**114,514**	**34,732**	**38,417**	**6,797**	**194,460**
Transfer between types of assets	112	2,901	(24)	(3,952)	**(963)**
Additions	72	2,034	5,900	5,197	**13,203**
Disposals	(131)	(6,386)	(5,563)	(4,430)	**(16,510)**
Exchange rate differences	(1,548)	(98)	(99)	(6)	**(1,751)**
31 December 2012	**113,019**	**33,183**	**38,631**	**3,606**	**188,439**
Accumulated depreciation					
1 January 2012	**43,335**	**30,288**	**26,461**	**0**	**100,084**
Transfer between types of assets	(30)	15	(15)	0	**(30)**
Additions	0	0	7	0	**7**
Depreciation (Note 18)	2,474	3,197	3,072	0	**8,743**
Disposals	(58)	(6,368)	(1,628)	0	**(8,054)**
Revaluation	1,279	2	110	296	**1,687**
Exchange rate differences	(616)	(87)	(60)	0	**(763)**
31 December 2012	**46,384**	**27,047**	**27,947**	**296**	**101,674**
Carrying amount as of January 2012	**71,179**	**4,444**	**11,956**	**6,797**	**94,376**
Carrying amount as of 31 December 2012	**66,635**	**7,004**	**9,816**	**3,310**	**86,765**

34 INVESTMENT PROPERTY

	2013	2012
1 January	**53,317**	**54,544**
Transfer between types of assets	266	704
Additions	3,168	1,739
Disposals	(1,254)	(149)
Change in fair value (Note 20.2)	(17,071)	(3,521)
31 December	**38,426**	**53,317**

The number of agreements the Group had in place for renting out investment properties stood at 109 at the end of 2013. The aggregate annual rent amounts to €4,491,000, inclusive of VAT.

Direct operating expenses relating to investment property amounted to €71,000 in 2013, compared to €50,000 in 2012.

Items of investment property are not subject to any sale restrictions.

35 INTANGIBLE ASSETS

	Computer software	Intangible assets in preparation	Other intangible assets	Total
Cost				
1 January 2013	**74,694**	**2,400**	**9,661**	**86,755**
Transfer between types of assets	3,260	(3,260)	0	0
Additions	2,441	2,002	2	4,445
Disposals	(1,121)	(590)	0	(1,711)
Exchange rate differences	(23)	0	0	(23)
31 December 2013	**79,251**	**552**	**9,663**	**89,466**
Accumulated amortisation				
1 January 2013	**48,296**	**0**	**974**	**49,270**
Additions	31	0	0	31
Amortisation (Note 18)	7,355	0	965	8,320
Disposals	(1,005)	0	0	(1,005)
Exchange rate differences	(13)	0	0	(13)
31 December 2013	**54,664**	**0**	**1,939**	**56,603**
Carrying amount as of 1 January 2013	**26,398**	**2,400**	**8,687**	**37,485**
Carrying amount as of 31 December 2013	**24,587**	**552**	**7,724**	**32,863**

The Group may freely dispose of its intangible assets and none of these assets are pledged as collateral.

The acquisition cost of completely amortised intangible assets that are still used by the Group totalled €21,129,000 at the end of 2013.

The Group´s liabilities to suppliers of intangible assets totalled €716,000 at the end of 2013, compared to €850,000 at the end of 2012.

The Group did not capitalise development costs in 2013 or 2012.

	Computer software	Intangible assets in preparation	Other intangible assets	Total
Cost				
1 January 2012	**70,731**	**1,546**	**2,824**	**75,101**
Transfer between types of assets	2,142	(2,142)	0	0
Additions	1,908	2,996	6,837	11,741
Disposals	(21)	0	0	(21)
Exchange rate differences	(66)	0	0	(66)
31 December 2012	**74,694**	**2,400**	**9,661**	**86,755**
Accumulated amortisation				
1 January 2012	**41,567**	**0**	**83**	**41,650**
Amortisation (Note 18)	6,809	0	891	7,700
Disposals	(17)	0	0	(17)
Exchange rate differences	(63)	0	0	(63)
31 December 2012	**48,296**	**0**	**974**	**49,270**
Carrying amount as of 1 January 2012	**29,164**	**1,546**	**2,741**	**33,451**
Carrying amount as of 31 December 2012	**26,398**	**2,400**	**8,687**	**37,485**

36 INVESTMENTS IN THE EQUITY OF ASSOCIATES

	31.12.2013	31.12.2012
Investments in the equity of other Group companies	**2,957**	**3,090**
– capital investments in associated financial organisations	2,957	3,090
Total	**2,957**	**3,090**

36.1 MOVEMENTS IN INVESTMENTS IN THE EQUITY OF ASSOCIATES

	2013	2012
1 January	**3,090**	**47,539**
Increase during the year	**0**	**22,616**
– realised gains	0	18,095
– other	0	4,521
Decrease during the year	**133**	**67,065**
– disposal	0	65,033
– dividends received	0	2,032
– other	133	0
31 December	**2,957**	**3,090**

Other increases in investments in the equity of associates are attributable to the pro-rata profit and revaluation reserves of the associated company.

In 2012, the Group made a gain of €18,095,000 on the sale of a 51% shareholding in Zavarovalnica Maribor. The purchase price for this equity stake in Zavarovalnica Maribor was set at €65,033,000. The sale of Zavarovalnica Maribor was subject to receipt of approvals from the Insurance Supervision Agency and the Slovenian Competition Protection Agency. It was clear at the time of signing the agreement for the sale of Zavarovalnica Maribor that the necessary approvals would be obtained. In accordance with the agreement, the buyers, i.e. Slovenska odškodninska družba and Pozavarovalnica Sava had paid the advance payment of €15,000,000 by the end of 2012, while the remaining amount was paid on 25 April 2013, with Pozavarovalnica Sava and Slovenska odškodninska družba paying €5,033,000 and €45,000,000, respectively.

36.2 INFORMATION ON COMPANIES IN WHICH THE NOVA KBM GROUP HOLDS AT LEAST A 20% EQUITY STAKE

	31.12.2013				2013			31.12.2013		
Name of the company	Total assets	Total liabilities	Total equity	Equity attributable to Nova KBM	Technical and investment income	Net (loss)	Acquisition cost	Nova KBM´s shareholding (%)	Nova KBM´s voting rights (%)	Investment value
Moja naložba, pokojninska družba, d.d.	110,024	103,452	6,572	2,957	3,089	(387)	2,237	45.00	45.00	2,957
Total				**2,957**			**2,237**			**2,957**

37 TAX ASSETS AND LIABILITIES

37.1 TAX ASSETS

	31.12.2013	31.12.2012
Current tax assets	960	2,424
Deferred tax assets (Note 37.3)	10,739	38,893
Total	**11,699**	**41,317**

37.2 TAX LIABILITIES

	31.12.2013	31.12.2012
Current tax liabilities	88	0
Deferred tax liabilities (Note 37.3)	8	0
Total	**96**	**0**

37.3 DEFERRED TAXES

	31.12.2013	31.12.2012
Deferred tax assets	**10,739**	**38,893**
– tax loss	0	26,661
– investments in fixed assets	352	310
– available-for-sale financial assets	9,275	8,581
– other provisions for pending legal issues	71	215
– other provisions for employees	899	686
– temporary differences in respect of impairments	144	2,290
– other	(2)	150
Deferred tax liabilities	**8**	**0**
– available-for-sale financial assets	280	0
– other provisions for pending legal issues	(75)	0
– other provisions for employees	(121)	0
– other	(76)	0
Included in profit or loss (Note 22)	**(25,954)**	**12,851**
– tax loss	(26,661)	13,691
– investments in fixed assets	42	304
– grants for cultural projects and for protection against natural disasters	0	(22)
– available-for-sale financial assets	2,595	(207)
– fees and commissions	0	(589)
– other provisions for pending legal issues	(69)	(30)
– other provisions for employees	(38)	(261)
– temporary differences in respect of impairments	(2,146)	(140)
– other	323	105
Included in equity	**(1,820)**	**173**
– available-for-sale financial assets (Note 47)	(1,794)	173
– provisions for severance benefits (Note 47)	(26)	0

The year-on-year decline in deferred long-term tax assets is the result of the reversal of deferred long-term tax assets in respect of the tax loss.

In 2013, the Group did not recognise deferred long-term tax assets in respect of the tax loss (Note 22.1).

38 OTHER ASSETS

	31.12.2013	31.12.2012
Inventory	48,406	103,333
Assets received in settlement of receivables	4,644	5,255
Claims for advance payments	332	3,110
Prepayments and accrued income	1,182	1,768
Other claims	550	1,290
Total – net amount	**55,114**	**114,756**
Impairment	**106,825**	**58,310**
Total – gross amount	**161,939**	**173,066**

The inventory of real estate units intended for sale, in the amount of €31,580,000, and the inventory of real estate units and movable property seized under lease agreements and intended for sale or lease, totalling €15,793,000, accounted for the largest proportion of inventory at the end of 2013.

Inventory recorded at net realisable value totalled €45,087,000 as of 31 December 2013.

Impairment losses of €104,918,000 set aside for inventory relate mainly to real estate units intended for sale, whose value was impaired as a result of a drop in market prices.

No items of inventory are pledged as collateral.

Accrued and short-term deferred costs account for the largest proportion of prepayments and accrued income.

38.1 MOVEMENTS IN IMPAIRMENT OF OTHER ASSETS

	2013	2012
1 January	**58,310**	**9,782**
Net impairment of principal (Note 20.2)	48,810	51,834
– additional impairment of principal	48,033	52,448
– reversal of impairment of principal	777	(614)
Additional impairment of fees	56	0
Write-off of other assets	(326)	(202)
Exchange rate differences	(24)	(16)
Transfer to BAMC	(1)	0
Other	0	(3,088)
31 December	**106,825**	**58,310**

39 NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

	31.12.2013	31.12.2012
Items of property, plant and equipment held for sale	7,397	1,089
Items of investment property held for sale	471	1,193
Total	**7,868**	**2,282**

40 FINANCIAL LIABILITIES TO THE CENTRAL BANK

	31.12.2013	31.12.2012
Loans from the central bank	482,891	485,149
– current loans	3,001	8,004
– non-current loans	479,890	477,145
Total	**482,891**	**485,149**

The expected maturity of these liabilities is presented in Note 4.2.

41 FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2013	31.12.2012
Derivatives	1,422	1,658
– forward contracts	362	501
– swap contracts	641	1,157
– other derivatives	419	0
Total	**1,422**	**1,658**

42 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31.12.2013	31.12.2012
Deposits (Note 42.1)	3,135,019	3,719,283
Loans (Note 42.2)	419,434	582,374
Debt securities (Note 42.4)	60,973	88,592
Subordinated liabilities (Note 42.5)	1,250	98,069
Other financial liabilities (Note 42.6)	34,266	40,199
Total	**3,650,942**	**4,528,517**

42.1 DEPOSITS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2013	31.12.2012
Deposits from banks	**60,271**	**107,077**
– sight deposits	1,520	5,691
– current deposits	57,924	97,245
– non-current deposits	827	4,141
Deposits from customers	**3,074,748**	**3,612,206**
– sight deposits	1,349,936	1,330,981
– current deposits	742,991	827,365
– non-current deposits	981,821	1,453,860
Total	**3,135,019**	**3,719,283**

42.2 LOANS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2013	31.12.2012
Loans from banks	**414,883**	**576,004**
– current loans	7,710	13,846
– non-current loans	407,173	562,158
Loans from customers	**4,551**	**6,370**
– current loans	1	0
– non-current loans	4,550	6,370
Total	**419,434**	**582,374**

42.3 DEPOSITS AND LOANS BY MARKET SEGMENTS

	31.12.2013	31.12.2012
Deposits	**3,135,019**	**3,719,283**
– banks	60,271	107,077
– non-financial companies	372,680	283,177
– state	81,117	490,738
– other financial organisations	55,098	169,029
– foreign persons	109,247	118,772
– non-profit household service providers	35,045	34,379
– households	2,421,561	2,516,111
Loans	**419,434**	**582,374**
– banks	414,883	576,004
– state	4,549	6,368
– foreign persons	2	2
Total	**3,554,453**	**4,301,657**

42.4 DEBT SECURITIES BY TYPE AND MATURITY

	31.12.2013	31.12.2012
Non-current securities	**45,412**	**45,413**
– bonds issued	45,412	45,413
Certificates of deposit issued	**15,561**	**43,179**
– current	9,255	24,790
– non-current	6,306	18,389
Total	**60,973**	**88,592**

42.5 SUBORDINATED LIABILITIES

ISIN code/issuer	Currency	Date of maturity	Interest rate	31.12.2013	31.12.2012
Subordinated debt					
Adria Bank AG	EUR	perpetual; call option on each 28.12.	variable	1,250	1,250
Hybrid instruments as a component of additional own funds					
Pošta Slovenije d.o.o.; contributions 1 to 4	EUR	-	6M EURIBOR + 2.70%	0	6,740
Pošta Slovenije d.o.o.; 5th contribution	EUR	-	6M EURIBOR + 3.50%	0	1,988
ISIN: XS0270427163	EUR	-	3M EURIBOR + 1.60%	0	50,222
ISIN: XS0325446903	EUR	-	3M EURIBOR + 4.00%	0	11,920
Hybrid instruments as a component of original own funds					
ISIN: SI0022103046	EUR	-	8.70%	0	25,949
Total				**1,250**	**98,069**

Subordinated liabilities are included in the calculation of capital adequacy. Capital risk is presented in Note 4.6.

On 18 December 2013, all qualified liabilities of the Bank, worth €89,443,000 in total, were written off based on a decision passed by the Bank of Slovenia. These liabilities comprised:

- liabilities arising from subordinated notes KBM9 issued by Nova KBM, totalling €25,933,000
- liabilities arising from hybrid loan facilities provided by ING Bank NV, Amsterdam, and VTB Bank PLC, London, totalling €50,000,000 and €11,808,000, respectively, including accrued interest of €1,105,000 and €597,000, respectively.

Subordinated liabilities of PBS worth €8,608,000 were converted into the PBS share capital, pursuant to the resolution adopted on 19 December 2013 by the PBS Shareholders´ Meeting.

42.6 OTHER FINANCIAL LIABILITIES

	31.12.2013	31.12.2012
Liabilities for fees and commissions	73	70
Liabilities for gross salaries of employees	3,367	3,462
Liabilities to suppliers	5,097	5,733
Liabilities related to payment card transactions	7,629	5,420
Liabilities related to ATM transactions	1,785	2,036
Liabilities related to funds provided by customers for payments abroad	595	4,733
Liabilities related to cash transactions	2,524	665
Liabilities arising from participation in profits – dividends	75	75
Accruals and deferred income	6,999	7,129
Surplus arising from authorised transactions for customers	139	73
Other financial liabilities	5,983	10,803
Total other financial liabilities	**34,266**	**40,199**

Liabilities in respect of business relationships made up the largest proportion of other financial liabilities in 2013.

43 PROVISIONS

	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2013	**0**	**4,400**	**7,598**	**34,143**	**489**	**46,630**
Net creation of provisions through profit or loss (Note 19)	11,280	13,554	(116)	29,919	0	54,637
– provisions made during						
the year	11,280	15,998	538	54,882	22	82,720
– provisions reversed						
during the year	0	(2,444)	(654)	(24,963)	(22)	(28,083)
Net reversal of provisions through equity	0	0	(300)	0	0	(300)
Provisions used during the year	0	(166)	(629)	0	0	(795)
Exchange rate differences	0	(3)	(4)	(2)	0	(9)
31 December 2013	**11,280**	**17,785**	**6,549**	**64,060**	**489**	**100,163**

In 2013, Nova KBM set aside provisions of €1,680,000 for severance benefits to be paid to employees who would be made redundant for business reasons as a result of its restructuring. The amount of these provisions was assessed on the basis of the restructuring programme which the Bank has begun to implement. Provisions of €9,600,000 relate to the costs associated with the restructuring of Adria Bank.

Claims brought against the Group totalled €34,419,000 at the end of 2013 (2012: €30,471,000). Considering legal opinions obtained, the Group had €17,785,000 of provisions set aside for these claims as of 31 December 2013 (2012: €4,400,000).

Provisions for pensions and similar benefits to employees are recognised on the basis of an actuarial calculation; the assumptions used in the calculation are shown in Note 3.14. In 2013, the creation and reversal of provisions were recognised through profit or loss, except for actuarial gains in respect of severance benefits, totalling €300,000, which were recognised within other comprehensive income, in accordance with IAS 19.

Of the total amount of provisions for off-balance sheet liabilities, €50,394,000 was attributable to service guarantees, €11,264,000 was attributable to financial guarantees, and €2,402,000 was attributable to undrawn loans and overdrafts.

Provisions for off-balance sheet items increased mainly for those transactions that have been transferred to BAMC. Along with transferring an on-balance sheet exposure, the Group also had to transfer to BAMC the collateral provided by the respective customer. In addition, in 2013, the Bank had to set aside additional provisions for off-balance sheet liabilities (for the guarantees it had provided).

Other provisions recorded in 2013 and 2012 relate to the provisions for undrawn loans under the National Housing Savings Scheme.

	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2012	**3,551**	**7,737**	**26,456**	**508**	**38,252**
Net provisions made during the year (Note 19)	874	566	7,650	(18)	9,072
– provisions made during the year	968	957	33,308	5	35,238
– provisions reversed during the year	(94)	(391)	(25,658)	(23)	(26,166)
Provisions used during the year	0	(608)	0	(1)	(609)
Exchange rate differences	(25)	(97)	37	0	(85)
31 December 2012	**4,400**	**7,598**	**34,143**	**489**	**46,630**

44 OTHER LIABILITIES

	31.12.2013	31.12.2012
Liabilities for prepayments received	599	1,629
Liabilities related to taxes and contributions	2,243	2,486
Accruals and deferred income	12,409	2,537
Total other liabilities	**15,251**	**6,652**

The largest proportion of the 2013 accruals and deferred income, totalling €10,061,000, relates to deferred fees on approved loans.

45 SHARE CAPITAL

	31.12.2013	31.12.2012
Ordinary shares	**150,000**	**40,814**
– subscribed by non-financial companies	0	7,209
– subscribed by the state	150,000	14,562
– subscribed by banks	0	458
– subscribed by other financial organisations	0	2,409
– subscribed by households	0	7,952
– subscribed by foreign persons	0	8,224

In April 2013, the share capital of Nova KBM was increased by an in-kind contribution resulting from the conversion into equity of a state-provided €100,000,000 facility, in accordance with the Hybrid Loan Facility Agreement signed between Nova KBM and the Republic of Slovenia. The share capital of Nova KBM was further increased in July, when interest of €2,411,000 that had accrued on the aforementioned hybrid loan facility was converted into equity.

On 31 July 2013, following the entry of the share capital increase in the Companies Register, the share capital of Nova KBM totalled €143,225,000 and was split into 323,103,520 ordinary no-par value shares. The shareholding (direct and indirect) of the Republic of Slovenia in Nova KBM equalled 94.08%.

During 2013, Nova KBM made a number of attempts to attract new investors to provide fresh capital.

At the end of the 2013, the Bank of Slovenia requested the institution, which had been selected to carry out a due diligence review of Nova KBM, to make an assessment of the financial position of Nova KBM as of 30 September 2013. It was clear that, after accounting for necessary additional loan loss provisions, and taking into consideration the write-off of qualified liabilities, the Bank would have negative net worth at the end of 2013.

To deal with this situation, the Bank of Slovenia decided it was necessary to adopt extraordinary measures in order for Nova KBM to achieve the required capital adequacy.

On 18 December 2013, based on a decision passed by the Bank of Slovenia, all qualified liabilities of Nova KBM were written off. These liabilities comprised:

- liabilities arising from Nova KBM´s share capital, which totalled €143,225,000; the effect of cancelling the shares was reflected in an increase in the share premium by the same amount
- liabilities of Nova KBM in respect of its subordinated financial instruments, totalling €89,540,000; the effect of writing off these liabilities was reflected in an increase of the Bank´s income by the same amount.

By writing off all the qualified liabilities of the Bank, its share capital was reduced to €0. On the same day that the qualified liabilities of the Bank were written off, the Republic of Slovenia subscribed for and paid for all of the 10,000,000 newly issued shares of the Bank, thereby increasing the Bank´s share capital by €150,000,000. The total issue value of shares was €870,000,000, made up as follows:

- by delivering government bonds whose total market value equals €249,999,000, the share capital increased by €43,103,000
- by providing cash contribution in the amount of €620,001,000, the share capital increased by €106,897,000.

The paid-in capital surplus of €720,000,000 was credited to share premium.

The accounting value of each ordinary no-par value share, calculated as the ratio between the share capital and the total number of outstanding shares, was €15 at the end of 2013.

No changes took place in the share capital of the Bank in 2012. It totalled €40,814,000 and was split into 39,122,968 ordinary no-par value shares.

The Republic of Slovenia was registered as the only shareholder of the Bank at the end of 2013. As of 31 December 2012, the Bank had 97,429 shareholders in total, of whom 956 were legal entities, 96,346 were individuals, and 127 were foreign investors.

In 2012 and 2013, the Group did not purchase or sell treasury shares. A total of 136,000 Nova KBM shares worth €1,412,000 which PBS received in 2010 (it took over the possession of shares that were provided as collateral for securing a loan) were cancelled on 18 December 2013 in accordance with the Bank of Slovenia decision. As a result, no treasury shares were held by the Group at the end of 2013.

46 SHARE PREMIUM

	31.12.2013	31.12.2012
Paid-in capital surplus	360,572	143,467
Share premium arising from the general capital revaluation	0	22,308
Total	**360,572**	**165,775**

Share premium increased in 2013 as a result of the following factors:
- cancellation of Nova KBM shares worth €143,225,000
- paid-in capital surplus totalling €720,000,000.

Share premium of €668,428,000 was used to cover the loss incurred by the Group in 2013.

47 REVALUATION RESERVES

	31.12.2013	31.12.2012
Revaluation reserves in respect of available-for-sale financial assets	8,708	(1,149)
– revaluation	10,502	(1,322)
– deferred taxes (Note 37.3)	(1,794)	173
Other revaluation reserves	273	0
– revaluation	299	0
– deferred taxes (Note 37.3)	(26)	0
Total	**8,981**	**(1,149)**

47.1 MOVEMENTS IN REVALUATION RESERVES

	2013	2012
1 January	**(1,149)**	**(25,096)**
Net change in valuation of available-for-sale financial assets	11,824	29,804
– gains recognised in revaluation reserves	5,976	19,050
– losses transferred from revaluation reserves to profit or loss	5,848	10,754
Net change in other revaluation reserves	299	
Exchange rate differences	1	(1)
Net change in deferred taxes	(1,993)	(5,856)
Other	(1)	0
31 December	**8,981**	**(1,149)**

48 RESERVES FROM PROFIT

	31.12.2013	31.12.2012
Regulatory reserves	663	13,616
Reserves for treasury shares	0	1,412
Statutory reserves	0	174,184
Other reserves from profit	0	100,529
Total	**663**	**289,741**

Reserves from profit are formed in compliance with the Companies Act and provisions of individual Group companies´ Articles of Association.

48.1 MOVEMENTS IN RESERVES FROM PROFIT

	2013	2012
1 January	**289,741**	**300,726**
Decrease in regulatory reserves	(12,953)	(5,553)
Decrease in statutory reserves	(174,184)	0
Decrease in reserves for treasury shares	(1,412)	0
Decrease in other reserves	(100,529)	(5,432)
31 December	**663**	**289,741**

Reserves from profit of €289,169,000 were used in 2013 to cover a loss of €275,044,000 of Nova KBM and a loss of €14,125,000 of PBS.

Movements in reserves from profit are presented in the Statement of Changes in Equity.

49 RETAINED EARNINGS OR LOSSES (INCLUDING NET LOSS FOR THE FINANCIAL YEAR)

	31.12.2013	31.12.2012
Retained earnings/(losses) from previous years	8,767	(75,549)
Net profit/(loss) for the financial year	40,170	(205,688)
Total	**48,937**	**(281,237)**

For 2013, the Group reported a net loss of €684,908,000, of which €630,456,000 was attributable to owners of the parent and €54,452,000 was attributable to the non-controlling interest.

For 2012, the Group reported a net loss of €205,697,000, of which €205,589,000 was attributable to owners of the parent and €108,000 was attributable to the non-controlling interest. A total of €99,000 of the 2012 net profit was transferred to reserves from profit.

Movements in retained earnings or losses are presented in the Statement of Changes in Equity.

OTHER NOTES

50 COMMITMENTS AND CONTINGENT LIABILITIES BY TYPE

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

	31.12.2012		
	Current	Non-current	Total
Financial guarantees	52,100	46,240	98,340
Service guarantees	104,381	92,290	196,671
Total guarantees	**156,481**	**138,530**	**295,011**
Unsecured letters of credit	**21**	**0**	**21**
Approved and undrawn loans	93,004	1,383	94,387
Approved and undrawn overdrafts	182,164	560	182,724
Approved credit lines	8,557	0	8,557
Other	6,989	0	6,989
Total commitments and contingent liabilities	**290,714**	**1,943**	**292,657**
Derivatives	**196,132**	**5,636**	**201,768**
Total	**643,348**	**146,109**	**789,457**

Liabilities under rental agreements

	Annual amount in 2014	2 to 5 years (2015 – 2018)	Over 5 years
Business premises, parking spaces and ATMs	1,490	5,454	6,983
Computer software	142	567	1,418
Information channels	731	2,925	7,312
Other equipment	82	229	351
Total	**2,445**	**9,175**	**16,064**

Agreements for renting business premises, ATMs and information channels account for the largest proportion of liabilities under operating lease agreements.

The Group has not entered into any irrevocable rental agreements.

Receivables under rental agreements

	Annual amount in 2014	2 to 5 years (2015 – 2018)	Over 5 years
Business premises, parking spaces and apartments	4,836	18,323	35,267
Other equipment	22	79	197
Total	**4,858**	**18,402**	**35,464**

The most significant rental agreements have been made for renting out business premises and apartments under operating leases.

51 DERIVATIVES

Type of risk	Type of derivative	Book value in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	210	641	54,119
Equity instrument price risk	Other derivatives	372	419	24,353
Foreign exchange risk	Currency forwards	30	362	85,241
Total as of 31 December 2013		**612**	**1,422**	**163,713**

Type of risk	Type of derivative	Book value in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	410	1,157	54,300
Equity instrument price risk	Futures contracts in securities	565	368	42,180
Equity instrument price risk	Options	0	0	14,597
Foreign exchange risk	Currency forwards	203	133	90,691
Total as of 31 December 2012		**1,178**	**1,658**	**201,768**

51.1 DERIVATIVES BY TYPE

	Current	Non-current	Total
Forward contracts	**85,241**	**0**	**85,241**
– trading	85,241	0	85,241
Other derivatives	**24,353**	**0**	**24,353**
– trading	24,353	0	24,353
Swaps	**14,119**	**40,000**	**54,119**
– trading	14,119	40,000	54,119
Total as of 31 December 2013	**123,713**	**40,000**	**163,713**

	Current	Non-current	Total
Forward contracts	**90,691**	**0**	**90,691**
– trading	90,691	0	90,691
Futures contracts	**42,180**	**0**	**42,180**
– trading	42,180	0	42,180
Swaps	**54,300**	**0**	**54,300**
– trading	54,300	0	54,300
Options	**8,961**	**5,636**	**14,597**
– trading	8,961	5,636	14,597
Total as of 31 December 2012	**196,132**	**5,636**	**201,768**

52 AUTHORISED TRANSACTIONS

	31.12.2013	31.12.2012
Non-financial companies	356,951	13
State	7,268	9,180
Banks and other financial organisations	15,569	11,199
Households	1,643	6
Non-profit household service providers	1,290	1,316
Foreign persons	78	77
Liabilities related to transactions in securities	615	930
Total	**383,414**	**22,721**

53 FIDUCIARY ACTIVITIES

	31.12.2013	31.12.2012
ASSETS	**614**	**825**
Claims of settlement and transactions accounts for customer assets	**117**	**262**
– from financial instruments	75	171
– against the Central Securities Clearing Corporation or the Bank´s clearing account for sold financial instruments	42	91
Customers´ cash	**497**	**563**
– in the settlement account for customer assets	363	511
– in banks´ transaction accounts	134	52
LIABILITIES	**614**	**825**
Liabilities of settlement and transactions accounts for customer assets	**614**	**825**
– to customers from cash and financial instruments	539	654
– to the Central Securities Clearing Corporation or the Bank´s clearing account for purchased financial instruments	0	105
– to the Bank or the Bank´s settlement account for commissions, fees, etc.	75	66
OFF-BALANCE SHEET ITEMS	**0**	**105**
Customers´ financial instruments, itemised by service	**0**	**105**
– receipt, transmission and execution of orders	0	105

54 RELATED PARTY TRANSACTIONS

54.1 STATEMENT OF FINANCIAL POSITION AND OFF-BALANCE SHEET ITEMS

	Associates	
	31.12.2013	31.12.2012
Assets		
Loans and advances given (gross amount)	1	3
– loans and advances to customers	1	2
– other financial assets	0	1
Investment in securities	2,237	2,237
– equity instruments	2,237	2,237
Liabilities		
Deposits and loans received	1,759	1,696
– deposits and loans from customers	1,749	1,686
– other financial liabilities	10	10
Subordinated liabilities	0	27
Off-balance sheet items	4	3

	Key management personnel		Other related persons	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Assets				
Loans and advances given (gross amount)	297	323	5,166	13,292
– loans and advances to customers	297	322	5,166	13,289
– other financial assets	0	1	0	3
Investment in securities	0	0	382	382
– equity instruments	0	0	382	382
Liabilities				
Deposits and loans received	574	684	1,560	3,459
– deposits and loans from customers	574	677	1,442	3,370
– other financial liabilities	0	7	118	89
Other liabilities	0	3	0	0
Off-balance sheet items	**69**	**90**	**371**	**939**

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

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

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

54.2 INCOME STATEMENT

	Associates	
	2013	2012
Net interest income	(89)	(1,652)
Net fee and commission income	(3)	172
Costs of services	(24)	(716)
Impairment of loans	0	0
Impairment of investments	0	0
Write-offs	0	0
Total	**(116)**	**(2,196)**

	Key management personnel		Other related persons	
	2013	2012	2013	2012
Net interest income	(17)	(7)	1,419	4,112
Net fee and commission income	0	0	(430)	(454)
Costs of services	(421)	(338)	(1,598)	(1,509)
Individual impairments	0	0	0	(1,076)
Write-offs	0	0	0	0
Total	**(438)**	**(345)**	**(609)**	**1,073**

54.3 LOANS AND GUARANTEES GIVEN

	Management Board members		Supervisory Board members		Other Group employees on individual contract	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Loans	6	7	47	58	2,539	2,807
Average interest rate on loans (%)	8.48	8.59	3.66	4.18	3.48	3.67
Repayments	0	0	12	10	490	682

55 EXPOSURE TO THE BANK OF SLOVENIA, REPUBLIC OF SLOVENIA AND STATE-OWNED INSTITUTIONS

Exposure to:	31.12.2013	31.12.2012
Bank of Slovenia	**329,921**	**140,764**
– settlement account	323,191	133,796
– other	6,730	6,968
Republic of Slovenia	**1,396,878**	**721,036**
– bonds	705,739	387,788
– other securities	276,472	261,500
– loans	1,765	2,906
– investments guaranteed by the Republic of Slovenia, by type	411,335	56,060
– other	666	1,118
State-owned institutions	**440,272**	**578,126**
– loans	212,252	277,344
– securities	88,632	139,637
– commitments and contingent liabilities	83,504	66,287
– other	55,884	94,858
Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	**2,167,071**	**1,439,926**
Share in total assets (%)	45.05	27.06
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	901	11,664
Total assets	**4,810,793**	**5,321,810**

56 MOVEMENTS IN OVERDUE AND UNPAID CLAIMS

Type of claims and other assets	01.01.2013	(%)	Net increase/ decrease	Write-offs	Exchange rate differences	Transfer to BAMC	31.12.2013	(%)
Available-for-sale financial assets	82	0.01	0	(82)	0	0	0	0.00
Loans and advances to banks	2,586	1.56	(35)	0	(28)	0	2,523	1.91
Loans and advances to customers	934,175	23.13	414,880	(20,193)	(17)	(714,082)	614,763	21.79
Other financial assets	5,028	6.06	801	(462)	0	(754)	4,613	20.29
Total	**941,871**	**18.71**	**415,646**	**(20,737)**	**(45)**	**(714,836)**	**621,899**	**13.42**

Type of claims and other assets	01.01.2012	(%)	Net increase/ decrease	Write-offs	Exchange rate differences	31.12.2012	(%)
Available-for-sale financial assets	82	0.01	0	0	0	82	0.01
Loans and advances to banks	3,066	1.70	(133)	(96)	(251)	2,586	1.56
Loans and advances to customers	652,988	15.23	326,995	(44,923)	(885)	934,175	23.13
Other financial assets	4,550	2.39	1,039	(561)	0	5,028	6.06
Total	**660,686**	**12.20**	**327,901**	**(45,580)**	**(1,136)**	**941,871**	**18.71**

57 REMUNERATION

	2013	2012
Management Board members	**275**	**258**
Aleš Hauc	138	95
Igor Žibrik	137	50
Manja Skernišak	0	40
Andrej Plos	0	73
Supervisory Board members	**186**	**210**
Members of Supervisory Board committees	**88**	**68**
Other Group employees on individual contract	**8,196**	**8,548**
Total	**8,745**	**9,084**

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

Remuneration paid to members of the Supervisory Board, the Audit Committee, the Remuneration and Nomination Committee, and the Appointment Board comprises: a payment for holding the office, meeting attendance fees, reimbursement of costs, seminar participation fees, and the payment of liability insurance. Payments for holding the office and meeting attendance fees are stated gross of any applicable taxes.

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

The total amount paid in 2013 to Aleš Hauc, President of the Management Board, and Igor Žibrik, Management Board Member, for holding their offices and for meeting attendance fees, reimbursement of costs and awards for acting on Supervisory Boards of subsidiaries and the associated company was €55,000 and €73,000, respectively. The amount of net proceeds paid to a Management Board member depends on the tax treatment of each remuneration type.

57.1 ANALYSIS OF REMUNERATION PAID TO MANAGEMENT BOARD MEMBERS, EXECUTIVE DIRECTORS, SUPERVISORY BOARD MEMBERS AND MEMBERS OF SUPERVISORY BOARD COMMITTEES

Remuneration of the Management Board in 2013

€

	Salary		Pay for annual leave		Awards		Bonuses	Supplementary pension insurance premiums	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
Aleš Hauc	129,049.76	59,796.91	783.66	470.15	0.00	0.00	5,333.65	2,819.04	0.00	0.00	137,986.11	60,267.06
Igor Žibrik	122,597.22	55,517.15	783.66	472.63	0.00	0.00	10,396.94	2,819.04	0.00	0.00	136,596.86	55,989.78
Total	**251,646.98**	**115,314.06**	**1,567.32**	**942.78**	**0.00**	**0.00**	**15,730.59**	**5,638.08**	**0.00**	**0.00**	**274,582.97**	**116,256.84**

Remuneration of the Management Board in 2012

€

	Salary		Pay for annual leave		Awards		Bonuses	Supplementary pension insurance premiums	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
Aleš Hauc	88,118.32	41,391.50	508.71	361.11	0.00	0.00	5,071.46	1,837.12	0.00	0.00	95,535.61	41,752.61
Igor Žibrik	45,168.49	20,982.10	0.00	0.00	0.00	0.00	4,227.59	918.56	0.00	0.00	50,314.64	20,982.10
Manja Skernišak	36,738.23	18,134.57	763.06	474.68	0.00	0.00	1,445.78	918.56	0.00	0.00	39,865.63	18,609.25
Andrej Plos	67,792.87	33,539.19	763.06	472.46	0.00	0.00	2,524.15	1,607.48	92.77	0.00	72,780.33	34,011.65
Total	**237,817.91**	**114,047.36**	**2,034.83**	**1,308.25**	**0.00**	**0.00**	**13,268.98**	**5,281.72**	**92.77**	**0.00**	**258,496.21**	**115,355.61**

Remuneration of Executive Directors in 2013

€

	Salary		Pay for annual leave		Awards		Bonuses	Supplementary pension insurance premiums	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
Total	**641,004.33**	**294,294.06**	**6,957.04**	**4,417.54**	**0.00**	**0.00**	**37,712.29**	**4,350.00**	**77,934.84**	**48,781.62**	**767,958.50**	**347,493.22**

Remuneration of Executive Directors in 2012

€

	Salary		Pay for annual leave		Awards		Bonuses	Supplementary pension insurance premiums	Other emolument		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Gross	Gross	Net	Gross	Net
Total	**633,134.91**	**305,027.54**	**5,341.42**	**3,355.40**	**0.00**	**0.00**	**36,983.28**	**3,950.00**	**0.00**	**0.00**	**679,409.61**	**308,382.94**

Remuneration of the Supervisory Board in 2013

€

Name and surname	Remuneration for holding the office and meeting attendance fees	Reimbursement of costs	Seminar participation fees	Liability insurance	Total
Peter Kukovica	26,305.00	2,570.13	0.00	414.00	29,289.13
Niko Samec	20,451.71	353.29	0.00	413.98	21,218.98
Karmen Dvorjak	18,318.29	654.31	0.00	414.00	19,386.60
Andrej Fatur	18,251.29	3,066.08	262.73	414.00	21,994.10
Miha Glavič	19,088.29	0.00	0.00	414.00	19,502.29
Peter Kavčič	18,603.29	770.18	796.87	414.00	20,584.34
Keith Charles Miles	19,884.62	10,628.65	0.00	414.00	30,927.27
Egon Žižmond	18,813.29	0.00	0.00	413.97	19,227.26
Aljoša Tomaž	3,817.21	262.64	0.00	0.00	4,079.85
Total	**163,532.99**	**18,305.28**	**1,059.60**	**3,311.95**	**186,209.82**

Remuneration of the Supervisory Board in 2012

€

Name and surname	Remuneration for holding the office and meeting attendance fees	Reimbursement of costs	Seminar participation fees	Total
Franc Škufca	12,583.19	2,576.29	673.55	15,833.03
Andrej Svetina	9,684.23	785.07	433.55	10,902.85
Anton Guzej	11,169.23	737.32	433.55	12,340.10
Aleš Krisper	8,804.23	433.36	921.29	10,158.88
Janez Košak	11,224.23	1,703.29	433.55	13,361.07
Dušan Jovanovič	14,718.87	279.20	710.71	15,708.78
Ivan Simič	1,798.33	133.13	0.00	1,931.46
Darjan Petrič	10,894.23	1,938.68	1,184.52	14,017.43
Vida Lebar	11,664.23	715.49	433.55	12,813.27
Peter Kukovica	11,161.13	1,357.67	0.00	12,518.80
Niko Samec	8,481.85	13.78	1,006.45	9,502.08
Karmen Dvorjak	7,880.73	446.84	0.00	8,327.57
Andrej Fatur	8,375.73	816.39	0.00	9,192.12
Miha Glavič	8,155.73	00.00	976.13	9,131.86
Peter Kavčič	8,375.73	503.81	983.87	9,863.41
Dušanka Jurenec	5,922.40	0.00	0.00	5,922.40
Keith Charles Miles	5,972.40	3,412.00	0.00	9,384.40
Egon Žižmond	7,880.73	0.00	0.00	7,880.73
Total remuneration paid by the Bank	**164,747.20**	**15,852.32**	**8,190.72**	**188,790.24**
Dušan Jovanovič	21,032.00	258.00	0.00	21,290.00
Total remuneration paid by subsidiaries	**21,032.00**	**258.00**	**0.00**	**21,290.00**
Total	**185,779.20**	**16,110.32**	**8,190.72**	**210,080.24**

Remuneration of the Audit Committee in 2013

€

Name and surname	Remuneration for holding the office and meeting attendance fees	Reimbursement of costs	Seminar participation fees	Total
Andrej Svetina	220.00	0.00	0.00	220.00
Kosta Bizjak	220.00	0.00	0.00	220.00
Franc Koletnik	220.00	0.00	0.00	220.00
Aleksander Igličar	10,782.00	946.60	0.00	11,728.60
Keith Charles Miles	8,154.93	4,263.45	0.00	12,418.38
Andrej Fatur	5,852.79	1,947.08	0.00	7,799.87
John Harris	11,002.00	5,978.87	0.00	16,980.87
Peter Kavčič	2,348.17	54.05	0.00	2,402.22
Total	**38,799.89**	**13,190.05**	**0.00**	**51,989.94**

Remuneration of the Audit Committee in 2012

€

Name and surname	Remuneration for holding the office and meeting attendance fees	Reimbursement of costs	Seminar participation fees	Total
Andrej Svetina	5,254.65	945.78	0.00	6,200.43
Kosta Bizjak	6,228.55	956.89	0.00	7,185.44
Franc Koletnik	6,228.55	0.00	0.00	6,228.55
Janez Košak	3,507.29	679.52	0.00	4,186.81
Aleksander Igličar	3,280.97	587.51	441.29	4,309.77
Keith Charles Miles	2,844.15	459.65	0.00	3,303.80
Andrej Fatur	1,312.06	181.42	0.00	1,493.48
John Harris	1,666.77	1,299.52	0.00	2,966.29
Total	**30,322.99**	**5,110.29**	**441.29**	**35,874.57**

Remuneration of the Remuneration and Nomination Committee in 2013

€

Name and surname	Remuneration for holding the office and meeting attendance fees	Reimbursement of costs	Seminar participation fees	Total
Peter Kukovica	7,142.93	1,073.67	0.00	8,216.60
Niko Samec	5,500.79	0.00	0.00	5,500.79
Peter Kavčič	4,840.79	33.39	0.00	4,874.18
Romana Košorok	10,210.00	1,109.93	0.00	11,319.93
Jure Srhoij	125.81	0.00	0.00	125.81
Adriana Rejc Buhovac	5,550.00	61.59	0.00	5,611.59
Total	**33,370.32**	**2,278.58**	**0.00**	**35,648.90**

Remuneration of the Remuneration and Nomination Committee in 2012

€

Name and surname	Remuneration for holding the office and meeting attendance fees	Reimbursement of costs	Seminar participation fees	Total
Dušan Jovanovič	5,034.65	119.35	0.00	5,154.00
Franc Škufca	3,287.29	14.32	0.00	3,301.61
Marko Vresk	5,733.55	329.43	0.00	6,062.98
Ivan Simič	490.83	23.87	0.00	514.70
Peter Kukovica	2,844.15	479.21	0.00	3,323.36
Niko Samec	1,312.06	0.00	0.00	1,312.06
Peter Kavčič	1,752.06	17.54	0.00	1,769.60
Romana Košorok	3,280.97	287.33	0.00	3,568.30
Jure Srhoij	2,316.78	128.90	0.00	2,445.68
Total	**26,052.34**	**1,399.95**	**0.00**	**27,452.29**

Remuneration of the Appointment Board in 2012

€

Name and surname	Remuneration for holding the office and meeting attendance fees	Reimbursement of costs	Total
Dušan Jovanovič	761.67	0.00	761.67
Slava Horvat	870.00	0.00	870.00
Marko Garbajs	870.00	0.00	870.00
Vanessa Grmek	870.00	0.00	870.00
Anja Strojin Štampar	870.00	0.00	870.00
Total	**4,241.67**	**0.00**	**4,241.67**

58 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Moody´s Investors Service upgraded Nova KBM´s long-term deposit rating to Caa1 from Caa2, at the same time changing the outlook on the rating from 'negative' to 'stable'. Nova KBM´s financial strength rating (BFSR) remained unchanged at E, while its baseline credit assessment rating was improved to caa2 from caa3.

Standard & Poor´s upgraded Nova KBM´s long-term counterparty risk rating to B from Ccc, and affirmed its unsolicited public information rating at Bpi.

In March 2014, Fitch Ratings affirmed the ratings of Nova KBM.

In order to comply with the requirements of the Austrian National Bank, Adria Bank set aside additional impairment losses, as a result of which the need has arisen for Adria Bank to raise fresh capital. At the Shareholders´ Meeting of Adria Bank, which is expected to take place in April 2014, a decision will be reached regarding its recapitalisation, with the purpose of ensuring that Adria Bank meets the recommended capital adequacy.

I cannot decide between my two favourite moments. The first is when an entire table falls silent to explore the flavours they just had. The second is when their pleasure turns to satisfaction. Some people´s eyes shine brightly, the conversation gets back on track and faces are lit up by smiles. Carefully selected and prepared authentic food is my gift to my guests. Even more: It´s a responsibility I gladly take on. This was my goal, before I became an entrepreneur and remains my guiding principle even today.

For me, 1996 was a landmark year.

Gregor Protner

Gregor Protner, winemaker

FINANCIAL REPORT OF NOVA KBM D.D.

01 AUDITOR´S REPORT ON THE FINANCIAL STATEMENTS OF NOVA KBM D.D.

Deloitte.

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1000 Ljubljana
Slovenija

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INDEPENDENT AUDITOR'S REPORT
to the owners of Nova KBM d.d.

Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of the bank Nova KBM d.d. (hereinafter: the "bank"), which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the unconsolidated financial statements give a true and fair view of the financial position of the bank as at 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Emphasis of Matters - Consolidated Financial Statements

Bank is the controlling company within the Nova KBM Group (hereinafter: the »group«). The consolidated financial statements of the group, prepared in accordance with the International Financial Reporting Standards as adopted by the EU, are presented separately. We have audited the consolidated financial statements of the group and issued an unqualified opinion on 4 April 2014.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 4 April 2014

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

02 FINANCIAL STATEMENTS OF NOVA KBM D.D.

1 INCOME STATEMENT – NOVA KBM D.D.

€000

ITEM DESCRIPTION	Notes	Year ended 31.12.2013	Year ended 31.12.2012
Interest income	7	145,907	177,026
Interest expense	7	(85,279)	(105,290)
Net interest income	**7**	**60,628**	**71,736**
Dividend income	**8**	**1,811**	**3,364**
Fee and commission income	9	46,179	46,365
Fee and commission expense	9	(4,424)	(4,630)
Net fee and commission income	**9**	**41,755**	**41,735**
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	10	64,033	24,550
Net gains/(losses) on financial assets and liabilities held for trading	11	1,062	(8,630)
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	12	(1,229)	2,633
Net exchange rate differences	13	(1,343)	716
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	-	85	(26)
Other net operating (loss)	14	(14,676)	(1,067)
Administration costs	15	(71,242)	(70,157)
Depreciation and amortisation	16	(11,788)	(11,986)
Provisions	17	(43,298)	(9,947)
Impairment losses	18	(659,659)	(295,038)
Net gains from non-current assets held for sale and liabilities associated therewith	-	367	397
(LOSS) FROM CONTINUING OPERATIONS	**-**	**(633,494)**	**(251,720)**
Income tax related to profit or loss from continuing operations	19	(23,006)	11,080
NET (LOSS) FROM CONTINUING OPERATIONS	**-**	**(656,500)**	**(240,640)**
Total profit after tax from discontinued operations	20	0	37,385
NET (LOSS) FOR THE FINANCIAL YEAR	**-**	**(656,500)**	**(203,255)**
Basic (loss) per share (€)	21	(65.65)	(5.20)
Diluted (loss) per share (€)	-	(65.65)	(5.20)

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

2 STATEMENT OF OTHER COMPREHENSIVE INCOME – NOVA KBM D.D.

€000

ITEM DESCRIPTION	Notes	Year ended 31.12.2013	Year ended 31.12.2012
NET (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**-**	**(656,500)**	**(203,255)**
OTHER COMPREHENSIVE INCOME AFTER TAX	**-**	**9,232**	**22,089**
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**44.1**	**268**	**0**
Actuarial net gains on defined benefit pension plans recognised in retained earnings	-	293	0
Income tax on items that will not be reclassified subsequently to profit or loss	-	(25)	0
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**44.1**	**8,964**	**22,089**
Available-for-sale financial assets	-	10,740	27,765
– valuation gains taken to equity	-	4,895	17,061
– transferred to profit or loss	-	5,845	10,704
Income tax on items that may be reclassified subsequently to profit or loss	-	(1,776)	(5,676)
TOTAL COMPREHENSIVE (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**-**	**(647,268)**	**(181,166)**

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

3 STATEMENT OF FINANCIAL POSITION – NOVA KBM D.D.

€000

ITEM DESCRIPTION	Notes	31.12.2013	31.12.2012
Cash and balances with the central bank	22	334,830	151,124
Financial assets held for trading	23	612	1,178
Financial assets designated at fair value through profit or loss	24	24,586	34,043
Available-for-sale financial assets	25	1,210,799	417,102
Loans and advances	-	1,988,824	3,127,450
– loans and advances to banks	26	151,294	169,382
– loans and advances to customers	27	1,826,371	2,891,136
– other financial assets	28	11,159	66,932
Held-to-maturity financial assets	29	192,437	397,130
Non-current assets and disposal groups classified as held for sale and discontinued operations	36	780	310
Property, plant and equipment	30	58,010	62,004
Investment property	31	2,339	1,660
Intangible assets	32	18,329	23,381
Investments in the equity of subsidiaries, associates and joint ventures accounted for using the equity method	33	54,139	55,980
Tax assets	34	10,290	35,100
– current tax assets	34	2	4
– deferred tax assets	34	10,288	35,096
Other assets	35	14,008	32,106
TOTAL ASSETS	**-**	**3,909,983**	**4,338,568**
Financial liabilities to the central bank	37	426,002	423,646
Financial liabilities held for trading	38	976	3,412
Financial liabilities measured at amortised cost	39	2,869,463	3,674,360
– deposits from banks	39	51,982	53,880
– deposits from customers	39	2,359,553	2,910,847
– loans from banks	39	357,910	501,368
– loans from customers	39	4,549	6,368
– debt securities	39	69,284	88,591
– subordinated liabilities	39	0	88,190
– other financial liabilities	39	26,185	25,116
Provisions	40	83,851	41,033
Other liabilities	41	11,979	3,548
TOTAL LIABILITIES	**-**	**3,392,271**	**4,145,999**
Share capital	42	150,000	40,814
Share premium	43	360,572	165,775
Revaluation reserves	44	7,140	(2,092)
Reserves from profit	45	0	275,044
Retained (losses) (including net loss for the financial year)	46	0	(286,972)
TOTAL SHAREHOLDERS´ EQUITY	**-**	**517,712**	**192,569**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**-**	**3,909,983**	**4,338,568**

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

4 STATEMENT OF CASH FLOWS – NOVA KBM D.D.

€000

Designation	ITEM DESCRIPTION	Year ended 31.12.2013	Year ended 31.12.2012
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	**Total (loss) before tax from continuing operations**	**(633,494)**	**(251,720)**
	Depreciation and amortisation	11,788	11,986
	Impairment of available-for-sale financial assets	41,158	12,334
	Impairment of loans and advances	478,718	254,954
	Impairment of held-to-maturity financial assets	1,657	0
	Impairment of tangible assets, investment property, intangible assets and other assets	18,643	12,443
	Impairment of investments in the equity of subsidiaries, associates and joint ventures	119,483	15,307
	Net (gains)/losses from exchange rate differences	1,343	(716)
	Net losses from held-to-maturity financial assets	3,392	58
	Net (gains)/losses from the sale of tangible assets and investment properties	(85)	26
	Other (gains) from investing activities	(10,381)	(15,472)
	Other (gains)/losses from financing activities	(89,540)	9,697
	Net unrealised (gains) from non-current assets held for sale and discontinued operations and liabilities associated therewith	(367)	(397)
	Other adjustments to total net profit or loss before tax	43,298	9,947
	Cash flow from operating activities before changes in operating assets and liabilities	(14,387)	58,447
b)	**(Increase)/decrease in operating assets (excluding cash equivalents)**	**(2,636)**	**301,431**
	Net decrease in financial assets held for trading	566	7,263
	Net decrease in financial assets designated at fair value through profit or loss	9,275	3,884
	Net (increase)/decrease in available-for-sale financial assets	(225,827)	122,261
	Net decrease in loans and advances	213,024	167,554
	Net decrease in non-current assets held for sale	169	700
	Net (increase)/decrease in other assets	157	(231)
c)	(Decrease) in operating liabilities	**(699,272)**	**(210,495)**
	Net increase in financial liabilities to the central bank	2,356	53,181
	Net increase in financial liabilities held for trading	515	1,719
	Net (decrease) in deposits and loans taken, measured at amortised cost	(690,787)	(315,481)
	Net increase/(decrease) in debt securities in issue, measured at amortised cost	(19,307)	60,706
	Net increase/(decrease) in other liabilities	7,951	(10,620)
d)	**Cash flow from operating activities (a + b + c)**	**(716,295)**	**149,383**
e)	**Income taxes (paid)/refunded**	**0**	**0**
f)	**Net cash flow from operating activities (d + e)**	**(716,295)**	**149,383**

€000

Designation	ITEM DESCRIPTION	Year ended 31.12.2013	Year ended 31.12.2012
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Receipts from investing activities**	**292,638**	**83,999**
	Receipts from the sale of tangible assets and investment properties	312	45
	Receipts from the disposal of subsidiaries, associates and joint ventures – discontinued operations	50,034	15,000
	Receipts from non-current assets or liabilities held for sale	639	562
	Receipts from the sale of held-to-maturity financial assets	239,127	65,536
	Other receipts from investing activities	2,526	824
	Other receipts from investing activities – discontinued operations	0	2,032
b)	**Cash payments on investing activities**	**(61,437)**	**(113,393)**
	(Cash payments to acquire tangible assets and investment properties)	(3,395)	(2,573)
	(Cash payments to acquire intangible assets)	(1,417)	(2,561)
	(Cash payments for investments in the equity of subsidiaries, associates and joint ventures)	(26,997)	0
	(Cash outflow to non-current assets or liabilities held for sale)	0	(2)
	(Cash payments to acquire held-to-maturity financial assets)	(29,628)	(108,257)
c)	**Net cash flow from investing activities (a + b)**	**231,201**	**(29,394)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Cash proceeds from financing activities**	**720,001**	**0**
	Cash proceeds from the issuance of subordinated liabilities	100,000	0
	Cash proceeds from the issuance of shares and other equity instruments	620,001	0
b)	**Cash payments on financing activities**	**0**	**(99,542)**
	(Dividends paid)	0	(3)
	(Repayments of subordinated liabilities)	0	(99,539)
c)	**Net cash flow from financing activities (a + b)**	**720,001**	**(99,542)**
D.	**Effects of change in exchange rates on cash and cash equivalents**	**(2,313)**	**(850)**
E.	**Net increase in cash and cash equivalents (Af + Bc + Cc)**	**234,907**	**20,447**
F.	**Opening balance of cash and cash equivalents**	**220,530**	**200,933**
G.	**Closing balance of cash and cash equivalents (D + E + F)**	**453,124**	**220,530**

Net receipts generated from investing activities in respect of discontinued operations (proceeds received from the sale of Zavarovalnica Maribor) totalled €50,034,000 in 2013, compared to €17,032,000 reported for 2012.

Reconciliation of cash and cash equivalents as of 31 December 2013 with the statement of financial position items is presented in Note 22.1.

Cash Flows from Interest, Dividends and Participation in Profits

€000

	Year ended 31.12.2013	Year ended 31.12.2012
Interest paid	(101,424)	(102,786)
Interest received	203,107	161,941
Dividends paid	0	(3)
Dividends and participation in profits received	1,812	5,395

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

5 STATEMENT OF CHANGES IN EQUITY – NOVA KBM D.D.

Statement of Changes in Equity for the year ended 31 December 2013

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained earnings/ (losses) (including net loss for the financial year)	Total shareholders' equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**40,814**	**165,775**	**(2,092)**	**275,044**	**(286,972)**	**192,569**
Total comprehensive (loss) for the financial year after tax	**0**	**0**	**9,232**	**0**	**(656,500)**	**(647,268)**
New share capital subscribed (paid)	252,411	720,000	0	0	0	972,411
Covering of the losses brought forward and of the loss for the financial year	0	(668,428)	0	(275,044)	943,472	0
Other	(143,225)	143,225	0	0	0	0
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**7,140**	**0**	**0**	**517,712**

Line 'Other': the decrease in share capital and the related increase in share premium are attributable to the decision of the Bank of Slovenia to write off all qualified liabilities of the Bank in order to cover its losses (Note 42).

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

Statement of Changes in Equity for the year ended 31 December 2012

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves f rom profit	Retained (losses) (including net loss for the financial year)	Total shareholders' equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**40,815**	**165,775**	**(24,181)**	**275,044**	**(83,717)**	**373,736**
Total comprehensive (loss) for the financial year after tax	**0**	**0**	**22,089**	**0**	**(203,255)**	**(181,166)**
Other	(1)	0	0	0	0	(1)
CLOSING BALANCE FOR THE FINANCIAL YEAR	**40,814**	**165,775**	**(2,092)**	**275,044**	**(286,972)**	**192,569**
RETAINED (LOSS) FOR THE FINANCIAL YEAR					**(286,972)**	**(286,972)**

Line 'Other': rounding adjustments.

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

03 NOTES TO THE FINANCIAL STATEMENTS OF NOVA KBM D.D.

1 GENERAL INFORMATION

Nova KBM d.d. (hereafter also referred to as the 'Bank') is the parent company of the Nova KBM Group (hereafter also referred to as the 'Group') which, as of 31 December 2013, comprised the parent company and 11 subsidiary companies.

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

As of 31 December 2013, the share capital of the Bank totalled €150,000,000 and was split into 10,000,000 ordinary no-par value shares, all of which were held by the Republic of Slovenia.

The Bank is obliged to prepare consolidated financial statements.

2 BASIS FOR THE PRESENTATION OF FINANCIAL STATEMENTS

The financial statements of the Bank for the year ended 31 December 2013 were authorised for issue on 3 April 2014 by the Nova KBM Management Board.

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

2.1 STATEMENT OF COMPLIANCE AND PURPOSE OF FINANCIAL STATEMENTS

The financial statements are prepared in accordance with International Financial Reporting Standards (hereafter 'IFRSs') as endorsed by the European Union. The financial statements are intended to comply with annual reporting requirements and to provide general use historical financial information.

The financial statements are intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

2.2 BASIS OF VALUATION

The financial statements are prepared under the historical cost convention, except for the following items for which fair value has been applied:

- financial assets designated at fair value through profit or loss
- available-for-sale financial assets
- derivatives
- investment property.

The fair value assessment methods are set out below.

2.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRSs requires the use of certain accounting estimates and judgements, which may affect the value of reported assets and liabilities and of potential assets and liabilities as of the reporting date, and income and expense for the period then ended.

The most important judgements relate to the classification of financial instruments, in particular to the distribution between the held-to-maturity portfolio and the portfolio held for trading. The classification of financial instruments is carried out in line with the Bank´s policy prior to the initial recognition of a financial instrument.

Estimates are used for: impairment of loans to customers; impairment of available-for-sale financial assets; fair value of financial assets and liabilities; provisions for off-balance sheet risks; depreciation of property, plant and equipment and amortisation of intangible assets; potential tax items; provisions for liabilities to employees; and provisions for pending legal issues.

Changes in estimates for impairment losses have an especially important impact on financial position of operations. These estimates are subject to adjustment in the future as a result of changes in economic conditions, customers´ ability to repay loans, and realisation of collateral values for defaulted loans (Note 4.1.5). Currently available information about the state of the economy indicated that it is likely that additional impairments will occur in the future and the future adjustments required could be material.

2.4 PRESENTATION AND FUNCTIONAL CURRENCY

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Exchange rate differences are recognised in profit or loss.

Assets and liabilities items denominated in foreign currency are translated and disclosed in the financial statements by applying the European Central Bank´s reference exchange rates in effect on the reporting date. The effects of translating foreign currency into the euro are recognised in profit or loss as net gain/loss from exchange rate differences.

Translation differences on non-monetary items, such as equity instruments designated at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equity instruments designated as available for sale are included in other comprehensive income, together with the fair value measurement effect.

3.2 CASH 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 Bank includes the following items among cash equivalents:
- cash and balances in settlement and current accounts
- loans to banks with an original maturity of up to three months
- investments in available-for-sale debt securities with an original maturity of up to three months.

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

3.3 FINANCIAL ASSETS

3.3.1 CLASSIFICATION OF FINANCIAL ASSETS

Upon initial recognition, the Bank classifies financial assets with regard to the purpose of the acquisition, the period held, and the type of the financial asset into one of the following categories:
- Financial assets designated at fair value through profit or loss are classified into financial instruments held for trading and other financial instruments designated at fair value through profit or loss. Financial assets held for trading are those instruments in which the Bank intends to actively trade and earn profit from short-term price differences. Equity instruments, debt securities and derivatives, except those held for hedging purposes, are classified into this category. Financial assets are upon initial recognition designated at fair value through profit or loss when doing so provides more relevant information of measurement or recognition.
- Held-to-maturity financial assets are assets with fixed or determinable payments and a fixed maturity, for which the Bank attests the purpose and capacity to hold them until maturity.
- Available-for-sale financial assets are assets which the Bank did not acquire for the purpose of trading but intends to hold them for an undetermined period of time, and which can be sold for the reason of liquidity requirements, changes in interest rates, exchange rates or the prices of financial instruments.
- Loans and advances are financial assets with fixed or determinable payments which are not traded on an active market.

The Bank uses financial instruments for the purpose of economic hedging of another financial instrument. In its accounting, the Bank does not apply the rules of hedge accounting because the effects of measurement of both the underlying and the hedge financial instrument are taken simultaneously to profit or loss.

The Bank does not hold instruments for which hedge accounting would be required.

3.3.2 RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS

Buying and selling of financial assets, except loans and advances, is recognised on the trading date (day when the contract is made). Loans and advances are recognised when funds are advanced to borrowers.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition (the Bank transferred all rights and risks under the financial asset). Should the Bank transfer the financial asset, but retain practically all risks and rights, derecognition of the asset is not carried out.

If a financial asset is derecognised in full, the difference between the carrying value of the asset and the sum of any compensations received (including the value of new assets received less the newly assumed liability), together with accrued gains or losses which were recognised directly in equity, is recognised in profit or loss.

3.3.3 MEASUREMENT OF FINANCIAL ASSETS

Financial assets, except financial assets carried at fair value through profit or loss, are initially measured at fair value plus any transaction costs.

Financial assets carried at fair value through profit or loss are initially measured at fair value, and the transaction costs are expensed in profit or loss on the purchase date.

After they are initially recognised, financial assets held for trading and available-for-sale financial assets are measured at fair value. Fair value of financial assets is based on current bid prices as valid on the reporting date or, if such are not available, closing prices. If a quoted market price is not available, the fair value of the financial instrument is estimated using comparative pricing models or discounted cash flow techniques.

Derivatives, including foreign currency forward transactions, interest rate swaps, currency options and forward transactions in securities, are used by the Bank for trading and hedging purposes and are measured at their fair value. The fair value of derivatives equals unrealised gains or losses on the valuation of derivatives at market prices or at contractual forward prices.

Available-for-sale equity instruments for which the fair value cannot be reliably estimated are measured at cost (acquisition cost increased by transaction costs and decreased by appropriate allowance for impairment).

Loans and receivables are measured at amortised cost using the effective interest rate method.

Loans and receivables are reported at their outstanding unpaid principal balances increased by any accrued interest and fees and reduced by appropriate allowance for impairment.

Held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated as the initially recognised amount of the receivable, reduced by repayments of the principal, increased or decreased by the accumulated difference between the initial amount and the amount due for payment, and reduced by appropriate allowance for impairment.

3.3.4 GAINS AND LOSSES

Gains and losses arising from the change in fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss in the period in which they are incurred.

Gains and losses arising from the change in fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for losses due to impairment and foreign exchange gains and losses, until the financial asset is derecognised at which time the effect previously included in equity is recognised in profit or loss. Interest on available-for-sale debt securities, calculated by applying the effective interest rate method, is recognised directly in profit or loss.

'Day one profit'

Where the transaction price of an instrument in a non-active market is different to the fair value from other observable market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value in profit or loss as the 'day one profit or loss'. In cases where the data used for valuations are not 'fully marketable', the difference between the transaction price and the price based on the valuation technique is recognised in profit or loss only after the market becomes relevant, or if the instrument is disposed of.

3.3.5 RECLASSIFICATION OF FINANCIAL ASSETS

During the years ended 31 December 2013 and 2012, the Bank did not reclassify any of its financial assets into another category.

3.3.6 IMPAIRMENT OF FINANCIAL ASSETS

Available-for-sale financial assets

At each reporting period the Bank assesses whether there is objective evidence that available-for-sale financial assets are impaired. A significant or prolonged decline in the fair value of a financial asset below its acquisition cost is taken into consideration when determining whether the asset is impaired. The decision regarding what is to be considered as a significant or prolonged decline in the fair value is based on estimates. In making such estimates, the Bank, in addition to other variables, takes into account the price volatility of securities.

If an available-for-sale debt instrument is impaired, the cumulative loss recognised within other comprehensive income is transferred to profit or loss. The loss so recognised may be reversed.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurred after the impairment loss had been recognised, the impairment loss is reversed through profit or loss.

In case of impairment of available-for-sale equity instruments, the loss due to impairment of an instrument is recognised in profit or loss. Reversal of impairment of an equity instrument is not carried out through profit or loss, but is, in case of a subsequent increase in fair value, disclosed directly within other comprehensive income.

Held-to-maturity financial assets

At each reporting period the Bank assesses whether there is objective evidence that held-to-maturity financial assets are impaired.

The amount of impairment loss is measured as the difference between the instrument´s carrying value and the present value of future cash flows discounted by the original effective interest rate. The amount of loss is recognised in profit or loss.

Loans and receivables

The Bank classifies each customer into the adequate credit rating category using an internal methodology. The classification of customers depends on their financial standing and performance, their ability to provide cash flow needed for the repayment of debts, the timely payment of their liabilities, the industry sector risk, and on subjective criteria.

The Bank continuously, or at least quarterly, assesses whether impartial evidence exists, or events have occurred since recognition of an asset, and whether these events have an impact on the future cash flows of a financial asset or a group of financial assets which can be reliably assessed.

Taking into consideration the risks associated with a customer and the transaction entered into, an appropriate impairment of a financial asset is made in accordance with IFRSs and an internal methodology. Significant financial assets are assessed individually for impairment. If impairment is established in an individual assessment of an asset, such asset shall be impaired individually, otherwise it shall be classified into the adequate debtor or financial asset risk category and impaired collectively. Individually insignificant financial assets are also assessed collectively for impairment.

For individually assessed financial assets, the amount of loss due to impairment is calculated as the difference between the asset´s carrying value and the present value of future cash flows discounted at the contractual interest rate. If the Bank possesses prime or adequate collateral, it also takes into account expected cash flows from the realisation of any such collateral.

For collectively assessed financial assets, the Bank uses a model that is based on the probability of a customer becoming a defaulting customer, taking into account the amount of loss incurred by each category of defaulting customers. The probability of default and the amount of loss are calculated for each individual category of loans on the basis of information about previous defaults and losses.

The adequacy of collective impairment rates is verified on an annual basis. Collective impairment rates are calculated separately for the portfolio of loans given to retail customers and the portfolio of loans given to corporate customers.

The carrying value of an impaired asset is reduced directly, or through the allowance account. Impairment loss is recognised in profit or loss.

If the amount of impairment decreases in a subsequent period, the previously recognised impairment loss shall be reversed. The amount of reversed loss is recognised in profit or loss.

If a customer is located in a higher-risk country, the sovereign risk also has to be taken into consideration when assessing losses due to impairment.

Whenever possible, the Bank strives to restructure loans rather than liquidate collateral. The restructuring of a loan can be made by extending the term of the loan or negotiating new terms and conditions for the loan. Once new terms and conditions are agreed, the loan is no longer classified as being due; however, a customer´s credit rating cannot be upgraded only on the basis of a loan being restructured. If a loan is restructured, the Bank constantly checks the borrower´s compliance with the terms of the restructured loan and monitors the probability of future repayments. Such loans remain subject to collective or individual impairment calculated using the original effective interest rate of the loan.

3.4 OFFSETTING

Financial assets and liabilities are offset in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.5 INVESTMENTS IN THE EQUITY OF SUBSIDIARIES AND ASSOCIATES

Investments in the equity of subsidiaries and associates are measured at acquisition cost, as reduced by any impairment losses.

3.6 SALE AND REPURCHASE AGREEMENTS

Securities purchased under agreements to resell (repos) are retained in the financial statements as loans and advances to banks or customers, as appropriate. According to the agreements on temporarily purchasing an instrument, the Bank does not enter into any risk and does not enjoy any benefits from the instrument. The contractual relation is classified as a secured loan, and instruments which are defined in the repo contract are pledged as security. The difference between the purchase and the sale price is treated as interest income and is accrued over the life of the repo agreements using the effective interest rate method.

3.7 LEASES

Assets leased to customers under lease agreements, which transfer substantially all the risks and rewards of ownership of an item of property, plant and equipment, with or without ultimate legal title, are classified as finance leases. Depending on the lease agreement, the asset leased may be bought or returned to the lessor. As a rule, such a lease agreement cannot be unilaterally terminated. For depreciating leased assets, the same accounting policy is applied as for the Bank´s own assets.

A lease which is not a finance lease is an operating lease.

The Bank is the lessee

Payments made under operating leases are included in profit or loss on a straight-line basis over the period of the lease.

An asset obtained on the basis of a finance lease is included within property, plant and equipment. Its acquisition cost equals the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. Lease payments are recognised as interest expense. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The Bank is the lessor

Assets leased under operating lease agreements are included within investment property or property, plant and equipment. Lease income is recognised in profit or loss on a straight-line basis over the period of the lease.

When assets are held subject to a finance lease, the present value of future lease payments is recognised as a receivable under the finance lease. Income from the finance lease, which is disclosed as interest income, is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor.

3.8 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are assets which the Bank uses for conducting its business. They are recorded at historical cost less accumulated depreciation and any impairment loss. Transaction costs directly attributable to the acquisition of an asset are included in the initial cost recognition.

Subsequent costs are included in the asset carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss in the financial period in which they are incurred.

The Bank starts to depreciate items of property, plant and equipment when these assets are available for use. Depreciation of assets is provided individually on a straight-line basis over their estimated useful lives.

The following depreciation rates were applied in both 2013 and 2012:

- buildings 1.3% and 2%
- computer equipment 25%
- motor vehicles 20%
- other equipment 6.7% to 20%

Land is recognised separately from buildings and, as it generally has an unlimited beneficial life, is not depreciated.

For co-divided ownership of commercial space, the value of the associated land is included in the Bank´s acquisition cost of the respective part of the building.

Items of property, plant and equipment are assessed due to possible impairment each time when there are indicators that, due to events or changes in the circumstances, the carrying value of an asset may not be recovered. If the estimated recoverable value of an asset is lower than its carrying amount, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in 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 carrying amount of an item of property, plant and equipment, and are recognised net in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

3.9 INVESTMENT PROPERTY

Items of investment property are tangible assets that the Bank does not use directly in its operations; they are held with the intention of renting them out commercially.

Upon recognition, they are measured at acquisition cost, and later the Bank measures items of investment property using the fair value model.

A licensed real estate appraiser verifies the fair value of items of investment property at the end of each financial year.

Gains or losses arising from changes in fair value are included in profit or loss in the period to which they relate.

3.10 INTANGIBLE ASSETS

The Bank possesses only intangible assets with a determinable period of useful life.

Initial recognition of an acquisition cost includes costs which are directly linked to the acquisition of an asset and are necessary for the asset to be put into use. The Bank depreciates intangible assets on a straight-line basis over their estimated useful lives. The following amortisation rates were applied in both 2013 and 2012:

- licences 12.5% and 20%
- other investments 10%

The Bank stops amortising intangible assets when they are defined as non-current assets for sale, or when they are derecognised as the Bank no longer expects any further economic benefits.

Intangible assets are tested for impairment when there are indicators that the carrying value may not be recovered. If the assessed recoverable amount of an asset is lower than its carrying value, the carrying value should be reduced to the recoverable amount and the reduction recognised as an impairment loss in profit or loss. The recoverable amount is the higher of the fair value less costs of sale and the value in use.

3.11 INVENTORY

Items of inventory are measured at the lower of cost and net realisable value. Net realisable value is the estimated sales price achieved in the ordinary course of business net of estimated costs of completion and costs of sale. Inventories are not revalued as a result of the increase in value.

Upon initial recognition, the Bank measures items of real estate received in settlement of receivables on the basis of an appraiser´s report. The Bank holds the items of real estate so acquired with the intention of selling them.

3.12 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of book and fair value, reduced by the costs of sale. These assets are not depreciated.

3.13 FINANCIAL LIABILITIES

Financial liabilities include liabilities to the central bank, financial liabilities held for trading and financial liabilities measured at amortised cost.

Financial liabilities held for trading include liabilities arising from the valuation of forward sale of securities, and are measured at fair value.

Financial liabilities measured at amortised cost are deposits and loans from banks and customers, debt instruments issued, and other financial liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After they are initially recognised, the liabilities are measured at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss using the effective interest rate method.

A financial liability is derecognised only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying value of a financial liability that is cancelled, or transferred to another party, and the compensation paid is recognised in profit or loss.

3.14 PROVISIONS

The Bank recognises non-current provisions for liabilities and expenses due to present obligations (legal or constructive) arising from past events for which it is possible that an outflow of resources embodying economic benefits will be required to settle the obligations and a reasonable estimate of the obligation can be made. The Bank creates provisions for employee benefits and similar liabilities, for off-balance sheet liabilities, for pending legal issues, and other provisions.

The Bank recognises provisions for pensions and similar liabilities that reflect the present value of liabilities for 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 corporate bonds of an issuer with a high credit rating, issued in a currency that is the same as the currency of the employer´s liabilities; the discount rate used for 2013 was 4.1% (2012: 4.6%). The Bank recognises provisions for every employee in such a manner that severance benefits at retirement provided for by the employment contract are taken into account, as well as the costs of expected loyalty bonuses for the total years of service at the company until retirement, while taking into consideration, among other factors, employee turnover in the range of 0.4% to 1.7% (2012: 0.4% to 1.1%) and the projected increase in salaries in the range of 1.4% to 1.9% (2012: 0.0% to 3.0%). A certified actuary performs the calculation of liabilities for the Bank.

Recognition and derecognition of provisions for employee benefits are recognised in profit or loss, except for actuarial gains/losses related to severance benefits, which, since 2013, have been recognised in the statement of comprehensive income.

The Bank recognises provisions for off-balance sheet liabilities on the basis of risk classification of the customer and the transaction concluded, taking into consideration similar criteria as for the impairment of loans.

Provisions for pending legal issues represent reliably assessed amount of liability on the reporting date. Provisions are estimated on the basis of known facts of the legal proceeding, previous experiences with similar proceedings, and opinions of legal experts.

Provisions for the restructuring of the Bank are recognised based on the adopted restructuring programme. Only direct expenses that will occur as a result of restructuring are taken into account in the restructuring provisions.

3.15 SHAREHOLDERS´ EQUITY

Share capital of the Bank is split into ordinary no-par value shares.

Treasury shares are deducted from equity.

Shares issued by the Bank are freely transferrable and in book-entry form. The Bank has issued only one class of shares. Holders of Bank shares have the following rights: pro-rata right to participate in the voting at the Bank´s Shareholders´ Meetings; participation in profits of the Bank (dividend); and pro-rata distribution of residual assets in case of bankruptcy or liquidation of the Bank, as stipulated by the applicable legislation. All shares have been fully paid for.

In accordance with its Articles of Association, the Bank establishes regulatory reserves until the aggregate amount of regulatory reserves and paid-in capital surplus (share premium) equals four times the amount of share capital.

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.

Statutory reserves are established up to the amount which equals eight times the amount of the Bank´s share capital.

Dividends on shares are recognised as a financial liability for the period in which the Shareholders´ Meeting approves the dividend payment.

3.16 COMMITMENTS AND CONTINGENCIES

The Bank undertakes transactions in financial instruments that carry off-balance sheet risk, such as financial and service guarantees, letters of credit and credit lines.

Financial guarantees

Off-balance sheet commitments under guarantees represent irrevocable obligations that the Bank will make payments in the event a customer cannot fulfil its obligations vis-à-vis third parties.

Fees received are amortised to profit or loss using the straight-line method.

Risks associated with off-balance sheet financial commitments and contingent liabilities are assessed similarly as for loans. Any increase in liability as a result of estimated expenses required for the settlement of contractual obligations is included in provisions.

3.17 INTEREST INCOME AND INTEREST EXPENSE

Income is recognised when a probability of future economic benefits exists, and such benefits can be reliably measured.

Interest income and expense are recognised in accrued amounts at a level, with maturities, and in the manner set out in the Bank´s decision on interest rates, or as stipulated in the agreement between the Bank and the customer.

All interest income and expense from operations in financial assets are recognised in profit or loss using the effective interest rate method.

The following items are included in interest income: regular, default and accrued interest, as well as prepaid fees for costs of repaying non-current loans given to households. These fees are transferred to income in line with the loan repayment period.

All interest on deposits, securities issued, loans received and other expenses on financial liabilities are included in interest expense.

3.18 DIVIDEND INCOME

Dividends or participating interests received from equity investments in companies are included in the dividend income. The Bank recognises dividend income in profit or loss upon obtaining the right to dividend.

3.19 FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSE

Fee and commission income includes fees and commissions for services rendered by the Bank. Fee and commission expense includes amounts paid for the services of others.

Fee and commission income and expense are recognised in profit or loss when the service is rendered.

3.20 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Realised gains and losses on available-for-sale financial assets, loans measured at amortised cost and held-to-maturity financial assets are recognised in profit or loss upon selling the asset, at maturity, or upon other derecognition of the financial asset.

3.21 NET GAINS AND LOSSES ON FINANCIAL ASSETS HELD FOR TRADING

Net gains and losses from trading include realised and unrealised gains and losses on financial assets held for trading, valuation of derivatives and net gains from buying and selling foreign currency.

3.22 OTHER NET OPERATING INCOME OR LOSS

Other net operating income or loss includes realised gains and losses from non-banking activities (income from leases and from selling inventory, expenses for memberships and contributions, other expenses).

3.23 IMPAIRMENTS

Included within impairments are impairments of financial assets not measured at fair value through profit or loss; impairments of items of property, plant and equipment; impairments of intangible assets; and impairments of items of investment property.

3.24 TAXES

In accordance with the applicable legislation, the income tax rate is set at 17% (2012: 18%) of the tax base (the Bank´s tax base for both 2013 and 2012 was negative).

Deferred taxes are calculated for all temporary differences between the value of assets and liabilities for tax purposes and their carrying value. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability settled.

The most significant temporary differences arise from the valuation of financial instruments, and from provisions.

Deferred 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 charged.

Deferred taxes related to the valuation of available-for-sale financial instruments and measured at fair value are disclosed directly within other comprehensive income.

3.25 REPORTING BY SEGMENTS

A segment is recognisable as an integral part of the Bank engaged in marketing of products or services (operating segment) and is subject to risks and returns different from those in other segments. Reporting by segments for management purposes is the same as presented in the financial statements.

The Bank conducts its business as a single operating segment, since the risks and returns across different activities do not vary significantly. The Bank´s reporting by segments is disclosed in the Financial Report of the Nova KBM Group.

3.26 STANDARDS AND INTERPRETATIONS

The accounting policies used to prepare the financial statements are consistent with those of the previous financial year, except for new and amended standards and interpretations effective as of 1 January 2013, as presented below:

- **Disclosures required by IAS 8.28** – information regarding initial application of particular new regulations.

In the current period, the following amendments to existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- **IFRS 13** – Fair Value Measurements; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 1** – First-time Adoption of IFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 1** – First-time Adoption of IFRSs – Government Loans; adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 7** – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IAS 1** – Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income; adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012).
- **Amendments to IAS 12** – Income Taxes – Deferred Tax: Recovery of Underlying Assets; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IAS 19** – Employee Benefits – Improvements to the Accounting for Post-employment Benefits; adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2009 – 2011) resulting from the annual improvement project of IFRSs (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording; adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013).
- **IFRIC 20** – Stripping Costs in the Production Phase of a Surface Mine; adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

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

Standards and interpretations issued by the IASB and adopted by the EU but not yet effective

At the date of authorisation of the financial statements included in this report the following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU were in issue but not yet effective:

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

Standards and interpretations issued by the IASB but not yet adopted by the EU

At present, IFRSs as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 4 February 2014:

- **IFRS 9** – Financial Instruments and subsequent amendments (effective date has not been yet determined).
- **Amendments to IAS 19** – Employee Benefits – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2010 – 2012) resulting from the annual improvement project of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2011 – 2013) resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **IFRIC 21** – Levies (effective for annual periods beginning on or after 1 January 2014).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Bank´s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39** – Financial Instruments: Recognition and Measurement, would not significantly impact the financial statements, if applied as at the balance sheet date.

The Bank has not early adopted any standard or interpretation issued but not yet effective.

The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on its financial statements in the period of initial application.

4 RISK EXPOSURE

The Bank revises the document Strategy of Nova KBM on an annual basis. The Strategy is the key document in the preparation of annual business plans.

The Bank´s Management Board delegates risk oversight and management to the senior management (policy holders). The policy holders, together with officers responsible for particular policies, determine the method of measuring individual risks. The responsible officers are specialised in defining, measuring and controlling individual risks. The organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the adopted rules of procedure, each risk management policy has to be approved by the committee in charge of overseeing risk management policies and, in addition, agreed by the President of the Management Board or his deputy.

Risk management is conducted in accordance with established and approved risk management policies. The system of limits and the limits themselves are proposed by organisational units that are specialised in managing individual risks and are organisationally independent of the units accepting risks, whereas the approval lies with decision-making bodies or the Management Board. Organisational units specialising in the management of individual risks report periodically on risk exposure and any violation of limits.

4.1 CREDIT RISK

Credit risk is the risk of loss resulting from the failure of a Bank´s debtor to discharge its liabilities. The Bank is exposed to credit risk through its loan portfolio.

The Bank manages credit risk by: continuous monitoring and analysis of debtors´ performance; monitoring the repayments made by debtors; monitoring approved loans; monitoring the adequacy of collateral provided for securing loans; measuring the concentration of the loan portfolio by industry sectors, regions, market segments and the size of debtors. In addition to individual treatment of each debtor, the Bank analyses the impact of each approved loan on the Bank´s total loan portfolio, i.e. on the concentration or diversification of the portfolio. For that purpose, the Bank devotes special attention to the size of exposure to individual categories of credit risk, and to the concentration of loans by individual industry sectors, regions and market segments. The Management Board of the Bank is informed of the portfolio measurement reports on a monthly basis.

The Bank manages credit risk in several ways, such as by:

- identifying the risk related to debtors and recognising impairment of financial assets and provisions for off-balance sheet liabilities in accordance with IFRSs
- providing capital to ensure sufficient capital coverage of credit risk
- setting exposure limits for debtors, groups of related persons, industry sectors and market segments
- properly securing financial assets.

4.1.1 BAD AND DOUBTFUL LOANS

The Bank defines as non-performing loans (NPLs) such loans for which it reasonably believes that the debtor will not discharge all of its liabilities within the contractual period. In a narrower sense, loans to D- and E-rated customers are treated as NPLs, while in a broader sense, loans to C-rated customers are also included in NPLs.

The Bank classifies within NPLs exposures to D- and E-rated customers. According to the internal methodology for assessing the creditworthiness of corporate customers, banks, sole proprietors and non-profit organisations, the following customers are classified into these rating categories:

- customers that have been over 180 days late in paying their liabilities
- customers that have filed for receivership or for whom a receivership has been confirmed
- customers that have filed for bankruptcy
- customers for whom the Bank has information which indicates that they may be incapable of paying their liabilities to the Bank.

The Bad Loans Management Department and the Legal Office are responsible for managing the portfolio of D- and E-rated customers.

The Bank defines as doubtful loans such loans that are classified in the C credit rating category. The following customers are classified into this category:

- customers that have been over 90 days late in paying a significant amount due
- customers for whom substantial likelihood exists that their future cash flows will not set off their liabilities
- customers for whom the Bank has negative information on their performance
- customers who have shown insufficient or negative capital in their financial statements.

C-rated customers are dealt with by the Bank´s commercial departments.

4.1.2 INTEREST RATES AND LOAN APPROVAL FEES

Interest rates are determined in accordance with the applicable Interest Rate Schedule which is approved by the Management Board on a monthly basis.

Interest rates depend on the maturity and purpose of a loan, the borrower´s rating, type of collateral provided for the loan, and the borrower´s track record of cooperation with the Bank or companies of the Nova KBM Group.

Loan approval fees are set out in the applicable Tariff which is approved by the Management Board. Fees are determined upon considering market analysis, calculation of cost prices, and cooperation with the respective customer.

4.1.3 EXPOSURE LIMITS

With respect to limiting its exposure, the Bank takes into account all applicable regulatory limitations. In accordance with Slovene legislation and the regulations governing the banking business, exposure to a single customer or to a group of related customers shall not exceed 25% of the Bank´s equity.

The approval of the Supervisory Board is required in cases where the exposure to a single customer or to a group of related customers exceeds 10%, 15% and 20% of the Bank´s equity. The Supervisory Board´s consent is also required for loans approved to customers having a special relationship with the Bank.

4.1.4 LOAN COLLATERAL POLICY

As a rule, loans are not granted without the borrower providing at least one type of collateral.

Unsecured loans are exception and are approved only to risk-free customers. Risk-free customers are stipulated in the Bank´s internal documents. Such risk-free customers are, for example, the Republic of Slovenia, the Bank of Slovenia, and banks in the Republic of Slovenia with the authorisation of the Bank of Slovenia for conducting banking operations.

Loans given to all other customers are secured by at least one type of collateral. The type of collateral to be provided depends on:
- type of a customer (including its legal status)
- customer´s credit rating
- type and maturity of a loan
- customer´s repayment capabilities
- customer´s relationship with the Bank and with other customers
- customer´s track record of cooperation with the Bank.

For corporate loans, the basic collateral to be provided is a clean bill of exchange along with a bill of exchange statement outlining the conditions for completing and enforcing the bill of exchange.

If so required by the Bank, individual or several loans shall be additionally secured by providing one or several other types of collateral. As a rule, additional collateral is required for non-current loans (loans with a maturity of over one year).

With regard to the adequacy of collateral provided to mitigate credit risk, the following classification has been adopted:
- prime collateral
- adequate collateral
- pledge of movable or immovable property
- other types of collateral.

4.1.5 COUNTERPARTY CREDIT RISK

As of 31 December 2013, the share of performing loans (A- and B-rated loans) accounted for 54.67% of the total loans, compared to 56.49% at the 2012 year-end.

The following table sets forth, for the periods indicated, the structure of the loan portfolio by credit rating category:

	31.12.2013	31.12.2012
Credit rating	**% of portfolio**	**% of portfolio**
A	43.31	38.84
B	11.36	17.65
C	14.50	23.90
D	21.95	4.67
E	8.88	14.94

Analysis of exposure to credit risk

	Loans to customers		Loans to banks	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Net disbursed loans	**1,826,371**	**2,891,136**	**151,294**	**169,382**
Individual impairment				
Gross amount	788,637	1,191,874	56,909	62,062
Impairment	(389,705)	(502,173)	(20,396)	(289)
Net amount	398,932	689,701	36,513	61,773
Collective impairment				
Credit rating A	859,638	1,111,019	0	0
Credit rating B	312,845	687,393	0	0
Credit rating C	202,157	352,383	0	0
Credit rating D	26,140	15,546	0	0
Credit rating E	40,603	29,645	0	0
Gross amount	**1,441,383**	**2,195,986**	**0**	**0**
Impairment	**(57,166)**	**(71,061)**	**0**	**0**
Net amount	**1,384,217**	**2,124,925**	**0**	**0**
Net non-impaired loans	**43,222**	**76,510**	**114,781**	**107,609**
Total net loans	**1,826,371**	**2,891,136**	**151,294**	**169,382**

The total amount of disbursed loans decreased year-on-year by 35.38% to €1,977,665,000 as of 31 December 2013.

Loans of €845,546,000 were individually impaired, with impairment losses of €410,101,000 being set aside for this portion of the portfolio. Loans in the amount of €1,441,383,000 were collectively impaired, and impairment losses of €57,166,000 were recognised for this portion of the portfolio. Loans in the aggregate amount of €158,003,000 were not impaired at the end of 2013, of which loans worth €43,222,000 were secured by prime collateral.

As of 31 December 2013, net non-impaired loans given to banks and to customers totalled €114,781,000 and €43,222,000, respectively.

The following table shows net exposure by credit rating and impairment method, without taking account of collateral provided:

Analysis of net exposure without taking account of collateral

	31.12.2013	31.12.2012
Individual impairment	**550,226**	**859,083**
Collective impairment		
Credit rating A	895,814	1,151,591
Credit rating B	308,896	686,071
Credit rating C	190,016	347,053
Credit rating D	16,852	8,769
Credit rating E	15,861	7,951
Total net exposure	**1,977,665**	**3,060,518**

Credit risk by market segments

The following tables set forth, for the periods indicated, the volume of loans and total impairment losses by market segments:

Analysis of loans by market segments

	31.12.2013	31.12.2012
Large corporate customers	479,311	934,875
Micro enterprises and SMEs	633,234	1,274,809
Sole proprietors	74,538	113,597
Households	849,520	898,236
Other	408,329	412,524
Domestic banks	24,685	52,807
State	15,330	15,180
Non-profit household service providers	2,708	4,119
Foreign banks	147,005	116,864
Foreign customers	216,997	221,723
Customers not classified by market segment	1,604	1,831
Total gross loans	**2,444,932**	**3,634,041**

Analysis of total loan impairment losses by market segments

	31.12.2013	31.12.2012
Large corporate customers	72,311	163,319
Micro enterprises and SMEs	188,771	298,889
Sole proprietors	12,741	8,390
Households	26,688	25,028
Other	166,756	77,897
Domestic banks	2	2
State	446	509
Non-profit household service providers	192	132
Foreign banks	20,394	287
Foreign customers	144,947	76,467
Customers not classified by market segment	775	500
Total loan impairment losses	**467,267**	**573,523**

Overdue and unpaid claims

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

	31.12.2012				
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	0	0	0	29	29
State	144	0	0	0	144
Legal entities	37,480	14,678	2,604	613,901	668,663
Households	3,780	1,103	538	27,144	32,565
Total	**41,404**	**15,781**	**3,142**	**641,074**	**701,401**

Overdue but not impaired claims

31.12.2013			
Up to 30 days	31 to 90 days	Over 90 days	Total
79	495	3	577

31.12.2012			
Up to 30 days	31 to 90 days	Over 90 days	Total
0	1	192	193

Outstanding loan recovery

The Bad Loans Management Department is responsible for monitoring and resolving outstanding and bad loans in accordance with regulatory requirements and internal documents. The latter determine the method of transferring bad loans to the Bad Loans Management Department for recovery. If a debtor is in default on a materially significant amount for more than 90 days, the Bank declares such customer as a delinquent customer and undertakes all the necessary steps for the collection of debt, or restructures the loan if this might mitigate the loss incurred by the Bank.

Where an obligation is overdue for more than 180 days, or if the debtor declares the implementation of an insolvency procedure, the collection of the debt is transferred to the Bad Loans Management Department or Legal Office. As long as the overdue period does not exceed 180 days, the collection of debts is managed within the commercial departments, with the professional support provided by the Bad Loans Management Department. In cooperation with the relevant departments, the Bad Loans Management Department is preparing amendments to the internal regulations (policy, rules of procedure and instructions) governing the management of NPLs, which, among other changes, will redefine the overdue period applying to the transfer of NPLs to the Bad Loans Management Department.

When outstanding loans are transferred to the Bad Loans Management Department, this department evaluates all available information, particularly collateral coverage of outstanding loans, on the basis of which it assesses the expected loss. The Bad Loans Management Department also evaluates the underlying reasons for default to prevent future loans from becoming bad loans.

Together with the debtor, the Bad Loans Management Department tries to find out the options for restructuring the loan in order to restore the borrower´s ability to resume repayments of liabilities to the Bank (extension of maturity date, possible grace period on the principal, change of interest rate). In such cases, the Bank also tries to obtain additional collateral. If the loan is restructured, the Bad Loans Management Department monitors the borrower´s compliance with the terms of the restructured loan.

Amendments to the internal regulations governing the management of NPLs, as well as the practice applied by the Bad Loans Management Department, will incorporate the preventive restructuring proceedings and other novelties related to the debt collection, as introduced by the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act. If a loan cannot be restructured, or if another solution acceptable to the Bank cannot be agreed upon, the Bad Loans Management Department lodges a request for carrying out appropriate court procedures under which the Bank and the debtor try to reach an in-court or out-of-court settlement (e.g. through mediation). The Bad Loans Management Department might try to reach an agreement with a debtor together with other companies in the Nova KBM Group, or through bank syndicates. Sometimes additional measures can be taken to recover some or all of the given funds, such as selling Bank´s rights to third parties.

In carrying out its work, the Bad Loans Management Department complies with internal rules and applicable legislation and, as needed, collaborates with legal and other experts, both in-house and outside the Bank. Bad loans are written off after the Bad Loans Management Department has taken all the necessary and sufficient measures provided by law and internal regulations to recover the loan.

NPLs of the total loan portfolio

	31.12.2013	31.12.2012
Total gross loan portfolio	2,444,932	3,634,041
Total net loan portfolio	1,974,665	3,060,518
Net NPLs (overdue over 90 days; ratings D and E)	379,405	452,485
Net NPLs/total net loan portfolio (%)	19.18	14.78

In accordance with the Decree on the Implementation of Measures to Strengthen Bank Stability, in 2013 the Bank transferred a portion of its gross loans to BAMC (Note 6). For the purpose of transferring loans to BAMC, assets at risk held on the books of the Bank were valued on the basis of their long-term realistic economic value calculated according to the methodology described in the decree referred to above. The transfer value, which was equal to the book value of the assets on the day of their transfer to BAMC, was determined on the basis of the long-term realistic economic value of the assets. The assessment of the long-term realistic economic value of the assets, and of the transfer value, was approved by a certified independent auditor.

Bad loans were transferred to BAMC in order for the Bank to improve its capital adequacy and performance in the long run. In exchange for bad loans received from the Bank, BAMC issued and transferred to the Bank bonds guaranteed by the Republic of Slovenia.

In addition, in order to comply with an implementing technical standard of the EBA, which was developed and published in 2013 and came into effect on 1 January 2014, at the end of 2013 the Bank adopted a rigorous principle of classifying its loans as non-performing, causing the proportion of NPLs in the Bank´s total loan portfolio to increase.

In 2013, the Bank continued to collect the unpaid obligations of customers by liquidating instruments of collateral through regular court proceedings and in out-of-court settlements. The Bank has set aside adequate impairment losses for NPLs on the basis of anticipated cash flows generated from the liquidation of collateral. The parameters used to calculate individual impairments are verified at least once a year.

If a customer is willing to actively cooperate in the out-of-court settlement, and on the condition that the Bank (i) holds a mortgage that has all the elements of a suitable mortgage, (ii) possesses a valid appraisal of the property provided to it as security for the loan, and (iii) is registered as the first-priority mortgage creditor, the expected cash flow generated from the liquidation of pledged property, which is used to determine the level of impairment losses, is calculated by taking into account 70% to 80% of the appraised value of pledged property, and the liquidation period of between six months and one year.

If the out-of-court settlement is not successful, the Bad Loans Management Department assesses the expected cash flow generated from the liquidation of pledged property by generally taking into account 50% of the appraised value of pledged property and the liquidation period of five years.

In cases where the property cannot be sold at auctions, it is purchased by KBM Invest, a subsidiary company engaged in the sale and brokerage of real estate.

Other types of collateral for loans may be taken into account in the calculation of individual impairments only if the expected cash flow and the repayment period can be realistically assessed.

Loans are restructured because of financial difficulties of borrowers. The Bank may, in order to reduce potential loss, restructure a loan by modifying the terms of the original loan or by approving a new loan for the purpose of repaying the existing one. As of 31 December 2013, the Bank´s exposure to C-rated customers whose loans have been restructured amounted to €78,766,000, of which loans totalling €28,094,000 were approved in 2013.

Analysis of loans and the percentage of NPLs by industry sectors

The following table sets forth, for the periods indicated, the total net loans and NPLs by industry sector of debtors, and the percentage of NPLs within each industry sector:

Industry sector	31.12.2013			31.12.2012		
	Total net loans	Net NPLs	Share of NPLs (%)	Total net loans	Net NPLs	Share of NPLs (%)
Households	822,832	21,415	2.60	873,207	10,535	1.21
Agriculture and hunting, forestry, fishing	20,210	2,199	10.88	25,984	3,139	12.08
Mining	394	215	54.57	1,930	1,598	82.80
Manufacturing industry	332,199	87,478	26.33	558,383	124,927	22.37
Electricity, gas and steam supply	56,701	9,779	17.25	90,925	0	0.00
Water supply, waste and sewage management, rehabilitation of the environment	4,185	458	10.94	7,078	2,146	30.32
Construction	45,730	10,339	22.61	217,930	111,318	51.08
Trade, maintenance and repair of motor vehicles	147,284	52,595	35.71	255,176	37,865	14.84
Transportation and storage	53,520	500	0.93	66,842	6,133	9.18
Accommodation and food service activities	32,233	11,024	34.20	113,507	22,073	19.45
Information and communication activities	13,783	7,680	55.72	35,536	14,556	40.96
Financial intermediation	266,076	71,979	27.05	467,358	43,622	9.33
Real estate activities	44,847	34,592	77.13	110,126	39,174	35.57
Professional, scientific and technical activities	64,035	31,530	49.24	124,375	21,677	17.43
Other various business activities	6,854	1,036	15.12	8,341	903	10.83
Public administration and defence services, compulsory social security activities	8,479	0	0.00	11,909	0	0.00
Education	3,391	297	8.76	4,768	925	19.40
Health and welfare security	21,030	9,150	43.51	25,045	9,145	36.51
Arts, entertainment and recreation	30,157	26,643	88.35	57,565	2,445	4.25
Other activities	3,725	496	13.32	4,533	304	6.71
Total net loans	**1,977,665**	**379,405**	**19.18**	**3,060,518**	**452,485**	**14.78**

Analysis of collateral – value of collateral for given loans

		31.12.2013	31.12.2012
1.	**Collateral for individually impaired loans**	**772,825**	**1,364,061**
	– movable and immovable property	549,708	993,205
	– debt securities	1,935	0
	– equity instruments	59,551	59,180
	– other	161,631	311,676
2.	**Collateral for collectively impaired loans**	**2,371,299**	**3,598,658**
	– movable and immovable property	2,044,114	2,827,950
	– debt securities	129	213
	– equity instruments	35,493	141,014
	– other	291,563	629,481
3.	**Collateral for non-impaired loans**	**49,019**	**96,241**
	– movable and immovable property	596	962
	– debt securities	0	2,900
	– other	**48,423**	**92,379**
4.	**Total**	**3,193,143**	**5,058,960**

As of 31 December 2013, the total amount of collateral in the form of movable and immovable property was €2,594,418,000, of which 78.79% related to collectively impaired loans and 21.19% related to individually impaired loans. Collateral of €2,064,000 was in the form of debt securities, of which €129,000 related to collectively impaired loans and €1,935,000 related to individually impaired loans. Collateral in the form of equities amounted to €95,044,000, of which 37.34% related to collectively impaired loans and 62.66% related to individually impaired loans.

A significant proportion of the Bank´s loan portfolio is secured by real estate and equities. The estimated value of this collateral, which may have a material effect on the financial statements owing to inactivity of the Slovene real estate market, is based on market data. In addition, a number of equities pledged as security for loans are not quoted on a stock exchange and are not traded in markets. There is uncertainty as to the future economic situation, which may have an impact on the value of collateral and the time needed for its realisation.

Valuation of real estate

For the purpose of secured lending, financial reporting, purchase or sale of real estate, and renting out of real estate, valuation of real estate is regulated by the Nova KBM Group Methodology for Real Estate Valuation. The Bank must obtain the value and assess the quality of real estate collateral to be provided prior to reaching any decision regarding the acceptance of the respective real estate as security for its exposure to credit risk, and must monitor the movements in the value and quality of real estate collateral during the entire period of its exposure to credit risk.

The assessment of the value of real estate that must comply with the International Valuation Standards (IVSs) must be conducted by an independent real estate appraiser appointed by the Slovene Auditing Institute or the Ministry of Justice of the Republic of Slovenia.

For the valuation of residential real estate with a value of up to €500,000, the Bank may use the generalised market value as determined in the process of the mass real estate valuation, and published by the Surveying and Mapping Authority of the Republic of Slovenia. The market value of real estate as set out in the applicable sales agreement may also be used for the needs of establishing collateral.

Because of the complexity of real estate valuations, the following two valuation methods are used:

- Simple valuation method: this method is used for the valuation of real estate whose value does not exceed €100,000, in particular for family houses, apartments, building plots, individual agricultural land parcels, individual business premises, and smaller industrial buildings.
- Complex valuation method: this method is used for the valuation of real estate of high value, specialised real estate, investment property under construction, and trade-related property as defined under IVS 310. This method is also used for the valuation of real estate for the purpose of financial reporting.

In the case of complex valuations, the Bank selects appraisers to carry out the value assessment. Selection is through a tender process.

Valuation reports requested by the Bank are checked by the Credit Analysis Department, which confirms whether the valuation carried out is appropriate for the Bank´s needs. The independent review of the Bank´s loan portfolio, carried out in 2013, focused on the following: the Bank´s exposure to credit risk; the valuation of real estate received as collateral; the value assessments of real estate carried out in 2012 and 2013; and complex valuations of real estate. Statistical revaluation is used by the Bank as the method to assess changes in the value of real estate over time.

Analysis of exposure by market segments and regions

	Loans to customers		Loans to banks	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
CARRYING (NET) AMOUNT	**1,826,371**	**2,891,136**	**151,294**	**169,382**
By market segment	**1,826,371**	**2,891,136**	**151,294**	**169,382**
– non-financial companies	795,363	1,560,416	0	0
– other monetary financial organisations	0	0	24,682	52,801
– other financial intermediaries, except insurance companies and pension funds	53,347	180,729	0	0
– auxiliary financial service providers	3,573	7,991	0	0
– insurance companies and pension funds	7	7	0	0
– central government	6,657	3,245	0	0
– local government	3,587	4,417	0	0
– households	884,629	978,078	0	0
– non-profit household service providers	2,516	3,987	0	0
– foreign persons	76,692	152,266	126,612	116,581
By region	**1,826,371**	**2,891,136**	**151,294**	**169,382**
– Slovenia	1,749,679	2,738,870	24,682	52,801
– European Monetary Union	1,260	1,489	109,588	101,827
– other European Union	51,050	53	683	195
– republics of the former Yugoslavia	23,904	149,152	4,910	11,992
– other	478	1,572	11,431	2,567

As of 31 December 2013, net loans given to banks and to customers totalled €151,294,000 and €1,826,371,000, respectively. Of the latter figure, the largest proportion related to households (48.44%), followed by non-financial companies (43.55%).

Loans given to customers headquartered in the Republic of Slovenia accounted for 95.80% of the total loans to customers. Of the non-banking loans granted to foreign persons, the largest proportion, i.e. 2.80% of the total loans to customers, related to customers residing in the non-EMU EU countries.

Loans given to banks located in the EMU made up 72.43% of the total loans to banks, with loans given to Austrian banks accounting for the largest proportion. As for non-bank customers, net exposure to German customers accounted for the largest proportion of the Bank´s exposure to this customer segment.

4.2 LIQUIDITY RISK

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

During the year ended 31 December 2013, the Bank managed liquidity risk in accordance with its Policy of Managing Liquidity Risk in the Nova KBM Group which sets out the methods and responsibilities for managing assets and liabilities to provide for sufficient cash inflows within a certain period of time. The Policy sets out the measures for assessing, measuring, managing and monitoring liquidity.

The Policy includes liquidity planning for the purpose of timely repayment of obligations, measures to be adopted under adverse liquidity conditions, and procedures for checking variables based on which the policy for managing liquidity risk has been formulated.

The document Business Continuity Plan for Managing Liquidity Risk in Nova KBM sets out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position of the Bank. The Bank carries out, on a monthly basis, liquidity stress tests in compliance with the Methodology for Implementing Stress

Scenarios of Liquidity Risk in the Nova KBM Group. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on the Bank´s liquidity position, and for preparing measures to mitigate the liquidity risk.

Net liquid assets

The Bank uses an internal methodology for determining net liquid assets, which represent the difference between the portion of assets that can be converted into liquid funds within a short period of time, and the unstable portion of liabilities. The unstable portion of liabilities is the portion of the Bank´s liabilities that may become due in the same short period of time. According to an internal regulation, at least a positive amount of net liquid assets must be maintained for ensuring the Bank´s operational and regulatory liquidity.

Liquidity gap

The liquidity gap, which is regularly monitored and thoroughly analysed by individual time buckets, is a measure of the level of maturity matching of assets and liabilities. The Bank cannot avoid the liquidity gap, but can manage it effectively. A positive gap represents a surplus of funds that can be invested profitably. On the other hand, a negative gap is a sign of a shortage of funds that needs to be provided for.

Liquidity ratios and obligatory deposits

During the year ended 31 December 2013, the Bank complied with the Bank of Slovenia regulations on minimum liquidity. As of 31 December 2013, the Bank´s liquidity ratio was 1.872, compared to 1.292 a year earlier. The prescribed liquidity ratio is set at 1.0. The Bank also complied with the Bank of Slovenia regulations on obligatory deposits.

Stability of deposits

The Bank uses its own econometric model for calculating the proportion of stable sight deposits. This model is based on regression analysis which is used to examine the movements in sight deposits over time. For using the model, the dependent variable and independent variables must be determined. The results derived from the model provide a basis for analysing the predictive strength, and for carrying out retroactive testing. The assessment of the proportion of stable sight deposits over 22 working days is carried out on a daily basis. For the period from 1 January to 31 December 2013, the results of this model gave a higher level of stable sight deposits than the one that was taken into account in the calculation of liquidity ratios according to the regulations. For the year ended 31 December 2013, the average stability of sight deposits was 83.85%, compared to 83.96% for the year ended 31 December 2012. The average stability of household deposits was as high as 93.84% in 2013, against 93.77% reported for 2012.

Analysis of liquidity risk as of 31 December 2013

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

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with a maturity of up to and over five years.

Non-derivative balance sheet liabilities as of 31 December 2013

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities to the central bank	427,178	88	175	788	426,127	0
Financial liabilities held for trading	976	976	0	0	0	0
Financial liabilities measured at amortised cost	2,970,002	1,278,968	372,305	782,518	414,248	121,963
Other liabilities	613,542	12,242	3,976	34,304	41,308	521,712
Total liabilities	**4,011,698**	**1,292,274**	**376,456**	**817,610**	**881,683**	**643,675**
Guarantees	**250,991**	**32,613**	**17,509**	**79,077**	**80,840**	**40,952**

The table above shows non-discounted contractual balance sheet liabilities. A significant portion of the Bank´s liabilities falls due within a one-month period, referring to sight deposits. The Bank monitors the stability of sight deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in sight deposits.

Derivatives as of 31 December 2013

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	85,242	36,802	48,440	0	0	0
inflow	84,933	36,681	48,252	0	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	552	0	399	153	0	0
inflow	566	0	405	161	0	0
TOTAL OUTFLOW	**85,794**	**36,802**	**48,839**	**153**	**0**	**0**
TOTAL INFLOW	**85,499**	**36,681**	**48,657**	**161**	**0**	**0**

The table above presents non-discounted cash flows on derivatives. The figures were translated into the euro at the ECB exchange rate effective on 31 December 2013. The table takes into account the method of settlement, which is in most cases done on a gross amount basis.

Analysis of liquidity risk as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	151,124	151,124	0	0	0	0
Financial assets held for trading	1,178	1,178	0	0	0	0
Financial assets designated at fair value through profit or loss	34,043	34,043	0	0	0	0
Available-for-sale financial assets	417,102	417,102	0	0	0	0
Loans and advances	3,127,450	902,308	154,884	614,034	942,641	513,583
Held-to-maturity financial assets	397,130	20,596	901	189,976	156,259	29,398
Other assets*	210,541	11,454	0	460	31,947	166,680
Total assets	**4,338,568**	**1,537,805**	**155,785**	**804,470**	**1,130,847**	**709,661**
Liabilities						
Financial liabilities to the central bank	423,646	0	0	0	423,646	0
Financial liabilities held for trading	3,412	3,412	0	0	0	0
Financial liabilities measured at amortised cost	3,674,360	1,283,226	429,924	939,092	846,936	175,182
Other liabilities*	237,150	4,388	3,982	12,994	17,406	198,380
Total liabilities and equity	**4,338,568**	**1,291,026**	**433,906**	**952,086**	**1,287,988**	**373,562**
Assets-liabilities (including equity) mismatch	**0**	**246,779**	**(278,121)**	**(147,616)**	**(157,141)**	**336,099**
Guarantees	**256,592**	**27,789**	**26,266**	**84,693**	**72,126**	**45,718**

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with a maturity of up to and over five years.

Non-derivative balance sheet liabilities as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities to the central bank	431,157	259	518	2,331	428,049	0
Financial liabilities held for trading	3,412	3,412	0	0	0	0
Financial liabilities measured at amortised cost	3,818,526	1,289,410	439,690	981,266	916,793	191,367
Other liabilities	237,150	4,388	3,982	12,994	17,406	198,380
Total liabilities	**4,490,245**	**1,297,469**	**444,190**	**996,591**	**1,362,248**	**389,747**
Guarantees	**256,592**	**27,789**	**26,266**	**84,693**	**72,126**	**45,718**

The table above shows non-discounted contractual balance sheet liabilities.

Derivatives as of 31 December 2012

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	90,691	7,125	20,820	62,746	0	0
inflow	90,813	7,173	20,802	62,838	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	788	163	625	0	0	0
inflow	809	174	635	0	0	0
TOTAL OUTFLOW	**91,479**	**7,288**	**21,445**	**62,746**	**0**	**0**
TOTAL INFLOW	**91,622**	**7,347**	**21,437**	**62,838**	**0**	**0**

The table above presents non-discounted cash flows on derivatives. The figures were translated into the euro at the ECB exchange rate effective on 31 December 2012.

4.3 MARKET RISKS

The Bank monitors market risks of trading book and markets risks of banking book separately. The method of monitoring and reporting as well as of limiting the exposure to market risks is set out in the respective risk management policies.

4.3.1 POSITION RISK

Position risk is a risk of loss arising due to a change in the price of financial instrument that the Bank holds in its portfolio for the purpose of trading on its proprietary account.

The trading limit methodology is based on the value-at-risk (VaR) measure and is compliant with Basel requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The basis for determining trading limits is the capital requirement set out in the financial plan. The Bank measures the market value of all trading items on a daily basis. The volume of transactions by specific type of financial instruments is defined in detail by the methodology for setting limits.

The portfolio of equity instruments is limited by the highest market value, stop-loss limit and the VaR measure. The portfolio of debt securities is limited by the highest market value and stop-loss limit. The limits for specific types of transactions may be changed by a decision of the ALCO. Changes to the structure of limits shall not affect the annual plan of capital adequacy.

The Bank manages three trading portfolios: the portfolio of debt securities, the portfolio of equity instruments and the currency portfolio. The value-at-risk of trading portfolios for the year 2013 demonstrates with a 99% probability that, by holding the unchanged position in securities, the portfolio loss over the 10 consecutive working days would not exceed €56,000.

10-day VaR in 2013

Maximum	Minimum	Average
€56,000	€0	€13,000

10-day VaR in 2012

Maximum	Minimum	Average
€447,000	€0	€63,000

A more detailed breakdown of financial assets held for trading and of their movements is disclosed in the table 'Financial assets held for trading' in the notes to the financial statements.

Position risk in foreign exchange trading is controlled by trading limits. Limits for foreign currency trading for the account of the Bank are defined as the maximum allowable open position for the Trading Department. The Trading Support Department monitors trading results on a daily basis and reports findings to the responsible authorities.

The Bank offers its customers the service of buying and selling derivatives as a broker only and does not assume its own positions.

4.3.2 INTEREST RATE RISK

Interest rate risk is the risk of loss arising due to changes in interest rates or the structure of interest rates for maturity mismatches of interest-bearing assets and liabilities with regard to interest rate repricing and the remuneration method.

Interest rate risk management of trading book items is included in the methodology for monitoring trading limits. Interest rate risk management of non-trading book items is carried out using an interest rate matching methodology. The Bank monitors interest-bearing statement of financial position items and off-balance sheet items with regard to maturity of variable interest rate items, separated by the key currencies and reference interest rates in which it operates. The Bank monitors separately reference interest rate risk for EUR, USD and CHF, and the interest rate TOM (basic interest rate), which, as of 31 December 2013, together made up 99.56% of the entire exposure to interest rate changes.

The Bank calculates, on a monthly basis, the results of the standardised stress test for interest rate risk as the impact of a parallel shift in the interest rate curve on its equity and net interest income in a period of one year.

The impact of the results of the standardised stress test on the Bank´s equity, as of 31 December 2013

Currency	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(10)	(217)	(4,083)	(33,512)	(19,940)	(57,762)
Total	**(10)**	**(217)**	**(4,083)**	**(33,512)**	**(19,940)**	**(57,762)**

The impact of the results of the standardised stress test on the Bank´s equity, as of 31 December 2012

Currency	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(21)	(130)	(1,927)	(16,335)	(8,696)	(27,109)
Total	**(21)**	**(130)**	**(1,927)**	**(16,335)**	**(8,696)**	**(27,109)**

The tables above show the decline in the fair value of the debt securities portfolio in case of a parallel rise in the interest rate curve by 200 basis points. The change in fair value is reflected in equity.

The impact of the results of the standardised stress test on the Bank´s net interest income, as of 31 December 2013

Currency	+ 200 basis points	– 200 basis points
EUR	5,064	(877)
USD	242	(15)
CHF	736	(6)
Other	63	(63)
Total	**6,105**	**(961)**

The impact of the results of the standardised stress test on the Bank´s net interest income, as of 31 December 2012

Currency	+ 200 basis points	– 200 basis points
EUR	15,448	(1,634)
USD	341	(25)
CHF	896	(2)
Other	55	(55)
Total	**16,740**	**(1,716)**

The tables above show the impact of a shift in the interest rate curve on the Bank´s net interest income in a period of one year.

In addition to the standardised stress test analysis, the Bank calculates its exposure to interest rate changes as the change of the net current value of the difference between assets and liabilities subject to variable interest rate in a given period and the expected interest rate changes in the next three months. The expected interest rate changes are calculated as the difference between current and term interest rates, separated for each currency and maturity handled. An analysis of interest rate risk is included in a monthly report on liquidity and market risk and is subject to a monthly review by the ALCO.

The analysis treats net positions in individual interest rate repricing periods as fixed-coupon debt securities. A longer interest rate repricing period has a larger impact on net current value of assets and liabilities. The interest rate risk analysis made for the Bank showed, for the 2013 year-end, a probable negative effect of €2,315,000 on the net present value of all interest-sensitive items. The main advantage of this analysis when compared to the standardised interest rate stress test lies in anticipation of probable interest rate changes in the observed period.

The impact of interest rate changes on profit or loss is measured for a one-year period. For calculating the change in interest income, the current interest rate is used for the period until the change of interest rate, after which date and until the end of a one-year period the changed interest rate is taken into consideration. The average interest rate repricing period by individual time buckets is used to calculate interest. For the 2013 year-end, the anticipated interest rate change in a three-month period would result in the annual increase of €24,000 in interest income.

The standardised stress test of the impact of a parallel shift in the interest rate curve by 200 basis points on the total present value of all interest-sensitive items gave a result that was equal to 11.65% of the Bank´s regulatory equity, at the 2013 year-end. In compliance with the applicable legislation, the regulator may impose certain measures for reducing the risk if the result of the standardised stress test exceeds 20% of the Bank´s equity.

A more detailed breakdown of the Bank´s statement of financial position by maturity as of 31 December 2013 and 2012 is disclosed in the table Analysis of interest rate risk which shows the distribution of items with regard to the interest rate repricing periods. Exposure to changes in interest rates is managed using an interest rate matching methodology, taking into account the characteristics of individual items.

Analysis of interest rate risk as of 31 December 2013

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

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

Analysis of interest rate risk as of 31 December 2012

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	151,124	39,490	111,634	111,634	0	0	0	0
Financial assets held for trading	1,178	1,178	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	34,043	34,043	0	0	0	0	0	0
Available-for-sale financial assets	417,102	68,506	348,596	49,749	74,299	13,963	175,118	35,467
Loans and advances	3,127,450	61,051	3,066,399	1,329,466	650,171	969,662	103,251	13,849
Held-to-maturity financial assets	397,130	0	397,130	19,986	0	188,583	159,999	28,562
Other assets	32,106	32,106	0	0	0	0	0	0
Total assets	**4,160,133**	**236,374**	**3,923,759**	**1,510,835**	**724,470**	**1,172,208**	**438,368**	**77,878**
Liabilities								
Financial liabilities to the central bank	423,646	0	423,646	0	0	0	423,646	0
Financial liabilities held for trading	3,412	3,412	0	0	0	0	0	0
Financial liabilities measured at amortised cost	3,674,360	330	3,674,030	1,438,216	446,411	1,276,445	512,239	719
Other liabilities	3,548	3,548	0	0	0	0	0	0
Total liabilities	**4,104,966**	**7,290**	**4,097,676**	**1,438,216**	**446,411**	**1,276,445**	**935,885**	**719**
Assets-liabilities mismatch	**55,167**	**229,084**	**(173,917)**	**72,619**	**278,059**	**(104,237)**	**(497,517)**	**77,159**

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

Average interest rates (%)

	31.12.2013	31.12.2012
Average interest rate on assets	3.84	4.06
Average interest rate on liabilities	1.68	2.36

4.3.3 CURRENCY RISK

Currency risk represents a potential loss arising from an open foreign currency position and the volatility of foreign exchange rates. The Bank controls currency risk exposure by maintaining neutral position in individual foreign currencies.

In accordance with the resolution adopted by the ALCO, the Bank maintains a daily aggregate closed foreign currency position. The aggregate open position for all currencies is limited by its impact on the Bank´s capital adequacy. The methodology for monitoring and maintaining a balanced foreign currency position is based on the VaR method in compliance with Basel requirements. The maximum allowable VaR is established at the individual currency level just as for the entire foreign currency portfolio. VaR depends on the exposure amount and the volatility of individual pair of currencies.

The open position for each foreign currency is monitored daily, and the Bank calculates the daily result due to discrepancies in the foreign currency position. In case of an increase in volatility, the Bank reduces the allowable open position in individual currencies, in accordance with the adopted methodology. Any changes in volatility are reviewed on a monthly basis.

A 10-day value-at-risk of the open foreign currency position is calculated on the basis of one-year data and a 99% confidence interval. The calculation made for 2013 demonstrates with a 99% probability that, by holding the unchanged currency position, the loss over the 10 consecutive working days would not exceed €97,000, taking into account the highest level of exposure to currency risk.

10-day VaR in 2013

Maximum	Minimum	Average
€97,000	€11,000	€25,000

10-day VaR in 2012

Maximum	Minimum	Average
€326,000	€24,000	€49,000

Analysis of currency risk as of 31 December 2013

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

The table above presents only the statement of financial position items in which the Bank has a position also in currencies other than euro. The last line in the table, which shows the open position in individual foreign currencies by taking into account derivatives, gives the accurate information about the total foreign currency exposure.

Analysis of currency risk as of 31 December 2012

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	148,338	356	948	641	841	151,124
Financial assets held for trading	1,178	0	0	0	0	1,178
Financial assets designated at fair value through profit or loss	34,043	0	0	0	0	34,043
Available-for-sale financial assets	417,102	0	0	0	0	417,102
Loans and advances	2,978,835	32,446	106,588	148	9,433	3,127,450
Held-to-maturity financial assets	397,130	0	0	0	0	397,130
Other assets	210,541	0	0	0	0	210,541
Total assets	**4,187,167**	**32,802**	**107,536**	**789**	**10,274**	**4,338,568**
Liabilities						
Financial liabilities to the central bank	423,646	0	0	0	0	423,646
Financial liabilities held for trading	3,412	0	0	0	0	3,412
Financial liabilities measured at amortised cost	3,611,509	32,559	20,028	306	9,958	3,674,360
Other liabilities	237,150	0	0	0	0	237,150
Total liabilities and equity	**4,275,717**	**32,559**	**20,028**	**306**	**9,958**	**4,338,568**
Assets-liabilities (including equity) mismatch	**(88,550)**	**243**	**87,508**	**483**	**316**	**0**
Derivatives	87,953	0	(87,831)	0	0	122
Assets-liabilities (including equity and derivatives) mismatch	**(597)**	**243**	**(323)**	**483**	**316**	**122**

The table above presents only the statement of financial position items in which the Bank has a position also in currencies other than euro. The last line in the table, which shows the open position in individual foreign currencies by taking into account derivatives, gives the accurate information about the total foreign currency exposure.

Foreign currency sensitivity analysis

Currency	31.12.2013		31.12.2012	
	Exchange rate change against EUR (%)	Impact on profit or loss	Exchange rate change against EUR (%)	Impact on profit or loss
USD	+9	(2)	+9	22
CHF	+11	(185)	+5	(16)
HRK	+2	14	+2	10
Other currencies	+9	42	+8	25

The impact of exchange rate changes on equity is negligible and is therefore not presented separately.

4.4 GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES AS OF 31 DECEMBER 2013

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	334,830	334,830	0	0	0	0
Financial assets held for trading	612	591	21	21	0	0
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	0	0
Available-for-sale financial assets	1,210,799	1,109,572	101,227	101,227	0	0
Loans and advances	1,988,824	1,783,543	205,281	164,314	28,825	12,142
Held-to-maturity financial assets	192,437	125,011	67,426	67,426	0	0
Other assets	157,895	154,474	3,421	2	3,419	0
Total assets	**3,909,983**	**3,532,607**	**377,376**	**332,990**	**32,244**	**12,142**
Liabilities						
Financial liabilities to the central bank	426,002	426,002	0	0	0	0
Financial liabilities held for trading	976	428	548	548	0	0
Financial liabilities measured at amortised cost	2,869,463	2,782,195	87,268	79,610	3,328	4,330
Other liabilities	613,542	613,085	457	308	55	94
Total liabilities and equity	**3,909,983**	**3,821,710**	**88,273**	**80,466**	**3,383**	**4,424**
Assets-liabilities (including equity) mismatch	**0**	**(289,103)**	**289,103**	**252,524**	**28,861**	**7,718**

Available-for-sale financial assets of foreign issuers

Country of issuer	31.12.2013	31.12.2012
Belgium	5,339	8
Denmark	0	9,987
France	24,796	3,996
Italy	7,990	7,875
Luxembourg	873	858
Germany	31,118	10,958
The Netherlands	15,777	19,013
Portugal	9,897	9,302
Slovakia	5,437	0
Great Britain	0	22,016
USA	0	29,422
Total	**101,227**	**113,435**

Geographical analysis of assets and liabilities as of 31 December 2012

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	151,124	151,124	0	0	0	0
Financial assets held for trading	1,178	997	181	74	0	107
Financial assets designated at fair value through profit or loss	34,043	34,043	0	0	0	0
Available-for-sale financial assets	417,102	303,667	113,435	84,013	0	29,422
Loans and advances	3,127,450	2,856,912	270,538	104,484	161,673	4,381
Held-to-maturity financial assets	397,130	326,870	70,260	70,260	0	0
Other assets	210,541	176,236	34,305	16,154	18,151	0
Total assets	**4,338,568**	**3,849,849**	**488,719**	**274,985**	**179,824**	**33,910**
Liabilities						
Financial liabilities to the central bank	423,646	423,646	0	0	0	0
Financial liabilities held for trading	3,412	375	3,037	459	2,521	57
Financial liabilities measured at amortised cost	3,674,360	3,518,398	155,962	138,178	12,370	5,414
Other liabilities	237,150	228,607	8,543	7,488	537	518
Total liabilities and equity	**4,338,568**	**4,171,026**	**167,542**	**146,125**	**15,428**	**5,989**
Assets-liabilities (including equity) mismatch	**0**	**(321,177)**	**321,177**	**128,860**	**164,396**	**27,921**

4.5 OPERATIONAL RISK

Operational risk management is set out in the Bank´s Operational Risk Management Policy which complies with recommendations of the Basel standards and the local regulator.

The Bank has its own-developed software for the systematic monitoring of operational risk loss events, which has been in use since 2007. This system enables the Bank to carry out qualitative analyses of operational risk loss events, and it automatically warns responsible persons of losses on a monthly basis. On the basis of monitoring operational risk loss events, the Bank has internally set the threshold of material loss resulting from operational risk at €1,000. Uniform recording of loss events has been set up, as well as the standard monthly internal reporting procedure.

All organisational units of the Bank are responsible for identifying, assessing and managing operational risk – each unit for the cost centres that are headed by the manager of the respective unit. The main aim of this is to ensure the functioning of the system of internal controls. In assessing the risk profile of the Bank as a whole, individual organisational units have to give its subjective assessment of operational risk on an annual basis.

Operational risk is managed on a decentralised basis by each organisational unit, with the following officers being responsible for all the procedures in this regard:

- The operational risk analyst (i) is the administrator of the operational risk loss events data base; (ii) prepares monthly, quarterly, half-yearly and annual reports for the Bank´s Management Board; (iii) guides the self-assessment of operational risk by individual organisational units and business processes; (iv) calculates the capital requirement for operational risk on an annual basis; and (v) conducts interim assessments of operational risk (simulations). In addition, the analyst must once a year produce a risk profile of the Bank, taking account of all nine types of risk according to the regulation of the Bank of Slovenia, including operational risk.
- The head of the Bank´s information system security, whose position falls under the Corporate Security and Control Department, is responsible for all the activities set out in the Information Protection Policy of Nova KBM (e.g. prevention of information security-related incidents and attacks, prevention of data misuse and hacking, etc.), as well as for collecting, recording and reporting on data regarding information system incidents.

- The business continuity administrator, whose position falls under the Corporate Security and Control Department, is responsible for coordinating activities related to business continuity, as well as for collecting, recording and reporting on relevant data.
- The adviser on the prevention of money laundering and terrorism financing, whose position falls under the Compliance Office, is responsible for collecting, recording and reporting on data related to AML activities.
- The adviser on regulatory compliance, whose position falls under the Compliance Office, is responsible for ensuring the Bank adheres to applicable regulations, as well as for collecting, recording and reporting on data related to compliances practices, policies and procedures.
- The adviser on security, whose position falls under the Corporate Security and Control Department, is responsible for physical and technical protection of the Bank´s facilities.

During the year ended 31 December 2013, the Bank monitored operational risk and calculated capital requirements for operational risk in accordance with the basic indicator approach.

As part of the internal capital adequacy assessment process, the risk profile of the entire Bank is produced on an annual basis, which includes an analysis of operational risk and internal controls. In the third quarter of 2013, the Risk Management Department started drafting the risk profile report on the Bank. The report is expected to be completed by February 2014, when the Bank´s financial plan for the current financial year will be adopted.

The majority of operational risk loss events recorded in 2013 related to (according to the Basel standards) 'Retail Banking' (80%), followed by 'Payment and Settlement' (11%) and 'Other Expenses' (6%). In 2012, the majority of operational risk loss events related to 'Payment and Settlement' (59%), followed by 'Retail Banking' (19%) and 'Unallocated Other Expenses' (18%).

In terms of type, the majority of loss events recorded in 2013 related to 'Execution, Delivery and Process Management' (75%), followed by 'Damages to Physical Assets' (14%) and 'External Fraud' (7%). In 2012, the majority of loss events related to 'External Fraud' (53%), followed by 'Damages to Physical Assets' (36%) and 'Execution, Delivery and Process Management' (11%).

By ensuring systematic reporting on operational risk loss events, the Bank successfully accomplished its short-term objective in respect of operational risk management. The mid-term objective remains the development of a software to produce all the data needed to assess operational risk and prepare the document 'Risk Profile of the Bank'.

The Bank´s long-term objective in respect of operational risk is to establish an integrated, impartial and standardised approach to operational risk management, to raise the awareness of employees about operational risk, and to build up a risk management culture – all with the aim to limit the scope and the amount of losses to an acceptable level.

4.6 CAPITAL RISK

The Bank manages its capital by:

- monitoring current and projected assessments of its regulatory capital and complying with capital requirements for credit, market and operational risks
- monitoring current and projected assessments of its economic available capital and adequate capital
- monitoring movements in its capital adequacy
- examining options to increase its core capital or additional capital.

The ALCO reviews the capital position and the projection of capital, capital requirements, and capital adequacy ratios on a monthly basis. The information on capital adequacy is included in the regular monthly Report on the Bank´s Operations prepared for the Management Board. The Supervisory Board is informed of the level of capital and capital adequacy ratios at its meetings.

'Unallocated other expenses' include operational risk loss events that cannot be allocated to only one area or department, such as, for example, breakdown of air conditioning systems, heating devices, lifts etc. Most of such loss events occur at the headquarters of the Bank.

The Bank calculates capital requirements for credit risk using the standardised approach. As a reference export agency for the category 'Exposure to Central Governments and Central Banks', the Bank nominated SID Banka. As a reference external rating agency for the category 'Exposure to Institutions, Including Exposure to Institutions with a Short-term Rating', the Bank nominated the rating agency Moody´s.

The Bank calculates capital requirements for market risks in accordance with the applicable regulations and does not use internal models for the time being. The capital requirement for operational risk is calculated according to the basic indicator approach.

To assess adequate internal capital, the Bank uses a methodology that defines the method for calculating available economic capital and adequate economic capital.

The available economic capital is the Bank´s own estimate of the amount of available capital. The amount of available economic capital equals the amount of regulatory available capital, increased by 50% of the profit for the current year.

The adequate economic capital is the Bank´s own estimate of the amount of capital needed to cover any unexpected risks the Bank is exposed to in its operations. The amount of adequate economic capital equals the amount of minimum capital as prescribed by the regulator (Pillar I), including additional capital requirements. Additional capital requirements for the banking book interest rate risk, currency risk, liquidity risk and capital risk are determined on the basis of an internal methodology. Additional capital requirements for reputational and strategic risks are determined on a basis of an expert assessment.

The ALCO is responsible for reviewing available and minimum regulatory capital as well as available and adequate economic capital.

The required total capital adequacy ratio for the Bank is set at 8%.

Following the December 2013 recapitalisation of €870,000,000 and the transfer of bad assets to BAMC, the capital adequacy ratios of the Bank increased to the level required by the European Commission, the European Banking Authority and the Bank of Slovenia. Further details regarding the movements in the Bank´s capital are provided in Note 42 'Share capital'.

Composition of regulatory capital and capital requirements

	31.12.2013	31.12.2012
Original own funds		
Paid-up share capital	150,000	40,814
(-) Treasury shares	0	(111)
Share premium	360,572	165,775
Reserves and retained earnings or losses	702	191,356
(-) Interim result used in the calculation (unaudited)	0	(203,226)
Revaluation excesses (PP) – prudential filters	(702)	(794)
Hybrid instruments as a component of original own funds	0	126,030
(-) Intangible long-term assets	(18,329)	(23,381)
(-) Other country specific deductions	(21)	11,356
Total	**492,222**	**307,819**
Additional own funds I		
Hybrid instruments and preferential cumulative shares	0	29,908
Other	2,117	2,380
Total	**2,117**	**32,288**
(-) Deductions from original own funds and additional own funds I		
(-) Deductions from original own funds	(1,119)	(1,119)
(-) Deductions from additional own funds I	(1,119)	(1,119)
Total	**(2,238)**	**(2,238)**
Total equity (for solvency purposes)	**492,101**	**337,869**
Capital requirements		
Capital requirements for credit risk	**167,097**	**269,546**
Regional governments and local authorities	142	182
Administrative bodies	46	24
Institutions	9,545	14,558
Corporates	38,527	113,339
Retail banking	56,361	59,361
Secured by real estate	3,120	4,324
Past due items	2,465	11,782
Items belonging to regulatory high-risk categories	34,688	33,651
Collective investment undertakings	524	1,381
Other items	21,679	30,944
Total capital requirements for market risks	**4,119**	**1,805**
Debt securities	193	577
Equity instruments	3,926	483
Foreign exchange	0	745
Capital requirement for operational risk	**20,897**	**23,237**
Total	**192,113**	**294,588**
Total capital adequacy ratio	20.49%	9.18%
Tier I capital ratio	20.45%	8.33%
Core Tier I capital ratio	20.45%	4.91%
Core Tier I capital ratio (EBA methodology)	20.45%	7.62%

4.7 BASEL III

Basel III provides for a raise in the Common Equity Capital Ratio, which is a ratio that does not take into consideration hybrid instruments. For 2013, the minimum requirement for this ratio is set at 3.5%, for 2014 at 4.0%, and for 2015, when the final minimum requirement is to be implemented, at 4.5%. The capital conservation buffer is to be introduced as well. It will be phased in between 2016 and 2019, each year by 0.625%, to reach 2.5% in 2019, following the end of the transitional period. This means that the Core Tier I capital ratio will have to be at least 7.0%. As of 31 December 2013, Nova KBM´s Core Tier I capital ratio was 20.45%.

As regards the Tier I capital requirement, the ratio must reach at least 4.5% in 2013, 5.5% in 2014, and 6.0% in 2015 when the final minimum requirement will be implemented. When calculating this ratio, the capital buffer must also be taken into account, meaning that the minimum Tier I capital ratio requirement will be 8.5% in 2019. Nova KBM´s Tier I capital ratio was 20.45% at the end of 2013.

The minimum total capital adequacy ratio requirement will be increased by the capital conservation buffer, meaning an effective minimum requirement of 10.50% in 2019. Nova KBM´s total capital adequacy ratio was 20.49% at the end of 2013.

The regulator may decide to introduce certain capital conservation buffers for a bank, thereby increasing the minimum capital adequacy requirement for that bank.

Two new ratios are to be introduced in the area of liquidity. The Liquidity Coverage Ratio (LCR) relates to the provision of short-term liquidity needed for a bank´s resilience under a stress scenario over a period of 30 days. The Net Stable Fund Ratio (NSFR) has the objective of ensuring the resilience of banking activities over a longer time horizon. LCR and NSFR will become effective in 2015 and 2018, respectively. The Leverage Ratio (LR) is also planned to be introduced in the future.

The CRR/CRD IV framework, which is the EU´s response to Basel III and which introduces common regulations for the EU banking sector, came into effect on 1 January 2014. The Bank started implementing measures to comply with the new capital regulations in 2013.

4.8 INFORMATION PROTECTION RISK

The information protection strategy of Nova KBM is based on guidelines laid down in the Bank´s business strategy and was formulated in accordance with the applicable legislation and requirements of the Bank of Slovenia and other regulators.

Protection of information includes:

- Protection of Bank´s information and information technology from sabotage, unauthorised access and all other threats in such a way that in case of an unpleasant incident any possible loss is kept to a minimum while ensuring business continuity.
- Risk mitigation in case of exceptional occurrences, damages, natural and other disasters that might have a significant impact on the Bank´s operations.
- High awareness of all of the employees and other providers about their responsibilities, and their acquaintance and compliance with the Bank´s information security policy, internal regulations, legislation and standards, as well as their appropriate handling of information with regard to its classification.

The purpose of the overall security plan is to protect the following characteristics of information:

- Confidentiality – protecting sensitive business information from unauthorised access and interception.
- Integrity – protecting the accuracy and entirety of business information and computer business equipment.
- Availability – ensuring that business information and computer services are available to the users whenever and wherever they need them to perform day-to-day business processes.

In accordance with the adopted plan, the Information Protection Forum held two meetings in 2013, at which amendments to the umbrella information security policy and 12 sectoral policies, along with the supporting documents, were approved. The umbrella information security policy is adopted by the Policy Harmonisation Forum on the proposal of the Information Protection Forum.

With the participation of relevant departments, an internal training course on dealing with bank fraud was prepared and carried out several times for Bank employees. The aim of these training courses, which will continue throughout 2014, is to make Bank employees aware of the importance of properly protecting information and information technology to prevent any fraud from occurring.

4.9 THE RESTRUCTURING PROGRAMME FOR THE NOVA KBM GROUP

The restructuring programme for the Nova KBM Group was approved by the European Commission on 18 December 2013. Nova KBM was obliged to prepare the restructuring programme in accordance with the rules of the European Union because it benefited from state aid through capital injections in 2012 and 2013.

The restructuring programme encompasses 16 umbrella commitments, of which some of the most important are as follows:

- transfer of a portion of NPLs to BAMC (the book-transfer took place in December 2013, while the physical transfer is being carried out in several tranches in 2014) and a reduction in the proportion of the remaining NPLs in the Group´s loan portfolio
- gradual downsizing of total assets (by 2017, total assets are to be reduced by 7% relative to 2012)
- a reduction in operating costs and streamlining of business processes (by 2017, operating costs are to be reduced by 12.6% relative to 2012), and the strengthening of the cost-to-income ratio to below 55%
- disposal or liquidation of seven subsidiaries (Adria Bank, the leasing division, and subsidiaries specialising in the real estate business) and focus of the Group on the banking business
- a reduction in the lending volume and in business with foreign customers, as well as closure of several branch offices (by 2017, risk-weighted assets are to be reduced by 23% relative to 2012)
- divestment, i.e. the sale of non-strategic assets
- improvements in the corporate governance system
- improvements in the risk management and the loan origination models.

The main goal of the restructuring programme is to restore the profitability and vitality of both the Bank and the Group.

5 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	31.12.2013		31.12.2012	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and balances with the central bank	334,830	334,830	151,124	151,124
Financial assets held for trading	612	612	1,178	1,178
Financial assets designated at fair value through profit or loss	24,586	24,586	34,043	34,043
Available-for-sale financial assets	1,210,799	1,210,799	417,102	417,102
Loans and advances to banks	151,294	156,285	169,382	169,233
Loans and advances to customers	1,826,371	1,835,125	2,891,136	2,901,689
Other financial assets	11,159	11,159	66,932	66,932
Held-to-maturity financial assets	192,437	193,305	397,130	399,072
Financial liabilities				
Financial liabilities to the central bank	426,002	425,385	423,646	425,428
Financial liabilities held for trading	976	976	3,412	3,412
Deposits from banks	51,982	52,065	53,880	54,354
Deposits from customers	2,359,553	2,368,603	2,910,847	2,924,576
Loans from banks	357,910	359,065	501,368	501,368
Loans from customers	4,549	4,553	6,368	6,368
Debt securities	69,284	74,443	88,591	95,602
Subordinated liabilities	0	0	88,190	90,965
Other financial liabilities	26,185	26,185	25,116	25,116

The Bank determines fair values according to the following hierarchy: market value; valuation based on market interest rates; acquisition cost. The table above sets forth fair values of individual balance sheet items. The fair value of items measured at amortised or acquisition cost is determined on the basis of a model that takes into account market interest rates. The fair value is calculated for items with a fixed interest rate and residual maturity of over one year. As for other items, the Bank deems that there is no material difference between the book and fair values.

The fair value of each item is established on the basis of discounted cash flows, taking into consideration the market interest rates prevailing at the reporting date.

Analysis of fair value hierarchy

	31.12.2013				31.12.2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Derivatives	612	0	612	0	1,178	0	1,178	0
Available-for-sale financial assets	1,210,799	1,178,297	29,475	3,027	417,102	332,937	72,705	11,460
– debt securities	1,180,979	1,151,504	29,475	0	348,596	291,871	56,725	0
– equity instruments	29,820	26,793	0	3,027	68,506	41,066	15,980	11,460
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	34,043	24,366	9,677	0
– equity instruments	24,586	24,586	0	0	34,043	24,366	9,677	0
Financial liabilities								
Derivatives	976	0	976	0	3,412	0	3,412	0

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

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

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

Financial assets designated at fair value through profit or loss (equity financial instruments) form part of forward sales and are valued in connection with the underlying forward contracts.

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

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

	31.12.2012		
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 3
Financial assets held for trading	0	0	0
Available-for-sale financial assets	11,120	23,943	0
– debt securities	11,120	23,943	0
– equity instruments	0	0	0
Financial assets designated at fair value through profit or loss	0	0	0

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

Movements in financial assets included in Level 3

	Available-for-sale financial assets		
	Total	Equity instruments	Participating interests
1 January 2012	**9,112**	**8,660**	**452**
Acquisition	2,348	2,327	21
31 December 2012	**11,460**	**10,987**	**473**
Acquisition	13	0	13
Transfer of shares to BAMC	(9,238)	(9,238)	0
Revaluation of shares	(736)	(736)	0
Transition to Level 3 due to valuation of shares	1,527	1,527	0
31 December 2013	**3,026**	**2,540**	**486**

The table above presents changes within Level 3 of the fair value hierarchy. Following a marginal increase in available-for-sale financial assets as a result of several purchases of these assets at the beginning of last year, available-for-sale financial assets included in Level 3 saw a significant drop at the end of 2013, mainly owing to the transfer of certain shares to BAMC. The remaining shares, which are not traded on a market, were valued at their fair value using an internal methodology.

6 TRANSFER OF ASSETS TO BAMC

In December 2012, as part of the programme to stabilise the Slovene financial system, the Parliament of the Republic of Slovenia adopted the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability. One of the measures aimed at stabilising the financial system was the foundation of BAMC. Among other issues, this act provides for specific procedures and requirements under which banks are entitled to benefit from measures designed to ensure their viability.

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

Because measures aimed at stabilising bank stability are regarded as state aid, the European Commission had to confirm that these measures complied with the EU rules regarding state aid. According to the measures adopted for Nova KBM, it was agreed that assets worth €993,168,000 gross were to be transferred to BAMC. On 18 December 2013, the European Commission consented to this transfer of assets.

For the purpose of transferring assets to BAMC, assets at risk held on the books of the Bank were valued on the basis of their long-term realistic economic value calculated according to the methodology described in the decree referred to above. The assessment of the long-term realistic economic value of the assets was approved by a certified independent auditor.

In exchange for transferring the assets, Nova KBM received from BAMC state-guaranteed bonds worth €377,600,000 (Note 25.2), in accordance with the agreement signed between Nova KBM and BAMC. Because the transfer value of the assets was slightly below the figure referred to in the previous sentence, the Bank paid the difference in cash to BAMC.

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

The effect of transferring the assets to BAMC was reflected in the following statement of financial position items:

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

NOTES TO THE INCOME STATEMENT ITEMS

7 INTEREST INCOME AND EXPENSE

7.1 ANALYSIS OF INTEREST BY TYPE

	2013		2012	
	Income	Expense	Income	Expense
Regular interest	131,271	85,279	169,208	105,290
Default interest	14,636	0	7,818	0
Total	**145,907**	**85,279**	**177,026**	**105,290**
Net interest income	**60,698**		**71,736**	

7.2 ANALYSIS OF INTEREST BY MARKET SEGMENTS

	2013		2012	
	Income	Expense	Income	Expense
Non-financial companies	65,605	4,620	79,375	3,782
State	23,350	17,650	20,095	20,452
Banks	5,281	16,473	8,662	30,420
Other financial organisations	8,507	6,048	10,805	7,682
Households	41,985	39,240	50,510	41,748
Foreign persons	1,019	985	7,321	935
Non-profit household service providers	160	263	258	271
Total	**145,907**	**85,279**	**177,026**	**105,290**
Net interest income	**60,698**		**71,736**	

7.3 ANALYSIS OF INTEREST INCOME AND EXPENSE BY TYPE OF ASSETS AND LIABILITIES

	2013		2012	
	Current	Non-current	Current	Non-current
Interest income				
Balances with the central bank (measured at amortised cost)	146	0	281	0
Financial assets held for trading	175	0	77	0
Financial assets designated at fair value through profit or loss	0	0	0	34
Available-for-sale financial assets	11,020	5,506	10,837	0
Loans and advances (including finance leases)	24,230	94,940	34,666	116,443
Held-to-maturity financial assets	254	9,601	698	13,950
Other financial assets	35	0	40	0
Total by maturity	**35,860**	**110,047**	**46,599**	**130,427**
Total	**145,907**		**177,026**	
Interest expense				
Financial liabilities to the central bank (measured at amortised cost)	0	2,357	117	3,562
Financial liabilities held for trading	0	169	0	85
Financial liabilities measured at amortised cost	14,644	68,109	18,089	83,437
Total by maturity	**14,644**	**70,635**	**18,206**	**87,084**
Total	**85,279**		**105,290**	
Net interest income	**60,628**		**71,736**	

7.4 AVERAGE INTEREST RATES

	2013	2012
Average interest rate on assets (%)	3.84	4.06
Average interest rate on liabilities (%)	1.68	2.36

8 DIVIDEND INCOME

	2013	2012
Financial assets held for trading	**0**	**59**
– shares and participating interests in other issuers	0	59
Financial assets designated at fair value through profit or loss	**1,077**	**1,218**
– shares and participating interests in other issuers	1,077	1,218
Available-for-sale financial assets	**208**	**1,263**
– shares and participating interests in other issuers	208	1,263
Investments in the equity of the Group companies accounted for using the cost method	**526**	**824**
– investments in the equity of subsidiaries	526	824
Total	**1,811**	**3,364**

9 FEE AND COMMISSION INCOME AND EXPENSE

9.1 ANALYSIS OF FEES AND COMMISSIONS BY TYPE

	2013	2012
Fee and commission income	**46,179**	**46,365**
Fees from guarantees	3,071	3,229
Services provided to banks in the Group	905	935
Services provided to other Group subsidiaries	243	293
Domestic payment transactions	18,848	19,103
Transactions under current accounts	9,359	7,994
Payment card operations	6,500	7,117
International payment transactions	1,521	677
Brokerage and agency services	528	309
Transactions in securities for customers	323	286
Lending operations	4,728	5,500
Other services	87	852
Safekeeping of objects and valuables	66	70
Fee and commission expense	**4,424**	**4,630**
Domestic banking services	2,709	1,257
Banking services abroad	833	1,997
Brokerage and agency services	51	72
Stock exchange transactions and other transactions in securities	442	339
Payment transactions	356	907
Services of banks in the Group	29	55
Other services	4	3
Net fee and commission income	**41,755**	**41,735**

9.2 ANALYSIS OF FEES AND COMMISSIONS BY MARKET SEGMENTS

	2013	2012
Fee and commission income	**46,179**	**46,365**
Non-financial companies	15,611	19,653
State	566	256
Banks	5,659	3,282
Other financial organisations	1,298	1,409
Households	21,847	20,519
Foreign persons	1,180	579
Non-profit household service providers	18	667
Fee and commission expense	**4,424**	**4,630**
Net fee and commission income	**41,755**	**41,735**

9.3 FEE AND COMMISSION INCOME AND EXPENSE RELATING TO FIDUCIARY ACTIVITIES

	2013	2012
Income from fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**411**	**358**
Receipt, transmission and execution of orders	369	310
Management of financial instruments	4	4
Administration of book-entry securities accounts of customers	38	40
Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings	0	4
Expenses for fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**343**	**248**
Fees and commissions in connection with the Central Securities Clearing Corporation and similar organisations	283	217
Fees and commissions in connection with the stock exchange and similar organisations	60	31

10 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013			2012		
	Realised gains	Realised losses	Net realised gains/(losses)	Realised gains	Realised losses	Net realised gains/(losses)
Available-for-sale financial assets (Note 25.2)	1,430	24,703	(23,273)	417	1,304	(887)
Loans and advances (including finance leases and other financial assets)	1,290	132	1,158	1,108	154	954
Held-to-maturity financial assets (Note 29.1)	903	4,295	(3,392)	916	974	(58)
Financial liabilities measured at amortised cost (Note 39.5)	89,540	0	89,540	24,541	0	24,541
Total	**93,163**	**29,130**	**64,033**	**26,982**	**2,432**	**24,550**

Realised losses on available-for-sale financial assets relate mainly to the write-off of subordinated notes, due to their cancellation.

In accordance with a decision of the Bank of Slovenia, liabilities arising from subordinated notes issued by Nova KBM, including accrued interest, were written off, as a result of which the Bank recognised gains of €89,540,000.

11 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2013			2012		
	Gains	Losses	Net gains/ (losses)	Gains	Losses	Net gains/ (losses)
Trading in equity instruments	36	70	(34)	287	214	73
Trading in foreign exchange (purchase/sale)	901	492	409	1,512	994	518
Trading in derivatives	3,484	2,839	645	4,090	13,311	(9,221)
– futures/forwards	2,843	1,518	1,325	3,667	10,400	(6,733)
– options	0	430	(430)	0	2,521	(2,521)
– swaps	206	212	(6)	423	390	33
– other derivatives	435	679	(244)	0	0	0
Trading in financial liabilities	47	5	42	0	0	0
Total	**4,468**	**3,406**	**1,062**	**5,889**	**14,519**	**(8,630)**

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

12 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013			2012		
	Gains	Losses	Net (losses)	Gains	Losses	Net gains
Financial assets designated at fair value through profit or loss	9,134	10,363	(1,229)	6,998	4,365	2,633
Total	**9,134**	**10,363**	**(1,229)**	**6,998**	**4,365**	**2,633**

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

13 NET EXCHANGE RATE DIFFERENCES

	2013	2012
Foreign exchange gains	14,865	14,292
Foreign exchange losses	16,208	13,576
Net foreign exchange gain/(loss)	**(1,343)**	**716**

14 OTHER NET OPERATING INCOME OR LOSS

	2013	2012
Income	**1,060**	**983**
Income from investment property given under operating lease	134	137
Other operating income	926	846
Expense	**15,736**	**2,050**
Taxes	4,808	976
Contributions	494	485
Membership fees and similar fees	154	125
Other operating expenses	10,280	464
Other net operating (loss)	**(14,676)**	**(1,067)**

The 2013 increase in tax expenses is attributable mainly to the financial services tax, introduced last year. A total of €2,590,000 of this tax was paid by the Bank in 2013.

Other operating expenses, in the amount of €9,190,000, relate to the deferral of loan approval fees charged by the Bank in previous years.

15 ADMINISTRATION COSTS

	2013	2012
Staff costs	**38,809**	**40,634**
Gross salaries	28,950	30,991
Social security contribution	2,130	2,284
Pension insurance contribution	2,584	2,788
Transportation allowance	749	777
Meal allowance	1,073	1,066
Severance benefits and early retirement payments	1,137	990
Supplementary pension insurance premiums	450	552
Pay for annual leave	1,005	1,026
Solidarity help and jubilee benefits	23	27
Other staff costs under employment contracts	708	133
General and administrative costs	**32,433**	**29,523**
Costs of material	791	768
Costs of energy	1,287	1,343
Costs of specialised text books	15	29
Other costs of material	187	247
Costs of renting business premises	1,613	1,743
Postal costs	1,617	1,738
Transport costs	1,895	2,076
Information system costs	4,958	4,877
Costs of other services	3,257	3,479
Business travel expenses	133	113
Maintenance costs of fixed assets	4,373	4,492
Advertising costs	2,618	2,888
Entertainment costs	92	126
Consulting, auditing, accounting and other services	8,162	4,670
School fees, scholarships and other training costs	199	155
Cost of insurance	779	643
Other administrative costs	457	136
Total administration costs	**71,242**	**70,157**

The year-on-year increase in the costs of consulting, auditing, accounting and other services was principally due to the following costs: the costs related to the AQR, totalling €2,158,000; the advisory costs incurred in relation to the recapitalisation of the Bank, totalling €875,000; the advisory costs incurred in relation to the restructuring of the Bank, totalling €575,000; and the costs of extraordinary audit reviews, totalling €448,000.

Remuneration of auditors

	2013	2012
Audit of the annual report	163	154
Other audit services	23	1
Total	**186**	**155**

16 DEPRECIATION AND AMORTISATION

	2013	2012
Depreciation of items of property, plant and equipment (Note 30)	5,323	5,803
Amortisation of intangible assets (Note 32)	6,465	6,183
Total	**11,788**	**11,986**

17 PROVISIONS

	2013	2012
Provisions for pensions and similar benefits (Note 40)	87	(14)
Provisions for restructuring costs (Note 40)	1,680	0
Provisions for off-balance sheet liabilities (Note 40)	28,945	9,225
Provisions for tax claims and other pending legal issues (Note 40)	12,593	742
Other provisions (Note 40)	(7)	(6)
Total	**43,298**	**9,947**

18 IMPAIRMENT LOSSES

	2013	2012
Financial assets not measured at fair value through profit or loss	521,533	267,288
Other assets	138,126	27,750
Total impairment losses	**659,659**	**295,038**

18.1 IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013	2012
Financial assets measured at cost (Note 25.2)	18,475	840
Available-for-sale financial assets designated at fair value (Note 25.2)	22,683	11,494
Loans and advances (including finance leases and other financial assets) measured at amortised cost	478,718	254,954
– loans and advances to banks (Note 26.1)	19,454	(106)
– loans and advances to customers (Note 27.1)	464,800	248,235
– other financial assets (Note 28.1)	(5,536)	6,825
Held-to-maturity financial assets measured at amortised cost (Note 29.1)	1,657	0
Total impairment of financial assets not measured at fair value through profit or loss	**521,533**	**267,288**

18.2 IMPAIRMENT OF OTHER ASSETS

	2013	2012
Investment property (Note 31)	702	239
Investments in the equity of subsidiaries, associates and joint ventures (Note 33.1)	119,483	15,307
Other assets (Note 35.1)	17,941	12,204
Total impairment of other assets	**138,126**	**27,750**

19 INCOME TAX RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS

	2013	2012
Deferred tax from continuing operations (Note 34.2)	(23,006)	11,080
Total	**(23,006)**	**11,080**

19.1 RECONCILIATION OF EFFECTIVE TAX RATE

	2013	2012
(Loss) before tax according to IFRSs	(633,494)	(214,335)
Income tax calculated using the official tax rate (2013: 17%; 2012: 18%)	(107,694)	(38,580)
Increased tax base – 5% of the dividend income, income similar to dividends and gains made on disposal of equity holdings	55	215
Non-allowable tax expenses	22,025	2,567
Income that reduces the tax base	(1,109)	(4,304)
Adjustment of expenses to the level of tax allowable expenses (increase)	(3,431)	0
Income adjustment to the level of taxable income (increase)	0	84
Adjustments due to changes in the tax legislation (increase/decrease in tax rate)	(1,376)	5,874
Other adjustments to profit or loss	114,536	23,064
Total income tax	**23,006**	**(11,080)**
Effective tax rate (%)	**/**	**/**

The effective tax rate for the year ended 31 December 2013 has not been calculated because the income tax liability has not been accounted for. The amount of €23,006,000 represents the difference between income and expenses in respect of deferred taxes.

The year-on-year increase in the line 'Adjustment of expenses to the level of tax allowable expenses' relates mainly to impairments of available-for-sale securities, which were non-deductible in previous years, but which were recognised as a deductible item in 2013.

Adjustments due to changes in the tax legislation relate mainly to the adjustment of the tax rate applicable to the deferred long-term tax assets from 15% to 17%.

Other adjustments to profit or loss relate mainly to the reversal and non-recognition of deferred tax assets in respect of the tax loss. For the years 2010 to 2013, the Bank incurred a tax loss of €776,584,000.

The Bank did not recognise deferred long-term tax assets in respect of the tax loss because it assessed that there was a high level of uncertainty as regards the covering of these assets. In making this assessment, the Bank observed the provisions of IFRSs and the Corporate Income Tax Act, while at the same time taking into consideration the uncertainty related to the assumptions about future business events.

20 TOTAL PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS

	2013	2012
Dividends from investment in the equity of Zavarovalnica Maribor d.d.	0	2,032
Gains on the derecognition of investment in the equity of Zavarovalnica Maribor d.d.	0	35,353
Total profit after tax from discontinued operations	**0**	**37,385**

Deferred taxes in respect of gains earned on Zavarovalnica Maribor shares amounted to €5,608,000 in 2012.

Further details regarding the sale of the Bank´s equity stake in Zavarovalnica Maribor are given in Note 33.1.

21 BASIC LOSS PER SHARE

	2013	2012
Net (loss) for the financial year (€000)	(656,500)	(203,255)
Weighted average number of ordinary no-par value shares	10,000,000	39,122,968
Basic (loss) per share (€)	**(65.65)**	**(5.20)**

As a result of the December 2013 state-sponsored recapitalisation, the Republic of Slovenia became the sole owner of 10,000,000 ordinary no-par value shares issued by Nova KBM. New shares, which bear the ticker symbol KBMS, are not traded on a regulated capital market. In the calculation of the 2013 loss per share, a total of 10,000,000 KBMS shares were taken into account in the denominator, while the weighted average number of KBMR shares was taken into account in the calculation of the 2012 loss per share.

NOTES TO THE STATEMENT OF FINANCIAL POSITION ITEMS

22 CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2013	31.12.2012
Cash in hand	41,113	39,490
Obligatory deposits with the central bank	289,938	107,758
Other deposits with the central bank	3,779	3,876
Total	**334,830**	**151,124**

The year-on-year increase in obligatory deposits with the central bank was due to the recapitalisation of the Bank being partially provided in cash.

22.1 CASH AND CASH EQUIVALENTS

	31.12.2013	31.12.2012
Cash and balances with the central bank	334,830	151,124
Loans and advances to banks	118,294	69,406
Total	**453,124**	**220,530**

23 FINANCIAL ASSETS HELD FOR TRADING

	31.12.2013	31.12.2012
Derivatives that are not quoted on a stock exchange	**612**	**1,178**

No financial assets held for trading are pledged as collateral and none of these assets have the characteristics to qualify as subordinated debt.

23.1 MOVEMENTS IN FINANCIAL ASSETS HELD FOR TRADING

	2013	2012
1 January	**1,178**	**8,442**
Increase during the year	**3,867**	**12,689**
– acquisition	3,831	12,402
– other (deferred interest, realised gains)	36	287
Decrease during the year	**4,433**	**19,953**
– disposal (sale and redemption)	3,797	12,474
– change in fair value (impairment and reversal of recovery)	566	7,264
– exchange rate differences	0	1
– other (deferred interest, realised losses)	70	214
31 December	**612**	**1,178**

24 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2013	31.12.2012
Equity instruments	24,586	34,043
Total	**24,586**	**34,043**
Quoted	24,586	24,366
Unquoted	0	9,677
Total	**24,586**	**34,043**

As of 31 December 2013, no assets of this portfolio were pledged as collateral, and during 2013, the Bank did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

Financial assets designated at fair value through profit or loss include equity instruments for which the Bank has entered into forward sale contracts. The effects of valuation of financial assets designated at fair value through profit or loss and the effects of valuation of forward contracts are recorded through profit or loss.

None of the instruments included in the portfolio of financial assets designated at fair value through profit or loss have the characteristics to qualify as subordinated debt.

24.1 MOVEMENTS IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013	2012
1 January	**34,043**	**37,942**
Increase during the year	**9,134**	**7,033**
– change in fair value (recovery and reversal of impairment)	9,134	6,871
– deferred interest	0	34
– exchange rate differences	0	1
– other	0	127
Decrease during the year	**18,591**	**10,932**
– disposal (sale and redemption)	8,046	6,431
– change in fair value (impairment and reversal of recovery)	2,252	4,151
– interest received	0	120
– exchange rate differences	0	16
– other	8,111	214
– transfer to BAMC	182	0
31 December	**24,586**	**34,043**

The 2013 decrease stated in the line 'Other' was mainly the result of the transfer of certain assets previously included in the portfolio of financial assets designated at fair value through profit or loss to the portfolio of available-for-sale financial assets, due to the termination of expired forward contracts that had not been executed.

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

25.1 ANALYSIS BY TYPE AND MARKET SEGMENTS

	31.12.2013	31.12.2012
Equity instruments designated at fair value	**28,321**	**45,425**
– equity investments in other financial organisations	10,101	22,156
– equity investments in non-financial organisations	18,220	23,269
Equity instruments measured at cost	**1,499**	**23,081**
– equity investments in banks	0	11,621
– equity investments in other financial organisations	1	1
– equity investments in non-financial organisations	1,490	11,451
– equity investments in other foreign entities	8	8
Debt securities	**1,180,979**	**348,596**
– issued by the state and the central bank	1,099,301	182,824
– issued by banks	60,962	142,599
– issued by other issuers	20,716	23,173
Total	**1,210,799**	**417,102**
Quoted	1,199,406	374,939
Unquoted	11,393	42,163
Total	**1,210,799**	**417,102**

As of 31 December 2013, assets of this portfolio worth €619,739,000 were pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors. In 2013, the Bank did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

Of the assets included in this portfolio, ZVM2 bonds totalling €1,813,000, which made up 0.15% of the total portfolio, qualified as subordinated debt.

25.2 MOVEMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2013	**45,425**	**23,081**	**348,596**	**417,102**
Recognition of new financial assets	8,343	10,763	1,073,958	1,093,064
Interest	0	0	6,472	6,472
Net revaluation through equity (Note 44.1)	588	0	10,152	10,740
Net impairment through profit or loss (Note 18.1)	(14,435)	(18,475)	(8,248)	(41,158)
Derecognition of financial assets at maturity	0	0	(198,487)	(198,487)
Derecognition of financial assets upon disposal	(11,156)	0	(29,200)	(40,356)
Net gains/(losses) on sale (Note 10)	(444)	(565)	(22,264)	(23,273)
Transfer to BAMC	0	(13,305)	0	(13,305)
31 December 2013	**28,321**	**1,499**	**1,180,979**	**1,210,799**

Recognition of new financial assets relates to the following items: the purchase of treasury bills; the Republic of Slovenia bonds worth €249,999,000, provided as an in-kind contribution in the process of recapitalisation; and state-guaranteed bonds worth €377,600,000, provided by BAMC in exchange for bad loans.

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2012	**61,041**	**20,322**	**442,569**	**523,932**
Recognition of new financial assets	234	3,600	70,352	74,186
Interest	0	0	(2,944)	(2,944)
Net revaluation through equity (Note 44.1)	5,462	0	22,303	27,765
Net impairment through profit or loss (Note 18.1)	(11,494)	(840)	0	(12,334)
Derecognition of financial assets at maturity	0	0	(174,019)	(174,019)
Derecognition of financial assets upon disposal	(10,110)	(1)	(8,486)	(18,597)
Net gains/(losses) on sale	292	0	(1,179)	(887)
31 December 2012	**45,425**	**23,081**	**348,596**	**417,102**

26 LOANS AND ADVANCES TO BANKS

	31.12.2013	31.12.2012
Sight deposits	17,346	6,995
Current loans	108,903	97,783
Impairment of current loans	(7,955)	(172)
Non-current loans	45,441	64,893
Impairment of non-current loans	(12,441)	(117)
Total – net amount	**151,294**	**169,382**
Impairment	**20,396**	**289**
Total – gross amount	**171,690**	**169,671**

26.1 MOVEMENTS IN IMPAIRMENT OF LOANS AND ADVANCES TO BANKS

	2013	2012
1 January	**289**	**394**
Net impairment of principal (Note 18.1)	19,454	(106)
– additional impairment	25,421	1,627
– reversal of impairment	(5,967)	(1,733)
Additional impairment/reversal of impairment of interest	653	1
31 December	**20,396**	**289**

Recognition of additional impairment/reversal of impairment of interest on loans given to banks is reflected in profit or loss (Note 7: Interest income and expense).

27 LOANS AND ADVANCES TO CUSTOMERS

	31.12.2013	31.12.2012
Current loans	420,225	579,103
Impairment of current loans	(118,665)	(120,282)
Non-current loans	1,846,670	2,866,538
Impairment of non-current loans	(323,725)	(443,849)
Claims under guarantees	6,347	18,729
Impairment of claims under guarantees	(4,481)	(9,103)
Total – net amount	**1,826,371**	**2,891,136**
Impairment	**446,871**	**573,234**
Total – gross amount	**2,273,242**	**3,464,370**

27.1 MOVEMENTS IN IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

	2013	2012
1 January	**573,234**	**335,073**
Net impairment of principal (Note 18.1)	464,800	248,235
– additional impairment of principal	688,803	361,917
– reversal of impairment of principal	(224,003)	(113,682)
Additional impairment of interest	24,747	20,531
Additional impairment of fees	4	59
Write-off of loans and advances to customers	(7,308)	(30,664)
Transfer to BAMC	(608,606)	0
31 December	**446,871**	**573,234**

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

28 OTHER FINANCIAL ASSETS

	31.12.2013	31.12.2012
Cheques	80	75
Claims for fees and commissions	1,403	1,673
Accounts receivables	38	245
Other financial assets	9,638	64,939
Total – net amount	**11,159**	**66,932**
Impairment	**1,667**	**7,721**
Total – gross amount	**12,826**	**74,653**

The 2013 decrease of €50,033,000 in other financial assets relates to the proceeds received from the sale of a 51% shareholding in Zavarovalnica Maribor (€45,000,000 was received from Slovenska odškodninska družba and €5,033,000 was received from Pozavarovalnica Sava).

28.1 MOVEMENTS IN IMPAIRMENT OF OTHER FINANCIAL ASSETS

	2013	2012
1 January	**7,721**	**918**
Net impairment of principal (Note 18.1)	(5,536)	6,825
– additional impairment of principal	2,343	7,475
– reversal of impairment of principal	(7,879)	(650)
Additional impairment of interest	28	18
Additional impairment of fees	498	242
Write-off of other financial assets	(383)	(282)
Transfer to BAMC	(661)	0
31 December	**1,667**	**7,721**

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

29 HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2013	31.12.2012
Debt securities		
– current securities issued by the state and the central bank	29,736	29,855
– non-current securities issued by the state and the central bank	152,739	330,194
– non-current securities issued by banks and savings banks	6,088	33,203
– non-current securities issued by other issuers	3,874	3,878
Total	**192,437**	**397,130**
Quoted	192,437	395,473
Unquoted	0	1,657
Total	**192,437**	**397,130**

As of 31 December 2013, assets of this portfolio worth €186,350,000 were pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.

Notes issued by Adria Bank have the characteristics to qualify as subordinated debt. In accordance with a decision reached by the Bank´s Management Board in December 2013, these notes were impaired to €0 from their original value of €1,657,000.

29.1 MOVEMENTS IN HELD-TO-MATURITY FINANCIAL ASSETS

	2013	2012
1 January	**397,130**	**339,819**
Increase during the year	**40,386**	**123,821**
– acquisition	29,628	108,257
– gains (Note 10)	903	916
– other (deferred interest)	9,855	14,648
Decrease during the year	**245,079**	**66,510**
– disposal (sale and redemption)	232,162	58,729
– losses (Note 10)	4,295	974
– impairment (Note 18.1)	1,657	0
– other (interest received)	6,965	6,807
31 December	**192,437**	**397,130**

The following Republic of Slovenia treasury bills matured in 2013: OZ1, in the amount of €180,000,000, SZ55, in the amount of €20,000,000, and DZ44, in the amount of €10,000,000.

30 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2013	**84,882**	**24,628**	**27,078**	**1,548**	**138,136**
Transfer between types of assets	(2,809)	2,401	535	(3,330)	(3,203)
Additions	0	0	0	2,129	2,129
Disposals	(289)	(811)	(1,077)	(15)	(2,192)
31 December 2013	**81,784**	**26,218**	**26,536**	**332**	**134,870**
Accumulated depreciation					
1 January 2013	**34,056**	**20,662**	**21,414**	**0**	**76,132**
Transfer between types of assets	(2,594)	0	0	0	(2,594)
Depreciation (Note 16)	1,875	2,041	1,407	0	5,323
Disposals	(250)	(808)	(943)	0	(2,001)
31 December 2013	**33,087**	**21,895**	**21,878**	**0**	**76,860**
Carrying amount as of 1 January 2013	**50,826**	**3,966**	**5,664**	**1,548**	**62,004**
Carrying amount as of 31 December 2013	**48,697**	**4,323**	**4,658**	**332**	**58,010**

Most of the 2013 transfers between types of assets were related to the transfer of real estate to the non-current assets held for sale. The net transfer value of assets totalled €609,000.

As of 31 December 2013, the acquisition cost of completely depreciated items of property plant and equipment that are still used by the Bank totalled €35,567,000 (2012: €32,043,000).

The Bank´s liabilities to suppliers of items of property plant and equipment equalled €230,000 at the end of 2013 (2012: €1,242,000).

Purchases of items of property, plant and equipment made in 2013 were not evenly distributed across all asset types. A total of €2,401,000, or 72% of the amount invested in the purchase of fixed assets, was spent on computer equipment.

None of the items of property, plant and equipment are pledged as collateral.

	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2012	**84,352**	**26,877**	**27,426**	**2,437**	**141,092**
Transfer between types of assets	531	2,877	618	(4,026)	0
Additions	0	0	7	3,164	3,171
Disposals	(1)	(5,126)	(973)	(27)	(6,127)
31 December 2012	**84,882**	**24,628**	**27,078**	**1,548**	**138,136**
Accumulated depreciation					
1 January 2012	**32,207**	**23,584**	**20,548**	**0**	**76,339**
Additions	0	0	7	0	7
Depreciation (Note 16)	1,849	2,194	1,760	0	5,803
Disposals	0	(5,116)	(901)	0	(6,017)
31 December 2012	**34,056**	**20,662**	**21,414**	**0**	**76,132**
Carrying amount as of 1 January 2012	**52,145**	**3,293**	**6,878**	**2,437**	**64,753**
Carrying amount as of 31 December 2012	**50,826**	**3,966**	**5,664**	**1,548**	**62,004**

31 INVESTMENT PROPERTY

	2013	2012
1 January	**1,660**	**1,900**
Additions	1,381	0
Change in fair value (Note 18.2)	(702)	(239)
Rounding adjustment	0	(1)
31 December	**2,339**	**1,660**

Because one agreement ended on 30 November 2013, the number of agreements the Bank had in place for renting out investment properties fell from four at the end of 2012 to three at the end of 2013.

In 2013, the aggregate annual rent amounted to €139,000, inclusive of VAT (2012: €145,000).

Direct operating expenses relating to investment property amounted to €14,000 in 2013 (2012: €19,000).

Items of investment property are not subject to any sale restrictions.

32 INTANGIBLE ASSETS

	Computer software	Intangible assets in preparation	Total
Cost			
1 January 2013	**63,887**	**909**	**64,796**
Transfer between types of assets	1,807	(1,807)	0
Additions	0	2,002	2,002
Disposals	(965)	(590)	(1,555)
31 December 2013	**64,729**	**514**	**65,243**
Accumulated amortisation			
1 January 2013	**41,415**	**0**	**41,415**
Amortisation (Note 16)	6,465	0	6,465
Disposals	(966)	0	(966)
31 December 2013	**46,914**	**0**	**46,914**
Carrying amount as of 1 January 2013	**22,472**	**909**	**23,381**
Carrying amount as of 31 December 2013	**17,815**	**514**	**18,329**

The Bank may freely dispose of its intangible assets and none of these assets are pledged as collateral.

The acquisition cost of completely amortised intangible assets that are still used by the Bank totalled €15,491,000 at the end of 2013 (2012: €15,130,000).

The Bank´s liabilities to suppliers of intangible assets totalled €641,000 at the end of 2013 (2012: €535,000).

The Bank did not capitalise development costs in 2013 or 2012.

	Computer software	Intangible assets in preparation	Total
Cost			
1 January 2012	**61,745**	**586**	**62,331**
Transfer between types of assets	2,142	(2,142)	0
Additions	0	2,465	2,465
31 December 2012	**63,887**	**909**	**64,796**
Accumulated amortisation			
1 January 2012	**35,232**	**0**	**35,232**
Amortisation (Note 16)	6,183	0	6,183
31 December 2012	**41,415**	**0**	**41,415**
Carrying amount as of 1 January 2012	**26,513**	**586**	**27,099**
Carrying amount as of 31 December 2012	**22,472**	**909**	**23,381**

33 INVESTMENTS IN THE EQUITY OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	31.12.2013	31.12.2012
Investments in the equity of banks in the Group	**44,329**	**45,170**
– equity investments in banks in the Group	44,329	45,170
Investments in the equity of other Group companies	**9,810**	**10,810**
– equity investments in financial associates	2,237	2,237
– equity investments in other financial subsidiaries	6,719	7,719
– equity investments in non-financial subsidiaries	854	854
Total	**54,139**	**55,980**

33.1 MOVEMENTS IN INVESTMENTS IN THE EQUITY OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	31.12.2013	31.12.2012
1 January	**55,980**	**101,967**
Increase during the year	**121,593**	**35,353**
– acquisition	121,593	0
– other (realised gains)	0	35,353
Decrease during the year	**123,434**	**81,340**
– disposal	0	65,033
– impairment (Note 18.2)	119,483	15,307
– other (realised losses)	3,951	1,000
31 December	**54,139**	**55,980**

In 2013, equity infusion in the total amount of €115,952,000 was provided by the Bank to the following subsidiaries:

- PBS, in the amount of €42,474,000, by which the shareholding of the Bank in PBS increased to 99.12%
- KBM Leasing Hrvatska, in the amount of €5,478,000

- KBM Leasing, in the amount of €25,000,000
- Gorica Leasing, in the amount of €22,000,000
- KBM Invest, in the amount of €21,000,000.

In December 2013, the put option of the Republic of Serbia on its 12.89% shareholding in KBM Banka was exercised at the exercise price of €5,641,000. Thus, the Bank increased its shareholding and voting rights in KBM Banka to 89.53%. The value of the option contract, which was included among financial liabilities held for trading, was impaired by €2,951,000 (included in other decreases), as a result of which the net increase of the Bank´s investment in the equity of KBM Banka totalled €2,690,000.

The Bank´s investments in the equity of its subsidiaries were impaired by a total of €119,483,000 in 2013 (2012: €15,307,000), split as follows:

- PBS, in the amount of €12,657,000
- KBM Leasing Hrvatska, in the amount of €5,478,000 (2012: €1,375,000)
- KBM Leasing, in the amount of €25,000,000 (2012: €746,000)
- Gorica Leasing, in the amount of €22,000,000 (2012: €2,856,000)
- KBM Invest, in the amount of €21,000,000 (2012: €3,774,000)
- Adria Bank, in the amount of €16,150,000
- KBM Banka, in the amount of €17,199,000 (2012: €6,556,000).

KBM Infond returned to the Bank a capital contribution of €1,000,000 in each of 2013 and 2012 (included in other decreases).

The Bank made a gain of €35,353,000 on the sale of its 51% shareholding in Zavarovalnica Maribor, the purchase price of which was set at €65,033,000. In accordance with the agreement, the buyers, i.e. Slovenska odškodninska družba and Pozavarovalnica Sava had paid the advance payment of €15,000,000 by the end of 2012, while the remaining amount was paid on 25 April 2013, with Pozavarovalnica Sava and Slovenska odškodninska družba paying €5,033,000 and €45,000,000, respectively.

KBM Projekt is no longer a subsidiary of the Bank. On 30 October 2012, the company filed for liquidation, with the result that the Bank lost control of it.

33.2 INFORMATION ON COMPANIES IN WHICH NOVA KBM HOLDS AT LEAST A 20% EQUITY STAKE

Name and registered address of the company	Total equity as of 31.12.2013	The 2013 net profit/(loss)	Equity attributable to Nova KBM	Acquisition cost	Nova KBM's shareholding (%)	Nova KBM's voting rights (%)	Investment value as of 31.12.2013
Investment in the equity of banks				**99,835**			**44,329**
Adria Bank AG, Vienna	354	(30,238)	166	16,149	46.65	50.54	0
KBM Banka a.d., Kragujevac	17,274	(6,491)	15,465	30,051	89.53	89.53	3,351
Poštna banka Slovenije d.d., Maribor	42,877	(57,164)	42,500	53,635	99.12	99.12	40,978
Investment in the equity of other companies				**106,461**			**9,810**
Gorica Leasing d.o.o., Nova Gorica	(20,121)	(24,031)	(20,121)	25,610	100.00	100.00	0
KBM Fineko d.o.o. (in liquidation), Maribor	3,749	755	3,749	853	100.00	100.00	853
KBM Infond d.o.o., Maribor	12,671	1,458	10,538	8,660	72.73	72.73	6,661
KBM Invest d.o.o., Maribor	(13,309)	(16,446)	(13,309)	25,143	100.00	100.00	0
KBM Leasing d.o.o., Maribor	(37,625)	(40,584)	(37,625)	34,062	100.00	100.00	0
KBM Leasing Hrvatska d.o.o., Zagreb	(4,814)	(6,818)	(4,814)	9,837	97.45	97.45	0
M-PAY d.o.o., Maribor	209	11	105	59	50.00	50.00	59
Moja naložba, pokojninska družba, d.d., Maribor	6,572	(387)	2,957	2,237	45.00	45.00	2,237
Total				**206,296**			**54,139**

34 TAX ASSETS

34.1 NET TAX ASSETS

	31.12.2013	31.12.2012
Current tax assets	2	4
Deferred tax assets (Note 34.2)	10,288	35,096
Total	**10,290**	**35,100**

The Bank did not account for liabilities for income tax for 2013 or 2012.

The amount of €2,000 represents a claim against a foreign tax administration for the tax on dividends paid abroad. The amount of €9,330,000, included in deferred tax assets, is attributable to the assets created in respect of the impairment of available-for-sale financial assets.

34.2 NET DEFERRED TAXES

	31.12.2013	31.12.2012
Deferred tax assets	**10,288**	**35,096**
– tax loss	0	25,767
– investments in fixed assets	352	310
– available-for-sale financial assets	9,330	8,432
– other provisions for pending legal issues	70	62
– other provisions for employees	536	525
Included in profit or loss (Note 19)	**(23,006)**	**11,080**
– tax loss	(25,767)	13,671
– investments in fixed assets	42	304
– grants for cultural projects and for protection against natural disasters	0	(22)
– available-for-sale financial assets	2,675	(152)
– fees and commissions	0	(589)
– other provisions for pending legal issues	8	(21)
– other provisions for employees	36	(223)
– investments in the equity of the Group companies	0	(1,888)
Included in equity (Note 44)	**(1,432)**	**369**
– available-for-sale financial assets	(1,407)	369
– provisions for severance benefits	(25)	0

The year-on-year decline in deferred long-term tax assets is the result of the reversal of deferred long-term tax assets in respect of the tax loss.

In 2013, the Bank did not recognise deferred long-term tax assets in respect of the tax loss (Note 19.1).

35 OTHER ASSETS

	31.12.2013	31.12.2012
Inventory	13	14
Assets received in settlement of receivables	13,440	31,382
Claims for advance payments	29	40
Prepayments and accrued income	490	618
Other claims	36	52
Total – net amount	**14,008**	**32,106**
Impairment	**30,221**	**12,281**
Total – gross amount	**44,229**	**44,387**

In 2013 and 2012, based on valuations carried out by certified appraisers, the Bank impaired assets received in settlement of receivables.

35.1 MOVEMENTS IN IMPAIRMENT OF OTHER ASSETS

	2013	2012
1 January	**12,281**	**76**
Net impairment of principal (Note 18.2)	17,941	12,204
– additional impairment of principal	17,942	12,768
– reversal of impairment of principal	(1)	(564)
Rounding adjustment	0	1
Transfer to BAMC	(1)	0
31 December	**30,221**	**12,281**

36 NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

	31.12.2013	31.12.2012
Items of property, plant and equipment held for sale	780	310
Total	**780**	**310**

37 FINANCIAL LIABILITIES TO THE CENTRAL BANK

	31.12.2013	31.12.2012
Loans from the central bank	**426,002**	**423,646**
– non-current loans	426,002	423,646
Total	**426,002**	**423,646**

The expected maturity of these liabilities is presented in Note 4.2.

38 FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2013	31.12.2012
Derivatives	976	3,412
– forward contracts	362	501
– option contracts (Note 33.1)	0	2,521
– swap contracts	195	390
– other derivatives	419	0
Total	**976**	**3,412**

39 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31.12.2013	31.12.2012
Deposits (Note 39.1)	2,411,535	2,964,727
Loans (Note 39.2)	362,459	507,736
Debt securities (Note 39.4)	69,284	88,591
Subordinated liabilities (Notes 39.5 and 10)	0	88,190
Other financial liabilities (Note 39.6)	26,185	25,116
Total	**2,869,463**	**3,674,360**

39.1 DEPOSITS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2013	31.12.2012
Deposits from banks	**51,982**	**53,880**
– sight deposits	2,657	2,471
– current deposits	2,298	3,540
– non-current deposits	47,027	47,869
Deposits from customers	**2,359,553**	**2,910,847**
– sight deposits	979,958	971,591
– current deposits	545,819	616,703
– non-current deposits	833,776	1,322,553
Total	**2,411,535**	**2,964,727**

39.2 LOANS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2013	31.12.2012
Loans from banks	**357,910**	**501,368**
– non-current loans	357,910	501,368
Loans from customers	**4,549**	**6,368**
– non-current loans	4,549	6,368
Total	**362,459**	**507,736**

39.3 DEPOSITS AND LOANS BY MARKET SEGMENTS

	31.12.2013	31.12.2012
Deposits	**2,411,535**	**2,964,727**
– banks	51,982	53,880
– non-financial companies	333,798	256,295
– state	56,696	458,681
– other financial organisations	45,733	144,080
– foreign persons	37,734	42,591
– non-profit household service providers	23,837	28,041
– households	1,861,755	1,981,159
Loans	**362,459**	**507,736**
– banks	357,910	501,368
– state	4,549	6,368
Total	**2,773,994**	**3,472,463**

39.4 DEBT SECURITIES BY TYPE AND MATURITY

	31.12.2013	31.12.2012
Current securities		
Non-current securities	**45,412**	**45,413**
– bonds issued	45,412	45,413
Certificates of deposit issued	**23,872**	**43,178**
– current	9,255	24,790
– non-current	14,617	18,388
Total	**69,284**	**88,591**

39.5 SUBORDINATED LIABILITIES

ISIN code	Currency	Date of maturity	Interest rate	31.12.2013	31.12.2012
Hybrid instruments as a component of additional own funds					
ISIN: XS0270427163	EUR	-	3M EURIBOR + 1.60%	0	50,222
ISIN: XS0325446903	EUR	-	3M EURIBOR + 4.00%	0	11,920
Hybrid instruments as a component of original own funds					
ISIN: SI0022103046	EUR	-	8.70%	0	26,048
Total				**0**	**88,190**

Subordinated liabilities are included in the calculation of capital adequacy. Capital risk is presented in Note 4.6.

On 18 December 2013, all qualified liabilities of the Bank, worth €89,540,000 in total, were written off based on a decision passed by the Bank of Slovenia. These liabilities comprised:

- liabilities arising from subordinated notes KBM9 issued by the Bank, totalling €26,030,000
- liabilities arising from hybrid loan facilities provided by ING Bank NV, Amsterdam, and VTB Bank PLC, London, totalling €50,000,000 and €11,808,000, respectively, including accrued interest of €1,105,000 and €597,000, respectively.

39.6 OTHER FINANCIAL LIABILITIES

	31.12.2013	31.12.2012
Liabilities for fees and commissions	25	22
Liabilities for gross salaries of employees	2,445	2,472
Liabilities to suppliers	3,965	4,384
Liabilities related to payment card transactions	7,599	5,420
Liabilities related to ATM transactions	1,640	2,036
Liabilities related to funds provided by customers for payments abroad	594	4,733
Liabilities related to cash transactions	1,240	665
Liabilities arising from participation in profits – dividends	75	75
Accruals and deferred income	3,472	2,985
Surplus arising from authorised transactions for customers	135	72
Other financial liabilities	4,995	2,252
Total other financial liabilities	**26,185**	**25,116**

Liabilities in respect of business relationships made up the largest proportion of other financial liabilities in 2013.

40 PROVISIONS

	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2013	**0**	**3,274**	**4,333**	**32,998**	**428**	**41,033**
Net creation of provisions through profit or loss (Note 17)	1,680	12,593	87	28,945	(7)	43,298
– provisions made during the year	1,680	14,580	372	52,388	0	69,020
– provisions reversed during the year	0	(1,987)	(285)	(23,443)	(7)	(25,722)
Net reversal of provisions through equity	0	0	(293)	0	0	(293)
Provisions used during the year	0	0	(187)	0	0	(187)
31 December 2013	**1,680**	**15,867**	**3,940**	**61,943**	**421**	**83,851**

In 2013, the Bank set aside provisions of €1,680,000 for severance benefits to be paid to employees who would be made redundant for business reasons as a result of its restructuring. The amount of these provisions was assessed on the basis of the restructuring programme which the Bank has begun to implement.

Claims brought against the Bank totalled €17,063,000 at the end of 2013 (2012: €15,569,000). Considering legal opinions obtained, the Bank had €15,867,000 of provisions set aside for these claims as of 31 December 2013 (2012: €3,274,000).

Provisions for pensions and similar benefits to employees are recognised on the basis of an actuarial calculation; the assumptions used in the calculation are shown in Note 3.14. In 2013, the creation and reversal of provisions were recognised through profit or loss, except for actuarial gains in respect of severance benefits, totalling €293,000, which were recognised within other comprehensive income, in accordance with IAS 19.

Of the total amount of provisions for off-balance sheet liabilities, €49,093,000 was attributable to service guarantees, €9,488,000 was attributable to financial guarantees, and €3,362,000 was attributable to undrawn loans and overdrafts.

Provisions for off-balance sheet items increased mainly for those transactions that have been transferred to BAMC. Along with transferring an on-balance sheet exposure, the Bank also had to transfer to BAMC the collateral provided by the respective customer. In addition, in 2013, the Bank had to set aside additional provisions for off-balance sheet liabilities (for the guarantees it had provided).

Other provisions recorded in 2013 and 2012 relate to the provisions for undrawn loans under the National Housing Savings Scheme.

	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2012	**2,532**	**4,529**	**23,773**	**434**	**31,268**
Net creation of provisions through profit or loss (Note 17)	742	(14)	9,225	(6)	9,947
– provisions made during the year	836	238	31,900	0	32,974
– provisions reversed during the year	(94)	(252)	(22,675)	(6)	(23,027)
Provisions used during the year	0	(182)	0	0	(182)
31 December 2012	**3,274**	**4,333**	**32,998**	**428**	**41,033**

41 OTHER LIABILITIES

	31.12.2013	31.12.2012
Liabilities related to taxes and contributions	1,612	1,639
Accruals and deferred income	10,367	1,909
Total	**11,979**	**3,548**

The largest proportion of the 2013 accruals and deferred income, totalling €9,190,000, relates to deferred fees on loans approved by the Bank.

42 SHARE CAPITAL

	31.12.2013	31.12.2012
Ordinary shares	**150,000**	**40,814**
– subscribed by non-financial companies	0	7,209
– subscribed by the state	150,000	14,562
– subscribed by banks	0	458
– subscribed by other financial organisations	0	2,409
– subscribed by households	0	7,952
– subscribed by foreign persons	0	8,224

In April 2013, the share capital of the Bank was increased by an in-kind contribution resulting from the conversion into equity of a state-provided €100,000,000 facility, in accordance with the Hybrid Loan Facility Agreement signed between the Bank and the Republic of Slovenia. The share capital of the Bank was further increased in July, when interest of €2,411,000 that had accrued on the aforementioned hybrid loan facility was converted into equity.

On 31 July 2013, following the entry of the share capital increase in the Companies Register, the share capital of the Bank totalled €143,225,000 and was split into 323,103,520 ordinary no-par value shares. The shareholding (direct and indirect) of the Republic of Slovenia in the Bank equalled 94.08%.

During 2013, the Bank made a number of attempts to attract new investors to provide fresh capital.

At the end of the 2013, the Bank of Slovenia requested the institution, which had been selected to carry out a due diligence review of the Bank, to make an assessment of the financial position of the Bank as of 30 September 2013. It was clear that, after accounting for necessary additional loan loss provisions, and taking into consideration the write-off of qualified liabilities, the Bank would have negative net worth at the end of 2013.

To deal with this situation, the Bank of Slovenia decided it was necessary to adopt extraordinary measures in order for the Bank to achieve the required capital adequacy.

On 18 December 2013, based on a decision passed by the Bank of Slovenia, all qualified liabilities of the Bank were written off. These liabilities comprised:
- liabilities arising from the Bank´s share capital, which totalled €143,225,000; the effect of cancelling the shares was reflected in an increase in the share premium by the same amount
- liabilities of the Bank in respect of its subordinated financial instruments, totalling €89,540,000; the effect of writing off these liabilities was reflected in an increase of the Bank´s income by the same amount.

By writing off all the qualified liabilities of the Bank, its share capital was reduced to €0. On the same day that the qualified liabilities of the Bank were written off, the Republic of Slovenia subscribed for and paid for all of the 10,000,000 newly issued shares of the Bank, thereby increasing the Bank´s share capital by €150,000,000. The total issue value of shares was €870,000,000, made up as follows:

- by delivering government bonds whose total market value equals €249,999,000, the share capital increased by €43,103,000
- by providing cash contribution in the amount of €620,001,000, the share capital increased by €106,896,000.

The paid-in capital surplus of €720,000,000 was credited to share premium.

The accounting value of each ordinary no-par value share, calculated as the ratio between the share capital and the total number of outstanding shares, was €15 at the end of 2013.

No changes took place in the share capital of the Bank in 2012. It totalled €40,814,000 and was split into 39,122,968 ordinary no-par value shares.

The Republic of Slovenia was registered as the only shareholder of the Bank at the end of 2013. As of 31 December 2012, the Bank had 97,429 shareholders in total, of whom 956 were legal entities, 96,346 were individuals, and 127 were foreign investors.

In 2012 and 2013, the Bank did not purchase or sell treasury shares, and no treasury shares were held by the Bank at the end of 2013.

43 SHARE PREMIUM

	31.12.2013	31.12.2012
Paid-in capital surplus	360,572	143,467
Share premium arising from the general capital revaluation	0	22,308
Total	**360,572**	**165,775**

Share premium increased in 2013 as a result of the following factors:

- cancellation of Bank shares worth €143,225,000
- paid-in capital surplus totalling €720,000,000.

Share premium of €668,428,000 was used to cover the loss incurred by the Bank in 2013.

44 REVALUATION RESERVES

	31.12.2013	31.12.2012
Revaluation reserves in respect of available-for-sale financial assets (Note 44.1)	6,872	(2,092)
– revaluation	8,279	(2,461)
– deferred taxes (Note 34.2)	(1,407)	369
Other revaluation reserves (Note 44.1)	268	0
– revaluation	293	0
– deferred taxes (Note 34.2)	(25)	0
Total	**7,140**	**(2,092)**

44.1 MOVEMENTS IN REVALUATION RESERVES

	2013	2012
1 January	**(2,092)**	**(24,181)**
Net change in valuation of available-for-sale financial assets (Note 25.2)	10,740	27,765
– gains recognised in revaluation reserves	4,895	17,061
– losses transferred from revaluation reserves to profit or loss	5,845	10,704
Net change in other revaluation reserves	293	0
Net change in deferred taxes	(1,801)	(5,676)
31 December	**(7,140)**	**(2,092)**

45 RESERVES FROM PROFIT

	31.12.2013	31.12.2012
Regulatory reserves	0	12,145
Statutory reserves	0	172,158
Other reserves from profit	0	90,741
Total	**0**	**275,044**

45.1 MOVEMENTS IN RESERVES FROM PROFIT

	2013	2012
1 January	**275,044**	**275,044**
Decrease in regulatory reserves	(12,145)	0
Decrease in statutory reserves	(172,158)	0
Decrease in other reserves	(90,741)	0
31 December	**0**	**275,044**

Total reserves from profit amounting to €275,044,000 were used in 2013 to cover the loss incurred by the Bank.

46 RETAINED LOSSES (INCLUDING NET LOSS FOR THE FINANCIAL YEAR)

	31.12.2013	31.12.2012
Retained (losses) from previous years	0	(83,717)
Net (loss) for the financial year	0	(203,255)
Total	**0**	**(286,972)**

For 2013, the Bank reported a net loss of €656,000,000 and retained losses of €286,972,000. In accordance with a decision of the Management and Supervisory Boards, the entire loss incurred by the Bank, in the amount of €943,472,000, was covered by releasing reserves from profit of €275,044,000 and share premium of €668,428,000.

Movements in retained earnings or losses are presented in the Statement of Changes in Equity.

OTHER NOTES

47 RETAINED LOSSES

	31.12.2013	31.12.2012
Net (loss) for the financial year	(656,500)	(203,255)
– retained (losses) from previous years	(287,234)	(83,979)
– retained earnings from previous years	262	262
– release of reserves from profit and of share premium	943,472	0
– regulatory reserves	12,145	0
– statutory reserves	172,158	0
– other reserves from profit	90,741	0
– share premium	668,428	0
Retained (losses)	**0**	**(286,972)**

48 COMMITMENTS AND CONTINGENT LIABILITIES BY TYPE

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

	31.12.2012		
	Current	Non-current	Total
Financial guarantees	43,060	38,036	81,096
Service guarantees	95,669	79,827	175,496
Total guarantees	**138,729**	**117,863**	**256,592**
Unsecured letters of credit	**249**	**0**	**249**
Approved and undrawn loans	89,671	1,124	90,795
Approved and undrawn overdrafts	160,906	180	161,086
Other	165	0	165
Total commitments and contingent liabilities	**250,742**	**1,304**	**252,046**
Derivatives	**184,632**	**5,636**	**190,268**
Total	**574,352**	**124,803**	**699,155**

Liabilities under rental agreements

	Annual amount in 2014	2 to 5 years (2015 – 2018)	Over 5 years
Business premises, ATMs, parking spaces	891	3,534	4,308
Software	89	357	893
Information channels	453	1,812	4,530
Other equipment	23	9	2
Total	**1,456**	**5,712**	**9,733**

Agreements for renting business premises, ATMs and information channels account for the largest proportion of liabilities under operating lease agreements.

The Bank has not entered into any irrevocable rental agreements.

Receivables under rental agreements

	Annual amount in 2014	2 to 5 years (2015 – 2018)	Over 5 years
Business premises and apartments	365	1,400	2,835
Equipment	20	79	197
Total	**385**	**1,479**	**3,032**

The most significant rental agreements have been made for renting out business premises and apartments under operating leases.

49 DERIVATIVES

Type of risk	Type of derivative	Book value in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	210	195	42,619
Equity instrument price risk	Other derivatives	372	419	24,353
Foreign exchange risk	Currency forwards	30	362	85,241
Total as of 31 December 2013		**612**	**976**	**152,213**

Type of risk	Type of derivative	Book value in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	410	390	42,800
Equity instrument price risk	Futures contracts in securities	565	368	42,180
Equity instrument price risk	Options	0	2,521	14,597
Foreign exchange risk	Currency forwards	203	133	90,691
Total as of 31 December 2012		**1,178**	**3,412**	**190,268**

49.1 DERIVATIVES BY TYPE

	Current	Non-current	Total
Forward contracts	**85,241**	**0**	**85,241**
– trading	85,241	0	85,241
Other derivatives	**24,353**	**0**	**24,353**
– trading	24,353	0	24,353
Swaps	**2,619**	**40,000**	**42,619**
– trading	2,619	40,000	42,619
Total as of 31 December 2013	**112,213**	**40,000**	**152,213**

	Current	Non-current	Total
Forward contracts	**90,691**	**0**	**90,691**
– trading	90,691	0	90,691
Futures contracts	**42,180**	**0**	**42,180**
– trading	42,180	0	42,180
Swaps	**42,800**	**0**	**42,800**
– trading	42,800	0	42,800
Options	**8,961**	**5,636**	**14,597**
– trading	8,961	5,636	14,597
Total as of 31 December 2012	**184,632**	**5,636**	**190,268**

50 AUTHORISED TRANSACTIONS

	31.12.2013	31.12.2012
Non-financial companies	356,951	13
State	7,268	9,180
Banks and other financial organisations	27,639	35,437
Households	1,643	6
Non-profit household service providers	1,290	1,316
Liabilities related to transactions in securities	615	930
Total	**395,406**	**46,882**

51 FIDUCIARY ACTIVITIES

	31.12.2013	31.12.2012
ASSETS	**614**	**825**
Claims of settlement and transactions accounts for customer assets	**117**	**262**
– from financial instruments	75	171
– against the Central Securities Clearing Corporation or the Bank´s clearing account for sold financial instruments	42	91
Customers´ cash	**497**	**563**
– in the settlement account for customer assets	363	511
– in banks´ transaction accounts	134	52
LIABILITIES	**614**	**825**
Liabilities of settlement and transactions accounts for customer assets	**614**	**825**
– to customers from cash and financial instruments	539	654
– to the Central Securities Clearing Corporation or the Bank´s clearing account for purchased financial instruments	0	105
– to the Bank or the Bank´s settlement account for commissions, fees, etc.	75	66
OFF-BALANCE SHEET ITEMS	**0**	**105**
Customers´ financial instruments, itemised by service	**0**	**105**
– receipt, transmission and execution of orders	0	105

52 RELATED PARTY TRANSACTIONS

52.1 STATEMENT OF FINANCIAL POSITION AND OFF-BALANCE SHEET ITEMS

	Subsidiaries		Associates	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Assets				
Loans and advances given (gross amount)	323,994	343,928	1	3
– loans and advances to banks	76,283	81,609	0	0
– loans and advances to customers	247,661	260,936	1	2
– other financial assets	50	1,383	0	1
Investment in securities	56,752	57,089	2,237	2,237
– equity instruments	55,064	55,432	2,237	2,237
– debt securities	1,688	1,657	0	0
Other claims	165	0	0	0
Liabilities				
Deposits and loans received	53,924	50,730	1,748	1,659
– deposits and loans from banks	48,208	47,418	0	0
– deposits and loans from customers	4,616	3,066	1,748	1,659
– other financial liabilities	1,100	246	0	0
Securities issued	8,279	0	0	0
– debt securities	8,279	0	0	0
Subordinated liabilities	100	100	0	27
Other liabilities	1	0	0	0
Off-balance sheet items	4,063	4,900	4	3

	Key management personnel		Other related persons	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Assets				
Loans and advances given (gross amount)	297	323	4,621	12,660
– loans and advances to customers	297	322	4,621	12,657
– other financial assets	0	1	0	3
Investment in securities	0	0	348	348
– equity instruments	0	0	348	348
Liabilities				
Deposits and loans received	474	684	164	898
– deposits and loans from customers	474	677	46	809
– other financial liabilities	0	7	118	89
Other liabilities	0	3	0	0
Off-balance sheet items	69	90	132	33

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

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

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

52.2 INCOME STATEMENT

	Subsidiaries		Associates	
	2013	2012	2013	2012
Net interest income	12,567	11,415	(89)	(1,405)
Dividend income	526	824	0	2,032
Net fee and commission income	997	1,103	7	472
Costs of services	(101)	(382)	0	(616)
Impairment of loans	(52,025)	(62,521)	0	0
Provisions	(1,056)	(1,238)	0	0
Impairment of investments	(119,482)	(15,307)	0	0
Write-offs	0	0	0	0
Total	**(158,574)**	**(66,106)**	**(82)**	**483**

	Key management personnel		Other related persons	
	2013	2012	2013	2012
Net interest income	(13)	(7)	233	2,729
Net fee and commission income	0	0	7	35
Costs of services	(233)	(235)	(1,520)	(1,398)
Individual impairments	0	0	0	0
Write-offs	0	0	0	0
Total	**(246)**	**(242)**	**(1,280)**	**1,366**

52.3 LOANS AND GUARANTEES GIVEN

	Management Board members		Supervisory Board members		Other Bank employees on individual contract	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Loans	6	7	47	58	1,422	1,755
Average interest rate on loans (%)	8.48	8.59	3.66	4.18	3.43	3.30
Repayments	0	0	12	10	267	441

53 EXPOSURE TO THE BANK OF SLOVENIA, REPUBLIC OF SLOVENIA AND STATE-OWNED INSTITUTIONS

Exposure to:	31.12.2013	31.12.2012
Bank of Slovenia	**293,717**	**111,634**
– settlement account	289,938	107,758
– other	3,779	3,876
Republic of Slovenia	**1,155,415**	**524,953**
– bonds	504,918	237,559
– other securities	263,594	236,711
– loans	0	228
– investments guaranteed by the Republic of Slovenia, by type	385,587	38,739
– other	415	52
State-owned institutions	**543,943**	**718,163**
– loans	346,021	485,217
– securities	101,117	128,340
– commitments and contingent liabilities	83,302	66,975
– other	13,503	37,631
Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	**1,993,075**	**1,354,750**
Share in total assets (%)	50.97	31.23
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	901	11,664
Total assets	**3,909,983**	**4,338,568**

54 MOVEMENTS IN OVERDUE AND UNPAID CLAIMS

Type of claims and other assets	01.01.2013	(%)	Net increase/ decrease	Write-offs	Transfer to BAMC	31.12.2013	(%)
Loans and advances to banks	29	0.02	(27)	0	0	2	0.00
Loans and advances to customers	701,372	20.25	326,384	(7,382)	(675,218)	345,156	15.1 8
Other financial assets	2,171	2.91	797	(441)	(746)	1,781	13.89
Total	**703,572**	**18.97**	**327,154**	**(7,823)**	**(675,964)**	**346,939**	**29.07**

Type of claims and other assets	01.01.2012	(%)	Net increase/ decrease	Write-offs	31.12.2012	(%)
Loans and advances to banks	4	0.00	25	0	29	0.02
Loans and advances to customers	453,583	12.34	278,512	(30,723)	701,372	20.25
Other financial assets	1,526	15.55	1,022	(377)	2,171	2.91
Total	**455,113**	**11.76**	**279,559**	**(31,100)**	**703,572**	**23.18**

55 REMUNERATION

	2013	2012
Management Board members	**275**	**258**
Aleš Hauc	138	95
Igor Žibrik	137	50
Manja Skernišak	0	40
Andrej Plos	0	73
Supervisory Board members	**186**	**189**
Members of Supervisory Board committees	**88**	**68**
Other Bank employees on individual contract	**3,675**	**3,818**
Total	**4,224**	**4,333**

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

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

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

A more detailed disclosure of remuneration is provided in Note 57 of the Financial Report of the Nova KBM Group.

56 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Moody´s Investors Service upgraded Nova KBM´s long-term deposit rating to Caa1 from Caa2, at the same time changing the outlook on the rating from 'negative' to 'stable'. Nova KBM´s financial strength rating (BFSR) remained unchanged at E, while its baseline credit assessment rating was improved to caa2 from caa3.

Standard & Poor´s upgraded Nova KBM´s long-term counterparty risk rating to B from Ccc, and affirmed its unsolicited public information rating at Bpi.

In March 2014, Fitch Ratings affirmed the ratings of Nova KBM.

In order to comply with the requirements of the Austrian National Bank, Adria Bank set aside additional impairment losses, as a result of which the need has arisen for Adria Bank to raise fresh capital. At the Shareholders´ Meeting of Adria Bank, which is expected to take place in April 2014, a decision will be reached regarding its recapitalisation, with the purpose of ensuring that Adria Bank meets the recommended capital adequacy.