ANNUAL REPORT 2015

NOVA KBM GROUP AND NOVA KBM d.d.

VALUES THAT REACH FURTHER

Nova KBM
READY FOR TOMORROW

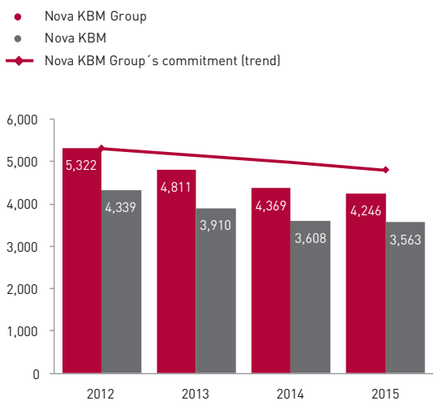
Common values and a common goal. We want to share them with everyone who is part of our story. Our business is led by **EXCELLENCE**, **HONESTY**, **TRUST**, **RESPONSIBILITY** and **LOYALTY**.

We build trust through integration and cooperation. By delivering on our goals and keeping our word, we strengthen the loyalty of our employees, customers and other stakeholders.

We set ourselves new challenges and seek new paths. It is our orientation towards change and the yearning for progress and development that help us overcome challenges.

Each time we justify the trust placed in us we reach further.

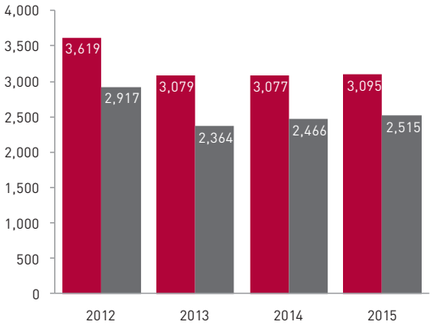
Balance sheet total (€mln)





The reduction in the balance sheet total is in line with the relevant commitment made to the European Commission.

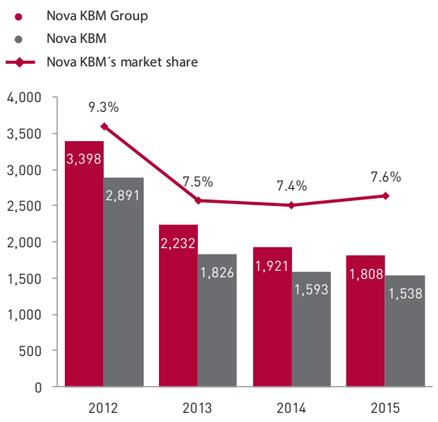
Customer deposits (€mln)





Nova KBM is assessed as the second most likable bank in Slovenia, reflecting its commitment to developing and strengthening customer relationships.

Loans and advances to customers (€mln)

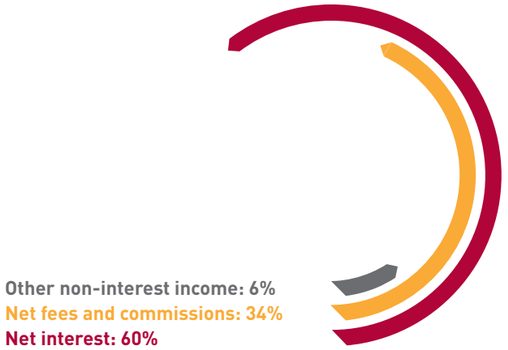




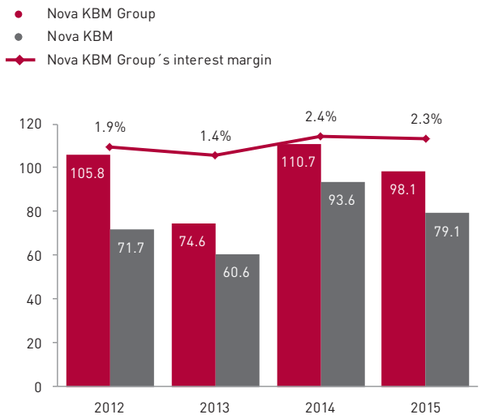
The downward trend in lending has become less pronounced.

Nova KBM´s market share in customer loans saw an increase in 2015.

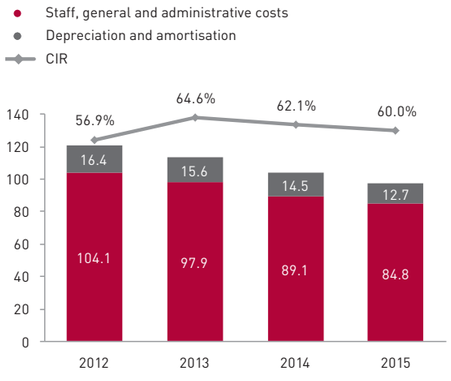
Structure of the Nova KBM Group´s 2015 income



Net interest income (€mln)



Nova KBM Group´s operating costs (€mln)





Nova KBM and the Nova KBM Group delivered profitable performances in every quarter of 2015.



The Nova KBM Group´s interest margin was 2.3% in 2015.



While the operating costs incurred by the Nova KBM Group fell by 6.0% from 2014 to 2015, its cost-to-income ratio improved by 2.1 percentage points.



Name of the parent bank:	**Nova Kreditna banka Maribor d.d.**
Short name of the parent bank:	**Nova KBM d.d.**
Registered office:	**Ulica Vita Kraigherja 4, 2505 Maribor**
BIC (SWIFT):	**KBMASI2X**
Reuters:	**KBMS**
IBAN:	**SI56 0100 0000 0400 014**
Account No.:	**01000-0000400014**
Registration No.:	**5860580**
Entry No. in the register of companies kept by the Maribor District Court:	**062/10924200**
VAT ID No.:	**SI94314527**
Share capital:	**€150,000,000**

CONTENTS

BUSINESS REPORT

1	**KEY PERFORMANCE INDICATORS**	**9**
1.1	Key performance indicators of the Nova KBM Group	9
1.2	Key performance indicators of Nova KBM	10
2	**STATEMENT BY THE MANAGEMENT BOARD**	**11**
3	**REPORT OF THE SUPERVISORY BOARD**	**14**
4	**PROGRAMMES AND PROJECTS AIMED AT IMPROVING THE PERFORMANCE OF THE NOVA KBM GROUP**	**19**
5	**PROFILE OF THE NOVA KBM GROUP AND NOVA KBM**	**24**
5.1	Important events and achievements during 2015	24
5.2	Significant events after the end of the financial year	26
5.3	Awards and recognitions in 2015	26
5.4	Governance of the Nova KBM Group and Nova KBM	27
5.4.1	Organizational structure of the Nova KBM Group	27
5.4.2	Organizational structure of Nova KBM	28
5.4.3	Corporate governance of Nova KBM	29
5.4.4	Compliance function	31
5.4.5	Prevention of money laundering and terrorist financing	32
5.4.6	Internal Audit Centre	32
6	**SHAREHOLDERS´ EQUITY OF NOVA KBM**	**33**
7	**DECLARATION ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS**	**33**
8	**RISK MANAGEMENT**	**35**
9	**STRATEGIC DIRECTIONS OF NOVA KBM AND THE NOVA KBM GROUP**	**40**
10	**PERFORMANCE OF THE NOVA KBM GROUP AND NOVA KBM**	**43**
10.1	Macroeconomic environment	43
10.2	Analysis of performance of the Nova KBM Group and Nova KBM	44
10.2.1	Nova KBM Group	44
10.2.2	Nova KBM	46
10.3	Profile of the Nova KBM Group companies	48
10.4	Nova KBM´s marketing strategy and marketing activities	53
10.5	Market research	53
10.6	New and upgraded services and distribution channels of Nova KBM	54
10.7	Modern distribution channels of Nova KBM	54
10.8	Nova KBM´s corporate banking operations	55
10.9	Nova KBM´s retail banking operations	56
10.10	Nova KBM´s active management of distressed loans	58
10.11	Nova KBM´s international operations	58
10.12	Nova KBM´s treasury operations	58
10.13	Nova KBM´s trading in financial instruments	59
10.14	Human resources management at Nova KBM	60
10.15	Internal development of Nova KBM	62
11	**PLANS FOR 2016**	**65**
12	**SUSTAINABLE DEVELOPMENT**	**67**
13	**CORPORATE GOVERNANCE STATEMENT OF NOVA KBM**	**75**
14	**STATEMENT OF MANAGEMENT´S RESPONSIBILITIES**	**86**
15	**TYPE OF SERVICES FOR WHICH NOVA KBM HAS THE AUTHORIZATION OF THE BANK OF SLOVENIA**	**87**
16	**NOVA KBM BRANCH OFFICE NETWORK**	**88**

CONTENTS

FINANCIAL REPORT

AUDITOR´S REPORT ON THE FINANCIAL STATEMENTS	**91**
FINANCIAL STATEMENTS	**94**
Income statement	95
Statement of other comprehensive income	96
Statement of financial position	97
Statement of cash flows	99
Statement of changes in equity	101
NOTES TO THE FINANCIAL STATEMENTS	**103**
General information	104
Basis for the presentation of financial statements	105
Significant accounting policies	107
Risk review	116
Credit risk	116
Liquidity risk	124
Market risks	128
Geographical analysis of assets and liabilities	135
Operational risk	136
Capital risk	137
Fair value of financial assets and financial liabilities	138
Reporting by operating segments	143
Notes to the income statement items	147
Notes to the statement of financial position items	156
Other notes	176

BUSINESS REPORT



LIST OF ACRONYMS USED IN THE ANNUAL REPORT

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
ALCO	Nova KBM´s Assets and Liabilities Committee
AQR	Asset Quality Review
BAMC	Bank Assets Management Company
CIR	Cost-to-Income Ratio
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EFQM	European Foundation for Quality Management
EU	European Union
FATCA	Foreign Account Tax Compliance Act
FMA	Austrian Financial Market Authority (Österreichische Finanzmarktaufsicht)
ICAAP	Internal Capital Adequacy Assessment Process
IFRSs	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMAD	Institute of Macroeconomic Analysis and Development
IT	Information Technology
KDD	Slovene Central Securities Clearing Corporation
NPLs	Non-Performing Loans
POS	Point-of-Sale
RAST	Nova KBM Group´s project aimed at reducing operating costs
RS	Republic of Slovenia
SEPA	Single Euro Payments Area
SID Banka	Slovene Export and Development Bank
SORS	Statistical Office of the Republic of Slovenia
SSM	Single Supervisory Mechanism of the ECB
VaR	Value-at-Risk
ZBan-1	Banking Act
ZBan-2	the amended Banking Act (in effect from May 2015)
ZGD-1	Companies Act
ZTFI	Financial Instruments Market Act

1 KEY PERFORMANCE INDICATORS

1.1 Key performance indicators of the Nova KBM Group[1]

ITEM DESCRIPTION	2015	2014	2013	Index
	1	2	3	4	5 = 2/3
Statement of financial position (€000)	**31.12.**	**31.12.**	**31.12.**	
Balance sheet total	**4,246,167**	4,369,010	4,810,793	97
Total deposits from the non-banking sector measured at amortised cost	**3,095,356**	3,076,875	3,079,299	101
Total loans and advances to the non-banking sector measured at amortised cost	**1,808,373**	1,920,875	2,231,765	94
Financial assets	**1,820,439**	1,708,358	1,773,389	107
- of which available-for-sale	**1,675,907**	1,482,120	1,466,864	113
- of which held-to-maturity	**129,548**	206,540	280,153	63
Total equity	**623,073**	616,357	560,028	101
Impairment of financial assets, provisions	**748,186**	754,972	805,048	99
Off-balance sheet items	**670,722**	718,120	725,706	93
Income statement (€000)	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**	
Net interest income	**98,144**	110,726	74,603	89
Net non-interest income (including net profit or loss from discontinued operations)	**64,158**	55,996	101,063	115
- of which net fee and commission income	**54,477**	55,959	56,553	97
Staff, general and administrative costs	**(84,752)**	(89,146)	(97,883)	95
Depreciation and amortisation	**(12,663)**	(14,462)	(15,628)	88
Impairment losses and provisions	**(39,138)**	(44,514)	(720,735)	88
Profit/(loss) before tax from continuing and discontinued operations	**25,749**	18,600	(658,580)	138
Income taxes on continuing and discontinued operations	**(8,789)**	4,681	(26,328)	-
Net profit/(loss)	**16,960**	23,281	(684,908)	73
Statement of comprehensive income (€000)	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**	
Other comprehensive income/(loss) before tax	**(12,233)**	40,255	13,091	-
Income tax related to other comprehensive income	**2,169**	(7,047)	(2,206)	-

ITEM DESCRIPTION	2015	2014	2013	Index
	1	2	3	4	5 = 2/3
	31.12.	31.12.	31.12.	
Number of employees	**1,591**	1,751	1,856	91
Shares				
Number of shareholders	**1**	1	1	100
Number of shares	**10,000,000**	10,000,000	10,000,000	100
Accountable par value of one share (€)	**15.00**	15.00	15.00	
Book value per share (€)	**62.00**	61.34	56.67	
Ratios (%)				
a) Equity				
- total capital adequacy ratio	**25.13**	23.30	18.13	
- Tier 1 capital ratio	**25.13**	23.30	18.06	
- Common Equity Tier 1 capital ratio	**25.13**	23.30	18.06	
b) Asset quality				
- impairment of financial assets measured at amortised cost and provisions for commitments/classified on- and off-balance sheet items	**20.55**	19.35	16.79	
- premium for risk	**2.45**	2.71	23.93	
- net NPLs/net loan portfolio	**17.01**	23.47	18.17	
- loan impairment losses/gross NPLs	**68.20**	59.12	62.48	
c) Profitability				
- interest margin	**2.29**	2.38	1.44	
- non-interest margin	**1.50**	1.21	1.96	
- margin of financial intermediation	**3.79**	3.59	3.40	
- ROAA before tax	**0.60**	0.40	(12.74)	
- ROAA after tax	**0.40**	0.50	(13.25)	
- ROAE before tax	**4.11**	3.07	(221.22)	
- ROAE after tax	**2.70**	3.85	(230.06)	
d) Operating costs				
- operating costs/average total assets	**2.27**	2.23	2.20	
- cost-to-income ratio (CIR)	**60.02**	62.14	64.62	
- operating costs (excluding extraordinary costs)/income (CIR 2)	**57.51**	59.46	61.18	
e) Net loans and advances to customers/customer deposits (net LTD ratio)	**58.42**	62.43	72.48	
f) Gross loans and advances to customers/customer deposits (gross LTD ratio)	**78.47**	82.54	91.64	

1 All references in this Annual Report to the 'Nova KBM Group' are to Nova KBM d.d. and its subsidiaries.

1.2 Key performance indicators of Nova KBM[2]

ITEM DESCRIPTION	2015	2014	2013	Index
1	2	3	4	5 = 2/3
Statement of financial position (€000)	**31.12.**	**31.12.**	**31.12.**	
Balance sheet total	**3,563,355**	3,608,215	3,909,983	99
Total deposits from the non-banking sector measured at amortised cost	**2,514,527**	2,466,097	2,364,102	102
- of which from legal and other entities that carry out economic activity	**626,978**	590,033	539,986	106
- of which from households	**1,887,549**	1,876,064	1,824,116	101
Total loans and advances to the non-banking sector measured at amortised cost	**1,538,283**	1,593,294	1,826,371	97
- of which to legal and other entities that carry out economic activity	**766,328**	830,681	1,003,891	92
- of which to households	**771,955**	762,613	822,480	101
Financial assets	**1,484,391**	1,383,207	1,428,434	107
- of which available-for-sale	**1,442,288**	1,275,213	1,210,799	113
- of which held-to-maturity	**28,566**	89,950	192,437	32
Total equity	**606,729**	580,347	517,712	105
Impairment of financial assets, provisions	**526,307**	525,531	583,006	100
Off-balance sheet items	**605,487**	640,600	630,100	95
Income statement (€000)	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**	
Net interest income	**79,101**	93,591	60,628	85
Net non-interest income (including net profit or loss from discontinued operations)	**51,785**	54,364	74,666	95
- of which net fee and commission income	**40,536**	42,122	41,755	96
Staff, general and administrative costs	**(63,157)**	(63,179)	(71,242)	100
Depreciation and amortisation	**(9,504)**	(10,866)	(11,788)	87
Impairment losses and provisions	**(15,974)**	(43,079)	(685,758)	37
Profit/(loss) before tax from continuing and discontinued operations	**42,251**	30,831	(633,494)	137
Income taxes on continuing and discontinued operations	**(7,816)**	5,085	(23,006)	-
Net profit/(loss)	**34,435**	35,916	(656,500)	96
Statement of comprehensive income (€000)	**1.1.–31.12.**	1.1.–31.12.	1.1.–31.12.	
Other comprehensive income/(loss) before tax	**(9,801)**	32,311	11,033	-
Income tax related to other comprehensive income	**1,741**	(5,592)	(1,801)	-

ITEM DESCRIPTION	2015	2014	2013	Index
1	2	3	4	5 = 2/3
	31.12.	31.12.	31.12.	
Number of employees	**1,056**	1,124	1,201	94
Shares				
Number of shareholders	**1**	1	1	100
Number of shares	**10,000,000**	10,000,000	10,000,000	100
Accountable par value of one share (€)	**15.00**	15.00	15.00	
Book value per share (€)	**60.67**	58.03	51.77	
Ratios (%)				
a) Equity				
- total capital adequacy ratio	**28.07**	25.75	20.49	
- Tier 1 capital ratio	**28.07**	25.75	20.45	
- Common Equity Tier 1 capital ratio	**28.07**	25.75	20.45	
b) Asset quality				
- impairment of financial assets measured at amortised cost and provisions for commitments/classified on- and off-balance sheet items	**18.03**	17.13	16.43	
- premium for risk	**1.31**	2.26	26.21	
- net NPLs/net loan portfolio	**15.85**	22.42	19.35	
- loan impairment losses/gross NPLs	**65.23**	54.59	59.14	
c) Profitability				
- interest margin	**2.22**	2.48	1.44	
- non-interest margin	**1.45**	1.44	1.77	
- margin of financial intermediation	**3.67**	3.92	3.21	
- ROAA before tax	**1.18**	0.82	(15.03)	
- ROAA after tax	**0.97**	0.95	(15.57)	
- ROAE before tax	**7.06**	5.57	(249.42)	
- ROAE after tax	**5.76**	6.49	(258.48)	
d) Operating costs				
- operating costs/average total assets	**2.04**	1.96	1.97	
- cost-to-income ratio (CIR)	**55.51**	50.05	61.37	
- operating costs (excluding extraordinary costs)/income (CIR 2)	**54.07**	48.21	57.25	
e) Net loans and advances to customers/customer deposits (net LTD ratio)	**61.18**	64.61	77.25	
f) Gross loans and advances to customers/customer deposits (gross LTD ratio)	**78.13**	81.31	96.16	
g) Liquidity				
- liquid assets/current financial liabilities to the non-banking sector measured at amortised cost	**74.62**	99.13	53.95	
- liquid assets/average total assets	**35.22**	42.62	20.66	

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

2 STATEMENT BY THE MANAGEMENT BOARD



Sabina Župec Kranjc
Member of the Management Board

Robert Senica
President of the Management Board

Dear Sirs

In 2015, we continued to deliver stable and profitable performance, while reinforcing the foundations for the successful future of both Nova KBM and the Nova KBM Group.

The results reported for last year reflect, in particular, the effective implementation of strategic and other business decisions, the dedication and teamwork of our staff, and encouraging macroeconomic trends. We consider the beginning of the transformation of our internal culture and business thinking as one of the most important achievements of the past period.

> “Being determined to focus on the future, and benefiting from the knowledge and commitment of our employees, Nova KBM is gradually moving away from the burdens of the past, while respecting tradition and deliberately taking into account its past experience.”

The work we have done has not only contributed to the strong results, but has also provided a basis that has, after quite a long period of stagnation, led to an improvement in the reputation of Nova KBM.

Summary of our results for 2015

Although the business climate started to improve last year, the economic conditions remained fragile. In spite of this, Nova KBM ended the financial year 2015 with a net profit of €34.4 million, while the net profit of the Nova KBM Group hit €16.9 million, providing a return on equity before tax of 7.06% in the case of Nova KBM and 4.11% in the case of the Nova KBM Group, which was an improvement from the preceding year. Last year, we continued to reduce our operating costs and were successful in sustaining the culture of economy. While the operating costs incurred by Nova KBM remained roughly at the 2014 level, those incurred by the Nova KBM Group as a whole were 6% below the figure of a year ago, clearly reflecting the effective implementation of our cost-cutting project. As many as 95% percent of all measures identified within this project at various levels of Nova KBM´s operations had been completed by the end of 2015, with future cost savings arising from these measures being estimated at several million euro a year.

To comply with the obligations arising from the adopted restructuring programme, we continued last year to reduce the number of staff at the level of both Nova KBM and the Nova KBM Group. The staff reduction process, which we have been carrying out for several years, is designed in such a way that the priority is given to staff redundancy methods that are least inconvenient to employees. Based on an inventory of our processes and with the aim of ensuring optimum operating efficiency, in 2015 we made some minor organizational changes, while continuing to scale down our branch office network in a prudent manner.

We managed Nova KBM´s liquidity in 2015 in such a way as to ensure the settlement of all obligations that became due. Regulations on minimum liquidity were fully complied with, and by applying a conservative approach, we ensured Nova KBM had in place an adequate level of secondary liquidity reserve.

Our performance continued to be monitored and assessed by several rating agencies. At the end of the year, Nova KBM´s credit rating assigned to it by Moody´s Investors Service stood at 'B3/Non-Prime' (positive outlook) – an improvement from a year ago. Fitch Ratings downgraded Nova KBM´s IDR to B+/B (stable outlook), while at the same time raising its Viability Rating by one notch, to 'b+', with the downgrade of the IDR being based on the agency´s decision to reduce the ratings of all banks globally that benefited from state support.

Implementation of the commitments made to the European Commission and of the restructuring programme

> "We continued to consistently implement the priorities arising from the adopted restructuring programme and the commitments made to the European Commission, in addition to focusing on a number of other key programmes and projects undertaken with the aim of improving Nova KBM´s and the Nova KBM Group´s future performance, strengthening their competitive positions, and enhancing their positive values and relationships with their core stakeholders."

The year 2015 was a watershed for Nova KBM´s future development, given that important steps were taken in respect of its privatization process. The sale of Nova KBM is one of the key commitments that the Republic of Slovenia as a 100% owner of Nova KBM has made to the European Commission. The sale process is being conducted by the Slovene Sovereign Holding in accordance with the rules of best international corporate governance practice. An important milestone in the sale process was reached on 30 June 2015 when the agreement concerning the sale of Nova KBM was signed by the Slovene Sovereign Holding with the buyers, namely the investment fund Apollo and the EBRD. The completion of the sale process will take place once the buyers meet all conditions precedent, such as acquiring approvals from the relevant supervisory bodies and paying the purchase consideration, based on which the shareholding in Nova KBM will be transferred to them and registered in their name. We have been participating constructively in the sale process, as far as our professional competence allows.

The restructuring programme places an obligation on the Nova KBM Group to gradually concentrate on its principal activity, banking. In view of this, the process of merging the operations of PBS with those of Nova KBM has been under way since November 2015. At the end of 2015, Nova KBM sold its 45% shareholding in Moja naložba to Sava Re, while the liquidation proceedings against the Nova KBM Group leasing companies continued throughout the year. In March 2015, Adria Bank returned its banking licence to the FMA, after which it changed its legal form from a joint stock company to a limited liability company named 'Adria Abwicklungs', which is currently undergoing liquidation proceedings. The process of selling KBM Banka, which started in 2015, was successfully completed this February when an agreement was signed for the sale of Nova KBM´s 89.53% shareholding in this Serbian subsidiary.

Business with customers and internal development

While Nova KBM managed to defend its market share in key segments in both retail and corporate banking, the level of household and corporate deposits placed with it registered growth last year. Remarkable results were achieved in household lending, with the volume of consumer and housing loans rising by 55% and 49%, respectively, relative to 2014. Aside from making its offering of housing loans more competitive, Nova KBM last year introduced several new and upgraded products and services, mainly in the area of contemporary distribution channels (upgrade of its website, new product packages for contemporary users of banking services, etc). Some of the other Nova KBM Group companies overhauled their offerings as well, thereby further strengthening their market positions. We were proud to see that in April, Nova KBM was assessed as the second most likable bank in Slovenia by the GFK agency, affirming our focus on customer service as a key priority.

In the area of corporate banking, we demonstrated that we continued to be a vital and reliable partner to many companies in these still uncertain and challenging economic times. Compared to 2014, Nova KBM managed to increase the level of its corporate deposits, while the volume of corporate lending remained roughly the same, as did its market share in both segments. We further developed our corporate customer custody system and strengthened relationships with corporate customers through a direct, personal approach. The numerous on-site customer visits we undertook last year, as well as the hosting of several business events and conferences, helped us not only to better understand the requirements of our customers, but also to strengthen relationships with them.

Information technology is regarded as one of the strategic drivers of our development. Last year, we adopted the information technology strategy for the period 2015–2018. While the strategy is applicable to both Nova KBM and the Nova KBM Group, it was formulated by taking into account Nova KBM´s business requirements, application solutions and information infrastructure. The strategy gives priority to in-house development of the key components of the information system, making it possible for Nova KBM to take a focused approach to the design of the entire infrastructure at different levels: from processes and business software to system infrastructure.

Risk management and the management of distressed loans

Last year, we paid considerable attention to all types of banking risks, the effective management of which we consider to be of critical importance for our future business. To better control exposure to risk, we made numerous upgrades to our risk management approaches and implemented Nova KBM´s risk management standards across the entire Nova KBM Group. Among the improvements we made last year to enhance our risk management platform was the implementation of a system for the early identification of any increase in risk exposure (EWS), the adoption of the corporate lending policy, and the formation of the Risk Committee.

The distressed loan management strategy, which we also adopted last year, is being consistently and effectively executed, as evidenced by the results showing that, in 2015, the level of the net NPLs in the loan portfolios of Nova KBM and the Nova KBM Group fell by 6.57% and 6.46%, respectively.

We continued to strengthen our role in the deleveraging and recovery of Slovenia´s economy. Over the last two years, in addition to actively monitoring the operations of our customers, we have participated as an important member in several bank syndicates and projects that have been set up to ensure short- and long-term restructuring of companies. Our activities in this area are focused mainly on helping companies that are believed to have a healthy operating basis and growth potential to ensure their repayment capabilities and future operations.

Business and financial plans for 2016

The future business growth and development of Nova KBM and the Nova KBM Group will largely depend on the outcome of Nova KBM´s privatization process, the completion of which is expected to take place in the first quarter of 2016.

Our goals and activities for 2016 have been determined mainly on the basis of the adopted restructuring programme and the commitments made to the European Commission, taking into account the development guidelines and business goals set by Nova KBM´s future owners.

Nova KBM and the Nova KBM Group will continue to act as reliable financial partners to their retail and corporate customers. By providing top-notch and contemporary financial services, we aim to strengthen our market position and thoughtfully increase our market share. We will endeavour to build professional, pleasant and excellent relationships with our customers, who remain the central focus of all our efforts.

Among the strategic goals we have set for 2016 are further restructuring of our business, ensuring sound, cost-efficient and profitable operations, reinforcing Nova KBM´s and the Nova KBM Group´s reputation, concern for the development of employees and for appropriate staffing, and creating a positive organizational culture and an encouraging work environment.

The pressure on deposit and loan interest rates, which are at historically low levels, represents a significant challenge for the profitability of the entire Slovene banking system. To deal with this situation, we will endeavour to find ways to increase our non-interest revenues and to set up more efficient business models, while deliberately introducing digitisation in the development of our products and services. Moreover, we will work hard to enhance Nova KBM´s presence and visibility in international markets in order to ensure it has access to favourable funding sources and capital markets going forward.

We are creating the future now and together

Also in 2016, we will use our skills, experience, dedicated work and positive attitude to accomplish the strategic and day-to-day business goals set for Nova KBM and the Nova KBM Group. We are ready for the future because we are laying the foundations for it already, today. Our plans are well-thought out and bold, and we intend to implement them by taking into account the ambitious goals of Nova KBM´s expected new owners.

The years behind us have been full of challenges and change for Nova KBM and the Nova KBM Group, and it is expected that the year 2016 will be similar, given that challenges and opportunities are inherent to business activity and economic life. We are ready to accept the challenges that lie ahead of us in a responsible manner, making every effort to convert them into success and added value for all our stakeholders.

The strong results achieved so far are largely the consequence of the good work of our employees. We are sincerely grateful to all of them for their dedicated work to date and for their readiness to work with us in the future.

Together with our colleagues we want to thank each one of you that is connected with Nova KBM and the Nova KBM Group either privately or through business. We want to thank, in particular, our customers, users of our services, and our business partners for the trust placed in us, and for your feedback, which encourages us to keep up our efforts. Last but not least, we also wish to thank our owners, both the current one and future ones, the Supervisory Board, our partner financial institutions, rating agencies and supervisory authorities for their constructive collaboration and confidence in our work.

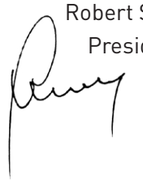
Meeting the expectations of all of you, our stakeholders, and justifying the trust you have placed in us remain our priorities. We invite you to continue working with us.

Management Board of Nova KBM d.d.

Sabina Župec Kranjc
Member



Robert Senica
President





Peter Kukovica
Chair of the Supervisory Board

3 REPORT OF THE SUPERVISORY BOARD

Introduction

In the period from 1 January to 31 December 2015, the Nova KBM Supervisory Board comprised the following members: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Andrej Fatur, Miha Glavič and Peter Kavčič. Nova KBM´s Articles of Association stipulate that the Supervisory Board is to consist of six members, meaning that one position on the Supervisory Board was vacant in 2015.

The Supervisory Board carried out its function of assuring efficient supervision over the management of Nova KBM and the Nova KBM Group, and its duty of careful and scrupulous performance, on the basis of its competences as laid down by the applicable local law and other regulations as well as by internal acts of Nova KBM. The Corporate Governance Code for Public Limited Companies and the Corporate Governance Code for Companies with Capital Assets of the State were 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 Management Board as well as the operations of Nova KBM and the Nova KBM Group in compliance with its competences and in an appropriate manner.

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

The work of the Supervisory Board was adequately organized and was carried out in accordance with the Rules of Procedure of the Supervisory Board. In 2015, up until 9 July, the following Supervisory Board committees carried out their work in accordance with the ZGD-1 and the ZBan-1: the Audit Committee, and the Remuneration and Nomination Committee.

On 9 July 2015, based on the provisions of the ZBan-2, which came into effect on 13 May 2015, the Supervisory Board made a decision to transform the Remuneration and Nomination Committee into two separate committees – the Nomination Committee and the Remuneration Committee. Also on 9 July 2015, the Supervisory Board set up the Risk Committee, in accordance with the provisions of the ZBan-2.

Supervisory Board members received professionally prepared materials which enabled them to be well-informed on the matters on which they had to decide. The Risk Committee made some specific requests regarding the materials and reports prepared by the Risk Management Division.

We believe that the Supervisory Board had sufficient reports and information available to responsibly and prudently control the operations of Nova KBM and the work of the Internal Audit Centre, to supervise the management of Nova KBM during the year in a transparent manner, and to actively participate in the creation of the governance policy, the remuneration 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, the Corporate Governance Code for Public Limited Companies and the Rules of Procedure of the Supervisory Board. While any conflicts of interest for individual Supervisory Board members were only provisional and were not a reason for ending the respective member´s term of office, they were properly recorded and reported to Nova KBM´s Compliance Office.

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

The Chair of the Supervisory Board did his work in accordance with the competences and the Rules of Procedure of the Supervisory Board, and also communicated and cooperated with the Management Board during Supervisory Board meetings. He regularly monitored the developments related to the operations of Nova KBM and promptly and consistently responded to any action that required his involvement. The Chair of the Supervisory Board encouraged other Supervisory Board members to perform their duties efficiently and actively, and involved them in the communication with the Management Board outside the regular meetings. The Chair of the Supervisory Board chaired the meetings in such a way as to provide for responsible, transparent and prudent decision-making by the Supervisory Board. The communication of the Supervisory Board with the public was conducted exclusively through its Chair.

While members of the Supervisory Board have proper and complementary knowledge, experience and skills to perform their duties, they all have different professional and educational backgrounds. The current composition of the Supervisory Board is such that any lack of specific knowledge by any of its members can be compensated for by the professional expertise of other members. However, it must be stressed that, since the resignation of Keith C. Miles in 2014, the Supervisory Board has not had in its composition anyone with specific knowledge and experience in banking. This notwithstanding, considering that the current members of the Supervisory Board have been performing their functions since 2012 (their four-year term of office is set to expire in July this year), they have surely acquired a great deal of experience and knowledge in the area of banking, either through their work on the Supervisory Board or by attending regular seminars on relevant topics, thereby to some extent filing the gap in the banking expertise of the Supervisory Board that arose with the resignation of Keith C. Miles, while at the same time ensuring that the Supervisory Board as a whole is qualified to reach appropriate decisions. All members of the Supervisory Board have the necessary personal integrity and professional ethics to hold their positions, as also confirmed by their positive fit-and-proper assessment in 2015, which provides assurance that they can carry out their supervisory roles in a responsible manner and make decisions to the benefit of Nova KBM.

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

The Supervisory Board believes that its members carried out their work with great responsibility, professionalism and commitment. In 2015, some members of the Supervisory Board attended the supervisory board members´ training programmes organized by the Slovene Directors´ Association, the Bank Association of Slovenia and the London-based Euromoney Learning Solutions.

In addition to exhaustive materials prepared for the Supervisory Board, the Management Board 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 Supervisory Board members. The communication and cooperation between the Management Board and the Supervisory Board was adequate and correct.

In 2015, the self-assessment of the Supervisory Board and its committees was carried out using questionnaires drafted by the Slovene Directors´ Association (the August 2015 matrix, along with instructions). Based on an evaluation and detailed analysis of the completed questionnaires, 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, Supervisory Board members performed their supervisory function during 2015 in a reliable, responsible and effective manner and had acted in accordance with the interests of Nova KBM. The Supervisory Board achieved a high overall level of governance, which enabled its members to perform their work and duties effectively.

Furthermore, the evaluation of the aforementioned questionnaires affirmed that the work carried out by the Supervisory Board committees provided effective support to the Supervisory Board, and the Supervisory Board was regularly and promptly informed about the issues discussed by the committees as well as of any proposals and initiatives given by the committees.

Supervisory Board committees

After the number of Supervisory Board members was reduced to comply with the commitments made to the European Commission, a decision was made to reduce to three the number of members in each of the Supervisory Board committees.

In 2015, up until 19 March, the composition of the Audit Committee was as follows: Peter Kavčič (Chair), Andrej Fatur (Deputy Chair), Keith C. Miles (external member) and Jernej Pirc (external member). On 19 March 2015, Mario Gobbo was appointed as a new external member of the Audit Committee, replacing Keith C. Miles, who stepped down on the same day. In accordance with the provisions of the ZBan-2, only members of the Supervisory Board can be appointed to Supervisory Board committees, irrespective of the provisions of the ZGD-1. To comply with the provisions of the ZBan-2 referring to the composition of Supervisory Board committees, on 13 May 2015 the Supervisory Board appointed its member Miha Glavič as a new member of the Audit Committee, while at the same time dismissing Mario Gobbo and Jernej Pirc as external members of the Audit Committee and appointing them as external advisers to the Audit Committee. Both external advisers to the Audit Committee performed their work on the basis of agreements signed with them by the Management Board. As of 31 December 2015, the Audit Committee comprised the following three members: Peter Kavčič (Chair), Andrej Fatur (Deputy Chair) and Miha Glavič. Mario Gobbo and Jernej Pirc acted as external advisers to the Audit Committee, providing assistance, including through concrete proposals and initiatives, on issues and topics for which they were asked to do so at the meetings of the Audit Committee.

Based on a self-assessment of the Audit Committee, it was established that the composition of this committee (in terms of the expertise and experience of their members) was such as to ensure that the tasks carried out by it were accomplished in a thorough and efficient manner. In 2015, the Audit Committee devoted particular attention to the quality and timely provision of information to the Supervisory Board for its further consideration, as well as to Nova KBM´s strategy and planning process. Up until July 2015, when the Risk Committee was set up, the Audit Committee had regularly monitored Nova KBM´s exposure to, and management of, all types of banking risks, in addition to overseeing the implementation of the EWS. In accordance with Nova KBM´s risk management policies, in 2015 the Audit Committee discussed the reports drafted by the Internal Audit Centre and external auditors following their review of the level of impairment losses recorded by Nova KBM and some other companies within the Nova KBM Group. Furthermore, it monitored the financial performance of Nova KBM and the Nova KBM Group as well as the implementation of the adopted NPL strategy and of the measures taken with the aim of reducing Nova KBM´s and the Nova KBM Group´s exposure to NPLs. The Audit Committee regularly discussed the reports regarding the findings of internal and external audit reviews conducted in the area of information technology, in order to establish whether the measures and action plan for the overhaul of Nova KBM´s information technology strategy, the drafting of which was taken on its initiative, had been carried out according to plan. Moreover, the Audit Committee endeavoured to improve the control of the risk of fraud and of the risk of conflicts of interest to which Nova KBM employees could be subject, taking into consideration the reports prepared by the Compliance and Integrity Department and the newly-established Compliance Office. The Audit Committee also regularly discussed the integration of PBS into Nova KBM and put forward several proposals in this regard.

Members of the Audit Committee have made a request that the materials for its meetings be prepared in an even more thorough and timely fashion in the future, with the executive summary of the materials focusing mainly on the content discussed in the materials and objectives arising therefrom. In this way, members of the Audit Committee would have the option of preparing themselves better for the meetings, thereby being able to conduct their work more effectively. A proposal was also made that non-members of the Audit Committee could participate more frequently in its meetings in order to ensure better flow of information between the Audit Committee and the Management Board and its specialist teams. In the future, the Audit Committee could be more involved in non-audit services provided by external auditors.

The Audit Committee considers its cooperation with internal and external auditors as constructive and effective, especially as regards its role in monitoring Nova KBM´s financial reporting, the functioning of its internal control and risk management systems, and the prevention of money laundering and terrorist financing. The reports prepared by the Internal Audit Centre and the Corporate Security, Compliance and Control Department help the Audit Committee identify in a timely manner any deficiencies and illegal financial activities to which Nova KBM may be exposed. Any findings in this regard are reported by the Audit Committee to the Supervisory Board.

The Remuneration and Nomination Committee consisted of the following members until 9 July 2015: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Peter Kavčič (member) and Romana Košorok (external member). On 9 July 2015, the Supervisory Board made a decision to transform the Remuneration and Nomination Committee into two separate committees, as already mentioned above. In addition, the Supervisory Board recalled Romana Košorok from her position as an external member of the Remuneration and Nomination Committee to appoint her as an external adviser to the Nomination Committee. The Nomination Committee now has the following members: Peter Kukovica (Chair), Niko Samec (Deputy Chair) and Peter Kavčič. The Nomination Committee is responsible for selecting and recommending to the Supervisory Board candidates for membership of the Management Board, and for selecting and recommending to the Shareholders´ Meeting candidates for membership of the Supervisory Board, taking into account policies on the selection of suitable candidates, as set out in the ZBan-2. Moreover, the Nomination Committee defines the tasks and required conditions for a specific appointment, including an assessment of the time envisaged for the performance of the function in question. In accordance with the provisions of the ZBan-2, the Nomination Committee assessed the size, structure and performance of the Management and Supervisory Boards in 2015, based on which it has drawn up several recommendations regarding potential changes. It also assessed the knowledge, skills and experience of individual members of the Management and Supervisory Boards, and of the governing system as a whole, with the report prepared in this regard being delivered to the Management and Supervisory Boards.

The Remuneration Committee has had the following members since 9 July 2015: Niko Samec (Chair), Peter Kukovica (Deputy Chair) and Miha Glavič. The Remuneration Committee carries out technical and independent assessments of remuneration policies and practices, and formulates initiatives for measures on the basis thereof with the aim of improving the management of the risks to which Nova KBM is exposed, as well as its capital and liquidity. Furthermore, the Remuneration Committee draws up proposals for decisions by the governing bodies regarding the remuneration of employees, including remuneration that impacts the risks to which Nova KBM is exposed and the management thereof, and controls the remuneration of members of senior management who perform risk management functions and ensure the compliance of operations. In 2015, the Remuneration Committee was actively involved in the drafting of Nova KBM´s new remuneration policy, which was submitted for approval to the Supervisory Board after being agreed by the Remuneration Committee.

As mentioned above, on 9 July 2015, the Supervisory Board made a decision to set up the Risk Committee, appointing to it the following members: Andrej Fatur (Chair), Peter Kukovica (Deputy Chair) and Peter Kavčič. The Risk Committee provides advice regarding Nova KBM´s current and future propensity to assume risks and regarding its risk management strategy. The area and the method of work of the Risk Committee, its decision-making process and all other issues important for its work are regulated by the Rules of Procedure of the Risk Committee. Since its establishment, the Risk Committee has held meetings on a regular, almost monthly basis, before each meeting of the Supervisory Board. Its work is focused on monitoring, analysing and assessing risks to which Nova KBM is exposed in its operations. In order to ensure that the materials for the meetings of the

Risk Committee cover the relevant risk-related topics, and that they are properly presented, the Chair of the Risk Committee, the Executive Director of Nova KBM´s Risk Management Division and the Supervisory Board Secretary are engaged in the preparations for each meeting. The Executive Director of the Risk Management Division also takes part in each meeting of the Risk Committee, where she makes decisions independently, typically in the absence of the Management Board. In 2015, the Risk Committee devoted particular attention to the risk management reports, including those for PBS that were presented at each meeting of the Risk Committee by the Manager of PBS´s Risk Management Department, to the implementation of the EWS, and to the reports on NPLs and the measures taken to reduce their level.

Supervisory Board committees performed their work in accordance with the respective programmes of work, in accordance with decisions and duties adopted by the Supervisory Board, or in accordance with the duties imposed on the Supervisory Board directly by the ZBan-2 in respect of the implementing regulations of the Bank of Slovenia. Supervisory Board committees provided support to the Supervisory Board in controlling the management of Nova KBM and the Nova KBM Group companies. Committees carried out their work in accordance with law, and Nova KBM´s Articles of Association and the respective rules of procedure which set out the areas and the method of work of individual committees. While, in accordance with the ZBan-2, committees are composed only of Supervisory Board members, they have, in cases where this proved necessary because of the specifics or nature of work, engaged external advisers who have extensive knowledge of the area for which a particular committee is responsible and of the operations of Nova KBM that require specific skills.

In 2015, the Supervisory Board met at ten regular meetings and 12 meetings by correspondence. The most important issues discussed at the Supervisory Board meetings in 2015 were connected to the implementation of the Restructuring Programme and commitments made to the European Commission, and, in particular, the privatization of Nova KBM. As regards the latter, on 30 June 2015, the agreement concerning the sale of the Republic of Slovenia´s 100% shareholding in Nova KBM was signed between the Slovene Sovereign Holding, acting as the seller on behalf of the Republic of Slovenia, and Biser Bidco of Luxembourg, a company run by an affiliate of Apollo Global Management, and the EBRD, as the buyers. Given that certain conditions precedent stipulated in the agreement were still pending at the end of last year, the payment of the purchase consideration and the transfer of Nova KBM shares to the new owners had not been effected by 31 December 2015. Furthermore, the Supervisory Board continued to focus on measures implemented by Nova KBM to reduce the level of its NLPs and strengthen its corporate governance system. As regards the management of Nova KBM, a situation occurred at the start of 2015 where the Supervisory Board established that Aleš Hauc was no longer capable of holding the position of President of the Management Board. Consequently, the Supervisory Board recalled him from this position, and appointed Robert Senica, the then member of the Management Board who had been identified as an appropriate successor to Hauc, as the new President. The Supervisory Board also discussed the measures taken to wind up the Nova KBM Group leasing companies, the sale of KBM Banka in Kragujevac, which has entered its final stage, the integration of PBS into Nova KBM, which is progressing at a rapid pace and is expected to be completed by the end of this year, and the liquidation of Adria Abwicklungs (ex-Adria Bank) in Vienna, which is running ahead of schedule and is about to be completed.

The Supervisory Board dealt with the following key affairs and issues in 2015:

- In January, it discussed a report on the functioning of the information systems in Nova KBM and other companies within the Nova KBM Group, a report on risk management in the area of IT, a report on Nova KBM´s software licence compliance, and a report on the validity of licence and licence compliance of the technology used by M-PAY.
- In February, it recalled Aleš Hauc from the position of President of the Management Board, and decided to appoint Robert Senica as the new President.
- At the beginning of the year, it reviewed the audited 2014 Annual Report of the Nova KBM Group.
- In March, it was informed of the 2014 risk profile of Nova KBM.
- Throughout the year, it regularly monitored the progress made on the privatization and restructuring of Nova KBM.
- In the first half of the year, it consented to the legal transformation of Adria Bank and to the start of its liquidation, as well as to the liquidation of KBM Leasing Hrvatska.
- It discussed and approved Nova KBM´s information technology strategy.
- It discussed the materials for the regular Shareholders´ Meeting of Nova KBM, and proposed that the Shareholders´ Meeting should reach appropriate decisions, including a decision to appoint a banking expert to the vacant position on the Supervisory Board. The latter decision, however, was not adopted.
- It discussed and, on a monthly basis, monitored the initiatives that had already been implemented and verified those that were planned to be implemented with the aim of reducing the level of Nova KBM´s NPLs.
- In regularly monitored the project of replacing Nova KBM´s central information system.
- 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 2015 financial statements.
- It discussed the estimates of the results of Nova KBM and the Nova KBM Group for 2015 and the projections of their results for the period 2016–2017 (development scenarios for Nova KBM for the next two years).

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

- It adopted the Corporate Governance Statement for 2014.
- It gave its consent to the annual plan of work of the Internal Audit Centre for 2015, and was informed of the 2014 Report on the Internal Audit in the Nova KBM Group.
- It was informed of the letters of the Bank of Slovenia and the ECB to the Management and Supervisory Boards, and of the decisions, resolutions and recommendations of the Bank of Slovenia and the ECB and the explanations of the Management Board in respect of these documents.
- It considered the reports of the Management Board on the progress of the adopted cost-cutting projects, in particular the SFE/ESF project that is managed in Nova KBM by the Boston Consulting Group.
- It consented to the 2015 investment and financing strategy of Nova KBM.
- It considered Nova KBM´s Recovery Plan.
- It consented to the recasting of Nova KBM´s ethical code (Ethical Conduct of Members of the Management and Supervisory Boards) and to the Employee Neatness Code.
- It regularly took part in meetings with representatives of the ECB´s Joint Supervisory Team assigned to Nova KBM.

Based on the aforementioned, and Articles 272 and 281 of the ZGD-1, the Supervisory Board asserts and establishes that it regularly and thoroughly monitored the operations of Nova KBM and the Nova KBM Group in 2015 within its competences, thus adequately supervising the management and operations of Nova KBM and the Nova KBM Group and the work of the Internal Audit Centre.

Review and approval of the 2015 Annual Report and consideration of the proposal of the Management Board with regard to the distribution of the 2015 profit available for appropriation

The Management Board submitted to the Supervisory Board the audited 2015 Annual Report of the Nova KBM Group and Nova KBM, 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 2015.

The Supervisory Board deliberated on the audited 2015 Annual Report of the Nova KBM Group and Nova KBM. It established that the annual report gave a complete overview of Nova KBM´s and the Nova KBM Group´s operations in 2015. The Supervisory Board was also informed of the opinion of the certified auditor Deloitte Revizija. As stated in this opinion, the financial statements of Nova KBM and the consolidated financial statements of the Nova KBM Group present fairly, in all material respects, the financial position of Nova KBM and the Nova KBM Group as of 31 December 2015, and their financial performance and their cash flows for the year ended 31 December 2015 in accordance with the IFRSs as adopted by the EU, and in accordance with the requirements of the ZGD-1 and the ZBan-2 relating to the drafting of the financial statements. The external auditor is of the opinion that the business part of the annual report is also in compliance with the audited financial statements.

The Supervisory Board considered and consented to the proposal of the Management Board that the entire 2015 profit available for appropriation, totalling €16,709,848.52, be recorded as retained earnings. The use of the profit available for appropriation is subject to a decision of the Shareholders´ Meeting.

Maribor, 16 March 2016

Supervisory Board of Nova KBM d.d.
Peter Kukovica, Chair



4 PROGRAMMES AND PROJECTS AIMED AT IMPROVING THE PERFORMANCE OF THE NOVA KBM GROUP

In 2015, Nova KBM and the Nova KBM Group continued implementing the adopted restructuring programme (hereafter: the Restructuring Programme), which the European Commission approved in 2013, in addition to focusing on a number of other key programmes and projects undertaken with the aim of improving their future performance, strengthening their competitive positions, and enhancing their positive values and relationships with their core stakeholders.

Privatization of Nova KBM

As part of the Restructuring Programme, the Republic of Slovenia is obliged to sell its 100% shareholding in Nova KBM. The sale process had entered its final stage by the end of 2015.

The sale process, which started on 22 May 2014, is, on behalf of the Republic of Slovenia, run by the Slovene Sovereign Holding, with Lazard Frères being commissioned to carry out all procedures related to the sale.

Following the receipt of non-binding offers, the Slovene Sovereign Holding started the second stage of the sale process in the autumn of 2014, inviting potential investors to prepare and submit their binding offers for the purchase of Nova KBM. Due to circumstances arising after the publication of results by the ECB on the EU-wide stress tests, the bidders, in agreement with financial advisers and the Slovene Sovereign Holding, complemented their binding offers at the end of 2014.

The agreement concerning the sale of the Republic of Slovenia´s 100% shareholding in Nova KBM was signed by the Slovene Sovereign Holding with the buyers, namely the investment fund Apollo Global Management (hereafter: Apollo) and the EBRD, on 30 June 2015.

The closing of the sale process will take place once the buyers meet all conditions precedent, such as acquiring approvals from the relevant supervisory bodies and paying the purchase consideration, based on which the shareholding in Nova KBM will be transferred to them and registered in their name.

Nova KBM has met all its obligations related to the sale process on a regular and timely basis: it has provided support necessary to carry out the financial and legal due diligence of its operations, and has furnished potential investors with all relevant information.

Consistent implementation of the Restructuring Programme

The Restructuring Programme encompasses 16 umbrella commitments that Nova KBM, its current owner, namely the Republic of Slovenia, and later its future new owners must fulfil by the end of 2017.

Among the most important commitments are the following:

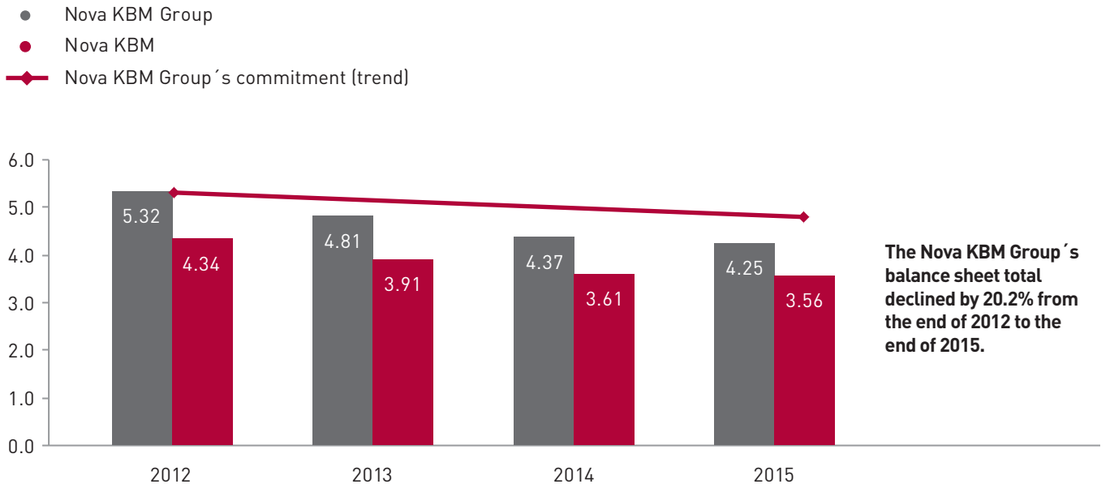
1. Gradual downsizing of the balance sheet total.
2. Reduction in operating costs and streamline of operations, including the optimization of Nova KBM´s branch office network.
3. Divestment and sale of non-strategic assets and focus of the Nova KBM Group on the principal banking services.
4. Overhaul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

One of the commitments included in the Restructuring Programme, i.e. the transfer of distressed assets to the BAMC, was fulfilled in 2014. Distressed assets that have remained on the books of Nova KBM have been managed in an effective fashion, in particular during the last year.

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, an entity that is independent of Nova KBM and the Republic of Slovenia. The Monitoring Trustee has the qualifications necessary to execute the mandate, and is not, or will not become, exposed to any conflict of interest. It was selected by Nova KBM on the basis of a call for tender, with the European Commission giving its consent to the selection.

1. Nova KBM Group is gradually downsizing its balance sheet total

Reduction in the balance sheet total (€bln)



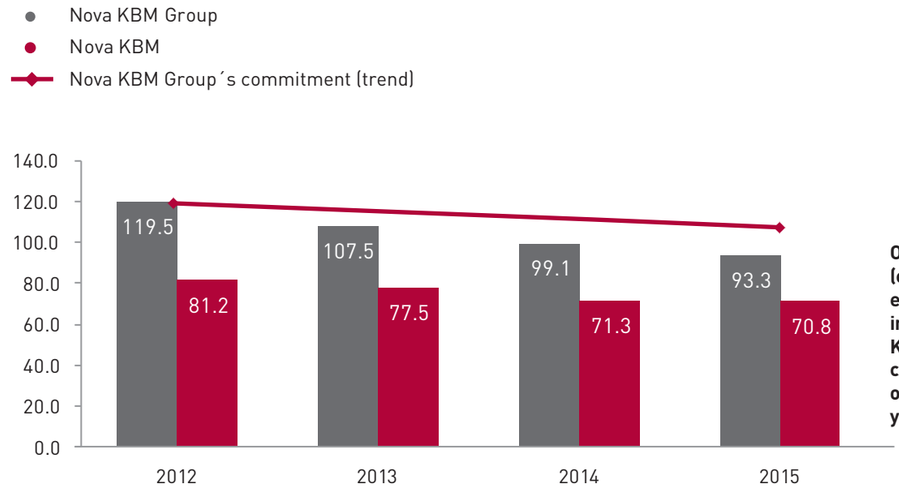
The Nova KBM Group´s balance sheet total declined by 20.2% from the end of 2012 to the end of 2015.

2. Nova KBM Group is reducing its costs and optimizing its branch office network

Nova KBM and the Nova KBM Group continued to reduce their operating costs in an efficient manner across their various business lines, while at the same time strengthening the culture of effective asset management and continuous cost-efficiency improvement that has been systematically built up since the launch of the RAST project in 2012.

Although the implementation of the RAST project was officially completed in October 2015, Nova KBM and the Nova KBM Group are continuing to take measures necessary to achieve cost savings and make their operations more profitable. Of the total number of cost-cutting measures identified within the RAST project at various levels of Nova KBM´s operations, as many as 95% were completed during the life of the project, with future cost savings arising from these measures being estimated at several million euro a year.

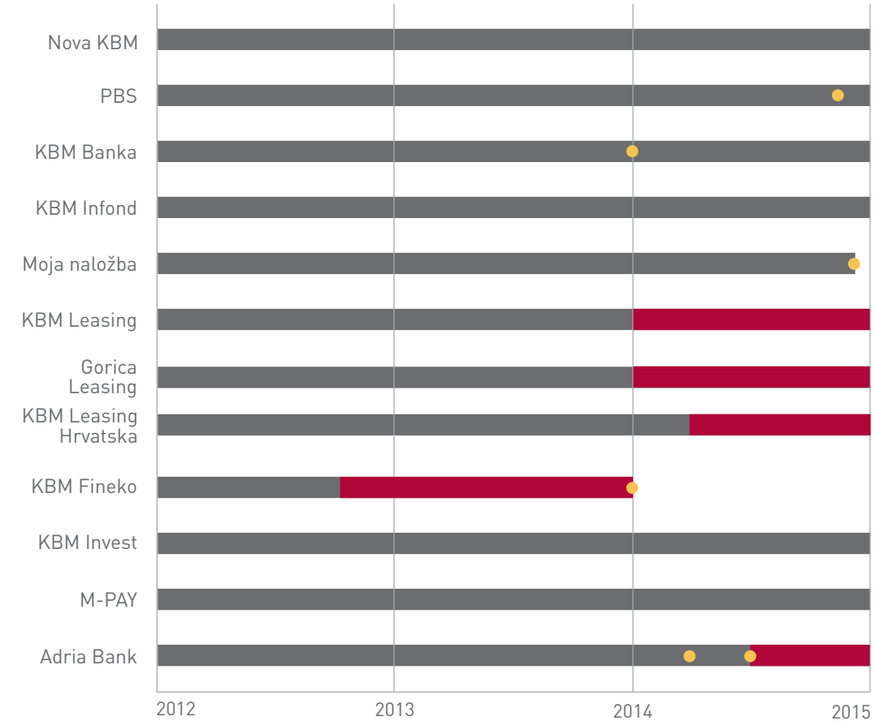
Reduction in operating costs (excluding extraordinary items; €mln)



Operating costs (excluding extraordinary items) incurred by the Nova KBM Group saw a contraction of 21.9% over the past three years.

The Restructuring Programme also places an obligation on the Nova KBM Group to gradually scale down the number of its branch offices, both in Slovenia and in other markets where it still has a physical presence. To this effect, in 2015 Nova KBM continued optimizing its branch office network, closing three of its branch offices in Slovenia by the end of the year. However, Nova KBM may consider opening new branch offices in locations where this would prove to be advantageous to its business. Any decision in this regard will be based on an appropriate cost-benefit analysis, taking into consideration Nova KBM´s concern for customers and all the consequences of such a decision, including consequences for the local environment. Customers and the public in general are informed in a timely fashion on any decision reached by Nova KBM with respect to changes in its branch office network. Further details with respect to Nova KBM´s branch offices are set out in the section titled 'Modern distribution channels of Nova KBM'.

3. Restructuring of the Nova KBM Group continued throughout 2015



In November 2015, after an examination had been carried out over several preceding months of various scenarios for merging Nova KBM and PBS[3], the Supervisory Boards of Nova KBM and PBS consented to the merger proposal prepared by the Management Boards of both banks. The process of merging PBS and Nova KBM is one of the strategically most important projects undertaken as part of the consolidation of the Nova KBM Group, and represents a further step in the implementation of one of the key commitments the Nova KBM Group agreed to in the Restructuring Programme – to gradually focus on its principal activity, banking. While the full merger of Nova KBM and PBS is expected to bring advantages in terms of the organization of work and synergistic effects arising from the operations of the future merged bank, it will also help the Nova KBM Group gain an even stronger position in the Slovene banking market. Moreover, the merger will ensure that the customers of both banks are provided with a broader range of top-notch financial services suited to their needs. Until the legal merger, which is scheduled for 1 July 2016, the banks will continue to operate as separate legal entities, given that, prior to taking any further steps towards their integration, they must obtain the necessary approvals from the Bank of Slovenia, the ECB and other competent bodies, and must also meet all relevant regulatory requirements. Although the operations of the customers of both banks will generally be unaffected until the merger is complete, appropriate measures will be taken to ensure that the information on any changes in this regard is distributed in a timely fashion.

On 30 December 2015, Nova KBM sold its 45% shareholding in Moja naložba to Sava Re. Nova KBM´s withdrawal from its shareholding in Moja naložba was another step towards consolidating and restructuring the Nova KBM Group, with a view to concentrating its business primarily on the provision of banking services. While the insurees of Moja naložba are expected to benefit from this change in ownership by being provided with additional savings and insurance options, Moja naložba will make every effort to retain the existing quality and safety of its products and services. Terms and conditions applicable to Moja naložba insurees are in no way affected by the change in the company´s ownership. Upon the signing of the sale and purchase agreement, Nova KBM and Sava Re agreed not only to strengthen their partnership, but to extend their cooperation across all operating segments. Pursuant to this agreement, Nova KBM remains among the most important insurees of Moja naložba and continues to offer through its branch offices the supplementary pension insurance products of Moja naložba.

Liquidation proceedings against the Nova KBM Group leasing companies were continued last year. On 30 April 2015, KBM Leasing Hrvatska[4] filed for liquidation, and the liquidation proceedings are expected to be completed by the end of 2016. As part of the business closing process, both Nova KBM Group leasing companies located in Slovenia, namely KBM Leasing[5] and Gorica Leasing[6], continued to actively manage their portfolios of lease agreements and to sell their inventory of items seized under lease agreements. The liquidation of these two companies had not been completed by the end of 2015, as originally planned, because some of the liquidation-related activities were still in progress.

Based on a due diligence review of individual Nova KBM Group companies, the liquidation model applied to KBM Leasing and Gorica Leasing was, in terms of economic and legal aspects and with a view to optimizing the liquidation process, modified in autumn 2015, as part of which a new liquidator was appointed to these two companies. The main goal of changes with respect to liquidation proceedings was to manage the liquidation of all three Nova KBM Group leasing companies in a harmonized and active manner, with a focus on cost-efficiency and with the aim of achieving synergistic benefits, while accelerating the liquidation process and ensuring that it is run in accordance with the best business practices in terms of efficiency and transparency. The liquidation of all three leasing companies is expected to be completed over the next three years.

In March 2015, Adria Bank returned to the FMA its licence for providing banking services, after which, in June, it changed its legal form from a joint stock company to a limited liability company (GmbH) named 'Adria Abwicklungs'. Adria Abwicklungs filed for liquidation on 26 June 2015, based on a ruling made by the relevant court.

At the end of 2015, KBM Banka was in the process of being sold. On 17 February 2016, based on the prior consent of the Nova KBM Supervisory Board, Nova KBM signed the agreement concerning the sale of its 546,683 shares in KBM Banka, representing 89.53% of all outstanding shares of KBM Banka.

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

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

4. Nova KBM is overhauling its risk management system, lending processes and the management of distressed loans

Among the priority tasks of Nova KBM and the Nova KBM Group in the area of lending are to effectively manage credit risk and non-performing loans and to participate actively in customer restructurings.

Since it was recapitalized in December 2013, Nova KBM has strengthened its role in the deleveraging and recovery of the Slovene economy. Over the last two years, in addition to actively monitoring the operations of its customers, Nova KBM has participated as an important member in several bank syndicates and projects that have been set up to ensure short- and long-term restructuring of companies, always taking into consideration the Slovene Principles of the Financial Restructuring of Corporate Debt, and the Guidelines for the Restructuring of Loans Outstanding to Micro Companies and SMEs.

The activities of Nova KBM in this area are focused mainly on helping companies that are believed to have a healthy operating basis and growth potential to ensure their repayment capabilities and future operations. By so doing, Nova KBM demonstrates that it continues to be a vital and reliable partner to many companies in these still uncertain and challenging economic times.

In accordance with the adopted action plan and the relevant agreement signed with the BAMC, the legal and book transfer of a certain proportion of Nova KBM´s portfolio of distressed loans was completed in December 2013, while the physical transfer of assets was conducted gradually in five tranches, the last of which was in June 2014. Even before and during their transfer to the BAMC, Nova KBM managed its distressed loans in an active manner, with the work in this area being further intensified in 2015, when the recovery of NPLs outstanding to both corporate and retail customers was centralized in a single organizational unit, the purpose of which was to accelerate efforts to reduce the level of NPLs. The centralized loan recovery system enables Nova KBM to resolve NPLs in an efficient and comprehensive manner, while at the same time ensuring centralized reporting.

> “In 2015, Nova KBM started implementing the Early Warning System (EWS), which is used to identify early any increase in credit risk resulting from financial difficulties of debtors, making it possible to take prompt action to prevent performing loans from becoming non-performing ones.”

While preparations started in 2015 to sell some NPLs on the books of Nova KBM, the actual sale of these loans is hoped to be carried out in 2016 through public notices.

The total volume of NPLs and restructured loans recovered in 2015 was above that of a year ago. Further details in this regard are set out in the section titled ‘Nova KBM´s active management of distressed loans’.

5. Enhancement of corporate governance structures

In 2014, to reflect the commitments it had made to the European Commission, Nova KBM adjusted the provisions of its Articles of Association referring to corporate governance, mainly those governing the conditions, methods and procedures of work of the Management and Supervisory Boards. Further adjustments were made to Nova KBM´s Articles of Association in 2015, this time to ensure their compliance with the ZBan-2, which came into effect on 13 May 2015.

In accordance with the requirements of the ZBan-2, Nova KBM established an independent compliance function, which took over the work of the former Compliance and Integrity Department. The Compliance Office reports directly to the Management Board and is functionally and organizationally segregated from the other functions of Nova KBM in which conflicts of interest could arise vis-à-vis the compliance function. Further details in this regard are set out in the section titled ‘Compliance function’.
Moreover, in 2015 Nova KBM issued its new ethical code and ensured that its policies and other documents governing the work of its individual bodies as well as the functioning of the risk management system were kept up to date.

Revision of the Recovery Plan

On the basis of the Bank Recovery and Resolution Directive (BRRD) (2014/59/EU) and taking into consideration the EBA´s Draft Technical Standards and Recommendations on Recovery Plans, Nova KBM drew up its Recovery Plan as early as at the end of 2014. The BRRD was developed based on the international standards for recovery and resolution frameworks, designed by the Financial Stability Board, which have introduced new crisis preventive measures in the banking industry. While the BRRD focuses generally on arrangements to deal with the future bank crisis, the obligation of banks to have in place appropriate recovery plans arises from Article 74 of Directive 2013/36/EU (CRD IV). The BRRD was implemented in Slovenia through the ZBan-2 (Chapter 6.7.1 ‘Recovery Plan’), which came into effect in the middle of May 2015. By 30 June 2015, Nova KBM had made a comprehensive revision of the Nova KBM Group Recovery Plan, primarily with a view to introducing an efficient crisis warning system and determining crisis thresholds for certain performance ratios. Being charged with the responsibility for taking first-level decisions with respect to the planned recovery measures, the ALCO has been monitoring the movements in these ratios on a monthly basis since June 2015.

Improvement in sales-efficiency of branch offices

Nova KBM managed to boost the sales-efficiency of its branch offices through target-oriented sales campaigns, upgrading its proactive sales tools across all of its distribution channels and improved monitoring and measurement of sales results.

Automation and computerization of the lending process

By upgrading its information support system for the corporate lending process, Nova KBM further optimized its business processes, while at the same time reducing the potential for making errors and, consequently, its exposure to operational risk.

Automated fraud detection

With the aim of determining which of its processes are most vulnerable to fraud and which fraud schemes may cause it the most damage, Nova KBM carried out an assessment of its fraud risk. Based on the results of this assessment, Nova KBM has set up an information system for automated fraud detection, in addition to implementing necessary organizational measures and procedures in support of this automation.

Other key projects undertaken by Nova KBM in 2015 to improve its performance

Apart from the work related to its merger with PBS, the improvement in sales-efficiency of its branch offices, automation and computerization of its lending process, and the establishment of an automated fraud detection system, in 2015 Nova KBM undertook several strategic projects to upgrade its operations across various segments, with some of the most important being as follows:

- Implementation of the IRB (internal ratings-based) approach
- Optimization of the NOBIS information system
- Overhaul of the controlling information system.

Further details regarding the strategic projects undertaken by Nova KBM in 2015 are set out in the section titled ‘Internal development of Nova KBM’.

5 PROFILE OF THE NOVA KBM GROUP AND NOVA KBM

5.1 Important events and achievements during 2015

JAN

- On 5 January, the National Bank of Serbia consented to the appointment of Igor Muhič as a member of the KBM Banka Management Board.
- On 27 January, the PBS Supervisory Board appointed Marko Novak as the new President of the PBS Management Board, subject to approval of the Bank of Slovenia. Aleksander Jerenko was appointed as a substitute member of the Management Board.
- On 28 January, Vesna Užnik Đorić, a member of the KBM Banka Executive Board, ended her employment with KBM Banka.

FEB

- On 1 February, Aleksander Jerenko started his term of office as a substitute member of the PBS Management Board, replacing in this position Danica Ozvaldič, whose term of office expired.
- On 3 February, the National Bank of Serbia consented to the appointment of Nikola Fržović as a member of the KBM Banka Executive Board.
- On 27 February, the Nova KBM Supervisory Board took a decision to recall Aleš Hauc from the position of the President of the Nova KBM Management Board, and appointed Robert Senica as the new President. Sabina Župec Kranjc remained on the Management Board as a member.
- Nova KBM extended its offering of payment cards by introducing contactless payment cards, thereby enabling its customers to make payments in a simpler and faster manner, and to benefit from other advantages of using these payment cards.
- The competent authorities approved a document outlining the organizational activities to be carried out to accomplish the envisaged integration of PBS´s operations into those of Nova KBM.

MAR

- On 17 March, Aleš Hauc stepped down as the Chair of the PBS Supervisory Board.
- On 23 March, Adria Bank returned to the FMA its licence for providing banking services.
- Also on 23 March, Damijan Podlesek replaced Anton Guzej as a member of the Supervisory Board of KBM Invest[7].
- Nova KBM was awarded the full 'Family-Friendly Company Certificate'.
- PBS added a car insurance service to the range of insurance brokerage services it provides. In addition, it offered its corporate customers the Activa Visa Business Electron debit card, and participated in the installation of the first bill payment machine of Pošta Slovenije (Post of Slovenia) which makes it possible for money order payments to be settled in cash.
- KBM Infond[8] took over the management of the Perspektiva Umbrella Fund with six sub-funds.
- Nova KBM received €12,500,000 as the first portion of funds provided to it under a tripartite loan facility agreement it signed with the European Investment Bank and SID Banka in December 2014.

APR

- Nova KBM offered its customers new MasterCard and Visa charge cards that allow payments in instalments and NFC contactless payments, and the design of which may be customized by customers themselves.
- On 1 April, Marija Brenk became a member of the PBS Management Board. Mojca Mak remained on the PBS Management Board as a substitute member.
- On 7 April, Sabina Župec Kranjc, who had until then been acting as a member of the PBS Supervisory Board, was appointed as its Chair, while Boris Novak was appointed her deputy.
- On 30 April, the Shareholders´ Meeting of KBM Leasing Hrvatska made the decision to initiate the liquidation of the company. While Branimir Cvitanović was appointed as the liquidator of the company, Lucija Klampfer, Damijan Podlesek and Nada Topolovec were appointed as new members of the company´s Supervisory Board.

MAY

- On 19 May, Fitch Ratings downgraded Nova KBM´s Long-Term Issuer Default Rating (IDR) to 'B+' from 'BB-', with the rating being assigned a stable outlook, and raised its Viability Rating by one notch, to 'b+' from 'b'. Nova KBM´s Support Rating was downgraded to '5' from '3', while the Support Rating Floor was changed to 'No Floor' from 'BB-'.
- PBS added ECO consumer and ECO housing loans to its offering of retail loans.
- On 7 May, the statutory transformation of Adria Bank into a limited liability company named 'Adria Abwicklungs' started.
- Also on 7 May, the National Bank of Serbia consented to the appointment of Jure Hartman as the President of the KBM Banka Management Board. Hartman replaced Igor Žibrik in this position.
- Over May and June, Nova KBM repaid early the remaining principals of four loans it had taken in the past from SID Banka, totalling €22,857,000.

7 All references in this Annual Report to 'KBM Invest' are to KBM Invest d.o.o.
8 All references in this Annual Report to 'KBM Infond' are to KBM Infond, družba za upravljanje, d.o.o.

JUN

- Moody´s Investors Service upgraded Nova KBM´s long-term local and foreign-currency deposit ratings to 'B3' from 'Caa1', while at the same time raising the outlook on the ratings to 'positive' from 'stable'. Moody´s also upgraded Nova KBM´s baseline credit assessment (BCA) and adjusted BCA to 'caa1' from 'caa2'. Short-term local and foreign-currency deposit ratings were affirmed at 'Not Prime'.
- PBS extended its offering by introducing new types of personal accounts, in addition to creating packages of products customized to the needs of individual customer segments.
- On 1 June, Borut Radolič stepped down as a member of the Supervisory Boards of KBM Leasing Hrvatska and KBM Invest.
- On 11 June, Adria Bank changed its legal form from a joint stock company to a limited liability company (GmbH) named 'Adria Abwicklungs'.
- On 12 June, the Moja naložba Supervisory Board appointed Robert Senica as its new Chair. Senica replaced in this position Aleš Hauc, who continued to serve on the Supervisory Board as a member.
- Based on a ruling made by the relevant court, the controlled liquidation of KBM Leasing Hrvatska started on 15 June, pursuant to the decision made by the company´s Shareholders´ Meeting on 29 April.
- On 18 June, Natalija Muršič Tomažič started her term of office as a substitute member of the PBS Management Board, replacing in this position Mojca Mak, whose term of office expired on the same day. Mojca Mak resumed her previous position as the Manager of PBS´s Back Office Department.
- Also on 18 June, the Shareholders´ Meeting of Adria Abwicklungs made the decision to initiate the liquidation of the company. Sebastian Kellermayr was appointed as the liquidator of the company.
- On 30 June, the Slovene Sovereign Holding, Apollo and the EBRD signed the agreement concerning the sale of a 100% shareholding of the Republic of Slovenia in Nova KBM.

JUL

- On 2 July, Primož Britovšek was appointed as a member of the KBM Invest Supervisory Board.
- On 8 July, Drago Bahun stepped down as a member of the KBM Banka Management Board.
- Nova KBM arranged with SID Banka two long-term loan facilities totalling €49,237,000, the funds of which are to be used to finance the development of competitive economic activities and projects supporting regional and social development.
- Nova KBM offered its retail customers the option of having their loans insured by Zavarovalnica Triglav.
- Nova KBM closed three of its branch offices – in Šentilj, Rožna Dolina and Lucija.

AUG

- On 12 August, the KBM Invest Supervisory Board elected its then member Damijan Podlesek as its Deputy Chair.
- The maximum maturity of Nova KBM housing loans secured by payments of insurance premiums, and of fixed interest rate housing loans was extended from 10 to 15 years.

SEP

- On 18 September, Nova KBM opened its refurbished branch office in Lenart.
- On 22 September, Merkur Zavarovalnica sold its 10% shareholding in Moja naložba to Sava Re. Until this transaction, Sava Re´s total shareholding in Moja naložba had been 45%, of which 20% had been held directly, while the remaining balance had been held by Sava Re indirectly through its equity stakes in Zavarovalnica Maribor and Zavarovalnica Tilia. The agreement concerning the sale of the shareholding was concluded under the condition precedent of obtaining the necessary approvals from the Insurance Supervision Agency and the Slovene Competition Protection Agency. Nova KBM continued to be a shareholder of Moja naložba, holding 45% of its equity.
- On 28 September, after being granted the appropriate licence by the ECB and the Bank of Slovenia, Marko Novak took up the position of President of the PBS Management Board. Marija Brenk remained on the Management Board as a member, while Natalija Muršič Tomažič, who had until then been acting as a substitute member of the Management Board, resumed her previous position as the Manager of the Treasury Department.
- Nova KBM upgraded its online banking service (Poslovni Bank@Net) for corporate customers.

OCT

- On 15 October, the Nova KBM Management Board recalled Jure Hartman as the liquidator of KBM Leasing, and appointed Dražen Nikolić from the Zagreb-based company Mida Nekretnine as the new liquidator.
- The Management Boards of Nova KBM and PBS took a decision to start working towards the full integration of both banks. While the Nova KBM Supervisory Board consented to the legal merger of both banks on 14 October, the PBS Supervisory Board gave such consent on 26 October. The legal merger of Nova KBM and PBS is scheduled for 1 July 2016.
- Nova KBM published a notice to redeem early its own-issued KBM10 bonds, the original maturity date of which is 14 December 2017, five years after their issuance.

NOV

- On 2 November, Primož Britovšek was appointed as a member of the Supervisory Board of KBM Leasing Hrvatska.
- On 15 November, Dražen Nikolić from the Zagreb-based company Mida Nekretnine took over the liquidation of Gorica Leasing, replacing Silvan Križman, who had been recalled from this position a day earlier.
- Nova KBM redeemed early from the secondary market a portion of its own-issued KBM10 bonds. The redeemed bonds were deleted from the register kept by the KDD on 25 November.
- Nova KBM broadened its offering by adding new product packages designed for contemporary users of financial services, marketed under the name 'Futurist', in addition to extending the maximum maturity of its fixed interest rate housing loans to 25 years.

DEC

- On 16 December, Robert Senica stepped down as the Chair and Aleš Hauc stepped down as a member of the Moja naložba Supervisory Board.
- Also on 16 December, Nova KBM and Sava Re signed the agreement concerning the sale of Nova KBM´s 45% shareholding in Moja naložba. The purchase consideration was paid by Sava Re on 30 December.

5.2 Significant events after the end of the financial year

At the end of 2015, KBM Banka was in the process of being sold. On 17 February 2016, based on the prior consent of the Nova KBM Supervisory Board, Nova KBM signed the agreement concerning the sale of its 546,683 shares in KBM Banka, representing 89.53% of all outstanding shares of KBM Banka. The completion of the sale process is expected to take place within a period that is customary in similar transactions.

5.3 Awards and recognitions in 2015



At the Slovene Advertising Festival, Nova KBM´s trademark 'Sveta Vladar' (Ruler of the World) was awarded the main prize for the best digital marketing campaign, and the silver EFFIE prize for marketing and communication effectiveness.



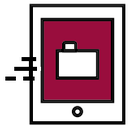
For its professional execution of commercial payments sent through Deutsche Bank, Nova KBM received the 'Deutsche Bank´s 2014 Gold Straight-Through Processing Excellence Award/EUR STP Excellence Award', thus being ranked among the most effective banks in the payment service business.



At DIGGIT, a Slovene conference on digital communication, Nova KBM received recognition for its innovative advertising campaign called 'Zlatko – Živim lajf' (Zlatko – Living Life).



At the international Digital Communication Awards (DCA) held in Berlin, Nova KBM´s marketing campaign 'Živim lajf' (Living Life), launched to reinforce its trademark 'Sveta vladar' (Ruler of the World), was awarded the highest prize in the category Content Marketing.



The 2014 Annual Report of Nova KBM in digital format won the third prize in the WEBSI competition for the best digital projects in Slovenia.



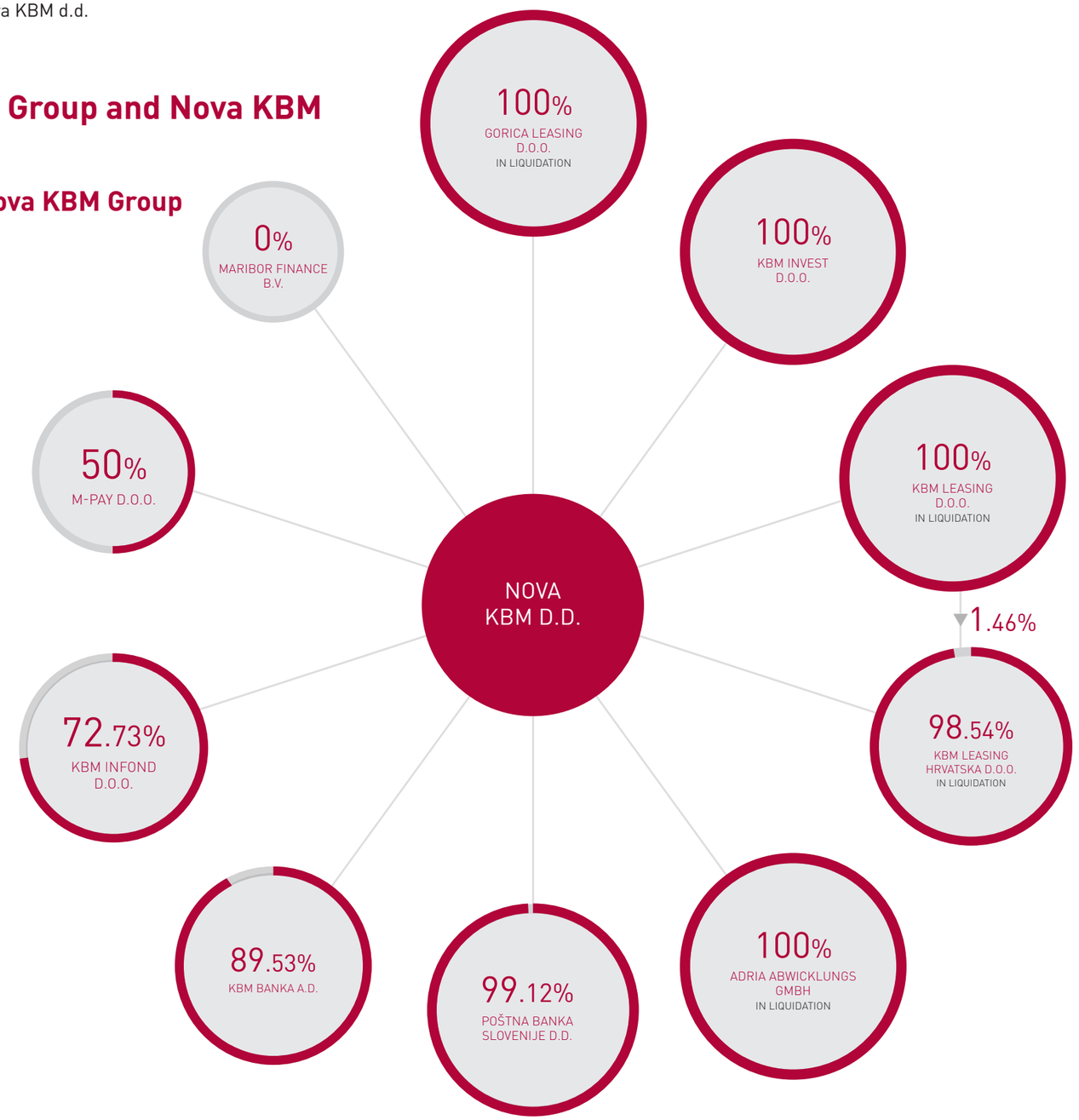
PBS received recognition from the Information Commissioner of the Republic of Slovenia for implementing good practice in the area of personal data protection.



In an assessment conducted by the Moje Finance magazine, two of the mutual funds managed by KBM Infond were declared as the best mutual funds in a total of three different categories, while as many as five KBM Infond fund managers were ranked among the best in their profession.

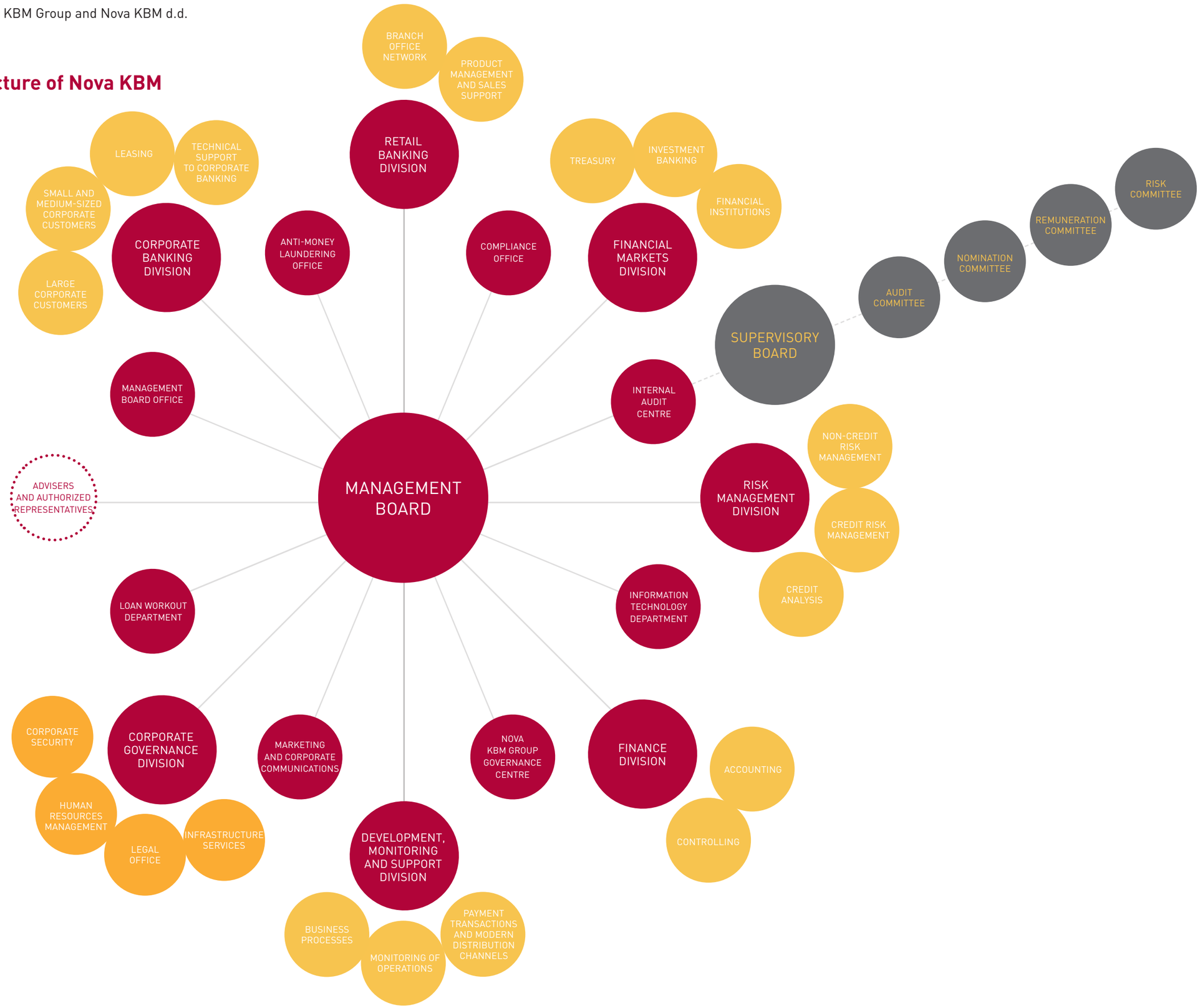
5.4 Governance of the Nova KBM Group and Nova KBM

5.4.1 Organizational structure of the Nova KBM Group



- The Nova KBM Group´s stake in the share capital of KBM Infond accounts for 72.00%. Because KBM Infond holds a certain number of its own shares, the Nova KBM Group´s stake in the capital of and voting rights in KBM Infond equals 72.73%.
- In accordance with IFRS 10, MB Finance is regarded as a special purpose vehicle controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity.
- The controlled liquidation of KBM Leasing and Gorica Leasing started at the end of 2014, while that of KBM Leasing Hrvatska started on 30 April 2015.
- Adria Abwicklungs has been undergoing a controlled liquidation since 18 June 2015.
- On 30 December 2015, Moja naložba ceased to be an associated company of Nova KBM.

5.4.2 Organizational structure of Nova KBM



5.4.3 Corporate governance of Nova KBM

The governance of Nova KBM is based on applicable legislation, its Articles of Association, and the rights and responsibilities of Nova KBM´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, Nova KBM has a two-tier management structure under which the relations between individual bodies are founded on mutual division of rights and responsibilities.

Nova KBM´s corporate governance bodies are as follows: Management Board, Supervisory Board and the Shareholders´ Meeting.

Nova KBM Management Board

As of 31 December 2015, the Nova KBM Management Board had the following two members: Robert Senica (President) and Sabina Župec Kranjc (Member).

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

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

On 27 February 2015, the Supervisory Board recalled Aleš Hauc from the position of the President of the Nova KBM Management Board, and appointed Robert Senica, who was then a member of the Management Board, as the new President, with effect from 28 February 2015.

At the end of 2015, Robert Senica was a Supervisory Board member of the Bank Association of Slovenia, while Sabina Župec Kranjc was a member of the Supervisory Boards of PBS, KBM Infond and Terme Olimia, and a substitute member of the Supervisory Board of the Bank Association of Slovenia.

Management Board members conduct their duties on the basis of employment contracts that set 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 ZBan-2 and the Bank of Slovenia´s Regulation Governing the Internal Governance, the Governing Body and the ICAAP 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 17 December 2015.

Nova KBM discloses the remuneration of its Management Board in compliance with regulations governing that issue. The remuneration of Management Board members is disclosed in the notes to the financial statements. Further information about the work and competences of the Management Board is set out in the section titled 'Corporate governance statement of Nova KBM'.

Nova KBM committees

Bank Credit Committee
The Bank Credit Committee makes decisions on granting loans to customers, within its powers and in accordance with Nova KBM´s rules governing the competences, procedures and decision-making with respect to loan approvals. The committee had the following members at the end of 2015: Robert Senica (Chair), Sabina Župec Kranjc (Deputy Chair), Darja Hota Mesarič, Jernej Močnik and Tadeja Kopun Škofič. Helga Kerec, Andrea Berlič and Vladimir Špiganovič acted as substitute members.

The Bank Credit Committee meets on a weekly basis.

Distressed Loans Committee
Nova KBM also has in place the Distressed Loans Committee. The committee had the following members at the end of 2015: Sabina Župec Kranjc (Chair), Robert Senica (Deputy Chair), Darja Hota Mesarič, Suzana Slamek and Tadeja Kopun Škofič. Črt Slokan, Andrea Berlič and Vladimir Špiganovič acted as substitute members.

The Distressed Assets Committee meets on a weekly basis.

Liquidity Committee
The Liquidity Committee reviews the provision of short-term liquidity. The members of the Liquidity Committee at the end of 2015 were: Sabina Župec Kranjc (Chair), Robert Senica (Deputy Chair), Romana Muraus, Tatjana Skaza, Darja Hota Mesarič, Valerija Pilih Grah, Jernej Močnik, Aleksander Batič and Vlasta Brečko. Substitute members were Matej Jemenšek, Vojko Kalinić, Marjetka Šušterič, Helga Kerec, Branka Vujanovič and Severin Vičič.

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, foreign exchange 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 2015 were: Sabina Župec Kranjc (Chair), Robert Senica (Deputy Chair), Romana Muraus, Tatjana Skaza, Darja Hota Mesarič, Jernej Močnik, Aleksander Batič, Valerija Pilih Grah, Suzana Slamek, Matej Jemenšek and Andrea Berlič. Substitute members were Matej Jemenšek, Helga Kerec, Branka Vujanovič, Vojko Kalinić, Cvetka Žirovnik, Igor Cizerl and Marjetka Šušterič.

The ALCO meets once every month.

Operational Risk Committee
The Operational Risk Committee is responsible for monitoring, measuring, assessing and managing operational risks. The committee had the following members at the end of 2015: Robert Senica (Chair), Sabina Župec Kranjc, Darja Hota Mesarič, Vlasta Brečko, Primož Britovšek, Romana Muraus, Matej Jemenšek, Andrea Berlič, Simon Tantegel, Katarina Kolarič, Tatjana Skaza, Aljaž Bratina, Roberta Bunjevac, Darinka Žuran Rudolf, Mitja Leskovar and Alenka Senčar.

The Operational Risk Committee meets at a minimum on a quarterly basis.

Corporate Banking Committee for Active Monitoring and Recovery of Loans Outstanding to Legal Entities and Sole Proprietors
This committee is responsible for taking measures regarding loan recovery processes, for making decisions with respect to regulating past-due obligations of customers, and for actively monitoring the performance of customers that are subject to special treatment. The committee had the following members at the end of 2015: Darja Hota Mesarič (Chair), Robert Senica, Metka Čretnik Zavec, Irena Lah, Suzana Slamek, Vladimir Špiganovič and Jernej Močnik.

The committee meets at a minimum once a month.

Classification Committee
The Classification Committee is responsible for the review and approval of changes in customer classification. The Classification Committee had the following members at the end of 2015: Darja Hota Mesarič (Chair), Irena Lah, Suzana Slamek, Jernej Močnik, Helga Kerec, Andrea Berlič, Vladica Gregorčič and Metka Čretnik Zavec.

The Classification Committee meets on a monthly basis.

Fit and Proper Committee
In accordance with the provisions of the ZBan-1, the ZGD-1 and the Bank of Slovenia´s regulations, in 2014 the Management Board set up the Fit and Proper Committee, whose task is to assess the suitability of officers holding key positions, including members of the management and supervisory bodies. The Fit and Proper Committee had the following members at the end of 2015: Simon Tantegel (Chair), France Arhar (Deputy Chair) and Maksimiljan Juder.

Nova KBM Supervisory Board

In accordance with Nova KBM´s Articles of Association, the Supervisory Board is composed of six members, who are appointed by the Nova KBM Shareholders´ Meeting.

As of 31 December 2015, the Nova KBM Supervisory Board comprised the following members: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Andrej Fatur, Miha Glavič and Peter Kavčič. No substitute members had been appointed by the end of 2015.

Peter Kukovica holds a PhD in Management and Organization. On 28 April 2014, he was appointed as a member of the Management Board of Gorenje, where he had acted as an adviser to the President of the Management Board since 17 June 2013.

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

Peter Kavčič holds an MSc in Business Administration. He is the founder and an authorized representative of the company Vizualne komunikacije comTEC, the head of a research team in this company, and an independent adviser on strategic management.

Niko Samec 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 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 holds a PhD in Law and serves as an attorney for corporate law. In addition, he is the Chair of the Public Finance Law Institute. In the past, he acted as a legal adviser to the Bank of Slovenia, among other positions.

In 2015, the amount of attendance fees and other remuneration paid to members of the Supervisory Board and Supervisory Board committees, and the method of their payment, was aligned with the Corporate Governance Code for Companies with Capital Assets of the State, adopted by the Slovene Sovereign Holding on 19 December 2014. The total remuneration paid to Supervisory Board members consists of: a payment for holding the office, and to cover attendance fees and liability insurance, and the reimbursement of costs incurred as a result of performing their duties, as well as participation and membership fees, and the reimbursement of costs related to the payment of training, participation and membership fees.

Name and surname	Position	Term of office	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Peter Kukovica	Chair	2012–2016		Chair	Deputy Chair	Deputy Chair
Niko Samec	Deputy Chair	2012–2016		Deputy Chair	Chair	
Miha Glavič	Member	2012–2016	Member		Member	
Peter Kavčič	Member	2012–2016	Chair	Member		Member
Andrej Fatur	Member	2012–2016	Deputy Chair			Chair

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

Supervisory Board committees
In 2015, up until 9 July, the following committees carried out their work in accordance with the ZGD-1 and the ZBan-1: the Audit Committee, and the Remuneration and Nomination Committee.

On 9 July 2015, based on the provisions of the ZBan-2, the Supervisory Board made a decision to transform the Remuneration and Nomination Committee into two separate committees – the Nomination Committee and the Remuneration Committee.

Also on 9 July 2015, the Supervisory Board set up the Risk Committee, in accordance with the provisions of the ZBan-2.

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

Nova KBM Shareholders´ Meeting

The Shareholders´ Meeting is the body of Nova KBM 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 – maximizing the value of Nova KBM.

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

One Shareholders´ Meeting of Nova KBM was held in 2015.

At the Shareholders´ Meeting held on 20 August 2015, the shareholders of Nova KBM were informed about the 2014 report on the internal audit of the Nova KBM Group, the Supervisory Board´s opinion, the Annual Report of the Nova KBM Group and Nova KBM for the year 2014, and the auditor´s and the Supervisory Board´s report on the examination of the 2014 Annual Report of the Nova KBM Group and Nova KBM. The shareholders of Nova KBM made a decision with respect to the distribution of Nova KBM´s 2014 profit available for distribution, and decided to grant a discharge to the Management and Supervisory Boards for the year 2014. Furthermore, the shareholders were informed about remuneration paid to the members of the management and supervisory bodies in 2014, and they elected Deloitte Revizija for the audit of the 2015, 2016 and 2017 financial statements of Nova KBM and the Nova KBM Group. The Shareholders´ Meeting also passed a decision to amend Nova KBM´s Articles of Association in order to ensure compliance with the ZBan-2.

5.4.4 Compliance function

Sustainable and profitable growth of Nova KBM is based on the development of new products, effective solutions and excellent service on one hand, and exemplary and regulatory-compliant business practices on the other. Considering this, Nova KBM has, for a number of years, been striving to set up and strengthen a centralized, autonomous and independent compliance function in order to reinforce its so-called second defence line.

As part of its organizational changes, and in accordance with the provisions of the ZBan-2, in 2015 Nova KBM set up the Compliance Office as an independent organizational unit that reports directly to the Management Board and is functionally and organizationally segregated from the other functions of Nova KBM in which conflicts of interest could arise vis-à-vis the Compliance Office, with the head of the Compliance Office having direct access to both the Supervisory Board and the Supervisory Board committees.

In 2015, in view of the increasing importance of the prevention of terrorist financing and money laundering, both from the point of view of increasing requirements of the national regulator and the international regulatory environment that requires Nova KBM to strengthen and intensify its activities in this area, Nova KBM also set up a special department for the prevention of money laundering as an independent organizational unit that reports directly to the Management Board. Further details in this regard are set out in the section titled 'Prevention of Money Laundering and Terrorist Financing'.

Moreover, in 2015 Nova KBM issued its new ethical code, amended its compliance and integrity policy as well as the system for managing conflicts of interest, and set up an automated system for the identification of illegal conduct, all with the aim of reducing its exposure to compliance risk and strengthening its corporate culture, while at the same time pursuing its zero-tolerance policy towards harmful practices.

Nova KBM is continually upgrading its system for managing compliance risks, including the risk of abuse arising from transactions in financial instruments, the risks posed by new regulations, and the risks related to adherence to the U.S. and European tax legislation. In 2015, particular attention was paid to the consistent implementation of FATCA requirements and the timely execution of all activities with respect to a uniform standard on the automatic exchange of financial account information, the application of which is based on the transposition of Council Directive 2014/107/EU and the applicable OECD standard into the amended Tax Procedure Act, effective from 1 January 2016.

In addition to delivering to its employees regular training on regulatory compliance, Nova KBM ensures that appropriate measures are taken and advice is provided as a permanent support to individual organizational units for the purpose of preventing or mitigating its exposure to compliance risk.

5.4.5 Prevention of money laundering and terrorist financing

Activities with respect to the prevention of money laundering and terrorist financing are carried out by Nova KBM in accordance with the Prevention of Money Laundering and Terrorist Financing Act. In order to properly respond to the events taking place in the world and to comply with the changing legislation covering this area, in 2015 Nova KBM adjusted its organizational structure by setting up the Anti-Money Laundering Office to centrally perform all tasks related to the area of the prevention of money laundering and terrorist financing, including the implementation of restrictive measures taken in this regard. The key responsibilities of this office entail: implementation of measures arising from the applicable legislation, monitoring of the system of internal controls, provision of appropriate training for Nova KBM employees, and a constant concern for the efficient functioning of the system put in place to make sure that all duties assigned to the office are executed. In addition, the office constantly seeks new solutions to improve its work, thereby ensuring that Nova KBM and its customers are better protected against potential threats deriving from the possibility the banking system being abused to commit offences related to money laundering, terrorist financing or non-compliance with the restrictive measures adopted by the international community against the sanctioned individuals and entities.

5.4.6 Internal Audit Centre

The Internal Audit Centre (hereafter: the CNR) of Nova KBM performs its work in ccompliance with the ZBan-2, the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors, and the Code of Principles of Internal Auditing. Its duties and competences are set out in the Charter of Internal Auditing, while the method of its work is regulated by the Rules Governing the Work of Internal Auditors. The CNR has organized its work in such a way that the auditing of Nova KBM is performed separately from the audit reviews in Nova KBM´s subsidiary companies. The CNR is responsible for coordinating the work of all internal auditors of the Nova KBM Group, and for the transfer of good practice. The internal auditors give assurance of their organizational independence, which was not threatened in any way during 2015.

The main duty of the CNR is to give the Management and Supervisory Boards an impartial assurance with respect to the efficiency of risk management, taking into consideration an assessment of whether the key risks are properly managed and the system of internal controls is effectively implemented. A good system of internal controls is a crucial element of the effective management of risks in accomplishing the operating objectives of Nova KBM.
In addition to 15 internal auditors of the Nova KBM Group who carried out audit reviews in 2015, one contract auditor was hired to perform an audit review of KBM Infond. Throughout the year, the CNR coordinated the regular reporting on the implementation of recommendations in the Nova KBM Group companies, and prepared quarterly reports on internal auditing at the Nova KBM Group level. These reports were submitted for review to the Nova KBM Management Board, the Audit Committee and the Supervisory Board.

A total of 61 audit reviews, of which 42 were scheduled and 19 were extraordinary ones, were carried out last year in the Nova KBM Group. Apart from carrying out audit reviews, the internal auditors offered advice, coordinated audit reviews conducted by external auditors as well as inspections and reviews conducted by the Bank of Slovenia and the ECB, collaborated with the Investigation Committee, and followed the implementation of given recommendations.

The 2015 internal audit plan was not completely implemented, the main reasons for this being an increased number of extraordinary audit reviews, which required the involvement of internal auditors, and other extraordinary tasks that the internal auditors had to carry out last year (coordination of reviews conducted by external supervisory authorities, monitoring of the implementation of the adopted action plans, etc).

A total of 235 recommendations were implemented last year to improve the operations and management of both individual Nova KBM Group companies and the Nova KBM Group as a whole. The number of non-implemented recommendations saw a significant improvement over the last few years, falling from eight in 2014 to six in 2015 after having been 23 in 2013 and even 51 in 2012. The CNR continued to regularly monitor the implementation of recommendations given to each company within the Nova KBM Group, and reported on its findings at the meetings of the Management Board.

In 2015, focus was placed on the audit of the management of credit and operational risks.

As part of the audit of credit risk management, reviews were made to verify whether the corporate and retail lending procedures complied with Nova KBM´s internal rules and the applicable legislation. In addition, an audit review was carried out of the management of distressed loans, as was a review of the classification of customers and exposures. An improvement was noted in the functioning of internal controls in most of the reviewed areas. In view of changes made to the regulations governing the treatment of defaulting customers, several recommendations were made to ensure the compliance of internal procedures with the applicable regulations.

The audit of operational risk management concentrated on the following key areas: information technology (a review was made of the software licence compliance and of the NOBIS project), cash operations, the remuneration policies, and the procedures related to the prevention of money laundering and terrorist financing. The management of operational risks with respect to brokerage and custody services as well as outsourcing was also subject to audit. While an increased exposure to operational risks was identified in the areas of software licence compliance, project management, and the prevention of money laundering and terrorist financing, the implementation of recommendations given following the internal and external audit reviews has made it possible for Nova KBM to reduce to some extent the operational risks present in the audited areas. The Management Board monitors the implementation of auditors´ recommendations through regular reporting and takes action in the event of any failure to comply with given recommendations. In 2015, an external review was carried out of information security, based on which several recommendations were made on how to improve the problem areas. The implementation of these recommendations is monitored by the CNR, which regularly reports to the Management Board on the implementation progress.

6 SHAREHOLDERS´ EQUITY OF NOVA KBM

The composition of Nova KBM´s shareholders´ equity at the end of 2015 and 2014 is presented in the table below.

	31.12.2015	31.12.2014
Share capital	**150,000**	150,000
Share premium	**360,572**	360,572
Accumulated other comprehensive income	**25,799**	33,859
Reserves from profit (including retained earnings)	**62,175**	27,389
Net profit for the financial year	**8,183**	8,527
TOTAL SHAREHOLDERS´ EQUITY	**606,729**	**580,347**

Nova KBM´s shareholders´ equity saw a year-on-year increment of 4.5%, or €26,382,000, as a result of the net profit reported for 2015, totalling €34,435,000, partially offset by a decline of €8,060,000 arising from the revaluation of available-for-sale financial assets held in Nova KBM´s portfolios. Of the total net profit generated by Nova KBM in 2015, €26,259,000 was allocated by the Management and Supervisory Boards to regulatory, statutory and other reserves from profit. The undistributed profit of €16,710,000 constitutes the profit available for appropriation, the use of which is subject to a decision of the Shareholders´ Meeting. Further details regarding the composition of Nova KBM´s profit available for appropriation are set out in the notes to the financial statements.

As of 31 December 2015, the share capital of Nova KBM totalled €150,000,000 and was split into 10,000,000 ordinary no-par-value shares, all of which were held by the Republic of Slovenia.

Information about Nova KBM shares

	Nova KBM Group				Nova KBM			
	31.12. 2015	31.12. 2014	31.12. 2013	31.12. 2012	31.12. 2015	31.12. 2014	31.12. 2013	31.12. 2012
Share book value[9] (€)	62.00	61.34	56.67	5.37	60.67	58.03	51.77	4.92
Net earnings/(loss) per share[10] (€)	1.66	2.19	(63.05)	(5.25)	3.44	3.59	(65.65)	(5.2)

9 Book value per share on the last day of the reporting period is calculated as the ratio between Nova KBM´s total equity (for the Nova KBM Group: equity attributable to owners of the parent) and the total number of Nova KBM shares outstanding at the end of the reporting period.

10 Net earnings or loss per share is calculated as the ratio between Nova KBM´s annualized net profit or loss (for the Nova KBM Group: net profit or loss attributable to owners of the parent) and the weighted average number of Nova KBM shares outstanding during the period. The total number of KBMS shares outstanding at the end of the reporting period was taken into account in the calculation of the 2014 net earnings per share and the 2013 net loss per share.

7 DECLARATION ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS

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

the Management Board in the following composition:

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

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

confirm, by signing this declaration, that Nova KBM has in place adequate risk management arrangements and an independent risk management function, providing assurance that the risk management systems of Nova KBM are adequate with regard to its risk profile, strategy and capability of taking risks.

Maribor, 29 February 2016

Management Board of Nova KBM d.d.

Sabina Župec Kranjc
Member

Robert Senica
President

Supervisory Board of Nova KBM d.d.

Peter Kukovica
Chair

RISK MANAGEMENT

Start approaching your goals with certainty. We will earnestly guide you along a solid path towards them. **RESPONSIBILITY** and appropriate supervision ensure effective results and a bright future.

8 RISK MANAGEMENT

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

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

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

It is the responsibility of each Nova KBM Group employee to identify risks. The acceptable level and the method of measuring and monitoring the risks are defined by officers who specialize in dealing with each type of risk. The organizational unit responsible for defining the acceptable level of specific type of risk and the method of measuring and monitoring the risks is organizationally separate from the units taking risk.

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

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

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

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

In order to further enhance the control and management of risks, in 2015 Nova KBM upgraded its risk management approaches, with the following being among the actions taken in this regard:

- it adopted the Distressed Asset Management Strategy and implemented a system for the early detection of any increase in credit risk
- it adopted the Corporate Lending Policy
- it developed five new credit rating models
- it upgraded its system for identifying and recording restructured exposures
- it upgraded its systems of limits
- it upgraded its econometric model used for calculating the stability of corporate and retail demand deposits
- it started implementing an automated fraud detection system
- it set up the Operational Risk Committee.

In 2016, Nova KBM´s activities concerning risk management will focus mainly on the following:

- improvement of the ICAAP and ILAAP and the implementation of these in all core processes of the Nova KBM Group
- effective management of operational risk
- effective management of interest rate risk
- adjustment of risk management processes to the requirements arising from IFRS 9.

Credit risk

In the area of credit risk management, in 2015 Nova KBM made the following improvements:

> “
> - it adopted the Corporate Lending Policy
> - it adopted the Distressed Asset Management Strategy and set up a committee responsible for adopting strategies with respect to the management of non-performing exposures
> - it developed five new credit rating models
> - it implemented in its loan-approval process the four-eyes principle of decision-making.
>
> ”

Credit risk is the risk of loss resulting from the failure of a debtor to repay its debts. Nova KBM is primarily exposed to credit risk through its credit 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 Nova KBM).

Credit risk management in Nova KBM comprises:

- continuous monitoring and analysis of debtors´ performance and, based on this, their classification into appropriate credit risk categories
- measuring the risk of the loan portfolio according to the average credit rating and the impairment level
- determining rules for the identification of non-performing exposures and rules applicable to the reclassification of a non-performing exposure into a credit rating category of performing exposures
- developing appropriate credit rating models, and their calibration
- determining risk parameters, such as the probability of default (PD) and loss given default (LGD)
- separate managing of the performing loan portfolio and the non-performing loan portfolio
- determining an adequate level of provisioning charges to be recorded on the performing and non-performing loan portfolios
- monitoring the adequacy of collateral provided for securing individual financial assets and commitments
- measuring the concentration of the loan portfolio by industry sectors
- limiting exposure by setting up limits for individual customers and groups of related customers
- systematic early detection of any increase in credit risk using the EWS tool
- conducting stress testing
- monitoring of, and reporting on, the values of performance ratios stipulated in the Restructuring Programme, and implementation of necessary measures in the event of non-compliance with the prescribed ratio values
- participating in decision-making on loan approvals
- ensuring proper functioning of the lending process by providing an adequate assessment of risks for each loan.

All of the companies in the Nova KBM Group comply with the requirements regarding the maximum exposure to a customer or a group of related customers, as set out in the Nova KBM Group Methodology for Determining Upper Lending Limits.
The principal goal of credit risk management is to ensure the stable and profitable performance of Nova KBM while assuming the necessary level of credit risk that arises from the nature of banking operations. The Nova KBM Group reduces the impact of accepted risks by complying with the following regulations, documents and rules:

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

Prior to approving any loan, Nova KBM carries out a thorough verification of a customer and classifies each customer into credit risk categories A to E based on its Methodology for Classifying Customers into Credit Rating Categories. The Risk Management Division is involved in decision-making on loan approvals.
During the business relationship with a customer, Nova KBM carries out the following procedures:

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

Using a credit rating model, Nova KBM promptly classifies customers into appropriate credit rating categories. Special attention is devoted to the categories of defaulting customers and non-performing exposures. In accordance with the adopted classification rules, a customer that has been classified into one of these categories is classified into the category of cured exposures once its performance improves.

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

In 2015, the following upgrades were made to improve Nova KBM´s management of credit risk:

- Based on the rules laid down in the EBA´s technical standards, Nova KBM implemented an application used to support the monitoring of restructured exposures. Taking into consideration the rules referred to in the previous sentence, a model was developed, according to which the identification of restructured exposures in the Nova KBM Group is carried out by means of checking the credit classification of customers as well as the type and the weight of modified financing terms. These rules have an impact on the classification of assets into the category of non-performing exposures, a category about which Nova KBM must report to the ECB.
- The EWS application was implemented. This is used for the early detection of any credit risk that may arise. Credit risk warning signals recognised by the application are verified on a daily basis, and any indications of increased risk are automatically reported to the commercial departments. An action plan is drawn up for each of the debtors for whom any of the warning signals suggest a serious deterioration in their performance.
- Five new credit rating models were developed to enable the classification of customers using certain statistical methods.
- A methodology was developed for the calculation of various risk parameters, such as the probability of default (PD) and loss given default (LGD).
- The lending process was overhauled so as to strengthen the role of the risk management function. The Risk Management Division is involved in decision-making with respect to loan approvals in different ways: either indirectly via the adopted loan-approval model, in cases where a loan is to be approved to a customer to whom Nova KBM is exposed to a lesser extent, or directly through the participation of its staff in credit committees and as a co-decision-maker in the decision-making process conducted according to the four-eyes principle.

Liquidity risk

> “In the area of liquidity risk management, in 2015 Nova KBM upgraded its econometric model used to calculate the stability of corporate and retail demand deposits.”

Liquidity risk management is an integral part of Nova KBM´s prudent and secure operations. Liquidity risk is the risk of loss resulting from an entity´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. Nova KBM´s own methodologies for identifying, measuring, managing and monitoring liquidity risk are applied at the Nova KBM 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.

Nova KBM´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
- monitoring of compliance with the set liquidity ratio thresholds and of other elements of liquidity risk
- managing an adequate pool of assets used as collateral for the central bank credit operations
- efficient management of daily liquidity surpluses and the creation of an adequate liquidity reserve
- monitoring the liquidity gap
- regular conducting of liquidity stress testing scenarios and reporting on the results thereof.

Nova KBM 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, Nova KBM has determined the necessary level of liquidity reserves to be used in the periods of most difficult and emergency liquidity situations.

In 2015, Nova KBM 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 I Liquidity Ratio (0 to 30 days), while the Category II Liquidity Ratio (0 to 180 days) is calculated for information purposes only. The prescribed minimum value of the Category I Liquidity Ratio is set at 1.0.

The ALCO reviews regular reports on the diversification of funding, on the liquidity ratio values 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, Nova KBM has drawn up three different stress scenarios, at two difficulty levels, the aim of which is to support the responsible authorities of Nova KBM 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

> “In 2015, Nova KBM enhanced its systems of limits to better control its exposure to 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). Nova KBM monitors market risks of trading book items and market risks of banking book items separately. The method of monitoring and reporting as well as of limiting the exposure to market risks is set out in the market risk management policy.

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

Position risk is a risk of loss arising due to a change in the price of a financial instrument that an entity holds in its portfolio for the purpose of trading on its proprietary account. Nova KBM 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 that are set for each trader by the head of the Trading Department, in addition to being set for the total trading volume. 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 exchange trading for Nova KBM´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 Non-Credit Risk Management Department, which also publishes the limits on Nova KBM´s intranet site and, in accordance with internal regulations, reports any violation of limits to the responsible authorities.

In 2015, Nova KBM upgraded its position risk limit systems to ensure compliance with the amended lending policy.

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

Interest rate risk is a risk of loss arising due to unexpected changes in market interest rates, and derives from maturity mismatches of interest-sensitive assets and liabilities. Interest rate risk is identified, measured, managed, controlled and monitored in accordance with the methodology for measuring interest rate risk, and the interest rate risk management policy.

To manage interest rate risk, Nova KBM calculates monthly the impact on its net interest income and net present value of interest-sensitive items of interest rate changes in the next three months, as well as of the parallel shift in the yield curve by 200 basis points. The impact of changes in interest rates on Nova KBM´s profit or loss is measured for a one-year period. In addition, Nova KBM regularly calculates the impact of interest rates changes on its net interest income and net present value of interest-sensitive items to determine whether, under the stress test scenario which takes into account a +/- 200 basis points change in interest rates, this value accounts for more than 20% of its equity. For the purpose of these calculations, demand deposits are distributed across various time buckets in accordance with the relevant internal models.

The exposure to interest rate risk of Nova KBM´s portfolios is controlled by the system of limits, which is approved by the ALCO and reviewed at least on an annual basis. Limits have been set for Nova KBM´s exposure to interest rate risk across all time buckets for the three most important currencies: EUR, USD and CHF. None of the limits were violated in 2015.

Operational risk

> “The Operational Risk Committee was set up by Nova KBM in 2015.”

Operational risk, which includes legal risk, is the risk of loss arising from inappropriate or failed implementation of internal processes, the actions of people, the functioning of systems or due to external factors.

Operational risks the Nova KBM Group is exposed to are managed at the second defence line of its risk oversight system, within the following two divisions:

- Risk Management Division
- Corporate Governance Division.

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

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

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

- operational risk loss events recorded across the Nova KBM Group
- personal and property protection
- information security
- business continuity of Nova KBM
- compliance and integrity of operations
- prevention of money laundering and terrorist financing.

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

Nova KBM has defined as an operational risk loss event any event that has a negative material effect on its operations and is recorded in its accounts. Operational risk loss events may also be non-financial in nature. Since not all operational risk losses can be measured, an assessment of losses is made when determining the annual risk profile of Nova KBM. The determination of the risk profile with respect to operational risk is of particular importance, given that the operational risk loss events make up the largest proportion of loss events suffered by Nova KBM that cannot be reliably measured; they can only be, and must be, assessed.

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

> “In 2015, Nova KBM started implementing an automated fraud detection system.”

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

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

Ad 1: With its constant desire to adhere to the highest risk management standards, Nova KBM devotes particular attention to the prevention, identification and treatment of illegal conduct, fraud and other illegal actions. Pursuant to the adopted policy of ensuring integrity within Nova KBM and the Nova KBM Group, the zero-tolerance principle is applied by Nova KBM to any illegal practices that might be undertaken by its employees or customers. Nova KBM

has a system in place to manage the risk of illegal conduct through the process of prevention, detection, treatment and intervention, the aim of which is to improve internal controls and to raise the core values of corporate culture. To reduce the risk of fraud, Nova KBM is developing a system that will help it identify any fraud in advance.

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

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

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

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



9 STRATEGIC DIRECTIONS OF NOVA KBM AND THE NOVA KBM GROUP

In 2015, Nova KBM and the Nova KBM Group continued implementing their strategic development programme for the period 2014–2018, the proposal of which was approved by the Supervisory Board in October 2013. The strategic development programme is aligned with the adopted Restructuring Programme. Apart from proceeding with the implementation of their strategic development programme, last year both Nova KBM and the Nova KBM Group undertook several other key projects to improve their performance.

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

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

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

Mission

Nova KBM, as the leading company within the Nova KBM Group, operates as a modern, stable and reliable bank, and has more than 150 years of tradition of providing contemporary banking and other financial services that help it establish successful partnerships with its customers, other stakeholders, and its broader environment. It considers the satisfaction of its shareholders, investors and all other stakeholders as well as proper management of all types of banking risks to be the core principles of its business.

Vision

By 2018, Nova KBM will have preserved its status as one of the leading, systemically important banks in Slovenia.

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

Values

The core values on which Nova KBM builds its operations, its relationships with its stakeholders, and its corporate culture are as follows: trust, responsibility, excellence, honesty and loyalty.

Principal strategic directions and their implementation in 2015

The table below sets out the principal strategic directions of Nova KBM and the Nova KBM Group, the implementation of which, as well as of the related objectives, is ensured by the provision of adequate resources and the design and implementation of appropriate measures.

STRATEGIC DIRECTION	IMPLEMENTATION IN 2015
Focus on customers • Development and strengthening of relationships with retail customers, in particular young people, the most important customers, more demanding customers and users of contemporary banking services. • Development and strengthening of relationships with corporate customers, in particular SMEs. • Development of lasting relationships with customers, and strengthening of their loyalty. • Development and introduction of new and upgraded services and the provision to customers of a wide range of appropriate value-added services.	• Nova KBM was assessed as the second most likable bank in Slovenia (GFK; April 2015). • Development of a model of cooperation with high-net-worth individuals and of a corporate customer custody system. • Introduction of numerous new and upgraded services, particularly in the area of contemporary ones (for further details, see the section titled 'New and upgraded services and distribution channels of Nova KBM'). • Increases in the volume of products sold through contemporary distribution channels and in the volume of outstanding consumer and housing loans (for further details, see the section titled 'Modern distribution channels of Nova KBM').
European orientation and compliance with European banking standards	• Fulfilment of requirements arising from the ECB´s implementation of the SSM. • Implementation of the Restructuring Programme. • Compliance with regulations, standards and recommendations on banking in the EU.
Consolidation of the Nova KBM Group and focus on principal activities – mainly banking • Efficient management of strategic equity investments with the aim of maximizing the return generated by the Nova KBM Group. • Divestment and liquidation of non-performing investments. • Introduction of Nova KBM´s operating standards in investments that are regarded as strategic ones.	• Start of work towards the merger of PBS and Nova KBM. • Sale of Nova KBM´s shareholding in the pension insurance company Moja naložba. • Continuation of liquidation proceedings against the Nova KBM Group leasing companies and Adria Abwicklungs. • While the process of selling KBM Banka continued throughout last year, the agreement concerning its sale was signed in February 2016.
Efficiency, profitability and stability of operations • Attainment of target values set for key performance indicators. • Withdrawal from markets and from the provision of services that do not generate a sufficient return and do not constitute the basis for profitable growth. • Focus on markets and services where Nova KBM can demonstrate competitive advantages and achieve above-average growth. • Increase in non-interest income. • Strengthening of the funding base, with focus on retail and corporate deposits. • Safety and stability of operations and safety of customer deposits. • Strengthening of lending and other investment activities at an acceptable level of risk exposure.	• Nova KBM and the Nova KBM Group delivered profitable performances in every quarter of 2015. • Nova KBM´s market share in terms of deposits from and loans to customers remained stable (for further details, see the sections titled 'Nova KBM´s corporate banking operations' and 'Nova KBM´s retail banking operations'). • Launch of a strategic project aimed at improving the sales-efficiency of branch offices.
Streamlining of operations, and cost-efficiency • Concern for cost-efficiency and management of costs at all operating levels. • Optimization and upgrade of Nova KBM´s branch office network and opening of new branch offices in market-attractive locations.	• The operating costs incurred by Nova KBM in 2015 were 1.9% below the 2014 level. • Nova KBM closed three of its branch offices, while refurbishing another.



Effective process organization and IT infrastructure

- Work continued on the overhaul of business processes, with decisions made with respect to necessary organizational changes supporting this work.
- Adoption of Nova KBM´s information technology strategy for the period 2015–2018 (for further details, see the section titled 'Development of Nova KBM´s information technology support').



Effective management of all types of risk

- The proportion of NPLs within the total loan portfolios of Nova KBM and the Nova KBM Group declined in 2015 by 6.6% and 6.5%, respectively (for further details, see the sections titled 'Nova KBM´s active management of distressed loans' and 'Risk management').



Concern for development of employees

- Numerous measures were implemented to ensure a good work environment, appropriate remuneration and training of employees, consideration for health at work, professional and personal development of employees, and sound interpersonal relations (for further details, see the section titled 'Human resource management at Nova KBM').



Enhancement of reputation

- After quite some time, the assessed reputation of Nova KBM saw an improvement last year, increasing by 0.5 points when compared to the end of 2013 (on a 1 to 5 scale; Interstat; 2013–2015).
- Nova KBM adopted its new ethical code.
- Business decisions were made by taking into account their impact on the reputation of Nova KBM. Appropriate actions were taken in the areas of corporate governance, regulatory compliance, reputation risk management and crisis event management. While internal reviews and legal measures were used as means to protect Nova KBM´s interests and reputation, any suspicion of illegal conduct was handled with necessary diligence.
- Nova KBM took the steps necessary to ensure effective marketing and corporate communication campaigns, the building up of successful relationships with its key stakeholders, and the implementation of its social responsibility programme (for further details, see the sections titled 'Nova KBM´s marketing strategy and marketing activities' and 'Sustainable development').

10 PERFORMANCE OF THE NOVA KBM GROUP AND NOVA KBM

10.1 Macroeconomic environment

International environment

Although the global economy is continuing to recover from the latest financial and economic crisis, the macroeconomic developments are taking place at a lower economic growth rate, lower productivity rate, and higher inflation rate than before the crisis.

Growth in the major economies remains uneven, with some of the largest world economies dealing with economic stagnation or even declining productivity over the last decade. Lower economic growth can be attributed to many factors, such as the geo-political tensions in Ukraine, the cooling off of large developing economies (e.g. China and Russia), Middle East conflicts, terrorism and the refugee crisis.

The trend of economic development from 2007 to today affirms that the most competitive economies are more resistant to market shocks, while structural weaknesses tend to intensify the negative effects of a crisis, making the economic recovery more difficult.

The average GDP growth rates in selected advanced economies (%)



Legend: The five most competitive (USA, Switzerland, Denmark, Sweden and Germany) and the five least competitive economies (Slovenia, Portugal, Italy, Cyprus and Greece) according to the GCR 2007–08 scale.

Sources: IER (Institute for Economic Research), WEF (World Economic Forum) and SORS.

The euro area GDP continued to grow in 2015, as evidenced by the improved economic activity and sentiment indicators, reflecting stronger consumer spending, increasing disposable income, a recovery in the labour market, and lower oil prices. These favourable trends are expected to continue in the euro area.

The level of interest rates saw a considerable reduction over the last few years, with the ECB continuing to maintain a policy of a low key reference interest rate (this stood at 0.05% throughout 2015), thereby aiming to contribute to economic recovery. While lower interest rates have made the costs of corporate funding cheaper, they have also undermined net interest income earned by banks. The Euribor, a reference interest rate to which most loans in Europe, including Slovenia, are pegged, has been declining for quite some time, as shown also by the table below, which presents a comparison of the level of the six-month Euribor between individual quarters of 2015, and between 2015 and 2014.

6M Euribor in 2014 and 2015 (quarterly and annual average interest rates)

	Q1	Q2	Q3	Q4	Annual level
2014	0.40	0.39	0.27	0.18	0.31
2015	0.13	0.06	0.04	(0.01)	0.05
Difference (2015–2014)	(0.27)	(0.33)	(0.23)	(0.19)	(0.26)

Economic developments in Slovenia

In Slovenia, structural imbalances and the significant export dependency of its economy have further intensified the negative effects of the recent crisis, causing its economic recovery to be relatively fragile. After seeing positive trends in the first half of 2015, the economic growth of the second half of last year was adversely affected mainly by a decline in construction activity and a slowdown in exports in the last few months of the year.

According to the recently published unaudited data, the balance sheet total of the Slovene banking system declined last year by 3.5%, while the level of customer loans saw a contraction of 5.5%, or €1,176 million, mainly on account of an intense deleveraging process of non-banking sectors. While the deleveraging at local banks was carried out at a faster pace than in 2014, the pace of deleveraging at foreign banks was lower than that of a year ago. In contrast to a year-on-year decline in loans outstanding to the state, the level of housing loans outstanding to households registered an increase last year, primarily as a result of the revival of the real estate market.

The quality of the Slovene banking system´s loan portfolio saw an improvement in the first 11 months of 2015, with the proportion of loans past-due by over 90 days within the total portfolio of classified loans dropping by 0.5 percentage points, to 10.3%.

With a proportion of about one-quarter of the Slovene banking system´s total assets, investments in securities continued to account for a relatively high proportion of banks´ businesses.

As regards funding, the volume of funds repaid by Slovene banks last year was 25% above that of a year ago. The 2015 growth in deposits from non-banking sectors was less than half of that of the same period a year ago, with the proportion of demand deposits within total deposits continuing to rise.

Selected macroeconomic indicators for Slovenia

Macroeconomic indicator	2011	2012	2013	2014	2015	2015*
GDP (real growth; %)	0.6	(2.7)	(1.1)	3.0	2.9	2.7
Inflation rate (annual average; %)	1.8	2.6	1.8	0.2	(0.5)	(0.4)
Registered unemployment rate (%)	11.8	12.0	13.1	13.1	12.3	12.3
Exports (real growth; %)	6.9	0.6	3.1	5.8	4.4	5.0
Imports (real growth; %)	5.0	(3.7)	1.7	4.0	2.7	4.9
Industry production (growth rate; %)	4.7	0.4	5.3	1.6	4.5	N.A.

Note:
* Forecast.
Sources: IMAD, SORS.

The economic activity and confidence indicators suggest a continuation of GDP growth, albeit at a slower pace than seen last year. Economic recovery registered in Slovenia last year was attributable to the strengthening of private consumption amid rising disposable income due to the recovery of the labour market and the positive impact of lower oil prices.

Debt-to-equity ratios of the corporate sector stood at historical lows in the last quarter of 2015, suggesting that companies were running high financial surpluses. Indeed, as evidence of this situation, there were some signs of a reversal towards moderate growth in investments in machinery and equipment.

At the end of 2015, Slovenia experienced deflation for the first time ever, both on a monthly (minus 0.4%) and an annual basis (minus 0.5%), largely due to lower oil-product prices. Year-on-year, the prices of goods shrank by 1.0%, while the prices of services saw an increase of 0.7%.

There were 112,726 people on average registered as unemployed in Slovenia during 2015, down 6.1% on 2014. At the end of December 2015, the number of registered unemployed was 113,076, an increase of 6,382, or 5.3%, relative to a year ago.

As a small and open economy, Slovenia is very sensitive to developments and trends in foreign markets, with exports continuing to be the primary driver of its economic recovery. In 2015, Slovenia´s exports registered an increase of 4.4% relative to a year ago.

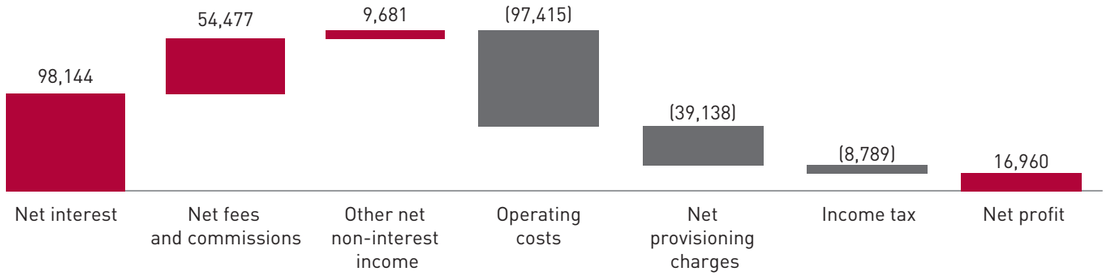
10.2 Analysis of performance of the Nova KBM Group and Nova KBM

10.2.1 Nova KBM Group

Income statement

For the year ended 31 December 2015, the Nova KBM Group reported a net profit of €16,960,000, compared to €23,281,000 reported for 2014. Total income earned by the Nova KBM Group declined year-on-year by 2.7% and totalled €162,302,000, of which €98,144,000 was attributable to net interest income and €54,477,000 was attributable to net fee and commission income. Operating costs incurred by the Nova KBM Group in 2015 totalled €97,415,000, down 6.0% on 2014, while net provisioning charges recorded by the Nova KBM Group in 2015 totalled €39,138,000, a decline from last year when provisioning charges reached €44,514,000.

Structure of the Nova KBM Group´s 2015 net profit (€000)



* Other net non-interest income and income tax take into account the effects of discontinued operations.

Net interest income

Net interest income earned by the Nova KBM Group in 2015 reached €98,144,000, down €12,582,000, or 11.4%, on 2014, with interest income and interest expenses registering a year-on-year decline of 24.1% and 52.0%, respectively. While the year-on-year decline in interest income was attributable mainly to a reduction in the lending volumes and interest rates on loans recorded by Nova KBM and PBS, the decline in interest expenses was attributable mainly to a reduction in deposit interest rates. A reduction in interest income had a negative effect on the level of interest margin, which stood at 2.29% at the end of last year. The structure of the Nova KBM Group´s interest income and interest expenses is presented in the notes to the financial statements.

Non-interest income

Net fee and commission income generated by the Nova KBM Group in 2015 totalled €54,477,000, a decline of 2.6% compared to 2014. Both fee and commission income, and fee and commission expenses registered a decline, with fees earned on payment services declining the most. Other net non-interest income earned by the Nova KBM Group in 2015 (taking into account the losses in respect of discontinued operations) reached €9,681,000, compared to €37,000 reported for 2014.

Operating costs

Operating costs (administration costs, including depreciation and amortisation) incurred by the Nova KBM Group in 2015 totalled €97,415,000, a decline of 6.0% compared to 2014, with Nova KBM Group banks registering the largest drop. As regards the composition of operating costs, staff costs accounted for 46.6% of the total operating costs, followed by general and administrative costs (40.4%), and depreciation and amortisation (13.0%). The Nova KBM Group´s CIR reached 60.02% last year – an improvement from 62.14% in 2014. Without incurring €4,068,000 in extraordinary costs, the CIR of the Nova KBM Group would have stood at 57.51% in 2015. Further details with respect to operating costs incurred by the Nova KBM Group are set out in the notes to the financial statements.

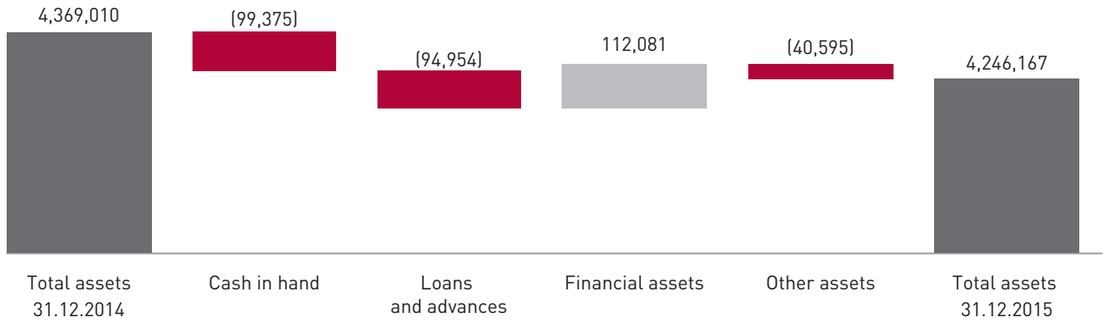
Net provisions and impairment losses

The Nova KBM Group´s net provisioning charges totalled €39,138,000 last year, compared to €44,514,000 reported for 2014. Total provisions reversed last year amounted to €9,642,000, with a reversal of €18,855,000 in provisions for off-balance sheet liabilities being partially offset by additional provisions of €9,243,000 set aside for litigation, restructuring costs and various other items. Impairment losses recorded by the Nova KBM Group last year totalled €48,780,000, of which the largest proportion was attributable to the impairment of customer loans.

Statement of financial position

As of 31 December 2015, the Nova KBM Group´s balance sheet total amounted to €4,246,167,000. Loans and advances made up 44.7% of the Nova KBM Group´s total assets, while financial assets accounted for 42.9%. On the funding side of the balance sheet, customer deposits made up the largest proportion, reaching 72.9%. Year-on-year, the Nova KBM Group´s balance sheet total shrank by 2.8%, mainly as a result of declines in the balance of funds held in the accounts with central banks and in demand deposits at commercial banks, but also due to the lower lending volumes. The reduction in the balance sheet total arising from these factors was partially offset by an increase in the volume of investments in securities. As regards liabilities, declines were registered in deposits and loans from banks, the balance of outstanding debt securities, and provisions, while customer deposits saw an increase last year. The Nova KBM Group is consistently implementing its Restructuring Programme and is scaling down its business volumes and risk-weighted assets in accordance with the commitments it has made to the European Commission.

Movements in the Nova KBM Group´s assets in 2015 (€000)



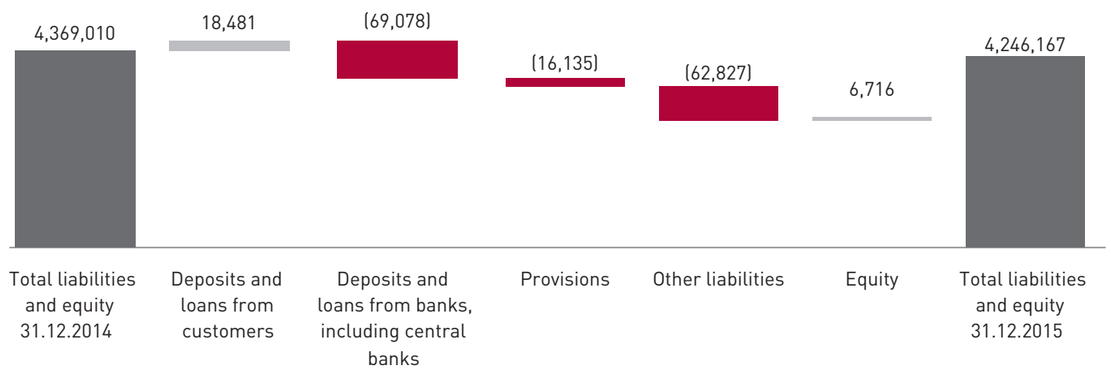
Loans and advances

A decline of 4.8% in the volume of the Nova KBM Group´s lending portfolio in 2015 was mostly the result of a reduction in loans outstanding to the non-banking sector. While the balance of net loans outstanding to customers declined year-on-year by 5.9%, the level of value adjustments recorded on the total loan portfolio remained roughly at the same level. At the end of 2015, the Nova KBM Group´s total lending portfolio amounted to €1,896,388,000, of which €1,808,373,000 was in customer loans. Further details with respect to the Nova KBM Group´s loan portfolio are set out in the notes to the financial statements.

Financial assets

The balance of the Nova KBM Group´s financial assets increased last year by 6.6%, to reach €1,820,439,000 at the end of the year, with most of this increase being attributable to Nova KBM, which invested the surplus of its liquid assets in debt securities.

Movements in the Nova KBM Group´s liabilities and equity in 2015 (€000)



Financial liabilities measured at amortised cost
Deposits and loans from customers totalled €3,095,356,000 at the end of 2015, up €18,481,000 on the end of 2014. Loans and deposits from banks declined by €69,078,000, to €346,010,000 at the end of the year, while the decline in the balance of outstanding debt securities was partially the result of Nova KBM´s decision to redeem early €38,580,000 of debt securities it had issued in the past, and partially due to the scheduled maturities of debt securities the Nova KBM Group had held in its portfolios.

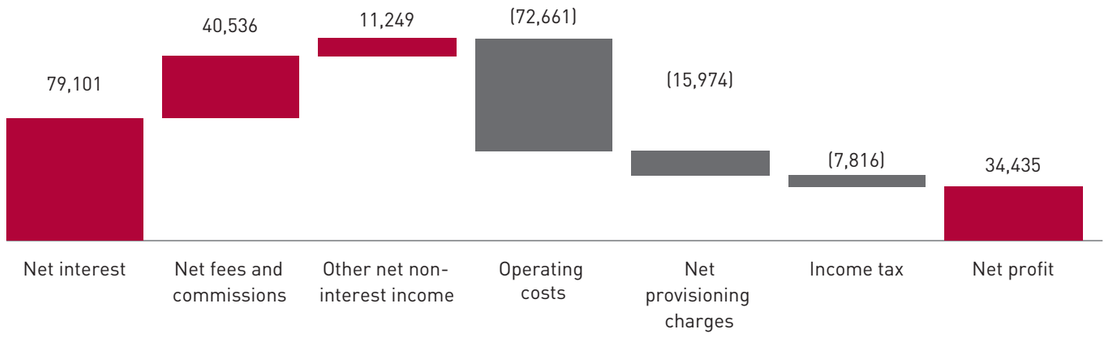
Provisions
The balance of provisions recorded in the statement of financial position totalled €66,876,000 at the end of 2015, down €16,135,000 on the end of 2014, with most of this decline being attributable to a reversal of provisions made by Nova KBM with respect to its off-balance sheet liabilities.

10.2.2 Nova KBM

Income statement

For the year ended 31 December 2015, Nova KBM reported a pre-tax, pre-provision profit of €58,225,000, compared to €77,261,000 posted in 2014, while its net profit hit €34,435,000, a marginal decline from €35,916,000 generated in 2014.

Structure of Nova KBM´s 2015 net profit (€000)



Net interest income
Net interest income earned by Nova KBM in 2015 totalled €79,101,000 (2014: €93,591,000). The year-on-year decline in this income category was the result of both a decline of 49.4%, or €21,322,000, in interest income and a decline of 26.2%, or €35,812,000, in interest expenses.

A decrease in interest income of 29.2%, or €27,379,000, relative to 2014 was attributable to a lower amount of interest earned on loans as a result of a decline in both average interest rates and the gross balance of loans outstanding to the non-banking sector. The average monthly balance of gross loans outstanding to the non-banking sector fell year-on-year by 9.9%, or €216,292,000. The amount of interest earned by Nova KBM in 2015 on its portfolio of securities was 19.6%, or €8,434,000, below that of 2014, the reason for this being the replacement of maturing bonds and other debt securities with lower-coupon securities.

Excluded income attributable to the impairment of interest recognised by Nova KBM in 2015 totalled €9,526,000, down 18.4%, or €2,145,000, on 2014.

Of the total interest income earned by Nova KBM in 2015, €5,622,000 was attributable to default interest (2014: €10,320,000). The year-on-year decline in interest income was also partially the result of a revised method for recognising interest income, which has been used by Nova KBM since September 2015. According to this method, the interest to be paid by D- and E-rated corporate customers on their loans are recorded off-balance sheet on the date the payment should be made, and are recognised on-balance sheet only after the payment is actually made.

The year-on-year reduction in interest expenses incurred by Nova KBM was mainly attributable to a decline in interest rates on deposits. Expenses incurred on financial liabilities measured at amortised cost saw a year-on-year reduction of €21,571,000, while the average monthly balance of customer deposits declined by 0.1%, or €1,341,000.

Non-interest income
Net non-interest income generated by Nova KBM in 2015 amounted to €40,536,000 (2014: €42,122,000). Total fee and commission income of Nova KBM was €44,699,000 in 2015 (2014: €46,163,000), with fees earned on domestic payment transactions making up the largest proportion of this figure, reaching 78.2%. Fee and commission expenses incurred by Nova KBM in 2015 totalled €4,163,000 (2014: €4,041,000).

Nova KBM´s other net non-interest income totalled €11,249,000 in 2015. Further details with respect to the non-interest income earned by Nova KBM are set out in the notes to the financial statements.

Operating costs
Operating costs (administration costs, including depreciation and amortisation) incurred by Nova KBM in 2015 totalled €72,661,000 (2014: €74,045,000). Staff costs declined year-on-year by 4.1%, or €1,410,000, with the number of employees falling by 68, to reach 1,056 at the end of 2015.

Nova KBM´s CIR, calculated as the proportion between operating costs and the net income, was 55.51% in 2015 (2014: 50.05%). Without incurring €1,886,000 (2014: €2,723,000) in extraordinary staff costs and the costs with respect to advisory services, the CIR of Nova KBM would have stood at 54.07% in 2015.

Net provisions and impairment losses
In 2015, Nova KBM recorded net provisioning charges of €15,974,000 (2014: €43,079,000). Impairment losses recorded in 2015 reached €26,787,000, broken down as follows:

- €20,219,000 was attributable to loan impairment losses
- €1,639,000 was attributable to impairment of financial assets measured at cost
- €3,595,000 was attributable to impairment of investments in the equity of subsidiaries, associates and joint ventures
- €1,353,000 was attributable to impairment of other assets.

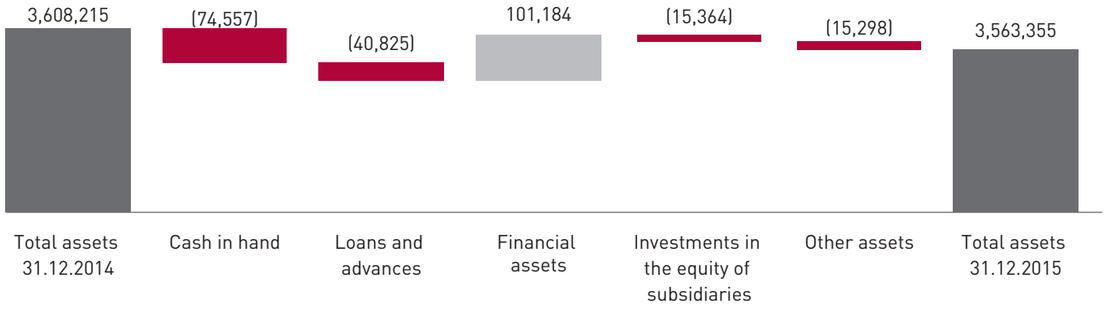
Impairment losses incurred by Nova KBM last year were partially offset by a reversal of €19,000 in impairment losses recorded on demand deposits placed with banks.

Total provisions reversed last year amounted to €10,813,000, with a reversal of €17,276,000 in provisions for off-balance sheet liabilities being partially offset by additional provisions of €6,463,000 set aside for various items.

Statement of financial position

Balance sheet total
As of 31 December 2015, Nova KBM´s balance sheet total amounted to €3,563,355,000 (2014: €3,608,215,000), which gave a market share of 9.5%, according to the most recent data.

Movements in Nova KBM´s assets in 2015 (€000)



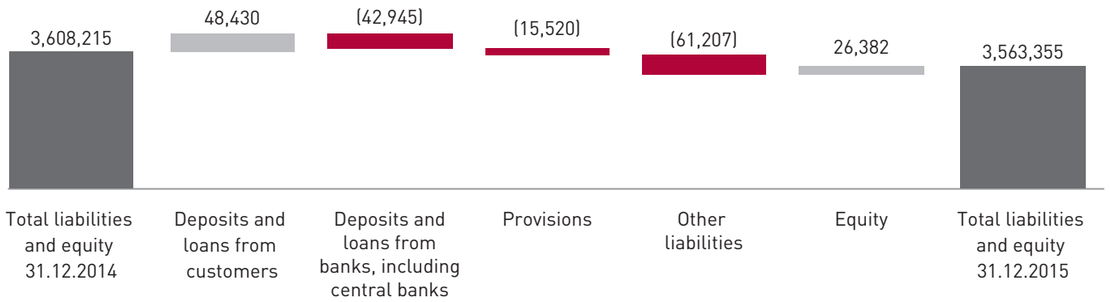
Loans and advances to customers
Compared to the end of 2014, loans and advances outstanding to customers fell by €55,011,000 net, or €40,630,000 gross, with a decline in corporate loans being partially offset by a 1.9% increase in gross loans outstanding to households.

Available-for-sale and held-to-maturity financial assets
During 2015, Nova KBM invested the surplus of its liquid assets mainly in debt securities, with the result that its portfolio of available-for-sale and held-to-maturity financial assets registered an increase of €105,691,000 last year. The balances of Nova KBM´s portfolios of debt securities and equity instruments increased year-on-year by €97,374,000 and €8,317,000, respectively.

Investments in the equity of subsidiaries, associates and joint ventures
Nova KBM´s net investments in the equity of its subsidiaries, associates and joint ventures shrank by €15,364,000 last year, partially as a result of the sale of its 45% shareholding in the pension insurance company Moja naložba, and partially due to additional impairment losses of €3,595,000 recorded on investments in the equity of its subsidiaries.

In June 2015, Adria Bank, Nova KBM´s subsidiary in Austria, changed its legal form from a joint stock company to a limited liability company (GmbH) named 'Adria Abwicklungs'. Since June 2015, Adria Abwicklungs has been undergoing a controlled liquidation. Further details with respect to Nova KBM´s investments in the equity of its subsidiaries, associates and joint ventures are set out in the notes to the financial statements.

Movements in Nova KBM´s liabilities and equity in 2015 (€000)



Deposits from customers and banks, including central banks
The liquidity position of Nova KBM improved further in 2015 on account of a €50,250,000 increase in customer deposits and an increase of €21,053,000 in the level of deposits from banks, including central banks.

Loans from banks and central banks
The balance of loans from banks and central banks saw a reduction of €63,998,000 in 2015, mainly as a result of regular and early repayments of loans that Nova KBM had taken out from SID Banka in previous years. While Nova KBM raised €88,000,000 million through the ECB´s targeted longer-term refinancing operations in December 2014, it did not borrow any funds through this facility in 2015.

Debt securities
The balance of outstanding debt securities fell by €53,034,000 in 2015, partially on account of the early redemption by Nova KBM of a total of 38,580 of its own-issued KBM10 bonds, with a nominal value of €38,850,00, and partially as a result of the maturity of Nova KBM´s certificates of deposit worth €13,500,000 in total.

Equity
At the end of 2015, Nova KBM´s equity amounted to €606,729,000, up 4.5%, or €26,382,000, on 2014, with the increase resulting mainly from the net profit reported for 2015, totalling €34,435,000, being partially offset by a reduction of €10,240,000 arising from losses recognised in equity with respect to the valuation of available-for-sale financial assets. Further information about Nova KBM´s equity is set out in the section titled 'Shareholders´ equity of Nova KBM'.

10.3 Profile of the Nova KBM Group companies[11]

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 2015 (%): 99.12
Management Board members as of 31 December 2015:
Marko Novak (President) and Marija Brenk (substitute member)
Supervisory Board members as of 31 December 2015:
Sabina Župec Kranjc (Chair), Boris Novak (Deputy Chair), Miha Šlamberger and Vinko Filipič

ACTIVITY

PBS provides financial services, including banking services, mutually recognised financial services, additional financial services and other ancillary financial services pursuant to the ZBan-2. 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 2015

PBS´s balance sheet total decreased year-on-year by 6%, to €673,351,000 at the end of 2015. Financial liabilities measured at amortised cost totalled €623,996,000, with the largest proportion of this figure, €592,913,000, relating to customer deposits, which saw a year-on-year reduction of 4%. As regards the composition of customer deposits, the proportion of demand deposits within total customer deposits increased from 58.2% in 2014 to 69.0% in 2015, while the proportion of fixed-term deposits fell from 41.8% to 31.0%. On the assets side of the statement of financial position, the volume of gross loans outstanding to customers fell year-on-year by €57,968,000, to €373,118,000 at the end of 2015, with the level of impairment losses recorded on the loan portfolio declining by €14,100,000, from €127,030,000 in 2014 to €112,930,000 in 2015. Consequently, net customer loans saw a year-on-year reduction of €43,868,000, and totalled €260,188,000 at the end of 2015. PBS´s portfolio of securities amounted to €328,627,000 at the end of 2015, up €13,378,000 on 2014.

For 2015, PBS reported a net interest income of €17,540,000, down 15% on 2014, and a net non-interest income of €8,862,000, which was 23% less than in 2014. The year-on-year decline in net interest income was due to the following factors: lower business volume, declining interest rates, declining returns on securities that PBS bought to replace those that fell due in 2015, and, with effect from September 2015, the amended methodology for recording interest income on distressed loans, according to which interest earned on these loans is recognised only after the payment is actually received. The drop in non-interest income was partially the result of a decline in net fees and commissions, and partially due to lower gains from the sale of securities, which declined from €4,467,000 in 2014 to €1,340,000 in 2015. Net fees and commissions earned by PBS, totalling €8,888,000, were sufficient to cover 57.1% of its operating costs. Operating costs decreased year-on-year by €1,185,000, reflecting PBS´s active approach towards cost management. In view of the ongoing weak economic climate, and considering the fact that NPLs continued to make up a relatively high proportion of its total loan portfolio, PBS set aside €13,418,000 in net impairments last year. The net loss posted by PBS for 2015 hit €3,063,000, as opposed to a net profit of €246,000 in 2014, providing a negative return on equity of minus 6.15%. PBS´s total capital adequacy ratio stood at 13.27% at the end of 2015.

BUSINESS STRATEGY

In 2015, an assessment was made of various scenarios for integrating the operations of Nova KBM and PBS. Based on the conducted analyses, the Management Boards of both banks have decided to opt for full integration of the banks as the option that brings the most benefits in terms of work organization, the execution of the integration itself, and the synergistic effects resulting from the merged operations. The PBS Supervisory Board consented to such integration.

The 2016 financial plan of PBS was prepared under the assumption that PBS will continue to operate as an autonomous entity until 1 July 2016, taking into consideration the guidelines provided by Nova KBM.

In addition to focusing on cost reduction and an increase in non-interest income, PBS will seek to maintain a robust capital position.

11 The financial data presented in this section are taken from the stand-alone financial statements of the Nova KBM Group companies.

Adria Abwicklungs GmbH (in liquidation)

Nova KBM´s shareholding as of 31 December 2015 (%): 100.00
Management as of 31 December 2015:
Sebastian Kellermayr (Liquidator)

In March 2015, Adria Bank ceased its banking operations and returned its licence for providing banking services to the FMA, after which, in June, it changed its legal form from a joint stock company to a limited liability company (GmbH) named 'Adria Abwicklungs'. The company´s Supervisory Board was dissolved. On 18 June 2015, the Shareholders´ Meeting of Adria Abwicklungs took a decision to start the liquidation of the company, with this decision being entered into the court register on 26 June 2015.

The bulk of the business activities of Adria Abwicklungs have been brought to an end. As part of the liquidation process, which is expected to be completed during 2016, efforts are being made by the liquidator to transfer to Nova KBM the legal title to collateral provided as security to Adria Bank, to manage the remaining assets of the company in an efficient manner, and to take all steps necessary to complete the liquidation of the company.

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 2015 (%): 89.53
Executive Board members as of 31 December 2015:
Ljubinka Lovčević (President) and Nikola Fržović
Management Board members as of 31 December 2015:
Jure Hartman (Chair), Igor Muhič (Deputy Chair), Drago Bahun, Sanja Tucaković and Nedeljko Tenjević

ACTIVITY

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

BUSINESS PERFORMANCE IN 2015

At the end of 2015, KBM Banka´s balance sheet total amounted to €73,119,000, down €6,173,000 on 2014. The year-on-year decline in the balance sheet total was attributable mainly to a drop in the volume of customer loans, partially as a result of the decision made by KBM Banka to scale down its lending business, and partially due to a weak demand for loans because of the poor economic situation in Serbia. Financial liabilities of KBM Banka measured at amortised cost totalled €61,723,000, of which €56,007,000 was in customer deposits, while its total equity was €10,894,000 at the end of 2015.

Net interest income, and net fee and commission income earned by KBM Banka in 2015 totalled €2,958,000 and €1,777,000, respectively, while the operating costs incurred by KBM Banka last year reached €5,193,000. After recording impairment losses of €1,880,000, KBM Banka posted a net loss of €3,266,000 for 2015.

BUSINESS STRATEGY

In February 2016, Nova KBM sold its shareholding in KBM Banka. Consequently, it is expected that the business strategy of KBM Banka will be developed based on the guidelines and strategic objectives set by its new owner.

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 2015 (%): 72.73
Management Board members as of 31 December 2015:
Matjaž Lorenčič (President) and Samo Stonič
Supervisory Board members as of 31 December 2015:
Miha Šlamberger (Chair), Sabina Župec Kranjc (Deputy Chair), Mitja Leskovar, Vito Bobek and Borut Celcer

ACTIVITY

At the end of 2015, 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 most recent data, the total market capitalization of all mutual funds managed by companies registered in Slovenia was €2,305,949,000 at the end of 2015. Net asset value of all mutual funds managed by KBM Infond totalled €286,915,000, giving the company a market share of 12.44%.

BUSINESS PERFORMANCE IN 2015

For 2015, the company reported a net profit of €1,428,000, an increase of 9.09% relative to 2014.

The company´s total equity amounted to €12,394,000 as of 31 December 2015, a decline of 1.55% from a year ago, while its total assets stood at €13,345,000, down 1.61% on 2014.

On 14 March 2015, after receiving the relevant approval from the Slovene Securities Market Agency, the company took over the management of the Perspektiva Umbrella Fund with six sub-funds.

BUSINESS STRATEGY

The main objectives of KBM Infond for 2016 are as follows: to increase the value of its assets under management, to promote the sale of existing products and to develop new combined products within the Nova KBM Group, to strengthen cooperation with institutional investors, principally pension management companies, to look for new acquisition targets and to explore options of working together with its partners in the area of new distribution channels, to pursue the policy of distributing profits to shareholders (the company plans to distribute to its shareholders an increased proportion of its profits), and to repay the subsequently contributed capital.

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 2015 (%): 100.00
Management as of 31 December 2015:
Nada Kolmanič (Manager)
Supervisory Board members as of 31 December 2015:
Mitja Leskovar (Chair), Damijan Podlesek and Primož Britovšek

ACTIVITY

In 2015, the company carried out the following activities:

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

BUSINESS PERFORMANCE IN 2015

Despite unfavourable conditions in the real estate market, which continued throughout 2015, the company posted a net profit of €33,000. The total revenues earned by the company in 2015 amounted to €6,072,000 and were attributable to the sale of real estate units and services, and to extraordinary income items. A net sales income of €5,602,000 was derived mainly from the sale of the inventory of completed real estate units and from investment engineering services provided to other Nova KBM Group companies, but also from rent received. In 2015, the company sold a total of 49 apartments, 126 parking places and three commercial premises. The total costs incurred by the company in 2015 amounted to €6,039,000, of which the largest proportion related to the costs of products and services sold, costs incurred in the maintenance of real estate projects, administration costs and financing costs.

The company´s balance sheet total was €7,810,000 at the end of 2015, down 42% on 2014, primarily as a result of a 44% decline in inventory following the sale of a certain number of real estate units. The balance of inventory totalled €5,953,000 at the end of 2015, which accounted for 76% of the company´s total assets. Proceeds received from the sale of real estate units were used by the company to discharge its liabilities to banks. These saw a year-on-year decline of €5,079,000, or 61%.

BUSINESS STRATEGY

As part of the process of centralizing the management of the Nova KBM Group companies´ real estate portfolios, the aim of which is to achieve cost savings, the company has become actively involved in efforts made to find appropriate sales and technical solutions for real estate projects owned by the Nova KBM Group companies. The company plans to have an active role in the provisioning of investment engineering services, in the management and custodianship of real estate owned by the Nova KBM Group companies, and in the provision of financial and construction supervision of real estate projects financed by the Nova KBM Group companies. Furthermore, it intends to take the actions necessary to avoid the realization of guarantees provided by Nova KBM with respect to real estate projects.

For 2016, KBM Invest expects to report total revenues of €4,194,000 and a net profit of €52,000.

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

Year of establishment: 1989
Website: www.kbm-leasing.si
E-mail: leasing@nkbm.si
Nova KBM´s shareholding as of 31 December 2015 (%): 100.00
Management as of 31 December 2015:
Dražen Nikolić (Liquidator)

ACTIVITY

KBM Leasing was involved in the provision of services with respect to finance leasing and operating leasing of movable property and real estate.

BUSINESS PERFORMANCE IN 2015

KBM Leasing filed for liquidation on 30 December 2014, based on the commitments made to the European Commission regarding the restructuring of the Nova KBM Group.

In 2015, Nova KBM commissioned Mida Nekretnine of Zagreb to conduct the liquidation proceedings against KBM Leasing. Mida Nekretnine is also conducting liquidation proceedings against Gorica Leasing, KBM Leasing Hrvatska and KBM Projekt. Dražen Nikolić of Mida Nekretnine was appointed by Nova KBM as the liquidator of KBM Leasing, with effect from 16 October 2015, replacing Jure Hartman, who had up to this point acted as liquidator.

KBM Leasing ended 2015 with a net loss of €2,638,000 and an equity of €12,016,000. The loss reported for last year was mainly the result of additional provisions that the company set aside to cover its exposure to newly identified risks and for potential liabilities with respect to actions that might be brought against it. At the end of 2015, the company´s balance sheet total amounted to €17,821,000, down €1,153,000, or 6%, on 2014. Since the start of its liquidation, the company has been making efforts to sell its property and claims, depositing proceeds received from sales into its accounts. Year-on-year, the balance of cash held by the company in its accounts increased by €5,227,000, to reach €8,942,000 at the end of 2015, a figure that equalled 50% of the company´s total assets. The increase in the balance of cash was also due to the company not having to earmark any funds for loan repayments, given that it had repaid all of its loans by the end of 2014, using for this purpose the proceeds received from the recapitalization and the sale of investment property. The gross value of the company´s inventory for sale totalled €5,604,000, or €1,080,000 net after accounting for €4,524,000 in impairment losses, which the company had recorded on this asset category. In 2015, the company sold items seized under lease agreements worth €2,004,000 net in total. The value of the company´s lease and loan agreements outstanding at the end of 2015 was €10,067,000, of which €3,207,000, or 32%, was in past-due and unpaid claims. Impairment losses recorded on these claims totalled €3,449,000 at the end of 2015. Other assets of the company were mostly made up of tangible assets, claims arising from actions, and other claims.

BUSINESS STRATEGY

KBM Leasing expects to complete the liquidation proceedings by 31 December 2019, after which the remaining assets of the company will be transferred to Nova KBM. The objective of the liquidation plan, however, is to shorten the deadline for the completion of the liquidation proceedings against the company from the end of 2019 to the end of 2018.

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

Year of establishment: 1998
Website: www.gorica-leasing.si
E-mail: info@gorica-leasing.si
Nova KBM´s shareholding as of 31 December 2015 (%): 100.00
Management as of 31 December 2015:
Dražen Nikolić (Liquidator)

ACTIVITY

Gorica Leasing was involved in the provision of services with respect to finance leasing and operating leasing of movable property and real estate.

BUSINESS PERFORMANCE IN 2015

Gorica Leasing filed for liquidation on 30 December 2014, based on the commitments made to the European Commission regarding the restructuring of the Nova KBM Group.

In 2015, Nova KBM commissioned Mida Nekretnine of Zagreb to conduct the liquidation proceedings against Gorica Leasing. Mida Nekretnine is also conducting liquidation proceedings against KBM Leasing, KBM Leasing Hrvatska and KBM Projekt. Dražen Nikolić of Mida Nekretnine was appointed by Nova KBM as the liquidator of Gorica Leasing, with effect from 16 November 2015, replacing Silvan Križman, who had up to this point acted as liquidator.

Gorica Leasing ended 2015 with a net loss of €2,274,000 and an equity of €19,398,000. The loss reported for last year was mainly the result of additional impairment losses recorded by the company. At the end of 2015, the company´s balance sheet total amounted to €20,042,000, down €2,503,000, or 11%, on 2014. Since the start of its liquidation, the company has been making efforts to sell its property and claims in the promptest and most effective manner. Year-on-year, the balance of cash held by the company increased by €6,381,000, to reach €7,316,000 at the end of 2015, with €5,070,000 of this figure being held in bank deposits. The increase in the balance of cash was also due to the company not having to earmark any funds for loan repayments, given that it had repaid all of its loans by the end of 2014, using for this purpose the proceeds received from the recapitalization. The gross value of the company´s inventory for sale totalled €5,937,000, or €2,476,000 net after accounting for €3,461,000 in impairment losses, which the company had recorded on this asset category. In 2015, the company sold its investment property and items seized under lease agreements worth €5,505,000 net in total. The value of the company´s lease and loan agreements outstanding at the end of 2015 was €9,348,000, of which €4,318,000, or 46%, was in past-due and unpaid claims. Impairment losses recorded on these claims totalled €4,432,000 at the end of 2015. Other assets of the company were mostly made up of tangible assets, claims arising from actions, and other claims.

BUSINESS STRATEGY

Gorica Leasing expects to complete the liquidation proceedings by 31 December 2018, after which the remaining assets of the company will be transferred to Nova KBM. The objective of the liquidation plan, however, is to shorten the deadline for the completion of the liquidation proceedings against the company from the end of 2018 to the end of 2017.

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

Year of establishment: 2006
Website: www.kbm-leasing.hr
E-mail: info@kbm-leasing.hr
Nova KBM´s shareholding as of 31 December 2015 (%): 98.54
Management as of 31 December 2015:
Branimir Cvitanović (Liquidator)
Supervisory Board members as of 31 December 2015:
Mitja Leskovar (Chair), Lucija Klampfer (Deputy Chair), Damijan Podlesek, Nada Topolovec and Primož Britovšek

ACTIVITY

KBM Leasing Hrvatska offered 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). As a result of being put into liquidation, the company stopped concluding new deals, focusing its efforts instead on the recovery of its outstanding claims.

Mida Nekretnine, which is conducting liquidation proceedings against KBM Leasing, Gorica Leasing and KBM Projekt, was also appointed to conduct the liquidation proceedings against KBM Leasing Hrvatska.

BUSINESS PERFORMANCE IN 2015

On 30 April 2015, the Shareholders´ Meeting of KBM Leasing Hrvatska made the decision to initiate the liquidation of the company. After being put into liquidation, the company has begun selling its assets and has reduced the number of its employees from eight to two. Furthermore, it has managed to reduce the number of its outstanding lease agreements from 642 to 430, its credit exposure from €26,909,000 to €23,248,000, and its loan obligations from €20,842,000 to €17,992,000.

The company ended 2015 with a net loss of €8,342,000, mainly on account of high impairment losses recorded at the start of liquidation proceedings in April 2015.

BUSINESS STRATEGY

The main objectives of KBM Leasing Hrvatska for 2016 are as follows:

- to reduce its exposure to Nova KBM (up to the level allowed by its positive cash flow)
- to focus on the sale of inventory and on the recovery of distressed assets
- to generate positive cash flow (Nova KBM will not provide any additional liquidity)
- to reduce operating costs
- to sell the active part of its portfolio.

M-PAY d.o.o.

Year of establishment: 2004
Nova KBM´s shareholding as of 31 December 2015 (%): 50.00
Management as of 31 December 2015:
Janez Stajnko (Manager)
Supervisory Board members as of 31 December 2015:
Vlasta Brečko (Chair), Marko Jagodič (Deputy Chair), Miha Šlamberger, Aleksander Batič and Marko Boštjančič

ACTIVITY

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

BUSINESS PERFORMANCE IN 2015

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 2015, the total income of the company equalled €17,000, while its total expenses reached €4,000. The net profit reported by the company for last year was €10,000. At the end of 2015, the company´s balance sheet total stood at €234,000.

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

BUSINESS STRATEGY

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

10.4 Nova KBM´s marketing strategy and marketing activities

Marketing strategy and marketing activities executed in 2015 were formulated on the basis of the business strategy and objectives of Nova KBM and the Nova KBM Group, taking into consideration the prevailing market conditions and contemporary banking trends.

At the corporate level, significant energy was devoted to the positioning of Nova KBM as a safe and sound bank that cooperates successfully with its customers, other stakeholders and the wider community in which it operates. At the marketing level, Nova KBM presented itself as a financial institution that understands and recognises the needs and aspirations of its customers, and helps them to find optimum solutions for their financial matters, while at the same time being a reliable provider of contemporary, adaptable and top-notch baking services and distribution channels.

Among the key objectives that Nova KBM pursued in implementing its marketing strategy were the following:

- to strengthen its own reputation and that of the Nova KBM Group as a whole
- to preserve the confidence and satisfaction of its customers
- to achieve the set commercial and other business goals
- to achieve cost-efficiency.

Nova KBM endeavoured to strengthen its reputation capital through effective communication with internal and external publics, employing for this purpose different communication tools and channels, including websites, social networks and other contemporary means of communication.

In 2015, Nova KBM carried out several marketing campaigns targeting a range of customer groups, in addition to taking numerous marketing and communication actions to promote its new and upgraded services, as well as those provided by other Nova KBM Group companies. Personal sales, sales promotions, advertising, product cross-selling and internal marketing actions were the most widely used marketing tools by Nova KBM in 2015.

Particular attention was devoted to presenting the diversity of Nova KBM´s product offerings, especially loan product offerings, as well as innovations and changes in the payment card business. Nova KBM strongly encouraged the use of contemporary distribution channels in order to enable its customers to carry out their transactions in a rapid, convenient and cost-efficient manner, anytime and anywhere. To raise the responsiveness of its customers and to encourage them to make first contact, but also to enable customers – especially young ones – to have a positive experience, Nova KBM employed a number of innovative marketing approaches. For example, communication with young customers was generally adapted to their lifestyles and carried out by utilizing Nova KBM´s trademark 'Sveta vladar' (Ruler of the World). Business relationships with key customers and partners were being systematically strengthened via, for example, the organization of numerous business and social events. By implementing its social responsibility and sustainable development programme, Nova KBM became actively involved in the environment in which it operates.

Nova KBM devoted a great deal of attention to internal communication. For this purpose, it prepared circulars and communication guidelines for its employees and distributed several issues of its internal web newspaper. It also encouraged its employees to take part in various socially beneficial and health-friendly internal activities. The implementation of the marketing strategy and the related actions was systematically monitored through various marketing research tools and analyses.

10.5 Market research

Nova KBM is aware that customer satisfaction is the backbone of long-term success for any company. In addition to monitoring customer satisfaction through various market research studies, Nova KBM takes an active part in such studies that are undertaken in Slovenia. The results of these studies are used by Nova KBM for the planning and customization of its marketing strategies.



Nova KBM is the second most likable bank in the Slovene banking landscape.

In spring 2015, Nova KBM participated in a Slovenia-wide survey on bank customer satisfaction (Bančni Monitor), conducted by the GFK agency. According to this survey, Nova KBM was ranked as the second most likable bank in Slovenia.

General customer satisfaction has been observed by Nova KBM for a number of years, as has satisfaction among customers with individual services and distribution channels provided by its retail banking segment. In 2015, Nova KBM conducted a customer satisfaction survey among its corporate customers, presenting the results of this survey to its officers responsible for relationships with corporate customers and sole proprietors. As many as 95% of Nova KBM retail costumers involved in the survey claimed to be satisfied with the services provided, while the satisfaction rate among corporate customers reached 88%. The surveyed customers expressed most satisfaction with Bank@Net and Poslovni Bank@Net, Nova KBM´s online banking service.



As many as 95% of Nova KBM retail customers claimed to be satisfied with the services provided.

Particular attention is devoted to customer purchase experience satisfaction. To this effect, Nova KBM carried out several mystery shopping actions in all of its branch offices to determine whether any changes needed to be made to its sales approach. In order to identify any opportunities for adjustments or upgrades to its contemporary sales channels, Nova KBM participated in a Slovenia-wide banking survey on digital tools, called 'E-laborati' (the survey included an analysis of websites, online and mobile banking facilities, etc).



The assessed reputation of Nova KBM saw an improvement in 2015.

The reputation and communication effectiveness of Nova KBM is analysed on a regular basis. In 2015, Nova KBM saw an improvement in its assessed reputation, as suggested by the results of the IRIS survey, conducted by the Interstat agency.

10.6 New and upgraded services and distribution channels of Nova KBM

Nova KBM offers a wide variety of financial products and services that includes all key groups of financial products. In addition to focusing on lending and providing its customers with a wide range of investment options, Nova KBM concentrates its development and sales activities on the areas of current account services, product packages and contemporary banking products. In order to maintain its competitive position, Nova KBM regularly updates its pricing policy and launches various attractive special offerings.

In 2015, a great deal of effort was devoted to the development of contemporary banking services for retail and corporate customers. In addition to getting closer to its customers by constantly upgrading its sales processes and thereby enabling customers to have simple and fast access to its products and services through various distribution channels, Nova KBM continuously develops new sales approaches.

Segment	New products and services, and upgrades of existing ones
Distance personal account	• Upgrade in terms of user experience. • Introduction of further options for online product applications.
ATMs	• Extension of ATM services to include the option of receiving a transaction confirmation via SMS. • Option to make several bill payments at the same time.
Online banking service: Bank@Net and Poslovni Bank@Net	• Introduction of active sales through Bank@Net. • New application for Poslovni Bank@Net.
Payment cards	• Launch of payment cards that allow payments in instalments. • Introduction of contactless technology.
Product packages	• New product package called 'Futurist' for contemporary users of financial services. • Start-up package for corporate customers.
Loans	• Extension of the maturity of fixed interest rate housing loans to 25 years. • Option to have loans with a maturity of up to 15 years insured by Zavarovalnica Triglav.
Moneta	• Upgrade of the Moneta service to enable transactions abroad. • Upgrade of the Moneta service to enable transfers between accounts.
Asset management	• Management of assets between investment funds.

10.7 Modern distribution channels of Nova KBM

Customers may carry out their transactions with Nova KBM in a number of ways and through a variety of distribution channels. Although the bulk of transactions are still made by customers in a traditional manner, i.e. at branch offices, the use of alternative distribution channels is growing, with the volume of transactions initiated through the online banking service provided by Nova KBM increasing most rapidly.

Customers of Nova KBM may carry out their operations in different ways:

- in person, at counters of Nova KBM, Pošta Slovenije and PBS
- by using the online banking service (Bank@Net and Poslovni Bank@Net)
- by using the mobile banking service (mBank@Net)
- by using ATMs of Nova KBM and PBS
- via the internet (used by customers to open personal accounts at a distance and to create their own custom-designed payment cards).

> "While Nova KBM offers one of the best online banking experiences in Slovenia, the number of users of its mobile banking service continues to climb."

In addition to being ranked among the best online banking service providers in Slovenia (Source: Valicon; 2015), Nova KBM is excited to see that the number of users of its mobile banking facility continues to grow. The range of alternative distribution channels provided by Nova KBM is expanding, making it possible for customers to carry out an increasing variety of transactions at a distance, including via their mobile phones, or through ATMs, which are being regularly upgraded. Nova KBM aims to transfer the processing of simple transactions to alternative channels, allowing its branch offices to focus on personal advice and the sale of more sophisticated products. In pursuit of this goal, Nova KBM has recognised the counters of Pošta Slovenije as an increasingly important channel for the provision of its simple banking services.

Branch offices

At the end of 2015, Nova KBM had three branches, under which a total of 61 branch offices were operating, three less than at the end of 2014.

Certain personal banking services may also be provided at more than 400 locations of Pošta Slovenije and branch offices of PBS.

In 2015, Nova KBM continued downsizing its branch office network, closing three of its less profitable units – in Šentilj, Rožna Dolina and Lucija. In addition, some branch offices were refurbished and made more energy-efficient. Further information in this regard can be found in the section titled 'Investments in property, plant and equipment and intangible assets'.

ATMs

The total number of Nova KBM´s ATMs at the end of 2015 was 258, giving a market share of 15.2%. All of the ATMs have been upgraded to comply with the EMV standard required by MasterCard™ and Visa™.

Online and mobile banking services for retail customers: Bank@Net and mBank@Net

The number of retail customers using Bank@Net has been steadily increasing. At the end of 2015, there were 93,080 Bank@Net users, up 15.7% on 2014. The total number of transactions made through Bank@Net in 2015 was 5,055,057, an increase of 2% on 2014.

Nova KBM´s mobile banking service, mBank@Net, is also becoming increasingly popular, with the number of customers that started using this service in 2015 being 22% above that of a year ago. The number of users actively connected to mBank@Net saw a year-on-year increase of 24%, while the number of customers making mobile payments went up by more than 32%.

Online banking service for corporate customers: Poslovni Bank@Net

The number of Poslovni Bank@Net users at the end of 2015 was 8,416, down 2.9% on 2014. Compared to 2014, the total number of transactions sent over Poslovni Bank@Net was 3,000,432, down 11% on a year ago, with a decline of 11.62% in the number of local payments being partially offset by a 3.11% increase in the number of cross-border payments.

Payment cards

As of 31 December 2015, Nova KBM had 444,873 active payment cards outstanding to retail and corporate customers, up 9.04% on 2014. The total number of transactions with payment cards increased year-on-year by 18.95% and reached 18,548,495 in 2015.

Moneta

The number of customers using the Moneta service once again saw an increase, reaching 20,166 by the end of 2015, up 21.83% on 2014, with the volume of total payments sent via the Moneta payment system amounting to €31.8 million.

POS terminals

A POS terminal is a computer substitute for a cash register. As of 31 December 2015, Nova KBM had 3,102 static and mobile POS terminals in operation, up 1.14% on 2014. The number of transactions made at POS terminals declined year-on-year by 9.86%, to 6.4 million in 2015.

At the end of 2015, Nova KBM had 19,233 POS contracts (Activa™, Maestro™, MasterCard™, Visa™ and Karanta™) in place – an increase of just below 1% in comparison with 2014.

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

As of 31 December 2015, Nova KBM had in place 1,814 contracts with corporate customers and sole proprietors for the use of cash collection points (day-night safes and agreed-upon sales points), which was roughly the same number as in 2014. The total volume of daily proceeds accepted through these two channel declined year-on-year by about 12%.

10.8 Nova KBM´s corporate banking operations

Lending operations

On the back of improved capital and liquidity positions of Nova KBM, the Corporate Banking Division entered 2015 with increased optimism, especially with regard to its ability to significantly grow its lending business and pursue its main mission of supporting its valuable customers.

In 2015, Nova KBM continued to provide its customers with a full range of short- and long-term loans. Slowly declining interest rates, particularly in the second half of the year, helped make Nova KBM´s offering of loans even more attractive.

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

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

Companies were mainly demanding working capital financing, while the demand for investment loans, which could have created conditions for a more conspicuous growth of the loan portfolio, continued to be weak. Nova KBM devoted a great deal of attention to the restructuring of companies and rescheduling of their loans, but also to other initiatives that could help over-indebted corporate customers continue their operations to run normally.

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

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

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

Nova KBM continued its cooperation with SID Banka, from which it obtained long-term funds for the financing of corporate customers. Most of these funds were used to finance projects aimed at developing an eco-friendly society and encouraging competitiveness of companies. Funds were also given to provide fixed and working capital. Most funds were granted to SMEs.

High liquidity in the market towards the end of the year was reflected not only in an accelerated deleveraging process of the segment of large companies, but also in the increasing activity of the capital market as an alternative to bank funding.

Nevertheless, through its proactive approach to customers, which involved more than 4,000 on-site customer visits, Nova KBM managed to increase its market share in corporate lending in 2015.

Deposit operations

During 2015, Nova KBM regulated its liquidity policy in such a way as to ensure it had a sufficient level of primary liquidity. 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 as the main source of funding, Nova KBM occasionally borrowed special-purpose funding to support individual projects.

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

Other banking products

In 2015, Nova KBM overhauled and upgraded its online banking service, which is used daily as a communication and transactional channel by more than 70% of its corporate customers.

In addition, several upgrades were made by Nova KBM to its payment processing business, both to comply with the regulations governing this area and to provide customers with an even more competitive service.

Nova KBM continued to be engaged in the factoring business by purchasing the receivables of A- and B-rated customers, and with a right of recourse.

Notwithstanding the fact that the financial crisis, which started in 2008 and deepened further during 2014, had a significant impact on its operations, Nova KBM 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.

Nova KBM provided the service of local and international 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.

10.9 Nova KBM´s retail banking operations

Nova KBM has a large and a relatively stable retail funding base, reflecting the confidence placed in it by its retail customers. At the end of 2015, there were 295,816 retail customers who maintained a current account with Nova KBM. Nova KBM´s prime concern is customer satisfaction, and this is being accomplished through its professional advice and personal approach as well as the provision of a wide range of banking products with flexible pricing.

By adapting its market appearance, and through a well thought-out pricing policy, Nova KBM seeks to increase its market share in the areas where it is less active. While Nova KBM´s focus in retail banking is on the most important customer segments (especially on young people), the users of modern banking services, and more demanding customers, its most loyal customers are being regularly provided with new financial solutions.

Taking into account its own retail branch office network in addition to the PBS´s network of post office outlets where the customers of Nova KBM may use certain banking services, Nova KBM has the widest branch office network in Slovenia. By being able to use post offices for its retail banking services, it has enhanced its presence in locations where it does not have its own branch offices and has approached new customers, thus ensuring a range of banking services can be provided anywhere in Slovenia. In 2015, Nova KBM continued downsizing its branch office network by closing some less profitable units.

> “Efforts made by Nova KBM in promoting the use of its alternative banking channels (e.g. online banking, the call centre and ATMs) have proved successful, given that the total number of products sold through these channels registered an increase last year, with the number of loans sold through the Bank@Net online banking facility being twice as high as a year ago.”

Even better results were achieved last year in the sale of the service for sending secure SMS messages to customers to confirm their transactions. While the number of these services sold last year through the Bank@Net online banking facility was more than double that of a year ago, the number of these services sold through ATMs was more than six times as high as in 2014. As a result of appropriate marketing campaigns, Nova KBM managed to sell through its call centre as many as 10% of the total retail loans sold in each campaign.

Nova KBM is gradually transferring the processing of simple and cash transactions to other distribution channels, allowing its branch offices to focus on personal advice and the sale of more sophisticated products. This makes it possible for Nova KBM to further streamline its branch office network and to improve its cost-efficiency.

Lending operations

The adopted lending policy aims to ensure stable and profitable growth of Nova KBM´s loan portfolio, and to maintain its good quality. Nova KBM´s loan-approval process is built on the following three basic principles of banking operations – safety, liquidity and profitability. Assets are properly dispersed, which reduces the level of credit risk Nova KBM is exposed to.

The demand for loans from households benefited in 2015 from moderate economic growth and a recovery of the real estate market. The total volume of consumer loans granted last year was €84,433,000, an increase of 54.44% compared to 2014, while the average amount of new loans was €5,550, up 18% on 2014. The most common maturity period of loans taken out by households was between five and eight years, with fixed interest rate consumer loans and the so-called instant loans making up the largest proportion of loans approved by Nova KBM last year.

The total number of housing loans approved last year was 2,289, totalling €96,511,000, an increase of 76.63% on 2014 in terms of value and of 62.46% in terms of the number of loans granted. The average amount of housing loans approved in 2015 was €42,163, compared to €39,105 in 2014, with the maximum maturity period of these loans being 31 years.

At the end of 2015, Nova KBM´s market share in loans to households accounted for 9.8% of the Slovene banking system, the same as a year ago.

Deposit operations

In order to retain an adequate level of retail deposits, in 2015 Nova KBM took appropriate actions to preserve its positive reputation and strengthen its relationships with its customers, while providing customers with competitive conditions and adjusting its offerings to their needs.

Nova KBM devoted a great deal of effort to attracting customer deposits. Throughout the year, it managed to maintain a stable level of funding, despite constantly falling interest rates, suggesting that it has attained a high level of customer confidence.

Nova KBM´s market share in terms of household deposits stood at 12.3% at the end of 2015, as opposed to 12.8% a year earlier. Most of deposits placed with Nova KBM by households exceed €10,000 in value.

Nova KBM offers different types of savings products: current and non-current deposits with different maturities, deposits at call, deposits with different notice periods, annuity savings, savings for young people of all age ranges, the 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, Nova KBM offers a wider range of alternative types of savings, such as investment in securities and mutual funds, and investment life insurance products. These accounts may be opened at any branch office.

Marketing of other Nova KBM Group products and services and of insurance products

Non-interest income has become an increasingly important source of income for Nova KBM in periods of poor economic conditions. Last year, Nova KBM managed to increase the level of its non-interest income, chiefly by taking a proactive marketing approach and by better management of its pricing policy, but also by selling the products of other Nova KBM Group companies. Moreover, it worked together with its partners in order to find additional sources of income in the market.

During 2015, Nova KBM intensively promoted the sale of products and services offered by other Nova KBM Group companies, thereby further utilizing the synergy of the Nova KBM Group. It also made every effort to increase the sale of existing and some upgraded insurance products of Zavarovalnica Maribor.

Nova KBM was very successful last year in the marketing of KBM Infond mutual funds, collecting €16,498,000 for them, up 83.2% on 2014. Declining interest rates on deposits, and customers´ willingness to accept a higher level of risk to potentially earn better returns contributed, apart from active selling, the most to this good result. The results achieved by Nova KBM last year in selling the insurance products of Zavarovalnica Maribor were also very favourable. At branch offices of Nova KBM, customers may take out life insurance policies upon taking a loan, arrange travel insurance for themselves and their family, take out different types of accident insurance, payment card loss insurance, attractive health insurance, and similar. A total of 16,379 insurance products were sold by Nova KBM last year, which was 40% more than in 2014.

Non-interest income earned by Nova KBM in 2015 with respect to the payments made by its customers into KBM Infond mutual funds totalled €367,000, up 161% on 2014, while that from insurance brokerage reached €197,000, an increase of 78.63% relative to 2014.

Through intensive cross-selling of different products, in 2015 Nova KBM managed to increase the average number of products used by its customers by 4%, to 3.32 at the end of 2015.

10.10 Nova KBM´s active management of distressed loans

Nova KBM´s distressed loans outstanding to both corporate and retail customers are managed centrally by the Loan Workout Department. This department takes over the management of each distressed loan once certain criteria are met, including the criteria set for the identification of financial difficulties of debtors on the basis of EWS. The duties of the department encompass, among others, corporate restructurings, participation in insolvency proceedings, management of real estate projects and the recovery of distressed loans outstanding to households.

Particular attention is devoted by the department to the management of credit risk, effective recovery of distressed loans and constructive participation in the restructuring efforts of Nova KBM customers, with the results of its work being reflected in an improved loan recovery rate and an increased number of restructured loans.

In 2015, the department started taking successful actions to sell a certain proportion of non-performing loans on the books of Nova KBM, particularly those related to the financing of real estate projects in Croatia, in line with the strategy adopted in this regard. In addition, the department worked actively with other institutions in developing initiatives and systemic solutions to deal with the issue of distressed asset management.

The volume of distressed loans recovered by Nova KBM is increasing, partially on account of the introduction of the EWS system that promptly identifies any increase in credit risk to which Nova KBM is exposed. In view of the current efforts made to restructure some large Slovene companies, Nova KBM believes that in 2016, some of the non-performing loans on its books may meet the criteria to be reclassified as performing ones. It must be noted, however, that the recovery of distressed loans outstanding to companies undergoing bankruptcy or insolvency proceedings can only be effected through the realization of collateral provided for loans, in which case Nova KBM is dependent on external factors, such as the speed of court procedures.

10.11 Nova KBM´s international operations

In March 2015, Nova KBM received €12,500,000 as the first portion of funds provided to it under a tripartite loan facility agreement it signed with the European Investment Bank and SID Banka in December 2014.

While, over May and June 2015, Nova KBM repaid early the remaining principals of four loans it had taken in the past from SID Banka, totalling €22,857,000, in July, it arranged with SID Banka two long-term loan facilities totalling €49,237,000, the funds of which are to be used to finance the development of competitive economic activities and projects supporting regional and social development.

Ratings assigned to Nova KBM by international rating agencies

On 19 May 2015, Fitch Ratings downgraded Nova KBM´s Long-Term Issuer Default Rating (IDR) to 'B+' from 'BB-', with the rating being assigned a stable outlook, and raised its Viability Rating by one notch, to 'b+'. While the downgrade of Nova KBM´s IDR was based on Fitch Ratings´ decision to reduce the ratings of all banks globally that benefited from state support, with Slovenia´s Nova KBM and NLB being among them, the upgrade of its Viability Rating reflects Nova KBM´s reasonable NPL reserve coverage, an adequate capital buffer, and its robust liquidity position.

On 9 June 2015, Moody´s Investors Service upgraded Nova KBM´s long-term local and foreign-currency deposit ratings to 'B3' from 'Caa1', while at the same time raising the outlook on the ratings to 'positive' from 'stable'. Moody´s also upgraded Nova KBM´s baseline credit assessment (BCA) and adjusted BCA to 'caa1' from 'caa2'.

As of 31 December 2015, the ratings of Nova KBM were as follows:

- Fitch Ratings: B+/B (stable outlook)
- Moody´s Investors Service: B3/Non-Prime (positive outlook)

10.12 Nova KBM´s treasury operations

Nova KBM managed its liquidity in 2015 in such a way as to ensure the settlement of all obligations that became due. By applying a conservative approach, Nova KBM created an adequate secondary liquidity reserve, consisting of ECB-eligible securities and interbank loans that Nova KBM 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 2015, Nova KBM fully complied with the regulations on minimum liquidity which require banks to maintain the Category I Liquidity Ratio (up to 30 days). While the prescribed value of the Category I Liquidity Ratio is 1.0, the average ratio value reported by Nova KBM in 2015 was 1.910. Nova KBM also complied with the Bank of Slovenia´s regulations on obligatory deposits. The average amount of obligatory deposits that Nova KBM was required to keep in 2015 totalled €23,064,000.

At the operational level, Nova KBM did not borrow any funds through the Eurosystem´s monetary policy operations in 2015, given that it had a surplus of liquidity. Nova KBM also did not place any funds in the marginal deposit facility offered by the ECB, the reason for this being the negative interest rate offered by the ECB. At the end of 2015, the interest rates applicable to the ECB´s operations were as follows: for the main refinancing operations 0.05%, for the marginal lending facility 0.30%, while the interest rate for the marginal deposit facility was negative at 0.30%. Since June 2014, the interest rate for the marginal deposit facility has also been applied to banks´ average reserve holdings in excess of their minimum reserve requirements.

In December 2014, Nova KBM borrowed a total of €88,000,000 through the ECB´s targeted longer-term refinancing operations (TLTRO). These operations were introduced by the ECB to help banks cope with the challenging economic conditions in the euro area, as reflected in the subdued economic growth and the low inflation rate. Nova KBM did not borrow any funds through this facility in 2015.

Portfolio of debt securities held in the banking book

The securities held in the banking book are mainly used for the provision of an adequate liquidity reserve and for managing interest rate risk. Nova KBM created the portfolio of debt securities in accordance with its Policy of Managing the Banking Book Debt Securities Portfolio. As of 31 December 2015, the total value of debt securities held in the banking book was €1,448,759,000, up 7.2% on 2014. Government securities and securities with state guarantee accounted for 79.3% of the total banking book portfolio, followed by securities issued by prime banks, which had a 19.0% share of the portfolio, and securities issued by other issuers, which accounted for 1.7% of the portfolio.

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

€000

ITEM DESCRIPTION	31.12.2015	31.12.2014
Available-for-sale financial assets	**1,420,193**	1,261,435
Held-to-maturity financial assets	**28,566**	89,950
TOTAL	**1,448,759**	**1,351,385**

Certificates of deposits

In line with its financial plan, Nova KBM redeemed early from the market its own-issued certificates of deposit worth €411,000, while its certificates of deposit worth €13,500,000 fell due in 2015. The total sum represented by the certificates of deposit issued by Nova KBM and outstanding at the end of 2015 was €7,288,000.

KBM10 bonds

A total of 38,580 of its own-issued KBM10 bonds were redeemed by Nova KBM in 2015. Based on decisions made by the Management Board, Nova KBM first redeemed a total of 10,782 KBM10 bonds, with a total nominal value of €10,782,000, after which, as part of its corporate campaign to redeem some additional KBM10 bonds, it successfully redeemed from the market a further 27,798 KBM10 bonds, with a total nominal value of €27,798,000. All KBM10 bonds that had been redeemed early were deleted from the register kept by the KDD in November 2015. The total number of KBM10 bonds outstanding at the end of 2015 was 6,705, with their nominal value totalling €6,705,000.

Interest rate policy

The interest rate policy of Nova KBM was carried out in accordance with the adopted guidelines and on the basis of its business policy and financial plan for 2015. The policy was adjusted by Nova KBM to reflect current conditions in the local and international financial markets, and developments in the economic environment.

Trading

A total of 2,464 currency trading transactions were concluded by Nova KBM in 2015. 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 5,070 last year.

In 2015, Nova KBM entered into a total of 239 derivative transactions, while the repo and reverse repo transactions were not concluded by Nova KBM last year.

Nova KBM continued to act as a primary dealer for the treasury bills issued by the Ministry of Finance. Last year, at auctions carried out by the Ministry of Finance, it purchased, both on behalf of customer accounts and for its own account, treasury bills of various maturities worth €146,609,000 in total, which made up 23.73% of the total value of treasury bills issued by the Ministry of Finance last year.

10.13 Nova KBM´s trading in financial instruments

Last year, a total of 6,985 transactions were concluded by Nova KBM in domestic and foreign markets, with the value of these transactions being 70% lower than in 2014, mainly as a result of a reduction in the volume of transactions conducted with related persons. On the Ljubljana Stock Exchange, Nova KBM concluded transactions worth €34,311,000 in total, while the total worth of transactions concluded in 2015 in the international stock markets was €33,794,000. In addition, Nova KBM made €8,021,000 worth of transactions in mutual funds and €142,000 worth of transactions through unregulated capital markets.

In 2015, Nova KBM introduced a new asset management product enabling customers to have their funds managed between listed investment funds. A total of €2,469,000 in customer assets was collected by Nova KBM last year, with the total value of customer assets managed by Nova KBM at the end of 2015 amounting to €7,110,000.

The average daily value of Nova KBM´s trading portfolio of equity instruments was €321,000 in 2015. The return generated by Nova KBM in 2015 on the average value of its trading portfolio of equity instruments reached 5.29%, compared to a return of 3.85% reported for the EURO STOXX 50 index.

10.14 Human resources management at Nova KBM

Employees

Nova KBM employees invest in their work considerable personal contributions, which are one of the crucial factors for the successful performance of the institution. Nova KBM believes that its success, growth and development are founded on its well-trained and committed employees. To this end, it endeavours to create an environment that generates opportunities and where employees feel safe and accepted.

The operations of Nova KBM are based on respect for legal norms and rules of ethical conduct towards people and the wider social environment. Nova KBM is committed to high ethical and work standards, as set out in its internal ethical code.

While Nova KBM provides its employees with optimum conditions for their work and development, it expects from them to be involved in constant training and to be keen on achieving excellence in their work, personal development and interpersonal relations.

At the end of 2015, Nova KBM had 1,056 employees, down 68 on 2014. A total of 106 employees ended their employment, while the number of new employees reached 38. There were 1,053 permanent and three fixed-term employees working at Nova KBM at the end of 2015, meaning that, on average, 99% of the total number of employees worked on a permanent basis, with the remaining 1% being hired on fixed-term contracts.

Year-on-year, the total number of employees fell by 6%, mainly on account of natural fluctuations and the retirement of older workers. In taking staff reduction measures, Nova KBM pursued its strategic and business objectives, taking into consideration the cost-optimization targets set out in its Restructuring Programme, approved by the European Commission. Staff redundancy measures were carried out in accordance with the applicable legislation and provisions of both collective agreements, always ensuring that adverse consequences arising from these measures were kept at a minimum.

The number of Nova KBM employees in 2015 and 2014 is presented in the table below.

At the end of the year	2015	2014
Total number of employees	**1,056**	1,124
Number of permanent employees	**1,053**	1,119
Number of fixed-term employees	**3**	5
Number of disabled employees	**29**	32
During the year	2015	2014
Average number of employees	**1,113**	1,175
Number of new employees	**38**	17
Number of employees who left	**106**	94

Appointing competent professionals to the correct positions is of vital importance for attaining the business objectives of Nova KBM. In 2015, Nova KBM continued implementing its restrictive employment policy, making every effort to cover any need for staff via internal transfers. Where this proved impossible, Nova KBM hired new staff, but only those with specific qualifications and in cases where the failure to fill the vacancy would result in a serious disruption of the work process. All candidates that were subject to the selection process were provided with equal opportunities, irrespective of their gender or other circumstances.

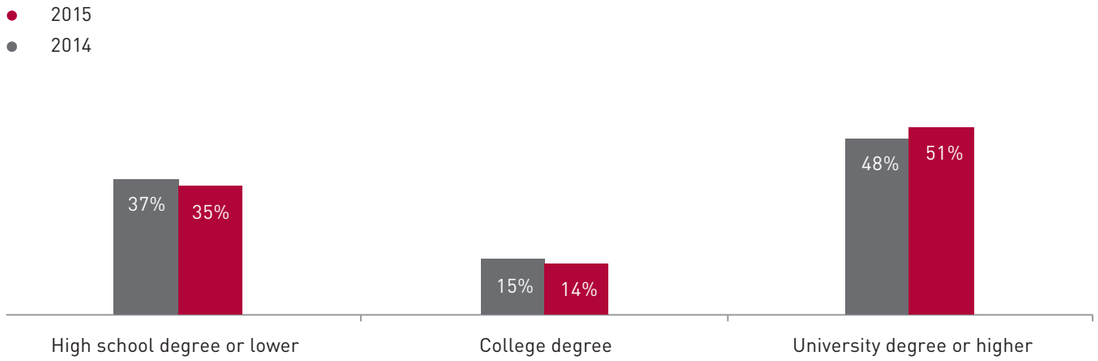
Employee demographics

The average age of employees working at Nova KBM in 2015 was 46.3 years. On average, the proportion of women was 78% and the proportion of men was 22%.

> “The educational level of Nova KBM employees improved further in 2015, with 51% of the total staff having at least a university degree.”

Year-on-year, the educational level of employees changed in favour of those having at least a college degree, with as many as 33 employees holding a master´s or comparable degree and two employees holding a doctoral degree.

Educational level of Nova KBM employees



Remuneration of employees

Nova KBM is capable of recognising employees that deliver above-average work performance and who are successful at work. To motivate employees to continue to do their very best, Nova KBM provides them with various remuneration packages. Employees with the best results are rewarded in financial and non-financial ways, with the former being paid out by Nova KBM in accordance with the provisions of both collective agreements and its internal regulations. Individual rewards are contingent upon the achievement of objectives set for each employee.

The most loyal employees have for decades been provided with long-service bonuses.

Quality of work and life

Being aware that we live in a time of rapid changes and constant need for adaptation, Nova KBM has for decades been striving to make employees feel good and to foster good interpersonal relationships.

Nova KBM enables its employees to spend their free time in the most satisfying way possible. Employees and their families have the opportunity to spend their holidays at Nova KBM´s own leisure facilities across Slovenia. In addition, employees participating in winter or summer banking sports games are entitled to paid leave. A wide variety of recreational, sports and cultural events have been made available to employees for a number of years.

Through informal gatherings, Nova KBM strengthens its values and builds the loyalty of its employees.

By acquiring the full 'Family-Friendly Company Certificate', but even more so, by making the decision to extend the validity of this certificate by a further three-year period, Nova KBM continues to create a work environment in which employees, despite their family obligations, can be productive and feel accepted. In 2015, a voluntary work project was launched by Nova KBM, enabling its employees to demonstrate their sense of humanity. Further details in this regard are set out in the section titled 'Sustainable development'.

Concern for health and safety at work

Nova KBM devotes particular attention to the health of its employees and to safe working conditions. To this effect, it makes sure that employees are aware of the importance of healthy nutrition, and in this spirit, a workshop was organized by Nova KBM in 2015 on taking steps towards adopting a healthy diet. The opportunity to be vaccinated against seasonal flu was offered by Nova KBM to all of its employees.

The healthy psychophysical condition of employees and a favourable psychosocial environment are encouraged and ensured through free psychological help, which is available to employees every working day. Assistance in this area is provided by organizing workshops on effective communication with customers and colleagues, and by providing employees with ergonomic furniture and equipment.

Preventive health check-ups are organized for employees on a regular basis, with a total of 209 employees taking advantage of this service last year.

By implementing appropriate organizational and safety measures, Nova KBM is constantly striving to reduce risks that may arise from work processes. All new employees were in 2015 trained in safety and health at work. In addition, periodical training on safety and health at work was organized for employees working in places that, according to a risk assessment analysis, were regarded as posing increased risk. Training on safety and health at work was also given to students hired by Nova KBM.

Three work accidents were recorded by Nova KBM in 2015.

Insurance as an investment in the future and health

Nova KBM gives its employees the option to join a voluntary supplementary pension insurance scheme. A total of 55% of all the employees were included in this insurance scheme at the end of last year.

Through Nova KBM, the employees, as well as their family members, may also join the collective accident insurance scheme.

The employees working in places of increased risk, as determined by the risk assessment analysis, are covered for the risk of accident.

Training of employees

The training and professional development of employees are systematically planned through annual staff procedures and are an integral part of Nova KBM´s staff policy and of its business and financial plans.

Nova KBM pursues the objective of providing adequate training to as many employees as possible. In 2015, a total of 71% of all Nova KBM employees took part in different training programmes, with the number of training participants reaching 3,664, meaning that each employee spent on average 14 hours in training. Of the total number of training participations, 95% were registered in programmes that were prepared, organized and carried out internally. In addition to delivering 35 internal training programmes (or 219 when taking repetitions into account), Nova KBM enabled 182 of its employees to take part in a total of 127 external training programmes.

Internal and external training programmes

With the aim of ensuring that its employees are properly qualified and have the opportunity to grow professionally and personally, Nova KBM seeks to meet its training requirements primarily through internal training programmes, given that in terms of content and time, these can be adjusted to its own requirements or those of employees.

In addition to the regulatory required and regular programmes, in 2015 Nova KBM carried out several training programmes adapted to its business and work requirements. While these training programmes have been developed with the support of all departments, they also take into consideration employee suggestions and the requirements of work processes.

Training programmes provided by Nova KBM are listed in its training catalogue. Here, all training programmes are grouped together in terms of their content. Although priority in training is given to developing the expertise of employees, significant attention is also devoted to upgrading their soft skills, such as leadership and sales techniques, since Nova KBM is aware that only competent staff are capable of establishing, maintaining and enhancing relationships with customers.

Development of internal trainers and coaches

A great deal of focus and energy was directed last year towards developing internal trainers and making managers capable of taking over the roles of internal coaches, since acquiring know-how and skills through trainers and coaches has a significant impact on the reduction of costs and time spent on training, in addition to reducing the need for engaging external training providers. Moreover, such a transfer of know-how and skills provides for harmonization of training standards and ensures the constant transfer of know-how, information and good practice between employees.

Practical training of pupils and students

Being aware of the importance of combining theoretical knowledge with practical skills, Nova KBM gives pupils and students an opportunity to engage in practical training under the supervision of its experts and thus enables them to become acquainted with its business and work processes, while at the same allowing them to develop and demonstrate their knowledge and capabilities.

10.15 Internal development of Nova KBM

> “In 2015, Nova KBM focused on the implementation of its key projects and on the further development of project culture.”

Apart from pursuing its strategic directions, in 2015 Nova KBM focused on the implementation of its key projects and on the further development of corporate culture, including setting up the Project Office, which aims to assist Nova KBM in having a comprehensive overview of the management of its project portfolio. Moreover, Nova KBM drafted the project management methodology, which set up a system for the regular monitoring of, and reporting on, the project portfolio, and with the aim of enhancing internal project culture and providing training on project management to project leaders and other designated officers. The key projects implemented by Nova KBM are listed below.

Improvement in sales-efficiency of branch offices
Nova KBM managed to boost the sales-efficiency of its branch offices through target-oriented sales campaigns, upgrading its proactive sales tools across all of its distribution channels and improved monitoring and measurement of sales results.

Automation and computerization of the lending process
By upgrading its information support system for the corporate lending process, Nova KBM further optimized its business processes, while at the same time reducing the potential for making errors and, consequently, its exposure to operational risk.

IRB project
In accordance with one of the commitments made to the European Commission, Nova KBM must upgrade its internal credit rating system for the classification of corporate and retail customers. In 2015, Nova KBM began working on the development of models used by its newly set up internal credit rating system. The implementation of the internal credit rating system will directly or indirectly contribute to a number of improvements in the loan approval process and in the monitoring of movements in the loan portfolio´s quality.

Automated fraud detection
With the aim of determining which of its processes are most vulnerable to fraud and which fraud schemes may cause it the most damage, Nova KBM carried out an assessment of its fraud risk. Based on the results of this assessment, Nova KBM has set up an information system for automated fraud detection, in addition to implementing necessary organizational measures and procedures in support of this automation.

NOBIS optimization
To reduce its costs and integrate its information systems, Nova KBM continued to consolidate and optimize its key business applications with the aim of establishing a uniform, central transactional information system. In 2015, work in this regard focused on current accounts and the income-generating transactions of corporate customers, as well as on the development of a new general ledger and the consolidation of the core processing platform.

Merger of PBS with Nova KBM
In order to make its operations more streamlined and cost-efficient, Nova KBM continued taking action in terms of further consolidating the Nova KBM Group´s business lines. As part of this process, it prepared the groundwork for and made the decision to fully integrate the operations of PBS into its own in 2016.

Overhaul of the controlling information system
The first phase of the technological overhaul of the controlling function, involving the automation of the planning process and the introduction of simple planning tools across all operating levels, was completed in 2015, making it possible for Nova KBM to facilitate planning and to take advantage of the dynamic planning system.

Development of Nova KBM´s information technology support

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

> “Comprehensive upgrades made in 2015 to Nova KBM´s and the Nova KBM Group´s information technology strategy took into consideration the business requirements of Nova KBM, with the changes made being reflected in its application solutions and information infrastructure.”

In line with the strategy referred to above, in 2015 Nova KBM began working on the optimization and upgrading of its development procedures, with the purpose of improving the quality of its information solutions.

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

The project of centralizing the transactional information system continued with the consolidation of all key applications used to support the transactions of corporate customers. While the migration of data on corporate deposits into the central transactional system was successfully completed, the migration of data on loans and those included in the general ledger was in the phase where the appropriate solutions were being implemented. In the area of current account transactions, Nova KBM expects to install in 2016 the necessary adjustment interfaces and the kernel of its central transactional information system, having completed an analysis of its requirements in this regard in 2015. The final stage of this project, involving the migration of the kernel to a more recent platform, began in 2015 with activities concerning the selection of a suitable provider for the migration.

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

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

Investments in property, plant and equipment and intangible assets

Investments in information technology support
In 2015, Nova KBM upgraded the peripheral hardware equipment of its workstations.

With regards to the server equipment of branch offices, work was carried out to consolidate, optimize and upgrade computer hardware and system software. Centralization and virtualization of branch office servers has begun.

Investments were made by Nova KBM to expand the capacity of its systems that are of vital importance to its operations.

Nova KBM is aware that up-to-date software is an essential and necessary part of the information system, as such software reduces information security risks, while at the same time enabling employees to be more productive. To this effect, a decision was made to sign a long-term cooperation agreement with Microsoft, allowing Nova KBM to utilize Microsoft products and technologies to the maximum extent practicable.

In order for Nova KBM to retain its software licence compliance, investments were also made in 2015 in the purchase of licensed software and in the setting up of a process for managing licensed software.

Investments in buildings
Due to the adverse economic conditions, the investments in buildings were undertaken in a most rational manner. In 2015, Nova KBM 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 2015, Nova KBM refurbished its Lenart branch office, effected partial refurbishment of the Tyrševa branch office, and arranged an office, warehouse and storage facility, to which it translocated its archive documents. Furthermore, it co-financed the energy-efficient renovation of the building in which its Oplotnica branch office is located, and carried out some improvements to its branch offices Centrala in Maribor, Brda and Idrija in order to create better conditions for customers who use these branch offices.

Investments in the mechanographic and other equipment
Purchases of mechanographic equipment were being made in line with the plan, taking into account the actual need or the wear and tear of equipment. The amount of funds spent in 2015 on this equipment was slightly lower than projected, in part reflecting overall reductions in investment spending.

PLANS FOR 2016

EXCELLENCE is the goal and persistence is the way. While we regard clear vision, **HONESTY** and focus on the future to be the best companions, we make thorough preparations and take on a great deal of **RESPONSIBILITY** to move forward.

11 PLANS FOR 2016

The future business growth and development of Nova KBM and the Nova KBM Group will largely depend on the strategy and goals of Apollo and the EBRD, to which the Slovene Sovereign Holding, acting on behalf of the Republic of Slovenia, sold the entire 100% state shareholding in Nova KBM, pursuant to the sale and purchase agreement signed between the three on 30 June 2015. The completion of the sale is expected to occur at the end of the first quarter of 2016.

Both Nova KBM and the Nova KBM Group will continue to pursue the following strategic directions across all of their business areas: focus on customers, European orientation and compliance with the European banking standards, consolidation of the Nova KBM Group and focus on principal activities – mainly banking, efficiency, profitability and stability of operations, streamlining of operations and cost-efficiency, effective process organization and IT infrastructure, concern for development of employees, effective management of all types of risk, and enhancement of reputation.

The most important strategic projects that Nova KBM and the Nova KBM Group will work on in 2016 are set out below.

At the Nova KBM Group level, work will continue on the consolidation of business lines, with focus being placed on principal activities, particularly banking. While the Nova KBM Group will proceed with the implementation of its Restructuring Programme and the commitments made to the European Commission, Nova KBM, as a systemically important bank, will meet all requirements imposed on it as a result of being subject to the SSM.

Aside from its sale, Nova KBM´s legal merger with PBS, set for 1 July 2016, is among the strategic priorities for 2016, as is the effective continuation of liquidation proceedings against KBM Leasing, Gorica Leasing, KBM Leasing Hrvatska and Adria Abwicklungs. Efforts will also be stepped up to sell the inventory of KBM Invest.

Nova KBM will continue to concentrate on developing and strengthening its relationships with retail customers, in particular young people, the most important customers, more demanding customers and users of contemporary banking services. Corporate customers, in particular SMEs, will also receive close attention. By designing more efficient business models and through the well-thought out introduction of digitisation in the development of products and services, Nova KBM will seek and exploit growth opportunities.

Nova KBM 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 high growth.

While it is committed to increasing its non-interest income, Nova KBM will also seek to strengthen its funding base, with focus on household and corporate deposits. The lending activities of Nova KBM are expected to be strengthened as well, subject to an acceptable level of risk. The safety and stability of Nova KBM´s operations and the safety of its customer deposits will be ensured at all times.

One of the core strategic goals set for 2016 is to reduce the level of NPLs on the books of both Nova KBM and the Nova KBM Group. To accomplish this objective, Nova KBM will accelerate the sale, recovery and restructuring of NPLs, in addition to transferring a portion of its NPLs to off-balance sheet records.

Nova KBM will make every effort to ensure the security of its operations, assume risk in a thoughtful and responsible manner, and comply with the highest standards of risk management.

As in previous years, Nova KBM will manage its liquidity in a responsible manner, while at the same time striving to enhance its presence and recognition in international markets, thereby ensuring it has access to favourable funding sources, including through capital markets. The strategic investments of the Nova KBM Group will be managed in such a way as to maximize their return. Non-performing investments will be either sold or liquidated.

Measures aimed at improving cost-efficiency and effectively managing costs across all operating levels will continue to be carried out. Within the scope of these measures, Nova KBM will further optimize and upgrade its branch office network. However, it may consider opening new branch offices in market-attractive locations. Work will continue on the overhaul of business processes, with decisions in respect of necessary organizational changes being made in support of this work. Implementation of the IT strategy, adopted by Nova KBM in 2015, is also among the strategic priorities set for 2016.

SUSTAINABLE DEVELOPMENT

A common goal leads towards development that is beyond the limits of days, weeks and months. With clear vision, we draw up well-thought out plans, while we **RESPONSIBLY** create opportunities that will also inspire new generations.

12 SUSTAINABLE DEVELOPMENT

Responsibility always starts with the individual. At a time when the world is being affected by numerous crises, the perception is growing that everyone can contribute to the common welfare by doing their best. For this reason, Nova KBM actively involves its customers and employees in its socially responsible practices. Nova KBM and the Nova KBM Group are aware of local and global interdependence, as well as the growing need for properly managing risks, while recognising their wider social responsibility towards their local, natural and economic environment, as well as their employees. Nova KBM executes its role in the area of social responsibility through its adopted social responsibility programme, enhanced customer advisory service and corporate volunteering initiatives. Its concern for social responsibility was recognised by the bestowal of the full 'Family-Friendly Company Certificate'.

As a member of the Institute for the Development of Social Responsibility, Nova KBM views its responsibility towards society as a combination of the provision of efficient and responsible corporate governance, its readiness to accept changes, the commitment of dedicated staff, its active integration into the society, concern for the financial literacy of customers, and the accountable use of financial services that strengthen its competitive position and bring added value to its customers.

Priority objectives that Nova KBM pursues in the area of social responsibility and sustainable development are:

- to enhance its reputation and the trust placed in it by the public
- to improve the financial literacy of various target groups of customers
- to improve its competitive position
- to increase the loyalty and commitment of employees
- to be ranked among the most sustainable companies
- to have a positive influence on the confidence of its customers and business partners.

Nova KBM reports on its socially responsible conduct separately for each of the following key areas:

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

Areas of social responsibility and sustainable development	Nova KBM´s major achievements in 2015
Attitude towards the owner and investors	• Provision of support necessary to conduct financial and legal due diligence of Nova KBM, and the supply of relevant information to potential investors.
Concern for the natural environment	• Delivery to recycle 1,215 waste toner cartridges and tapes, weighing 570kg in total. The funds received from the sale of these waste materials were dedicated to charitable purposes to the Cerebral Palsy Association of Slovenia (Sonček). • Improvement of the energy-efficiency of several of its buildings. • Further progress on waste separation.
Attitude towards customers, clients and suppliers	• Implementation of several initiatives aimed at improving financial literacy of the youngest savers as well as young and retired customers. • Inclusion of local suppliers in areas where the procurement has not been centralized.
Building the loyalty of employees	• On average, 69 employees took part in each of the six internal initiatives aimed at building loyalty between Nova KBM and its employees. • A corporate volunteering initiative was launched by Nova KBM for the first time in 2015. Employees were paid for eight hours of humanitarian or voluntary work on projects organized by Nova KBM.
Attitude towards the media	• Proactive communication of the topics most relevant to Nova KBM´s operations.
Integration into the local environment and broader community	• A well-received charity campaign called 'From Small Wishes to Big Stories' was carried out in cooperation with the Friends of Youth Association of Slovenia, through which Nova KBM collected drawings of children´s New Year wishes from its employees and customers, earmarking for each drawing a small amount to be donated to the charity project called 'Godparentship'. A total of 10,000 children´s drawings were collected with the support of customers and the wider community, and Nova KBM employees presented Christmas gifts to 60 children.

Attitude towards the owner and investors

On 30 June 2015, the Slovene Sovereign Holding, as the seller, and Apollo and the EBRD, as the buyers, signed the agreement concerning the sale of a 100% shareholding of the Republic of Slovenia in Nova KBM. The sale of Nova KBM, which started on 22 May 2014, was, on behalf of the Republic of Slovenia, implemented by the Slovene Sovereign Holding, which has commissioned Lazard Frères to carry out the sale process. The closing of the sale process will take place once the buyers meet all conditions precedent, such as acquiring approvals from the relevant supervisory bodies and paying the purchase consideration, based on which the shareholding in Nova KBM will be transferred to them and registered in their name.

Throughout the sale process, Nova KBM has met all its obligations in this regard on a regular and timely basis: it has provided support necessary to carry out the financial and legal due diligence of its operations, and has furnished potential investors with all relevant information.

In 2015, Nova KBM maintained and even strengthened its relationships with several international institutions which monitor the implementation of its Restructuring Programme, as well as other analytical and rating companies. Nova KBM is among the systemically important banks in Slovenia, with the result that it became subject to the SSM, starting from 4 November 2014. The SSM has put in place a new bank supervision system that involves the ECB and competent national supervisors of the euro-area countries. Nova KBM met all its obligations imposed on it as a result of being subject to the SSM and maintained a constructive dialogue with the supervisory team appointed to monitor its operations.

In November, Nova KBM redeemed early from the secondary market a portion of its-own issued KBM10 bonds (ISIN: SI0022103301), with a total nominal value of €38,580,000. While the redeemed bonds were deleted from the register kept by the KDD on 25 November 2015, the nominal amount of the remaining outstanding KBM10 bonds totalled €6,705,000.

During 2015, Nova KBM informed the owner, potential investors and the interested public of all topics relevant to its operations, always in accordance with the applicable legislation and in a transparent manner. It made 54 public announcements (in English and Slovene) through the SEOnet web portal, and promptly responded to enquiries from the interested public regarding its business and investment activities.

Concern for the natural environment

To demonstrate its responsible conduct, and with the aim of reducing its negative environmental impacts, in 2015 Nova KBM undertook and continued several projects, all of which had proved in previous years to have a dual effect: they contributed to a reduction of negative effects on the environment, while at the same time helping Nova KBM cut down on operating costs. In this regard, Nova KBM pursued the following two objectives:

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

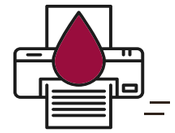
Despite adhering to the principles of responsible conduct and concern for the environment, the costs of materials increased marginally in 2015 as a result of growing business volumes, the introduction of new work processes and the implementation of several strategic projects. Year-on-year, the costs of office materials increased by 1%, while the costs related to toner cartridges saw growth of 21%. Costs related to the purchase of restroom supplies and cleaning materials went up by 2% in 2015, partially on account of movements in the market prices of these materials.

Successful continuation of separate waste collection

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

A total of 1,215 waste toner cartridges delivered for recycling

Nova KBM is aware of the impact of its operations on the natural environment. With the aim of reducing negative effects on the environment, Nova KBM cooperates with a company specializing in the collection and recycling of waste toner cartridges and the tapes of printer, fax and copy machines that are produced as a result of day-to-day work. In 2015, Nova KBM delivered for recycling 1,215 waste toner cartridges and tapes, weighing 570kg in total. A portion of funds received from the sale of Nova KBM´s waste materials, which may be used for further processing, is donated each year for charitable purposes to the Cerebral Palsy Association of Slovenia (Sonček).



Nova KBM delivered for recycling 1,215 waste toner cartridges and tapes, weighing 570kg in total, with the funds received from their sale being earmarked for charity purposes.

Improved energy-efficiency of office buildings

Nova KBM recognises the importance of energy efficiency. The centrally installed energy monitoring systems in its three largest buildings in Maribor and in an additional four buildings located elsewhere in Slovenia make it possible for Nova KBM to monitor the use of energy products and the functioning of machines on a daily basis. A reduction in the consumption of energy products is a concern of all Nova KBM employees.

Refurbishment of business premises are carried out with the purpose of improving their energy-efficiency. In 2015, Nova KBM refurbished its Lenart branch office, effected partial refurbishment of the Tyrševa branch office, and arranged an office, warehouse and storage facility, to which it translocated its archive documents. Furthermore, it co-financed the energy-efficient renovation of the building in which its Oplotnica branch office is located, and carried out some improvements to its branch offices Centrala in Maribor, Brda and Idrija in order to create better conditions for customers who use these branch offices.

Nova KBM continued to purchase equipment that is the most energy-efficient and the operation of which has minimum negative effects on the environment, while at the same time widening its paperless operations, particularly in the area of communication with customers that use its modern distribution channels.

Nova KBM joined the Europe-wide mobility week project through an internal programme called 'Ready for a Healthy Mobility'. As a socially responsible institution, Nova KBM encourages its employees and customers to participate actively in the Car-Free Day project, thereby doing something good for themselves and for the environment. Last year, a total of 124 Nova KBM employees took part in this project, choosing to come to work on that day by bicycle, bus or train, or on foot.

Attitude towards customers, clients and suppliers

In view of numerous changes taking place in its operations, in 2015 Nova KBM focused even more on strengthening relationships with its customers and further enhancing personal communication with them by, for example, hosting various events and workshops and taking into account the results of various customer satisfaction surveys it had conducted.



In 2015, Nova KBM continued to strengthen its relationships with customers and business partners of the Nova KBM Group at 11 professional events and nine social gatherings.

Young people

Nova KBM communicates with young people by utilizing its trademark 'Sveta vladar' (Ruler of the World), while the youngest children are targeted by its mascot, called 'Dindin'. A significant amount of energy is devoted by Nova KBM to teaching children and young people the importance of saving money and about the proper and prudent handling of money. Nova KBM also provides assistance to children and their parents for making the first steps toward becoming financially literate. The Dindin mascot helps children acquire, through play and in a funny and simple manner, the basics of savings and learn how to prudently handle their money. Children may meet Dindin in person at presentations and workshops. In addition, the Dindin website is available, where entertaining games and advice on savings are provided, as is content for parents. Through the 'Sveta vladar' (Ruler of the World) website, Nova KBM provides young people with useful advice related to their schooling, work and leisure activities, and teaches them about how to use modern payment services.

Providing advice to corporate customers – Entrepreneur Centre

In line with its strategic policies, Nova KBM devotes a great deal of attention to small and medium-sized companies, and encourages entrepreneurship and innovative thinking. The advisory role of Nova KBM is strengthened through counselling services and free training programmes provided by 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. Nova KBM participated actively in the PODIM international conference, and presented its current offerings at several fairs.

Suppliers

Nova KBM and the Nova KBM Group continued pursuing the adopted procurement policy guidelines. In the middle of 2015, a decision was made to set up a centralized procurement function in order to harmonize the procurement procedures, enhance the transparency of the procurement process and ensure equal treatment of suppliers. This concept of procurement will fully come into being at the beginning of 2016.

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

A system of custody by type of costs has been introduced in the procurement process. All suppliers are subject to a check at the time of the selection process and during Nova KBM´s contractual relationship with them.

The operations of Nova KBM are diversified throughout the territory of Slovenia. Therefore, in cases where the procurement is not fully centralized or involves more than one supplier, Nova KBM tries to contract as many local suppliers as possible, with the Nova Gorica branch standing out in particular in this respect.

The control of procurement is carried out centrally by the Cost Committee, which verifies and approves all procurement agreements worth over €15,000 and monitors the movements in costs and investments on a monthly basis.

Building the loyalty of employees



In 2015, Nova KBM was awarded the full 'Family-Friendly Company Certificate'.

In 2015, Nova KBM was awarded the full 'Family-Friendly Company Certificate' and bound itself to implementing five additional measures to promote its family-friendly status, in addition to the existing 13 measures that are already being implemented under the basic 'Family-Friendly Company Certificate'. By being a holder of the full 'Family-Friendly Company Certificate', Nova KBM demonstrates that it is aware of the importance of complying with high ethical standards in its attitude towards employees and in relations between employees, and also understands the importance of helping employees reconcile their work and private lives, as this contributes to their performance and the performance of Nova KBM as their employer.

As part of its concern for employees, Nova KBM provided employees who are parents of children enrolling in kindergarten or primary school with an entitlement to paid work absence, while in collaboration with the trade union, it presented Christmas gifts to children.

Many factors in family and professional lives affect the overall health condition of employees. For the third year running, Nova KBM provided its employees and their family members with the option to take advantage of free anonymous external psychological help, either via phone or in person. Several workshops on efficient communication between employees were organized by Nova KBM in 2015, as were workshops and training programmes on health and safety at work, a topic that Nova KBM pays close attention to. Further details in this regard are set out in the section titled 'Human resource management at Nova KBM'.

In partnership with the Maribor-based Youth Aid Centre Association, Nova KBM organized for the first time a corporate volunteering initiative, thereby implementing one of the additional measures imposed on it under the full 'Family-Friendly Company Certificate'. Furthermore, Nova KBM began implementing another measure with respect to this certificate, pursuant to which employees with hospitalized children, who are otherwise not entitled to receive wage compensations from compulsory health insurance because of their absence from work due to child care, are entitled to up to three days paid leave in each calendar year.

Nova KBM revised its ethical code and selected from it five values that were communicated at different occasions. The ethical code now contains the governance principles that take into consideration the interests of employees, including their need for reconciling professional and family obligations. Managers, acting as mediators between the requirements of Nova KBM and personal needs of employees, have been commissioned with the task of coordinating the interests of Nova KBM and its employees to their mutual benefit.

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

Internal communication and internal programmes for employees

In the area of internal communication, in 2015 Nova KBM continued implementing measures arising from its focused communication programme operated under the umbrella name 'Pripravljeni na…' (Ready for…) with the aim of enhancing the commitment and loyalty of employees, while at the same time creating a productive and pleasant work environment, where employees can better cope with changes and enjoy what they do. As part of the programme referred to above, six different initiatives were carried out in the areas of charity, promotion of health, responsibility towards the local and natural environment, and good relations in the workplace. The total number of initiatives carried out in 2015 was 50% above that of a year ago, with as many as 69 employees per initiative on average taking part.

In 2015, Nova KBM undertook the following projects for its employees:

1. An appropriate campaign to support the introduction of the Employee Neatness Code.
2. Training on healthy nutrition, called '12 Steps of a Healthy Diet'.
3. A programme called 'Ready for a Meeting' to assist arranging personal meetings with the President of the Management Board and visits by the Management Board to individual organizational units.
4. A programme called 'Ready for a Healthy Mobility', enabling employees to actively join the widely known Car-Free Day project.
5. A corporate volunteering initiative called 'Ready to Help – Cleaning and Raking up Leaves in the Children´s Adventure Park'.
6. A charity campaign 'Santa for One Day', as part of which employees fulfilled 60 wishes of children from socially disadvantaged families.
7. Meetings between employees and the Management Board were arranged on the occasion of three training events and at one social gathering at the end of the year.

At the end of the year, Nova KBM decided to earmark funds that would otherwise have been spent on business gifts for the charity project called 'Godparentship', run by the Friends of Youth Association of Slovenia, and organized a charity campaign called 'Every Wish Can Become a Big Story'. Furthermore, it took an internal action called 'Santa for One Day', as part of which its employees fulfilled wishes of and presented gifts to as many as 60 children from socially disadvantaged families.

A total of 154 circulars were received by Nova KBM employees last year, with an additional 11 circulars being distributed to all the employees of the Nova KBM Group. In addition, three issues of the internal newspaper Med Nami were released last year in electronic form. On average, a total of 25 employees participated in the creation of each issue of the internal newspaper by contributing articles. Distributing the internal newspaper in electronic form makes it possible for Nova KBM to connect better with employees and establish a dialogue with them, thereby giving them an opportunity to participate actively in the creation of content for the newspaper. To achieve synergistic effects, Nova KBM worked actively with most of the other Nova KBM Group companies throughout 2015 to develop common marketing activities across a variety of communication channels. Nova KBM continued implementing communication guidelines in order to keep its employees better informed about the most relevant topics. A total of eight communication guidelines were provided to employees in 2015, in addition to several communication recommendations that were prepared for junior and senior managers.

Attitude towards the media

Nova KBM devotes a great deal of attention to its relationship with the media, as part of both corporate and marketing communication. The specialized departments of Nova KBM furnished the media with all relevant information in order to support it in its role as a provider of objective information and to respect the public´s right to information. In 2015, Nova KBM continued its well-maintained relationship with the media by responding quickly to journalists´ enquiries, by participating in discussions on social responsibility, and through proactive communication of the topics most relevant to its operations, all of which helped it create positive or at least neutral publicity about itself. The topic that attracted the most attention from the media last year was the signing of the agreement concerning the sale of a 100% shareholding of the Republic of Slovenia in Nova KBM. In addition, the President of the Management Board and some other senior managers of Nova KBM gave several interviews to the media or appeared in some other form in the media. Nova KBM issued 41 press releases, responded to about 1,500 requests from journalists, and was mentioned more than 6,890 times in the media, down 23% on 2014. The efficiency of Nova KBM´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 Nova KBM. An average positive press publicity of 53.3% was recorded by Nova KBM last year – an increase of just over five percentage points on 2014.

Integration into the local environment and broader community

Sponsorships and grants

As a socially responsible institution, Nova KBM is aware of the importance of being integrated into the broader social and local environment, including by providing support to the projects that fit its corporate identity and social responsibility strategies.

Nova KBM acts as a supporter and promoter of various non-profit organizations, associations, institutions and clubs operating in the area of sports, culture, education, health, humanitarianism and socially beneficial services, building with them partner relationships that contribute to sustainable development and operations.

In 2015, Nova KBM continued to actively support a number of projects in the areas of culture, sports and education, in addition to supporting numerous humanitarian and other socially responsible initiatives.

Movements in the level of funds earmarked for sponsorships and grants

In 2015, Nova KBM earmarked a total of €550,000 for sponsorships and grants, down 46% on 2014, with the largest proportion being given to sports and recreational projects.

Sponsorships in 2015 by activity



Grants in 2015 by activity



Sports

Nova KBM´s sports partnerships encompass a large number of long-term cooperations with top athletes, as well as regional and local sports clubs, with some of them being described below.

- As a long-term partner and the main sponsor of the Nova KBM Branik Women´s Volleyball Club, Nova KBM continued to support young female volleyball players.
- Long-term partnership with NK Maribor Football Club was prolonged.
- Partnership continued with Filip Flisar, a freestyle skier.
- Cooperation continued with the Branik Handball Club and the Ajdovščina (Mlinotest) Women´s Handball Club, two of the largest handball clubs in Slovenia.
- Nova KBM remained the main sponsor of the Golden Fox Women´s Ski Competition in Giant Slalom.
- Nova KBM continued to support Robert Renner, a promising young pole vault athlete who, in 2015, won a gold medal at the European Championship and made it to the finals at the World Championship.
- Nova KBM became the silver sponsor of the Slovene biathlon team and a sponsor of the Slovene Basketball Association and the Slovene basketball team.

The subsidiaries of Nova KBM also support numerous sports activities in their local environment. In its concern for the health of its employees, Nova KBM supports the activities of the Nova KBM Sports Club, thereby also strengthening the affiliation of employees to the organization.

Culture

Also last year, Nova KBM supported the Lent Festival as primary sponsor and continued its long-lasting partnership with the Narodni Dom cultural centre. Its long-lasting partnership was also continued with the Slovene National Theatre in Maribor. In addition, Nova KBM provided support to the Ljubljana Festival, the Nova Gorica Cultural Association, the Slovene National Theatre in Nova Gorica, the Špas fest Street Theatre, and to some other institutions concerned with art and culture. Sponsorship was also given to Nova KBM women´s choir which has been supported by Nova KBM since its formation. By providing financial support, Nova KBM enabled the organization of numerous cultural activities and events.

Education

With the purpose of ensuring the financial literacy of young people, Nova KBM supported the work of local school associations in all three regions in which it is present, and participated in the PODIM conference aimed at providing training and advice to young entrepreneurs.

Humanitarianism and charity projects

At the end of last year, Nova KBM decided to earmark funds that would otherwise have been spent on business gifts for the charity project called 'Godparentship', run by the Friends of Youth Association of Slovenia. As has been its tradition in the past, during the Christmas and New Year period, Nova KBM invited its business partners, employees and the wider public to a social gathering, this time with the purpose of collecting drawings for the 'Godparentship' project. As many as 10,000 drawings of children´s wishes were collected. For each drawing received, Nova KBM donated €1 to the 'Godparentship' project, with the final amount being doubled; the total amount earmarked by Nova KBM for this project reached €20,000.

Other humanitarian actions supported by Nova KBM are detailed in the table below.

Receiver of humanitarian aid	Purpose of the aid
Koraki za korakce (charitable association)	Provision of funds to support the arrangement of exercise rooms in the Kamnica, Duplek and Drago Kobal Maribor primary schools, as well as to improve the living conditions of people suffering from cerebral palsy that live in the Sonček Association housing community in Pragersko.
Mirno Morje Institute	Provision of funds to enable children and teenagers from socially disadvantaged backgrounds, as well as those from children´s and teenagers´ homes and institutions for children with physical and mental difficulties to go on holidays.
Humanitarian Race, organized by the Dnevnik newspaper	Provision of funds to families who have children with special needs.
Ko-rak.si (an association for the fight against cancer and other chronic, non-infectious diseases)	Provision of funds for the implementation of preventive measures.
Stara Gora (an association for helping people with special needs)	Provision of funds to improve the quality of life and living conditions of people with special needs.
Dr. Franc Derganc General Hospital, Department for Disabled Young People	Provision of funds for the implementation of full rehabilitation programmes.

Humanitarian contributions were allocated to projects and entities that endeavour to provide underprivileged groups of people in local communities with better living conditions.

Initiatives implemented in partnerships with local and regional entities

Nova KBM worked with local entities to support the implementation of various socially-beneficial projects. Of the total number of such projects supported by Nova KBM in 2015, as many as 36 came to light in the western part of Slovenia, with most of them being undertaken in the areas of culture and education, followed by the areas of sports and humanitarianism. A total of 24 projects were implemented in the eastern part of Slovenia, while the number of projects implemented in the central Slovenia reached 11.


Poslovni dan z
Novo KBM
KONGRESNI
CENTER


FISCHER








Nova KBM
Nova KBM
Nova KBM
PRIPRAVLJENI NA JUTRI
POŠTA SLOVENIJE


SWISS MADE
STÖCKLI






DOBRODELNA RAZSTAVA RISBIC OTROŠKIH ŽELJA
PROJEKTA BOTRSTVO ZVEZE PRIJATELJEV MLADINE IN NOVE KBM




EN KLUB. ENA BANKA.
ENA VIJOLČNA
KARTICA.
80 EUR




ZAPRISEŽENI
NAJHITREJŠIM
Filip Flisar
Nova KBM


Nova KBM



REGULATORY SECTION

We build **TRUST** through honesty and in-depth cooperation. Together we strengthen the sense of **LOYALTY** that brings in new achievements. This is why we believe that the best results can only be achieved by working together.

13 CORPORATE GOVERNANCE STATEMENT OF NOVA KBM

1. CORPORATE GOVERNANCE CODE

The Corporate Governance Code comprises:

- **Corporate Governance Code for Public Limited Companies** (application and deviation)
- **Corporate Governance Code for Companies with Capital Assets of the State** (application and deviation)
- **Recommendations and Expectations of the Slovene Sovereign Holding** (application and deviation)

Based on the state-sponsored recapitalization, on 18 December 2013 the Republic of Slovenia became a 100% owner of all the newly issued shares of Nova KBM (KBMS). As of 31 December 2015, these shares were not quoted on a stock market.

On 30 June 2015, the Slovene Sovereign Holding, acting on behalf of and for the account of the Republic of Slovenia, signed the sale and purchase agreement (SPA) with Apollo Global Management LLC (Apollo), a leading global alternative investment manager, and the European Bank for Reconstruction and Development (EBRD), pursuant to which certain Apollo affiliated funds and the EBRD acquired a 100% shareholding of the Republic of Slovenia in Nova KBM.

Given that certain conditions precedent stipulated in the SPA were still pending at the end of last year, the payment of the purchase consideration and the transfer of Nova KBM shares to the new owners had not been effected by 31 December 2015.

In view of the fact that its bonds (KBM10) are quoted on the Vienna Stock Exchange, Nova KBM is regarded as a public limited company under the provisions of the Financial Instruments Market Act (ZTFI). Article 99 of the ZTFI stipulates that any issuer whose securities have been accepted for trading on the regulated market in the Republic of Slovenia or another Member State falls within the definition of a public company.

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

In setting up and developing a transparent, clear and successful governance and management system, during 2015 Nova KBM endeavoured, as far as practicable, to comply with regulatory provisions and the highest standards of responsible and well thought-out governance, as laid down in the Code, thus further increasing the confidence of domestic and foreign investors, employees, and the wider public in its governance system.

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

Nova KBM and its bodies endeavoured to fully observe the provisions of the Code that was in effect and used in 2015. However, in certain instances Nova KBM´s operations deviated from individual provisions of the Code. In compliance with the Preamble of the Code, Nova KBM sets out below the reasons for such deviations. The reasons were mainly related to the specific circumstances under which Nova KBM operated due to changed conditions in itself and its environment (market), to payment characteristics of the banking sector, to its specific ownership structure, and to other circumstances which had an impact on its governance and management.

As a company in which the Republic of Slovenia holds an equity investment, in 2015 Nova KBM also complied with the Corporate Governance Code for Companies with Capital Assets of the State, adopted by the Slovene Sovereign Holding on 19 December 2014 and published on its website on 22 December 2014.

The purpose of the code referred to in the previous paragraph is to determine the standards on governance and supervision applicable to the companies in which the Republic of Slovenia holds a capital investment, while at the same time helping such companies set up a transparent and comprehensible corporate governance system.

For the purpose of concretizing the principles of corporate governance, and in view of the need to regulate separately certain narrow and specific issues related to corporate governance that are not covered by the legal framework applicable to the management of state assets, the Slovene Sovereign Holding has decided to issue its own recommendations and expectations with respect to corporate governance.

In its Corporate Governance Statement, which forms an integral part of its annual report, Nova KBM, as a company in which the state holds an equity investment, states the extent to which it complied in 2015 with the rules and good practices set out in the Corporate Governance Code for Public Limited Companies, the Corporate Governance Code for Companies with Capital Assets of the State as well as individual recommendations and expectations of the Slovene Sovereign Holding.

In implementing its corporate governance framework in 2015, Nova KBM also took into consideration the Nova KBM and the Nova KBM Group Companies´ Governance Policy, adopted in January 2015.

Furthermore, Nova KBM complied in its governance system with the commitments made by the Republic of Slovenia to the European Commission with respect to the provision of state aid to Nova KBM, in the part relating to corporate governance (the public version of the entire Catalogue of Commitments is available on the European Commission´s website).

Corporate Governance Code for Public Limited Companies

Point 5.7

Code provision

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

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

Reason for deviation

In 2015, the remuneration of Nova KBM Management Board members complied with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors.

Point 22.7

Code provision

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

- an explanation how the choice of performance criteria contributes to the company´s long-term interests
- an explanation of the methods applied to determine whether the performance criteria have been met
- precise information on the deferment periods with regard to variable components of remuneration
- information on the policy regarding termination payments, including the criteria conditioning termination payments and the amounts of termination payments
- information with regard to vesting periods for share-based remuneration
- information on the policy regarding the retention of shares after vesting
- information on the composition of peer groups of 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 its Management Board members, Nova KBM fully complies with legal requirements, as evident also from its annual reports. In accordance with the provisions of the Companies Act (ZGD-1) and Nova KBM´s Articles of Association, the Management Board informs the shareholders of Nova KBM, 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 the Management and Supervisory Boards for performing their duties in the previous financial year.

The disclosure of remuneration provided to Nova KBM Management Board members in 2015 is compliant with the remuneration policy and follows the recommendations of the Code.

Corporate Governance Code for Companies with Capital Assets of the State

Point 6.7.1

Public limited companies with state capital and large non-public companies with state capital and with more than one shareholder should establish nomination committees, permanent or temporary, as a special committee of the Supervisory Board. These should ensure adequate mechanisms regarding the selection and evaluation of candidates for membership of the Supervisory Board and overcome conflicts of interest which the Supervisory Board is faced with in the preparation of the proposal for the composition of the Supervisory Board. The Nomination Committee shall carry out selection procedures for candidates and propose to the Supervisory Board a list of candidates for their appointment at the Shareholders´ Meeting.

Reason for deviation

In 2015, up until 9 July, the powers of the Nomination Committee had been executed by the Remuneration and Nomination Committee. On 9 July 2015, based on the provisions of the amended Banking Act (ZBan-2), the Supervisory Board made a decision to transform the Remuneration and Nomination Committee into two separate committees – the Nomination Committee and the Remuneration Committee.

In addition to the committees referred to in the previous paragraph, in 2015 Nova KBM had in place the Fit and Proper Committee, whose task is to assess the suitability of officers holding key positions, including members of the Management and Supervisory Boards. This committee carries out its work in accordance with the ZBan-1 or ZBan-2, as applicable, the ZGD-1 and the Bank of Slovenia´s regulations.

Point 6.9

External members of Supervisory Board committees shall be paid for their service on the committees from the funds allocated for the services of the Supervisory Board. The resolution of the Shareholders´ Meeting on the amount of payments for Supervisory Board members shall not apply to them. The Supervisory Board shall adopt a resolution on the amount of the payment for external members of Supervisory Board committees and external experts. The payment should be defined in the amount which is usual for the service rendered in a certain professional field. The payment of external members of Supervisory Board committees is composed of the payment for their participation in sessions, the payment for the performance of the services and the reimbursement of costs. The payment should be such that it ensures the engagement of the necessary top experts, in regard to the special characteristics and justification of an individual case and while considering the rational dealing with the company´s funds and the eligibility of the cost.

Reason for deviation

Nova KBM has been deviating from this recommendation since the ZBan-2 came into effect on 13 May 2015. As regards the composition of Supervisory Board committees, the ZBan-2 contains a provision stipulating that, irrespective of the provisions of the ZGD-1, only members of the Supervisory Board can be appointed to Supervisory Board committees. Nevertheless, some committees of the Nova KBM Supervisory Board have, in accordance with the provisions of the ZBan-2, engaged external experts with specific knowledge, but these are not committee members. External experts engaged by the committees perform their work on the basis of advisory agreements made with them by the Nova KBM Management Board.

Point 6.12

Supervisory boards of companies with state capital which, under the ZGD-1, fulfil the criteria of large companies should appoint an Audit Committee, and other committees, when required. Supervisory boards of other companies should establish committees in regard to their needs. The Audit Committee should hold responsibilities compliant with the ZGD-1. At least one member of the Audit Committee should be an independent expert who is qualified in accounting and auditing. If the Personnel Committee is established, it should support the Supervisory Board in appointing, remunerating and dismissing members of the Management Board. At least one member of the Personnel Committee should be an external expert.

Reason for deviation

The reason for deviation is substantially the same as the one provided under Point 6.9.

Point 6.12.2

Sessions of the Audit Committee should be held at least once every quarter but there should not be more than eight sessions per year; of this number, there should be not more than six regular (direct) sessions.

Reason for deviation

Nova KBM deviates from this recommendation because the meetings of its Audit Committee are held more frequently than required according to this recommendation. 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 the Audit Committee, and depending on the need to resolve specific issues.

Point 7.3

The Supervisory Board of a company with state capital which is organized as a public limited company or as a large or medium-sized limited liability company should prepare a proposal for the remuneration policy for the management body in accordance with this code and submit it to the Shareholders´ Meeting for approval. The proposal preparation shall fall under the responsibility of the Chair of the Supervisory Board and the Appointment Committee, when established. At the Shareholders´ Meeting, the Chair of the Supervisory Board shall present to shareholders the current remuneration policy and its implementation, and provide an assessment of the function and the role of the remuneration policy. The Supervisory Board must make sure that the remuneration of members of the Management Board is in line with the policy which has been adopted at the Shareholders´ Meeting in accordance with the applicable legislation.

Reason for deviation

With respect to the disclosure of remuneration of Management Board members, Nova KBM fully complies with legal requirements, as evident also from its annual reports. In accordance with the provisions of the ZGD-1 and Nova KBM´s Articles of Association, the Nova KBM Management Board informs the shareholders of Nova KBM, 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 the Management and Supervisory Boards for performing their duties in the previous financial year.

Remuneration of Management Board members complies with the currently applicable remuneration policy, which was discussed by the Remuneration Committee and approved by the Supervisory Board. In accordance with the provisions of the ZGD-1 and the ZBan-2, the Supervisory Board of a company must adopt the remuneration policy in cases where the Shareholders´ Meeting fails to do so.

Although the Chair of the Supervisory Board did not specifically present the remuneration policy at the Shareholders´ Meeting, the latter took note of it at its last session.

Point 7.3.3

The fixed component of the remuneration package for Management Board members must be high enough to attract top experts motivated for a responsible and active role while simultaneously preventing an unjustifiably high remuneration in regard to the performance, needs and financial condition of a company. The remuneration policy shall stipulate the basis for the determination of the fixed component, while suitably taking into consideration Points 6 and 7 of the Criteria for Individual Employment Contracts. The fixed monetary income attributable to a member of the Management Board as a result of performing obligations stipulated in the contract, the assumed responsibility and loyalty to the company is determined in the gross monthly amount. All additional payments (seniority bonus, permanence bonus, special burden bonus, overtime work bonus) and all remaining income attributable to employees pursuant to the Employment Relationship Act (ZDR-1) and collective agreements (for example, pay for annual leave and the Christmas bonus) should be included in the fixed monetary payment which must be explicitly stated in the contract.

Reason for deviation

Nova KBM does not comply with this recommendation as regards the part referring to the inclusion in the fixed monetary payment provided to members of the Management Board of additional payments attributable to employees pursuant to the ZDR-1 and collective agreements, since, in accordance with the applicable legislation, the Collective Agreement for the Banking Sector and the Nova KBM Collective Agreement, pay for annual leave and the Christmas bonus are not included in the fixed remuneration provided to Management Board members.

Point 9.2.3

Large companies with state capital should set up an internal audit function and perform internal audit reviews with employees from their own internal audit departments (external service providers should only be of a casual assistance when required). Medium-sized companies should occasionally carry out their internal audit reviews with external service providers, except if a permanent engagement of an internal auditor is required as a result of the assessed risks. Internal audit reviews should be carried out in accordance with the adopted medium-term and annual internal audit plans. In the event that significant risks are identified, small companies should carry out internal audit reviews of all areas where such risks have been identified, with external auditors providing necessary assistance.

Reason for deviation

Nova KBM deviates from the provision stipulating that the Supervisory Board shall approve the medium-term internal audit plan, because, pursuant to the International Standards for the Professional Practice of Internal Auditing and the Nova KBM Rules on Internal Auditing, the internal audit reviews are carried out in Nova KBM in accordance with the adopted annual internal audit plans. While the strategic audit plan will be prepared periodically on the basis of Nova KBM´s strategic plan, it will be of an informative nature only and will serve as a basis for preparing annual internal audit plans.

Recommendations and expectations of the Slovene Sovereign Holding

Recommendation No. 1 – Three-year business planning by a company/group

Reason for deviation

The explanation of deviation given under Recommendation No. 2 (Quarterly reporting on the performance of a company/group) can be, mutatis mutandis, applied also to this recommendation. Up until now, Nova KBM has not prepared three-year business plans, but has prepared a standard document for each year – Business Policy and Financial Plan of Nova KBM and the Nova KBM Group. The summary of this document is published on Nova KBM´s website. The planning is based on the adopted strategy.

In view of its integration with PBS, and to present the effects of this integration on the performance of the future merged bank, Nova KBM has prepared the Business and Financial Plan of Nova KBM and the Nova KBM Group for the Period 2016–2020.

Recommendation No. 2 – Quarterly reporting on the performance of a company/group

Reason for deviation

The Management Board prepares quarterly, half-yearly and annual reports, of which the Supervisory Board is informed in accordance with the ZGD-1, the ZBan-2, the ZTFI and implementing regulations. These reports are publicly available and may be examined by shareholders, and are also published on Nova KBM´s website. In its Corporate Governance Policy, Nova KBM 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. Nova KBM fully complies with the Corporate Governance Code for Public Limited Companies as regards the part concerning reporting and transparency requirements.

Recommendation No. 3 – Transparency of procedures of making business deals involving company expenditure (ordering goods and services, grants, sponsorships)

Reason for deviation

Nova KBM 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 (ZJN-2), since this act does not apply to banks. Nevertheless, in negotiating and making any business deals, the Management Board and competent departments of Nova KBM act with due care and diligence and according to the highest ethical standards, objectives, strategies and policies of Nova KBM, all in its best interests.

Nova KBM has adopted the Nova KBM Group Procurement Policy, which sets out the guidelines and principles of work of its own procurement function and that of the Nova KBM Group as a whole, in addition to drafting internal regulations and instructions detailing the execution of the procurement process, the procurement activities, the roles and responsibilities of officers involved in procurement, and forms and other procurement documents, with the aim of implementing the procurement process in the most efficient manner.
Nova KBM publishes on its website information with respect to its sponsorship, grant and advisory agreements. It does this in the manner and to the extent required by the Public Information Access Act (ZDIJZ).

Recommendation No. 4 – Optimization of labour costs in 2015

Reason for deviation

The recommendation was fully taken into consideration in the preparation of the Financial Plan of Nova KBM and the Nova KBM Group for the Period 2016–2020.

To protect confidential information, Nova KBM and other companies in the Nova KBM Group do not publish binding collective agreements or arrangements with representative of the trade union that refer to the payment for the work carried out; thereby deviating from this recommendation as regards the part referring to the publishing of such information.

Recommendation No. 5 – Attaining quality and excellence in the operations of a company/group

The fundamental principles of excellence are, in part, incorporated into Nova KBM´s organizational culture. Numerous external and internal analyses, carried out by Nova KBM on a regular basis, are to some extent consistent with the assessment principles of the EFQM model (e.g. internal quality assessment, benchmark analysis, analysis of individual processes, process maturity analysis, internal communication analysis, customer satisfaction analysis, and annual interviews where employees are asked to evaluate their job satisfaction, etc). Based on the results of these analyses, Nova KBM has identified and implemented several measures to improve its performance across all segments.

Following the implementation of necessary changes, and with the aim of achieving continuous improvements towards more efficient, effective and competitive operations, as well as sustainable development, Nova KBM will examine options to upgrade its existing principles of quality and to extend its system of quality and excellence to its entire business as well as that of the Nova KBM Group as a whole, thereby making progress in attaining high standards of excellence and quality.

Recommendation No. 6 – 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, Nova KBM complies with the provision of the ZGD-1, 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 Nova KBM, or to post questions in the period pending a Shareholders´ Meeting, Nova KBM has set up the Investor Relations section on its website.

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

The aim of internal controls is to ensure that the risks to which Nova KBM is exposed are properly managed, that proper accounting principles as well as internal and external financial reporting and communicating are applied, and that Nova KBM´s operations are carried out in compliance with law and business ethics. Internal controls are established within all processes and organizational units of Nova KBM and the Nova KBM 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 the operations of the Nova KBM 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 the respective risk management policies. A general rule applies that each company in the Nova KBM 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 Nova KBM and the Nova KBM 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 Nova KBM responsible for monitoring the exposure to individual types of risk.

For the purpose of obtaining a complete overview of risks to which the Nova KBM Group is exposed, the risk profile report is drafted once a year, and this contains an assessment of the key types of risk and of the related controls. This report is reviewed by the Operational Risk Committee and considered by the Risk Committee and the Supervisory Board.

Nova KBM and the Nova KBM Group endeavour to have in place appropriate systems of internal controls and precisely specified accounting procedures (including details regarding powers and responsibilities for individual tasks, automatic and manual controls in all phases of the accounting process, reporting, etc).

The Internal Audit Centre assesses the adequacy and efficiency of applicable internal controls, including the risk management systems and processes and the system of internal controls. The Internal Audit Centre provides support and assistance to the Management Board in protecting the reputation and long-term interests of Nova KBM, and reports on its work to the Management Board, the Audit Committee and the Supervisory Board on a regular basis.

When conducting the annual audit of financial statements, the appointed external auditor carries out a review, at its discretion, of internal controls with respect to the preparation and fair presentation of financial statements. In the management letter, the external auditor summarizes the findings regarding the deficiencies, as well as possible improvements, identified during the audit of the financial statements, and reports thereon to the Management Board and the Audit Committee.

3. INFORMATION AND EXPLANATIONS PROVIDED BY COMPANIES THAT ARE SUBJECT TO THE APPLICATION OF THE ACT REGULATING ACQUISITIONS (INFORMATION FROM POINT 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 AND 11 OF THE SIXTH PARAGRAPH OF ARTICLE 70 OF THE ZGD-1)

Explanation regarding the structure of the company´s share capital, including all securities, as stipulated by the act regulating acquisitions (Points 1 and 2 of the sixth paragraph of Article 70 of the ZGD-1)

As of 31 December 2015, Nova KBM´s share capital totalled €150,000,000 and was split into 10,000,000 ordinary, registered no-par-value shares, all of which were held by the Republic of Slovenia. Nova KBM has issued only one class of shares which are all freely transferable and bear the same rights. Each ordinary share entitles its holder to one vote at the Nova KBM Shareholders´ Meeting. The rights of the holders of ordinary shares are set out in the relevant legislation of the Republic of Slovenia.

Explanation regarding significant direct and indirect holdership of the company´s securities in the sense of achieving a qualified stake as determined by the act regulating acquisitions (Point 3 of the sixth paragraph of Article 70 of the ZGD-1)

As of 31 December 2015, the Republic of Slovenia was a 100% shareholder of Nova KBM.

Explanation regarding the holders of securities that carry special control rights (Point 4 of the sixth paragraph of Article 70 of the ZGD-1)

No special controlling rights are attached to Nova KBM shares.

Explanation regarding the employee share scheme, if existing, of shares to which it relates, and an explanation about the method of exercising control over such scheme, if control is not exercised directly by the employees (Point 5 of the sixth paragraph of Article 70 of the ZGD-1)

Nova KBM has not set up a share scheme within the meaning of Article 14 of the Financial Participation Act (ZUDDob).

Explanation regarding restrictions related to voting rights, in particular: (i) restrictions of voting rights to a certain stake or a certain number of votes, (ii) deadlines for executing voting rights, and (iii) agreements in which, on the basis of the company´s cooperation, the financial rights arising from securities are separated from the rights of holdership of such securities (Point 6 of the sixth paragraph of Article 70 of the ZGD-1)

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

Explanation regarding any agreements among shareholders that could result in the restriction of the transfer of securities or voting rights (Point 7 of the sixth paragraph of Article 70 of the ZGD-1)

No agreements exist among shareholders that could result in the restriction of the transfer of securities or voting rights.

Explanation regarding the company´s rules on appointment or replacement of members of the management or supervisory bodies (Point 8 of the sixth paragraph of Article 70 of the ZGD-1)

Management Board

In accordance with the provisions of Nova KBM´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 ZGD-1, and in cases provided for by the applicable banking regulations.

Membership of 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 Nova KBM´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 ZGD-1 and Article 34 of Nova KBM´s Articles of Association, the Shareholders´ Meeting is authorized to reach decisions with respect to amendments to Nova KBM´s Articles of Association, whereby at least three-quarters of the share capital represented in the voting is required to pass a resolution of the Shareholders´ Meeting.

Explanation regarding the authorizations of the members of the management for issuing or purchasing own shares (Point 9 of the sixth paragraph of Article 70 of the ZGD-1)

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

Explanation regarding any important agreements to which the company is a party, and which take effect, change or are cancelled on the basis of the change in the control of the company as a result of a takeover bid, as stipulated by the act regulating acquisitions, and the effects of such agreements (Point 10 of the sixth paragraph of Article 70 of the ZGD-1)

No agreements exist to which Point 10 of the sixth paragraph of Article 70 of the ZGD-1 applies.

Explanation regarding any agreements between the company and the members of its management or supervisory bodies or the employees which foresee compensation should such persons, due to a takeover bid as stipulated by the act regulating acquisitions: (i) resign, (ii) be dismissed without reasonable cause, or (iii) be subject to the termination of their employment relationship (Point 11 of the sixth paragraph of Article 70 of the ZGD-1)

No agreements exist to which Point 11 of the sixth paragraph of Article 70 of the ZGD-1 applies.

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

Competences of the Shareholders´ Meeting

The Shareholders´ Meeting shall decide about:

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

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 and Supervisory Boards 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 Nova KBM´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 Nova KBM.

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´s website or in a daily newspaper distributed throughout the Republic of Slovenia, and on Nova KBM´s website, no later than 30 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

Shareholders, or their proxies or legal representatives, are allowed to participate in the Shareholders´ Meeting and exercise their rights to vote, provided that they are entered as shareholders 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 their 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 jointly holding at least one-twentieth of Nova KBM´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 Nova KBM via e-mail to the address specified by Nova KBM in each notice of the Shareholders´ Meeting, in scanned format as an attachment, or by fax.

Pursuant to the applicable 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 Nova KBM in each notice of the Shareholders´ Meeting, in scanned format as an attachment, or by fax.

Chairing the Shareholders´ Meeting

The Nova KBM Shareholders´ Meeting is chaired by the Chair of the Shareholders´ Meeting. The Chair of the Shareholders´ Meeting is a person appointed by the convener.

Adoption of resolutions

The Shareholders´ Meeting shall adopt resolutions with a bare majority of the votes cast, unless a qualified majority has been laid down by Nova KBM´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

Shareholders entitled to participate in the Shareholders´ Meeting may appoint natural or legal persons of full legal capacity to participate in the Shareholders´ Meeting on their behalf and to exercise their voting rights.

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

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

The power of attorney remains deposited with Nova KBM.

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 2015, in the section titled 'Corporate governance'.

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

Management Board

As of 31 December 2015, the Nova KBM Management Board had the following two members: Robert Senica (President) and Sabina Župec Kranjc (Member).

Pursuant to the applicable legislation and Nova KBM´s Articles of Association, the Management Board runs the operations autonomously and on its own responsibility. The Management Board administers the day-to-day operations of Nova KBM independently of instructions of other stakeholders, and exclusively to the benefit of Nova KBM.

At least two members of the Management Board jointly present and represent Nova KBM in accordance with provisions of the ZBan-2. Both Management Board members comply with legal requirements for performing their duties on the Management Board.

Duties of the Management Board

Members of the Management Board must ensure that Nova KBM operates in accordance with the acts referred to in the second paragraph of Article 9 of the ZBan-2, other acts governing the provision of services and the execution of transactions by Nova KBM, and regulations issued on the basis thereof, and the requisite professional diligence and the highest level of ethical standards, as well as rules governing best business practices and consumer protection.

In performing their functions, members of the Management Board shall at all times comply with the requirements specified in Article 38 of the ZBan-2, in addition to fulfilling the duties and responsibilities set out in Article 45 of the ZBan-2.

In accordance with the ZBan-2, the Management Board shall set up a risk management function that reports directly to the former and that is functionally and organizationally segregated from the other functions of Nova KBM in which conflicts of interest could arise vis-à-vis the risk management function. To that end, it must take into account the nature, scale and complexity of the activities it performs.

The Management Board shall establish and implement the type of internal governance arrangements set out in Article 128 of the ZBan-2 that facilitate the effective and prudent governance of Nova KBM based on clearly defined competences and responsibilities, and on policies and measures to prevent conflicts of interest.

In the scope of its powers and duties, the Management Board is responsible for defining, adopting and regularly reviewing the strategy and policy for taking up and managing the risks to which Nova KBM is or could be exposed in its operations, including risks from the macroeconomic environment in which Nova KBM operates, taking into account the current business cycle.

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, authorize 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 Nova KBM.

Representation of Nova KBM

In all legal transactions, Nova KBM 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, authorize one individual member of the Management Board to represent Nova KBM 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 2015, in the section titled 'Corporate governance'.

Supervisory Board

The managing of operations of Nova KBM is overseen by the Supervisory Board that, in accordance with Nova KBM´s Articles of Association, consists of six members. Two-thirds of the Supervisory Board members must be independent experts. Persons are considered independent if they are not or were not employed by the Government of the Republic of Slovenia in the last 24 months since their appointment to the Supervisory Board, or have not held a leading or other high-level position in any political party in the Republic of Slovenia in the last 24 months.

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

The composition of the Nova KBM Supervisory Board at the end of 2015 is presented in Nova KBM´s Annual Report for 2015, in the section titled 'Corporate governance'.

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, Nova KBM´s Articles of Association, and the Rules of Procedure of the Supervisory Board. The Supervisory Board conducts activities for which it is competent at regular meetings and meetings by correspondence.

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

Competences and duties of the Supervisory Board

In addition to the powers vested in the Supervisory Board under the ZGD-1 and the ZBan-2, the Supervisory Board also has the following competences:

- it gives consent to the Management Board to determine Nova KBM´s business policy
- it gives consent to the Management Board to determine Nova KBM´s financial plan
- it gives consent to the Management Board to determine the organization of the internal control system
- it gives consent to the Management Board to determine the indicative annual plan of work of the Internal Audit Centre
- it supervises the suitability of procedures and the effectiveness of the work of the Internal Audit Centre
- it gives consent to the appointment and dismissal of the head of the Internal Audit Centre
- it adopts and supervises the implementation of the basic principles of the remuneration policies
- it discusses the findings of the Bank of Slovenia or the European Central Bank, whenever the latter exercises its powers and performs tasks relating to the supervision of Nova KBM in accordance with Regulation (EU) No. 1024/2013, the findings of other government authorities, when those findings relate to Nova KBM, and the findings of the tax authority or other supervisory authority during the supervision of Nova KBM
- it verifies annual and other financial reports of Nova KBM and draws up written reports on its conclusions in this regard for the Shareholders´ Meeting
- it provides explanations to the Shareholders´ Meeting regarding its opinion on the annual report of the Internal Audit Centre and its opinion on the annual report of the Management Board
- it gives consent to the Management Board with respect to any new issuance of Nova KBM´s own securities exceeding €30 million
- it gives consent to the Management Board with respect to all transactions regarding the acquisition and disposal of holdings in companies and other legal entities whose book value exceeds €400,000
- it gives consent to the Management Board with respect to acquisitions and disposals of investments in equities with the purpose of portfolio investments, if such investments in any one issuer exceed 5% percent of Nova KBM´s equity
- it gives consent to the Management Board with respect to decisions regarding actions resulting in status changes in companies and other legal entities in which Nova KBM holds a controlling stake
- it gives consent to the Management Board with respect to any formation of a banking and/or financial group or groups
- it gives consent to the Management Board for writing-off claims amounting to over €1 million
- it gives consent to the Management Board with respect to the raising of loans and taking over other liabilities for Nova KBM which in one business year, individually or in total, exceed 25% of Nova KBM´s equity
- it gives consent to the Management Board for the conclusion of a legal transaction based on which Nova KBM´s total exposure (including indirect credit exposure) to an individual customer or a group of related customers would reach or exceed 10% of Nova KBM´s eligible capital set out in Point 71 (b) of the first paragraph of Article 4 of Regulation (EU) No. 575/2013. The prior consent of the Supervisory Board shall also be obtained for the conclusion of a legal transaction based on which Nova KBM´s total exposure (including indirect credit exposure) to an individual customer or a group of related customers increases by each subsequent 5% of Nova KBM´s eligible capital
- it gives consent to the conclusion of a deal which entails Nova KBM´s exposure to a person having a special relationship with Nova KBM in accordance with the provisions of Article 150 of the ZBan-2
- it makes decisions on other matters in accordance with the regulations
- it acts in accordance with the highest ethical standards of governance, taking into account the prevention of conflicts of interest.

A member of the Supervisory Board shall inform the Supervisory Board and the Bank of Slovenia or the European Central Bank, whenever the latter performs the tasks set out in Point (e) of the first paragraph of Article 4 of Regulation (EU) No. 1024/2013 during the supervision of Nova KBM in accordance with the same regulation, in writing without delay of his/her appointment to or termination of a directorship at another undertaking or organization, with the aim of verifying compliance with the conditions governing incompatibility with respect to the holding of other directorships, as set out in the ZBan-2.

A member of the Supervisory Board shall inform the Supervisory Board without delay about circumstances that could result in conflicts of interest during the performance of his/her function as a member of the Supervisory Board, and about other circumstances that could affect the fulfilment of conditions for appointment as a member of the Supervisory Board in accordance with the ZBan-2, including any significant change that affects or could affect Nova KBM´s assessment of his/her suitability as a member of the Supervisory Board.

The Supervisory Board is required to:

- check the annual report, the auditor´s report, and the proposal of the Management Board regarding the appropriation of the profit available for distribution
- draw up a written report for the Shareholders´ Meeting in accordance with the second paragraph of Article 282 of the ZGD-1.

The Supervisory Board adopts the annual reports.

Decision-making by the Supervisory Board

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

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

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

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

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

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

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

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

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

Further information about the activities of the Nova KBM Supervisory Board is set out in Nova KBM´s Annual Report for 2015, in the section titled 'Report of the Supervisory Board'.

Supervisory Board committees

In 2015, up until 9 July, the following Supervisory Board committees carried out their work in accordance with the ZGD-1 and the ZBan-1: the Audit Committee, and the Remuneration and Nomination Committee.

On 9 July 2015, based on the provisions of the ZBan-2, the Supervisory Board made a decision to transform the Remuneration and Nomination Committee into two separate committees – the Nomination Committee and the Remuneration Committee.

Also on 9 July 2015, the Supervisory Board set up the Risk Committee, in accordance with the provisions of the ZBan-2.

Audit Committee

In 2015, up until 19 March, the composition of the Audit Committee was as follows: Peter Kavčič (Chair), Andrej Fatur (Deputy Chair), Keith Charles Miles (external member) and Jernej Pirc (external member).

On 19 March 2015, Mario Gobbo was appointed as a new external member of the Audit Committee, replacing Keith Charles Miles, who stepped down on the same day.

In accordance with the provisions of the ZBan-2, which came into effect on 13 May 2015, only members of the Supervisory Board can be appointed to Supervisory Board committees, irrespective of the provisions of the ZGD-1. To comply with the provisions of the ZBan-2 referring to the composition of Supervisory Board committees, on 13 May 2015 the Supervisory Board appointed its member Miha Glavič as a new member of the Audit Committee, while at the same time dismissing Mario Gobbo and Jernej Pirc as external members of the Audit Committee and appointing them as external advisers to the Audit Committee.

As of 31 December 2015, the Audit Committee consisted of the following three members: Peter Kavčič (Chair), Andrej Fatur (Deputy Chair) and Miha Glavič. Mario Gobbo and Jernej Pirc acted as external advisers to the Audit Committee.

The Audit Committee supports the Supervisory Board in overseeing the management of Nova KBM and the Nova KBM Group companies, in particular with regard to legitimacy of operations, compliance with ethical standards, the risk management system, financial reporting procedures, internal audit and the internal control system, and undertakes duties laid down in Nova KBM´s Articles of Association, documents of the Audit Committee and Supervisory Board resolutions.

In addition, the Audit Committee provides technical assistance to the Supervisory Board in collaborating with, and monitoring the work of, external auditors, chiefly with the aim of ensuring that the principles of independence and impartiality are adhered to and that the audit is carried out in the most efficient and effective manner.

The Audit Committee carries out its activities in accordance with the applicable legislation, Nova KBM´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.

In accordance with a decision adopted by the Shareholders´ Meeting on 27 June 2014, in 2015 members of the Audit Committee were, in addition to an attendance fee for their attendance and time spent at the meeting, entitled to receive basic remuneration for holding their office.

The Audit Committee´s external advisers performed their work on the basis of agreements signed with them by the Management Board.

Further information about the activities of the Audit Committee is set out in Nova KBM´s Annual Report for 2015, in the section titled 'Report of the Supervisory Board'.

Remuneration and Nomination Committee

In 2015, up until 13 May, the composition of the Remuneration and Nomination Committee was as follows: Peter Kukovica (Chair), Niko Samec (Deputy Chair), Peter Kavčič (member) and Romana Košorok (external member).

On 9 July 2015, based on the provisions of the ZBan-2, the Supervisory Board made a decision to transform the Remuneration and Nomination Committee into two separate committees – the Nomination Committee and the Remuneration Committee. In addition, the Supervisory Board recalled Romana Košorok from her position as an external member of the Remuneration and Nomination Committee to appoint her as an external adviser to the Nomination Committee.

Nomination Committee

As of 31 December 2015, the Nomination Committee consisted of the following members: Peter Kukovica (Chair), Niko Samec (Deputy Chair) and Peter Kavčič. Romana Košorok acted as an external adviser to the Nomination Committee.

The Nomination Committee is responsible for selecting and recommending to the Supervisory Board candidates for membership of the Management Board, and for selecting and recommending to the Shareholders´ Meeting candidates for membership of the Supervisory Board, taking into account policies on the selection of suitable candidates, as set out in the ZBan-2. Moreover, the Nomination Committee defines the tasks and required conditions for a specific appointment, including an assessment of the time envisaged for the performance of the function in question.

Once a year, the Nomination Committee must assess the size, structure and performance of the Management and Supervisory Boards, and must draw up a report detailing potential changes. It must also assess the knowledge, skills and experience of individual members of the Management and Supervisory Boards, and of the governing system as a whole, and must report to the Management and Supervisory Boards accordingly.

The Nomination Committee actively contributes to the fulfilment of Nova KBM´s obligation to adopt appropriate policies on the assessment of the suitability of members of Nova KBM´s governing bodies.

The area and the method of work of the Nomination Committee, its decision-making process and all other issues important for its work are regulated by the Rules of Procedure of the 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 Nomination Committee.

Remuneration Committee

On 9 July 2015, the Supervisory Board appointed the following members to the newly-established Remuneration Committee: Niko Samec (Chair), Peter Kukovica (Deputy Chair) and Miha Glavič.

The composition of the Remuneration Committee did not change by the end of 2015.

The Remuneration Committee carries out technical and independent assessments of remuneration policies and practices, and formulates initiatives for measures on the basis thereof with the aim of improving the management of the risks to which Nova KBM is exposed, as well as its capital and liquidity.

Furthermore, the Remuneration Committee draws up proposals for decisions by the governing bodies regarding the remuneration of employees, including remuneration that impacts the risks to which Nova KBM is exposed and the management thereof, and controls the remuneration of members of senior management who perform risk management functions and ensure the compliance of operations.

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

Risk Committee

On 9 July 2015, the Supervisory Board made a decision to establish the Risk Committee and appointed to it the following members: Andrej Fatur (Chair), Peter Kukovica (Deputy Chair) and Peter Kavčič.

The composition of the Risk Committee did not change by the end of 2015.

The Risk Committee provides advice regarding Nova KBM´s current and future propensity to assume risks and regarding its risk management strategy.

Without encroaching on the tasks of the Remuneration Committee, the Risk Committee verifies whether the forms of stimulation provided for by the remuneration system take into account the risks, capital, liquidity and likelihood and allocation of Nova KBM´s revenue, with the aim of formulating prudent remuneration policies and practices. In addition, it verifies whether the prices of Nova KBM´s products are fully compatible with the adopted business model and risk management strategy, and proposes measures for the elimination of identified discrepancies and submits those proposals to the Management and Supervisory Boards.

The area and the method of work of the Risk Committee, its decision-making process and all other issues important for its work are regulated by the Rules of Procedure of the Risk 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 Risk Committee.

This Corporate Governance Statement is an integral part of Nova KBM´s 2015 Annual Report and will be published on SEOnet, a web portal of the Ljubljana Stock Exchange, and on Nova KBM´s website.

Maribor, 3 February 2016

Management Board of Nova KBM d.d.

Sabina Župec Kranjc
Member

Robert Senica
President

Supervisory Board of Nova KBM d.d.

Peter Kukovica
Chair



14 STATEMENT OF MANAGEMENT´S RESPONSIBILITIES

(pursuant to Article 110 of the ZTFI)

By signing this statement, the members of the Nova KBM Management Board, i.e. **Robert Senica, President**, and **Sabina Župec Kranjc, Member**, confirm to the best of their knowledge that:

- the financial statements have been drawn up in accordance with the appropriate accounting framework of reporting and that they provide a true and fair view of the assets, liabilities, the financial position and the profit and loss of Nova KBM and other companies included in the consolidation as a whole, and
- the business report gives a fair view of the development and results of Nova KBM´s operations and its financial position, including the description of principal risks Nova KBM and other companies included in the consolidation are exposed to.

Maribor, 29 February 2016

Management Board of Nova KBM d.d.

Sabina Župec Kranjc
Member

Robert Senica
President

15 TYPE OF SERVICES FOR WHICH NOVA KBM HAS THE AUTHORIZATION OF THE BANK OF SLOVENIA

Nova KBM has the authorization to perform banking services pursuant to Article 5 of the ZBan-2 (Official Gazette of RS, No. 25/15).

Banking services are the acceptance of deposits from the public and the granting of loans for its own account. Nova KBM also has the authorization to perform mutually recognised and additional financial services.

Pursuant to Article 5 of the ZBan-2, Nova KBM may perform the following mutually recognised financial services:

1. Acceptance of deposits and other repayable funds.
2. Granting of loans, including:
   - consumer loans
   - mortgage loans
   - factoring (with our without recourse)
   - financing of commercial transactions, including forfeiting.
3. Financial leasing: lease of assets, where all material risks and benefits that derive from ownership rights over assets are transferred to the lessees, whereby transfer of the ownership rights to lessees is possible but not inevitable.
4. Payment services.
5. Issuance and management of other payment instruments (i.e. travellers´ cheques and bankers´ drafts) in the part in which this service is not included in service of Point 4 above.
6. Issuance of guarantees and other commitments.
7. Trading for its own account and for accounts of customers in:
   - money market instruments
   - foreign exchange, including currency exchange transactions
   - financial futures and options
   - foreign exchange and interest-rate instruments
   - transferable securities.
8. Participation in the issuance of securities and services related to such issues.
9. Advice and services related to mergers and the purchase of undertakings.
10. Portfolio management and advice.
11. Safekeeping of securities and other services related to safekeeping of securities.
12. Renting out of safe deposit boxes.
13. Investment services and operations and ancillary investment services in accordance with the ZTFI.

Nova KBM may perform the following additional financial services in accordance with Article 6 of the ZBan-2:

- 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 6 of the ZBan-2, Nova KBM may be engaged in the brokerage of voluntary supplementary pension insurance.

16 NOVA KBM BRANCH OFFICE NETWORK

BRANCH OFFICE NETWORK DEPARTMENT	**Razlagova ulica 4**	**2505 Maribor**	**Telephone: +386 2 229 28 39**
SLOVENIA-EAST BRANCH	**Razlagova ulica 4**	**2505 Maribor**	**Telephone: +386 2 229 28 39**
CENTRALA BRANCH OFFICE	Ulica Vita Kraigherja 4	2505 Maribor	Telephone: +386 2 229 20 60
TYRŠEVA BRANCH OFFICE	Tyrševa ulica 2	2505 Maribor	Telephone: +386 2 229 20 73
MELJE BRANCH OFFICE	Partizanska cesta 42	2505 Maribor	Telephone: +386 2 229 15 70
LJUBLJANSKA BRANCH OFFICE	Ljubljanska ulica 1–3	2505 Maribor	Telephone: +386 2 229 15 20
EUROPARK BRANCH OFFICE	Pobreška cesta 18	2505 Maribor	Telephone: +386 2 229 15 10
CESTA ZMAGE BRANCH OFFICE	Cesta zmage 98	2505 Maribor	Telephone: +386 2 229 17 20
KOROŠKA VRATA BRANCH OFFICE	Turnerjeva ulica 17a	2505 Maribor	Telephone: +386 2 229 16 60
POBREŽJE BRANCH OFFICE	Cesta XIV. divizije 34	2505 Maribor	Telephone: +386 2 229 15 30
TEZNO BRANCH OFFICE	Ptujska cesta 105	2505 Maribor	Telephone: +386 2 229 16 90
RUŠE BRANCH OFFICE	Jamnikova ulica 2	2342 Ruše	Telephone: +386 2 229 17 50
HOČE BRANCH OFFICE	Miklavška cesta 63	2311 Hoče	Telephone: +386 2 229 17 40
LOVRENC NA POHORJU BRANCH OFFICE	Gornji trg 20	2344 Lovrenc na Pohorju	Telephone: +386 2 229 18 40
LENART BRANCH OFFICE	Partizanska cesta 3	2230 Lenart v Slovenskih goricah	Telephone: +386 2 229 15 80
NOVI TRG BRANCH OFFICE	Novi trg 1	2250 Ptuj	Telephone: +386 2 229 19 24
BREG BRANCH OFFICE	Zagrebška cesta 4a	2250 Ptuj	Telephone: +386 2 229 18 90
KIDRIČEVO BRANCH OFFICE	Mladinska ulica 10	2325 Kidričevo	Telephone: +386 2 229 18 65
VIDEM BRANCH OFFICE	Videm pri Ptuju 43	2284 Videm pri Ptuju	Telephone: +386 2 229 19 75
GORIŠNICA BRANCH OFFICE	Gorišnica 61	2272 Gorišnica	Telephone: +386 2 229 17 85
ROGOZNICA BRANCH OFFICE	Špindlerjeva ulica 3	2250 Ptuj	Telephone: +386 2 229 17 35
RABELČJA VAS BRANCH OFFICE	Ulica 25. maja 13	2250 Ptuj	Telephone: +386 2 229 17 10
ORMOŽ BRANCH OFFICE	Ptujska cesta 2	2270 Ormož	Telephone: +386 2 229 18 70
TITOVA BRANCH OFFICE	Ljubljanska cesta 11	2310 Slovenska Bistrica	Telephone: +386 2 229 18 15
ZGORNJA BISTRICA BRANCH OFFICE	Partizanska ulica 61	2310 Slovenska Bistrica	Telephone: +386 2 229 17 90
POLJČANE BRANCH OFFICE	Bistriška cesta 60	2319 Poljčane	Telephone: +386 2 229 18 30
PRAGERSKO BRANCH OFFICE	Kolodvorska ulica 7	2331 Pragersko	Telephone: +386 2 229 18 50
OPLOTNICA BRANCH OFFICE	Ulica Pohorskega bataljona 7	2317 Oplotnica	Telephone: +386 2 229 18 60
DRAVOGRAD BRANCH OFFICE	Meža 10	2370 Dravograd	Telephone: +386 2 229 17 65
RAVNE BRANCH OFFICE	Prežihova ulica 5	2390 Ravne na Koroškem	Telephone: +386 2 229 16 40
MURSKA SOBOTA BRANCH OFFICE	Kocljeva ulica 11	9000 Murska Sobota	Telephone: +386 2 229 17 78
LJUTOMER BRANCH OFFICE	Glavni trg 4	9240 Ljutomer	Telephone: +386 2 229 15 60
GORNJA RADGONA BRANCH OFFICE	Partizanska cesta 26	9250 Gornja Radgona	Telephone: +386 2 229 19 70
LENDAVA BRANCH OFFICE	Trg ljudske pravice 11	9220 Lendava	Telephone: +386 2 229 16 30
CELJE BRANCH OFFICE	Cankarjeva ulica 1	3000 Celje	Telephone: +386 3 620 30 75

SLOVENIA-CENTRE BRANCH	**Tivolska cesta 48**	**1000 Ljubljana**	**Telephone: +386 1 620 30 00**
LJUBLJANA BRANCH OFFICE	Tivolska cesta 48	1000 Ljubljana	Telephone: +386 1 620 30 09
LJUBLJANA CENTER BRANCH OFFICE	Stritarjeva ulica 2	1000 Ljubljana	Telephone: +386 1 620 30 30
KRANJ BRANCH OFFICE	Koroška cesta 2	4000 Kranj	Telephone: +386 4 620 31 04
ŽIRI BRANCH OFFICE	Loška cesta 15	4226 Žiri	Telephone: +386 4 620 31 30
NOVO MESTO BRANCH OFFICE	Rozmanova ulica 24	8000 Novo mesto	Telephone: +386 7 620 31 60
BREŽICE BRANCH OFFICE	Cesta prvih borcev 6	8250 Brežice	Telephone: +386 7 620 31 47
KRŠKO BRANCH OFFICE	Cesta krških žrtev 137	8270 Krško	Telephone: +386 7 620 31 70
SLOVENIA-WEST BRANCH	**Kidričeva ulica 11**	**5000 Nova Gorica**	**Telephone: +386 5 331 70 00**
CENTRALA BRANCH OFFICE	Kidričeva ulica 11	5000 Nova Gorica	Telephone: +386 5 331 70 00
MESTNA HRANILNICA BRANCH OFFICE	Tumova ulica 1	5000 Nova Gorica	Telephone: +386 5 331 74 60
ŠEMPETER BRANCH OFFICE	Cesta Prekomorskih brigad 9	5290 Šempeter pri Gorici	Telephone: +386 5 331 70 60
SOLKAN BRANCH OFFICE	Trg J. Srebrniča 2	5250 Solkan	Telephone: +386 5 331 74 80
BRDA BRANCH OFFICE	Trg 25. maja 5	5212 Dobrovo v Brdih	Telephone: +386 5 331 74 85
KANAL BRANCH OFFICE	Trg svobode 23	5213 Kanal	Telephone: +386 5 331 74 70
BRANIK BRANCH OFFICE	Branik 75	5295 Branik	Telephone: +386 5 331 70 86
MIREN BRANCH OFFICE	Miren 125a	5291 Miren	Telephone: +386 5 331 70 80
DESKLE BRANCH OFFICE	Srebrničeva ulica 20	5210 Deskle	Telephone: +386 5 331 74 75
DORNBERK BRANCH OFFICE	Gregorčičeva ulica 11	5294 Dornberk	Telephone: +386 5 331 70 85
RENČE BRANCH OFFICE	Trg 40	5292 Renče	Telephone: +386 5 331 70 56
AJDOVŠČINA BRANCH OFFICE	Goriška cesta 25	5270 Ajdovščina	Telephone: +386 5 331 70 14
VIPAVA BRANCH OFFICE	Cesta 18. aprila 4	5271 Vipava	Telephone: +386 5 331 70 50
IDRIJA BRANCH OFFICE	Lapajnetova ulica 41	5280 Idrija	Telephone: +386 5 331 70 91
CERKNO BRANCH OFFICE	Glavni trg 5	5282 Cerkno	Telephone: +386 5 331 71 30
TOLMIN BRANCH OFFICE	Trg maršala Tita 14	5220 Tolmin	Telephone: +386 5 331 71 47
BOVEC BRANCH OFFICE	Trg golobarskih žrtev 47	5230 Bovec	Telephone: +386 5 331 71 65
KOBARID BRANCH OFFICE	Trg svobode 2	5222 Kobarid	Telephone: +386 5 331 71 70
MOST NA SOČI BRANCH OFFICE	Most na Soči 60a	5216 Most na Soči	Telephone: +386 5 331 71 75
PODBRDO BRANCH OFFICE	Podbrdo 33d	5243 Podbrdo	Telephone: +386 5 331 71 80
KOPER BRANCH OFFICE	Ferrarska ulica 12	6000 Koper	Telephone: +386 5 331 71 96

FINANCIAL REPORT



AUDITOR´S REPORT ON THE FINANCIAL STATEMENTS

NOVA KBM GROUP AND NOVA KBM d.d.

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Fax: + 386 (0)1 3072 900
www.deloitte.si

INDEPENDENT AUDITOR'S REPORT
to the owners of Nova KBM d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the bank Nova KBM d.d. and its subsidiaries (hereinafter: "the Group"), which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na www.deloitte.com/si/nasa-druzba.

Member of Deloitte Touche Tohmatsu Limited

Opinion

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 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

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 29 February 2016

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Fax: + 386 (0)1 3072 900
www.deloitte.si

INDEPENDENT AUDITOR'S REPORT
to the owners of Nova KBM d.d.

Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of the bank Nova KBM d.d. (hereinafter: the "bank"), which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guaranteee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na www.deloitte.com/si/nasa-druzba.

Member of Deloitte Touche Tohmatsu Limited

Opinion

In our opinion the unconsolidated financial statements give a true and fair view of the financial position of the bank as at 31 December 2015 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

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 29 February 2016

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS



FINANCIAL STATEMENTS

NOVA KBM GROUP AND NOVA KBM d.d.

1 INCOME STATEMENT

€000

		Nova KBM Group		Nova KBM d.d.	
ITEM DESCRIPTION	Notes	Year ended 31.12.2015	Year ended 31.12.2014	Year ended 31.12.2015	Year ended 31.12.2014
Interest income	7	122,382	161,255	100,926	136,738
Interest expenses	7	(24,238)	(50,529)	(21,825)	(43,147)
Net interest income	**7**	**98,144**	**110,726**	**79,101**	**93,591**
Dividend income	**8**	**1,117**	**1,046**	**1,033**	**927**
Fee and commission income	9	81,294	85,443	44,699	46,163
Fee and commission expenses	9	(26,817)	(29,484)	(4,163)	(4,041)
Net fee and commission income	**9**	**54,477**	**55,959**	**40,536**	**42,122**
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	10	13,751	15,100	13,166	10,203
Net (losses) on financial assets and liabilities held for trading	11	(4,047)	(896)	(4,281)	(1,618)
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	12	(4,435)	5,718	(4,435)	5,718
Net gains from foreign exchange rate differences	13	6,730	1,212	6,876	1,238
Net gains/(losses) on derecognition of assets	14	(18)	161	(166)	412
Other net operating (loss)	15	(3,847)	(3,009)	(3,212)	(5,083)
Administration costs	16	(84,752)	(89,146)	(63,157)	(63,179)
Depreciation and amortisation	17	(12,663)	(14,462)	(9,504)	(10,866)
Provisions	18	9,642	15,497	10,813	8,460
Impairment losses	19	(48,780)	(60,011)	(26,787)	(51,539)
Share of profits of subsidiaries, associates and joint ventures	20	135	154	528	3,773
Total profit/(loss) from non-current assets and disposal groups classified as held for sale	-	712	(85)	1,740	23
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**-**	**26,166**	**37,964**	**42,251**	**34,182**
Income taxes on continuing operations	21	(9,030)	4,424	(7,816)	5,085
NET PROFIT FROM CONTINUING OPERATIONS	**-**	**17,136**	**42,388**	**34,435**	**39,267**
Total (loss) after tax from discontinued operations	54	(176)	(19,107)	0	(3,351)
NET PROFIT FOR THE FINANCIAL YEAR	**-**	**16,960**	**23,281**	**34,435**	**35,916**
a) Attributable to owners of the parent	-	16,567	21,898	34,435	35,916
– continuing operations	-	16,743	39,458	34,435	39,267
– discontinued operations	-	(176)	(17,560)	0	(3,351)
b) Attributable to non-controlling interests	-	393	1,383	0	0
– continuing operations	-	393	2,930	0	0
– discontinued operations	-	0	(1,547)	0	0
Basic earnings per share (€)	22	1.66	2.19	3.44	3.59
Diluted earnings per share (€)	22	1.66	2.19	3.44	3.59

The accompanying notes form an integral part of these financial statements.

2 STATEMENT OF OTHER COMPREHENSIVE INCOME

€000

	Nova KBM Group		Nova KBM d.d.	
ITEM DESCRIPTION	Year ended 31.12.2015	Year ended 31.12.2014	Year ended 31.12.2015	Year ended 31.12.2014
NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX	**16,960**	**23,281**	**34,435**	**35,916**
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX	**(10,064)**	**33,208**	**(8,060)**	**26,719**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**497**	**(819)**	**440**	**(700)**
Actuarial gains/(losses) on defined benefit pension plans	511	(858)	440	(725)
(Loss) related to non-current assets and disposal groups classified as held for sale	0	(6)	0	0
Income tax relating to items that will not be reclassified to profit or loss	(14)	45	0	25
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(10,561)**	**34,027**	**(8,500)**	**27,419**
Gains/(losses) from foreign currency translation	**20**	**(48)**	**0**	**0**
– translation gains/(losses) taken to equity	20	(48)	0	0
Gains/(losses) in respect of available-for-sale financial assets	**(12,670)**	**41,812**	**(10,240)**	**33,036**
– valuation gains/(losses) taken to equity	(12,849)	41,807	(10,240)	33,036
– gains transferred to profit or loss	179	5	0	0
Share of profits/(losses) of associates and joint ventures accounted for using the equity method	**(34)**	**52**	**0**	**0**
(Losses) recognised in other comprehensive income in respect of discontinued operations	**(60)**	**(697)**	**0**	**0**
Income tax relating to items that may be reclassified to profit or loss	**2,183**	**(7,092)**	**1,740**	**(5,617)**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**6,896**	**56,489**	**26,375**	**62,635**
a) Attributable to owners of the parent	6,519	55,036	26,375	62,635
– continuing operations	6,750	73,225	26,375	65,986
– discontinued operations (Note 54)	(231)	(18,189)	0	(3,351)
b) Attributable to non-controlling interests	377	1,453	0	0
– continuing operations	382	3,074	0	0
– discontinued operations (Note 54)	(5)	(1,621)	0	0

The accompanying notes form an integral part of these financial statements.

3 STATEMENT OF FINANCIAL POSITION

€000

		Nova KBM Group		Nova KBM d.d.	
ITEM DESCRIPTION	Notes	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cash, cash balances at central banks and demand deposits at banks	23	322,889	422,264	260,860	335,417
Financial assets held for trading	24	1,563	1,841	116	187
Financial assets designated at fair value through profit or loss	25	13,421	17,857	13,421	17,857
Available-for-sale financial assets	26	1,675,907	1,482,120	1,442,288	1,275,213
Loans and advances	-	1,896,388	1,991,342	1,623,522	1,664,347
– loans and advances to banks	27	61,229	50,124	61,439	59,299
– loans and advances to customers	28	1,808,373	1,920,875	1,538,283	1,593,294
– other financial assets	29	26,786	20,343	23,800	11,754
Held-to-maturity financial assets	30	129,548	206,540	28,566	89,950
Non-current assets held for sale and discontinued operations	37	57,449	61,273	1,239	865
Property, plant and equipment	31	57,325	61,431	49,908	52,570
Investment property	32	31,184	36,759	28,439	29,188
Intangible assets	33	21,806	25,483	11,908	14,335
Investments in the equity of subsidiaries, associates and joint ventures	34	0	3,164	81,400	96,764
Tax assets	35	8,981	12,984	8,721	12,291
– current tax assets	35	1,706	258	1,446	2
– deferred tax assets	35	7,275	12,726	7,275	12,289
Other assets	36	29,706	45,952	12,967	19,231
TOTAL ASSETS	**-**	**4,246,167**	**4,369,010**	**3,563,355**	**3,608,215**
Financial liabilities held for trading	38	270	1,229	270	1,170
Financial liabilities measured at amortised cost	39	3,494,287	3,585,893	2,895,029	2,935,277
– deposits from banks and central banks	39	29,768	20,875	32,833	11,780
– deposits from customers	39	3,094,447	3,074,146	2,513,618	2,463,368
– loans from banks and central banks	39	316,242	394,213	299,554	363,552
– loans from customers	39	909	2,729	909	2,729
– debt securities issued	39	12,368	59,129	14,418	67,452
– subordinated liabilities	39	610	1,250	0	0
– other financial liabilities	39	39,943	33,551	33,697	26,396
Liabilities included in disposal groups classified as held for sale and discontinued operations	54	56,941	59,823	0	0
Provisions	40	66,876	83,011	59,085	74,605
Tax liabilities	35	1,641	4,557	0	2,494
– current tax liabilities	35	61	3,021	0	2,494
– deferred tax liabilities	35	1,580	1,536	0	0
Other liabilities	41	3,079	18,140	2,242	14,322
TOTAL LIABILITIES	**-**	**3,623,094**	**3,752,653**	**2,956,626**	**3,027,868**

€000

		Nova KBM Group		Nova KBM d.d.	
ITEM DESCRIPTION	Notes	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Share capital	42	150,000	150,000	150,000	150,000
Share premium	43	360,572	360,572	360,572	360,572
Accumulated other comprehensive income	44	32,815	42,841	25,799	33,859
Translation reserves	-	(3,230)	(3,208)	0	0
Reserves from profit	45	54,069	27,895	53,648	27,389
Retained earnings (including net profit for the financial year)	46	25,731	35,338	16,710	8,527
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**-**	**619,957**	**613,438**	**606,729**	**580,347**
Equity attributable to non-controlling interests	-	3,116	2,919	0	0
TOTAL EQUITY	**-**	**623,073**	**616,357**	**606,729**	**580,347**
TOTAL LIABILITIES AND EQUITY	**-**	**4,246,167**	**4,369,010**	**3,563,355**	**3,608,215**

The accompanying notes form an integral part of these financial statements.

4 STATEMENT OF CASH FLOWS

€000

		Nova KBM Group		Nova KBM d.d.	
Designation	**ITEM DESCRIPTION**	Year ended 31.12.2015	Year ended 31.12.2014	Year ended 31.12.2015	Year ended 31.12.2014
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**				
a)	**Total profit before tax**	**25,749**	**18,599**	**42,251**	**34,182**
	Depreciation and amortisation	13,332	15,253	9,504	10,866
	Impairment of available-for-sale financial assets	1,640	3,500	1,639	3,472
	Impairment of loans and advances	44,926	67,572	20,200	36,053
	Impairment/(reversal of impairment) of held-to-maturity financial assets	(419)	171	0	0
	Impairment of tangible assets, investment property, intangible assets and other assets	1,759	8,521	1,353	974
	Impairment of investments in the equity of subsidiaries, associates and joint ventures	0	0	3,595	11,040
	Share of (profits) of subsidiaries, associates and joint ventures	(135)	(154)	(528)	(3,773)
	Net (gains) from foreign exchange rate differences	(6,586)	(1,256)	(6,876)	(1,238)
	Net (gains)/losses from the sale of tangible assets and investment property	42	(217)	166	(415)
	Net losses from the sale of intangible assets	0	22	0	0
	Other (gains) from investing activities	(3,309)	(6,843)	(1,697)	(6,838)
	Net unrealised (gains)/losses from non-current assets held for sale and discontinued operations and the liabilities associated therewith	(686)	113	(1,740)	(23)
	Other adjustments to total profit or loss before tax	(9,747)	(19,050)	(10,813)	(8,457)
	Cash flow from operating activities before changes in operating assets and liabilities	**66,566**	**86,231**	**57,054**	**75,843**
b)	**(Increase)/decrease in operating assets (excluding cash equivalents)**	**(97,797)**	**235,267**	**(117,315)**	**123,894**
	Net (increase)/decrease in financial assets held for trading	1,342	(1,234)	68	435
	Net decrease in financial assets designated at fair value through profit or loss	4,436	6,729	4,436	6,729
	Net (increase)/decrease in available-for-sale financial assets	(213,649)	13,686	(178,955)	(34,850)
	Net decrease in loans and advances	94,900	206,849	51,964	157,563
	Net (increase) in non-current assets held for sale	0	(477)	0	(85)
	Net (increase)/decrease in other assets	15,174	9,714	5,172	(5,898)
c)	**(Decrease) in operating liabilities**	**(122,582)**	**(485,017)**	**(63,280)**	**(358,339)**
	Net increase/(decrease) in financial liabilities held for trading	(959)	(193)	(900)	194
	Net increase/(decrease) in deposits and loans taken, measured at amortised cost	(53,397)	(484,485)	7,129	(357,534)
	Net (decrease) in debt securities in issue, measured at amortised cost	(46,761)	(1,844)	(53,034)	(1,832)
	Net increase/(decrease) in other liabilities	(21,465)	1,505	(16,475)	833
d)	**Cash flow from operating activities (a + b + c)**	**(153,813)**	**(163,519)**	**(123,541)**	**(158,602)**
e)	**Income taxes (paid)/refunded**	**(5,776)**	**417**	**(5,007)**	**0**
f)	**Net cash flow from operating activities (d + e)**	**(159,589)**	**(163,102)**	**(128,548)**	**(158,602)**

€000

		Nova KBM Group		Nova KBM d.d.	
Designation	**ITEM DESCRIPTION**	Year ended 31.12.2015	Year ended 31.12.2014	Year ended 31.12.2015	Year ended 31.12.2014
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**				
a)	**Receipts from investing activities**	**124,503**	**170,637**	**72,556**	**109,746**
	Receipts from the sale of tangible assets and investment property	4,619	5,900	65	2,218
	Receipts from the sale of intangible assets	0	24	0	0
	Receipts from the disposal of associates	3,982	0	3,982	0
	Receipts from non-current assets or liabilities held for sale	186	0	186	0
	Receipts from the sale of held-to-maturity financial assets	115,716	164,713	63,079	106,040
	Other receipts from investing activities	0	0	5,244	1,488
b)	**Cash payments on investing activities**	**(39,529)**	**(89,496)**	**(3,557)**	**(42,223)**
	(Cash payments to acquire tangible assets and investment property)	(1,185)	(1,888)	(958)	(20,224)
	(Cash payments to acquire intangible assets)	(3,347)	(3,081)	(2,584)	(2,314)
	(Cash payments for the investments in the equity of subsidiaries, associates and joint ventures)	0	0	0	(19,685)
	(Cash outflow to non-current assets or liabilities held for sale)	(15)	0	(15)	0
	(Cash payments to acquire held-to-maturity financial assets)	(34,982)	(84,527)	0	0
c)	**Net cash flow from investing activities (a + b)**	**84,974**	**81,141**	**68,999**	**67,523**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**				
b)	**Cash payments on financing activities**	**(766)**	**(96)**	**0**	**(1)**
	(Dividends and shares in profits paid)	(126)	(96)	0	(1)
	(Repayment of subordinated liabilities)	(640)	0	0	0
c)	**Net cash flow from financing activities (a + b)**	**(766)**	**(96)**	**0**	**(1)**
D.	Effects of change in foreign exchange rates on cash and cash equivalents	(3,614)	2,642	(3,668)	3,555
E.	**Net (decrease) in cash and cash equivalents (Af + Bc + Cc)**	**(75,381)**	**(82,057)**	**(59,549)**	**(91,080)**
F.	**Opening balance of cash and cash equivalents**	**477,831**	**557,246**	**365,599**	**453,124**
G.	**Closing balance of cash and cash equivalents (D + E + F)**	**398,836**	**477,831**	**302,382**	**365,599**

The statement of cash flows for the years ended 31 December 2015 and 2014 includes cash flows, cash and cash equivalents in respect of discontinued operations, the details of which are presented in Note 54. Reconciliation of cash and cash equivalents with the statement of financial position items is presented in Note 23.1.

Cash Flows from Interest, Dividends and Shares in Profits

€000

	Nova KBM Group		Nova KBM d.d.	
ITEM DESCRIPTION	Year ended 31.12.2015	Year ended 31.12.2014	Year ended 31.12.2015	Year ended 31.12.2014
Interest paid	(38,452)	(67,499)	(32,325)	(57,465)
Interest received	139,450	163,782	110,367	131,792
Dividends and shares in profits paid	(126)	(96)	0	(1)
Dividends and shares in profits received	1,116	944	1,561	1,415

The accompanying notes form an integral part of these financial statements.

5 STATEMENT OF CHANGES IN EQUITY

Statement of changes in the equity of the Nova KBM Group for the year ended 31 December 2015

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Translation reserves	Reserves from profit	Retained earnings (including net profit for the financial year)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**42,841**	**(3,208)**	**27,895**	**35,338**	**613,438**	**2,919**	**616,357**
Total comprehensive income for the financial year after tax	0	0	(10,026)	(22)	0	16,567	6,519	377	6,896
Appropriation of (accounting for) dividends/profits	0	0	0	0	0	0	0	(126)	(126)
Transfer of net profit to reserves from profit	0	0	0	0	26,174	(26,174)	0	0	0
Other	0	0	0	0	0	0	0	(54)	(54)
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**32,815**	**(3,230)**	**54,069**	**25,731**	**619,957**	**3,116**	**623,073**

The accompanying notes form an integral part of these financial statements.

Statement of changes in the equity of the Nova KBM Group for the year ended 31 December 2014

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Translation reserves	Reserves from profit	Retained earnings (including net profit for the financial year)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**8,981**	**(2,486)**	**663**	**48,937**	**566,667**	**(6,639)**	**560,028**
Total comprehensive income for the financial year after tax	0	0	33,860	(722)	0	21,898	55,036	1,453	56,489
Recapitalization of subsidiaries	0	0	0	0	0	(8,264)	(8,264)	8,264	0
Appropriation of (accounting for) dividends/profits	0	0	0	0	0	0	0	(95)	(95)
Transfer of net profit to reserves from profit	0	0	0	0	27,232	(27,232)	0	0	0
Other	0	0	0	0	0	(1)	(1)	(64)	(65)
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**42,841**	**(3,208)**	**27,895**	**35,338**	**613,438**	**2,919**	**616,357**

The accompanying notes form an integral part of these financial statements.

Statement of changes in the equity of Nova KBM for the year ended 31 December 2015

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including net profit for the financial year)	Total equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**33,859**	**27,389**	**8,527**	**580,347**
Total comprehensive income for the financial year after tax	0	0	(8,060)	0	34,435	26,375
Transfer of net profit to reserves from profit	0	0	0	26,259	(26,259)	0
Other	0	0	0	0	7	7
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**25,799**	**53,648**	**16,710**	**606,729**

The accompanying notes form an integral part of these financial statements.

Statement of changes in the equity of Nova KBM for the year ended 31 December 2014

€000

ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including net profit for the financial year)	Total equity
OPENING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**7,140**	**0**	**0**	**517,712**
Total comprehensive income for the financial year after tax	0	0	26,719	0	35,916	62,635
Transfer of net profit to reserves from profit	0	0	0	27,389	(27,389)	0
CLOSING BALANCE FOR THE FINANCIAL YEAR	**150,000**	**360,572**	**33,859**	**27,389**	**8,527**	**580,347**

The accompanying notes form an integral part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

NOVA KBM GROUP AND NOVA KBM d.d.

1 GENERAL INFORMATION

Nova KBM is the parent company of the Nova KBM Group which, as of 31 December 2015, comprised the parent company and 10 subsidiary companies.

Nova KBM is a commercial bank with a tradition of understanding and supporting its retail and corporate customers to whom it provides standard banking products. Its registered office is at Ulica Vita Kraigherja 4, 2505 Maribor, Republic of Slovenia.

As of 31 December 2015, the share capital of Nova KBM totalled €150,000,000 and was split into 10,000,000 ordinary no-par-value shares, all of which were held by the Republic of Slovenia.

On 30 June 2015, the Slovene Sovereign Holding, Apollo Global Management LLC (Apollo) and the EBRD signed the agreement concerning the sale of a 100% shareholding of the Republic of Slovenia in Nova KBM. The buyers, Apollo and the EBRD, will endeavour to ensure the further growth of Nova KBM, while developing its services and broadening its offerings. Moreover, they will make every effort to strengthen the relationships with Nova KBM´s corporate and retail customers, as well as its other stakeholders. The process of selling Nova KBM entered its final phase at the end of 2015.

Nova KBM is obliged to prepare consolidated financial statements.

1.1 Definition of the Nova KBM Group

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

Company	Position in the Nova KBM Group	Nova KBM Group´s voting rights in the company (%)	Registered office (country of incorporation)
Nova KBM d.d.	parent bank		Maribor, Slovenia
Poštna banka Slovenije d.d.	subsidiary bank	99.12	Maribor, Slovenia
KBM Banka a.d.	subsidiary bank	89.53	Kragujevac, Serbia
Adria Abwicklungs GmbH in Liqu.	subsidiary company	100.00	Vienna, Austria
KBM Infond d.o.o.	subsidiary company	72.73[1]	Maribor, Slovenia
KBM Leasing d.o.o. (in liquidation)	subsidiary company	100.00	Maribor, Slovenia
KBM Invest d.o.o.	subsidiary company	100.00	Maribor, Slovenia
Gorica Leasing d.o.o. (in liquidation)	subsidiary company	100.00	Nova Gorica, Slovenia
M-PAY d.o.o.	subsidiary company	50.00	Maribor, Slovenia
KBM Leasing Hrvatska d.o.o. (in liquidation)	subsidiary company	100.00	Zagreb, Croatia
MB Finance B.V.	subsidiary company	00.00[2]	Netherlands

[1] The Nova KBM Group´s stake in the share capital of KBM Infond accounts for 72.00%. Because KBM Infond holds a certain number of its own shares, the Nova KBM Group´s stake in the capital of and voting rights in KBM Infond equals 72.73%.

[2] In accordance with IFRS 10, MB Finance is regarded as a special purpose vehicle controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Nova KBM Group.

In August 2014, the Adria Bank Supervisory Board reached a decision to start the procedures to terminate the operations of Adria Bank. Adria Bank returned its licence for providing banking services to the FMA on 23 March 2015, the same day on which it ceased its banking operations and met the conditions to wind up its business. On 11 June 2015, Adria Bank was legally transformed from a joint stock company into a limited liability company (GmbH) named 'Adria Abwicklungs', which filed for controlled liquidation on 26 June 2015, in accordance with a ruling made by the relevant court. On 3 September 2015, the Shareholders´ Meeting of Adria Abwicklungs GmbH in Liqu. (hereafter: Adria Abwicklungs) made the decision to reduce the share capital of the company by €8,860,000. This reduction in the share capital was entered into the records kept by the competent Registration Court in Vienna on 18 December 2015. The amount by which the capital of Adria Abwicklungs was reduced is to be repaid to Nova KBM, its sole owner, pursuant to the agreement between the two regarding the repayment of capital. While €3,715,000 was already repaid in December 2015, the remaining balance, which is secured by BAMC bonds, is expected to be repaid by the end of 2016.

In accordance with the commitments made to the European Commission regarding the restructuring of the Nova KBM Group, the controlled liquidation of KBM Leasing and Gorica Leasing started at the end of 2014, while that of KBM Leasing Hrvatska started in April 2015, based on appropriate decisions made by Nova KBM. While these three companies are still controlled by Nova KBM and are therefore fully consolidated in the Nova KBM Group´s accounts, their financial statements have been prepared on a non-going concern basis. A non-going concern assumption has been taken into consideration in the valuation of the investments in, and credit exposures to, these companies.

The liquidation proceedings against KBM Leasing Hrvatska are expected to be completed by the end of 2016, while those against KBM Leasing and Gorica Leasing are planned to be concluded within the next three years.

In December 2014, the Nova KBM Management Board passed a decision to sell KBM Banka, based on which the investment of Nova KBM in KBM Banka was reclassified as non-current assets held for sale. KBM Banka is fully consolidated in the consolidated financial statements, with its assets, liabilities and profit and loss components being presented as separate items.

Since 31 March 2014, KBM Banka has been under-capitalized and subject to specific measures imposed on it by the National Bank of Serbia. Efforts to find an appropriate solution for this banking subsidiary in Serbia continued throughout 2015, with the focus being placed by Nova KBM on the attempts to sell its equity investment in KBM Banka and to withdraw from the Serbian market. Simultaneously with these efforts, work started on developing and evaluating alternative scenarios to be implemented in the event that the sale fails. On 17 February 2016, based on the prior consent of the Nova KBM Supervisory Board, Nova KBM signed the agreement concerning the sale of its 546,683 shares in KBM Banka to a new investor. The number of shares sold by Nova KBM accounted for 89.53% of the total outstanding shares of KBM Banka.

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

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

2 BASIS FOR THE PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Nova KBM Group and Nova KBM for the year ended 31 December 2015 were authorized for issue on 24 February 2016 by the Nova KBM Management Board.

The financial statements have been prepared in accordance with regulatory requirements and on the assumption that both Nova KBM and the Nova KBM Group will continue as going concerns in the foreseeable future and that they will be able to meet their liabilities when due.

2.1 Statement of compliance and purpose of financial statements

The separate and consolidated financial statements have been prepared in accordance with the IFRSs as adopted by the EU.

These statutory financial statements are prepared for the purpose of compliance with legal requirements. The Nova KBM Group is legally required to obtain an independent audit of these financial statements. The scope of that audit is limited to an audit of general purpose statutory financial statements to fulfil the legal requirement for audit of statutory financial statements. The audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction. The audited financial statements are not intended for use by any party for purposes of decision making concerning any ownership, financing or any other specific transactions relating to the Nova KBM Group. Accordingly, users of the audited statutory financial statements should not rely exclusively on the financial statements and should undertake other procedures before making decisions.

2.2 Basis of valuation

The financial statements have been prepared under the historical cost convention, except for the following items for which the fair value has been elected:

- financial assets designated at fair value through profit or loss
- available-for-sale financial assets
- derivatives
- investment property.

The fair value assessment methods are set out below.

2.3 Use of estimates and judgements

The preparation of financial statements in accordance with the IFRSs requires the use of certain accounting estimates and judgements, which may affect the value of reported assets and liabilities and of potential assets and liabilities as of the reporting date, and income and expenses for the period then ended.

The most important judgements relate to the classification of financial instruments, in particular to the distribution between the held-to-maturity portfolio and the portfolio held for trading. The classification of financial instruments is carried out in line with the Nova KBM Group´s policy prior to the initial recognition of a financial instrument.

Estimates are used for: impairment of loans to customers, impairment of available-for-sale financial assets, fair value of financial assets and liabilities, provisions for off-balance sheet items, depreciation of property, plant and equipment and amortisation of intangible assets, potential tax items, provisions for liabilities to employees and provisions for pending legal issues.

Changes in estimates for impairment losses have an especially important impact on the financial position and results of operations. These estimates are subject to adjustment in the future as a result of changes in economic conditions, customers´ repayment capabilities, and realisation of collateral values for defaulted loans.

2.4 Presentation and functional currency

Items included in the financial statements are presented in euro, which is the functional and presentation currency of both Nova KBM and the Nova KBM Group.

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros, unless stated otherwise. Slight discrepancies in the totals may occur due to rounding adjustments.

2.5 Changes in financial statements

On the basis of the ZBan-2 (Official Gazette of RS, No. 25/15), the Regulation on the Reporting of Monetary Financial Institutions was published in the Official Gazette of RS, No. 50/15, dated 10 July 2015, specifying the details regarding the reporting by monetary financial institutions to the Bank of Slovenia in compliance with the requirements of the European System of Central Banks.

Based on an amendment to the applicable executive regulation, the Bank of Slovenia issued the Instructions for the Implementation of the Regulation on the Reporting by Monetary Financial Institutions, which came into force on 1 November 2015.

The Nova KBM Group used the amended financial statement layouts for the first time for the purpose of publishing its financial statements as of 31 December 2015. The comparability of data for 31 December 2015 with those for 31 December 2014 has been ensured. Changes in the income statement are set out below:

- Dividends from investments in the Nova KBM Group companies were reclassified from 'Dividend income' to 'Net profit or loss from investments in the equity of subsidiaries, associates and joint ventures'.
- The effects arising from the derecognition of investments in the equity of the Nova KBM Group companies were reclassified from 'Net gains or losses on the derecognition of assets' to 'Net profit or loss from investments in the equity of subsidiaries, associates and joint ventures'.

The effects of changes referred to above on the income statement for the year ended 31 December 2014 are presented in the following table:

ITEM DESCRIPTION	Nova KBM Group	Nova KBM d.d.
Dividend income	0	(488)
Net (losses) on the derecognition of assets	0	(3,285)
Net (loss) from investments in the equity of subsidiaries, associates and joint ventures	0	3,773

The statement of financial position, the statement of comprehensive income and the statement of changes in equity were not affected by the reporting changes described above, while the changes to the statement of cash flows were made in order to ensure consistency with the amendments made to the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES

The adopted accounting policies have been consistently applied in both reporting periods presented in these financial statements.

3.1 Consolidation

Basis of consolidation
The consolidated financial statements comprise the financial statements of Nova KBM and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Nova KBM Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to non-controlling interests even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Nova KBM Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the book value of any non-controlling interest
- derecognises the cumulative translation differences, recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent´s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations and goodwill/negative goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree´s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Nova KBM 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 acquire.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer´s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss (negative goodwill).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Nova KBM Group´s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the book value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Subsidiaries

Subsidiary entities are entities controlled by the Nova KBM Group. Control exists when the Nova KBM Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity.

Financial statements of subsidiary entities are included in the consolidated financial statements from the date on which effective control is transferred to the Nova KBM 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 Nova KBM Group. The reporting dates are unified across the entire Nova KBM Group. All subsidiary entities are fully consolidated.

In the statement of financial position, non-controlling interests are reported as a separate item within equity. Shares of non-controlling interests are eliminated from all equity items in proportion to the share of non-controlling interests in the share capital.

Associated entities

Associated entities are those entities in which the Nova KBM Group has significant influence, but not control, over the financial and operating policies. Significant influence exists when the Nova KBM Group has the power to participate in, but not control or jointly control, the financial and operating decisions of the investee.

Associated entities are accounted for using the equity method and are initially recognised at cost. The Nova KBM Group´s investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Nova KBM 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 Nova KBM Group, from the date the significant influence or joint control commences until the date that significant influence or joint control ceases. When the Nova KBM Group´s share of losses exceeds its interest in an equity accounted investee, the book value of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Nova KBM Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses and dividends arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from intra-group transactions and recognised in assets are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Investments in the equity of subsidiaries and associated entities presented in the separate financial statements of Nova KBM

In making decisions on whether it has control over, or significant influence in, an entity, the Management Board takes into consideration the pre-determined criteria regarding the definition of subsidiary and associated entities.

In the separate financial statements of Nova KBM, the investments in the equity of subsidiaries and associated entities are presented at cost less any impairment losses.

3.2 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange rate differences are recognised in profit or loss.

Asset and liability items denominated in foreign currency are translated and disclosed in the consolidated financial statements by applying the ECB´s reference exchange rates in effect on the reporting date. The effects of translating foreign currency into the euro are recognised in profit or loss as net translation gains or losses.

Translation differences on non-monetary items, such as equity instruments 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 Nova KBM Group companies that have functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the rate of exchange prevailing at the reporting date
- profit or loss is translated at the average exchange rate for the period.

While translation differences are presented as a separate equity category, they are recognised in profit or loss in the period in which the asset is disposed of.

3.3 Cash equivalents

Cash equivalents are current, highly liquid investments that can be quickly converted into a known amount of cash and for which the risk of changes in value is negligible.

The Nova KBM Group regards the following items as cash equivalents:

- cash and balances in settlement and current accounts
- loans to banks with an original maturity of up to three months
- investments in available-for-sale debt securities with an original maturity of up to three months.

Obligatory deposit funds are available to finance day-to-day operations and are therefore considered as cash equivalent.

3.4 Financial assets

3.4.1 Classification of financial assets

Upon initial recognition, the Nova KBM 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 Nova KBM 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 Nova KBM Group attests the purpose and capacity to hold them until maturity.
- Available-for-sale financial assets are assets which the Nova KBM 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 Nova KBM Group uses financial instruments to economically hedge against risks arising from other financial instruments. In its accounting, the Nova KBM Group does not apply the rules of hedge accounting because gains and losses resulting from the hedged item and the hedging instrument are recognised simultaneously in profit or loss.

The Nova KBM Group does not hold instruments for which hedge accounting would be required.

3.4.2 Recognition and derecognition of financial assets

Purchases and sales of financial assets other than loans and advances are recognised on the trading date (the day when the contract is made). Loans and advances are recognised when funds are advanced to borrowers.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition (the Nova KBM Group transferred all rights and risks under the financial asset). Should the Nova KBM Group transfer the financial asset, but retain practically all risks and rights, derecognition of the asset is not carried out.

If a financial asset is derecognised in full, the difference between the book value of the asset and the sum of any consideration received (including any new assets obtained less any new liabilities assumed), together with any cumulative gain or loss that had been recognised directly in other comprehensive income, is recognised in profit or loss.

3.4.3 Measurement of financial assets

Financial assets 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 Nova KBM Group for trading and hedging purposes, and are measured at their fair value. The fair value of derivatives equals unrealised gains or losses on the valuation of derivatives at market prices or at contractual forward prices.

Available-for-sale equity instruments for which the fair value cannot be reliably estimated are measured at cost (acquisition cost plus transaction costs and reduced by appropriate impairment losses).

Loans and advances are measured at amortised cost using the effective interest rate method.

Loans and advances are reported at their outstanding principal balances plus any accrued interest and fees and reduced by appropriate impairment losses.

Held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated as the amount at which the financial asset is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount.

3.4.4 Gains and losses

Gains and losses arising from the change in fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss in the period in which they are incurred.

Gains and losses arising from the change in fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for losses due to impairment and foreign exchange gains and losses, until the financial asset is derecognised at which time the effect previously included in other comprehensive income is recognised in profit or loss. Interest on available-for-sale debt securities, calculated by applying the effective interest rate method, is recognised directly in profit or loss.

'Day one profit'
Where the transaction price of an instrument in a non-active market is different to the fair value from other observable market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets, the Nova KBM 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 2015 and 2014, the Nova KBM 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 Nova KBM 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 an available-for-sale equity instrument below its acquisition cost may represent objective evidence of impairment.

When assessing whether an available-for-sale debt instrument is impaired, the Nova KBM Group examines the following information:

- information about any significant financial difficulties of the issuer
- information about any failure of the issuer to meet the agreed contractual provisions
- information about any late payments of principal and/or interest by the issuer
- information about the commencement of the bankruptcy or financial reorganization of the issuer
- information about any deterioration in the issuer´s market position
- information indicating that there is a measurable decrease in the estimated future cash flows from the instrument.

If an available-for-sale debt instrument is impaired, the cumulative loss recognised within other comprehensive income is transferred to profit or loss. The loss so recognised may be reversed.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurred after the impairment loss had been recognised, the impairment loss is reversed through profit or loss.

In case of impairment of available-for-sale equity instruments, the loss due to impairment is recognised in profit or loss. Reversal of impairment of equity instruments is not made through profit or loss, and any subsequent increase in fair value is directly recognised in other comprehensive income.

Held-to-maturity financial assets
At each reporting period the Nova KBM Group assesses whether there is objective evidence that held-to-maturity financial assets are impaired.

When assessing whether a held-to-maturity financial asset is impaired, the Nova KBM Group examines the following information:

- information about any significant financial difficulties of the issuer
- information about any failure of the issuer to meet the agreed contractual provisions
- information about any late payments of principal and/or interest by the issuer
- information about the commencement of the bankruptcy or financial reorganization of the issuer
- information about any deterioration in the issuer´s market position
- information indicating that there is a measurable decrease in the estimated future cash flows from the asset.

The amount of impairment loss is measured as the difference between the asset´s book value and the present value of future cash flows discounted by the original effective interest rate. The amount of loss is recognised in profit or loss.

Loans and receivables
The Nova KBM Group classifies each customer into the appropriate credit rating category using an internal methodology. The classification of customers depends on the following criteria:

- their financial standing and performance
- their ability to provide cash flow needed for the repayment of debts
- the regularity of their debt service payments
- the industry sector risk
- subjective criteria.

The Nova KBM Group continuously 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 from a financial asset or a group of financial assets which can be reliably assessed.

Taking into consideration the risks associated with a customer or a financial asset, an appropriate impairment of the financial asset is made in accordance with the IFRSs and an internal methodology.

Significant financial assets are assessed individually for impairment. If impairment is established in an individual assessment of an asset, such asset shall be impaired individually, otherwise it shall be classified into the appropriate customer or financial asset risk category and impaired collectively. Individually insignificant financial assets are also assessed collectively for impairment.

For individually assessed financial assets, the amount of loss due to impairment is calculated as the difference between the asset´s book value and the present value of future cash flows discounted at the contractual interest rate. Cash flows from operations and/or the realisation of collateral can be taken into account in the calculation.

Impairment rates are determined based on a model that uses as inputs the following data:

- the probability of a customer becoming a defaulting customer within the respective group of financial assets
- the amount of loss incurred by the respective group of defaulting customers.

The probability of a customer becoming a defaulting customer and the amount of loss are calculated on the basis of historical data.

Collective impairment rates are determined separately for the following portfolios:

- the portfolio of household loans
- the portfolio of large corporate loans
- the portfolio of SME loans
- the portfolio of loans outstanding to low-risk customers (public institutions, regional government institutions, societies etc).

The Nova KBM Group calculates impairment losses separately for prime loans and loans secured by prime collateral, loans secured by adequate collateral, and unsecured loans outstanding to E-rated customers.

The adequacy of collective impairment rates is verified on an annual basis, at which time a back-testing is also carried out of impairments recorded in the previous year.

The book value of an impaired asset is reduced through the allowance account. Impairment loss is recognised in profit or loss.

If the level of impairment decreases in a subsequent period, the previously recognised impairment loss shall be reversed. The amount of reversed loss is recognised in profit or loss.

If a customer is located in a higher-risk country, the sovereign risk also has to be taken into consideration when assessing losses due to impairment.

Nova KBM seeks to implement such scenarios for customers facing financial difficulties that are most favourable for it in terms of economy. The decision about whether to restructure a loan outstanding to a customer in financial difficulties, or to start the procedure to liquidate collateral the customer has provided is largely dependent on the customer´s business model.

As an alternative to loan restructuring, the Nova KBM Group may also consider converting into equity the loans outstanding to corporate customers. In such a case, the book value of the loan before its conversion (which has already been appropriately impaired, in accordance with valuation provided for in IAS 39) becomes the acquisition (fair) value of the long-term investment in equity, unless a lower value is determined by an appraisal. However, upon the initial recognition of investments acquired through the conversion of loans, the Nova KBM Group does not recognise any gain resulting from the reversal of impairment of converted loans.

3.5 Offsetting

Financial assets and liabilities are offset in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.6 Sale and repurchase agreements

Securities purchased under agreements to resell (repurchase agreements – repos) are recognised as loans to customers. Under such agreements, the Nova KBM Group does not assume risks and benefits arising from security ownership. The contractual relationship has the characteristics of loans collateralised with securities that are subject of the reverse repo agreements. The difference between the purchase and selling price is recognised as interest income and is accrued over the contract period using the effective interest method.

3.7 Leases

Assets leased to customers under lease agreements, which transfer substantially all the risks and rewards of ownership of an item of property, plant and equipment, with or without ultimate legal title, are classified as finance leases. Depending on the lease agreement, the asset leased may be bought or returned to the lessor. As a rule, such a lease agreement cannot be unilaterally terminated. For depreciating leased assets, the same accounting policy is applied as for the Nova KBM Group´s own assets.

A lease which is not a finance lease is an operating lease.

Nova KBM Group as a lessee
Payments made under operating leases are included in profit or loss on a straight-line basis over the period of the lease.

An asset obtained on the basis of a finance lease is included within property, plant and equipment. Its acquisition cost equals the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. Lease payments are recognised as interest expense. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Nova KBM Group as a lessor
Assets leased under operating lease agreements are included within investment property or property, plant and equipment. Lease income is recognised in profit or loss on a straight-line basis over the period of the lease.

When assets are held subject to a finance lease, the present value of future lease payments is recognised as a receivable under the finance lease. Income from the finance lease, which is disclosed as interest income, is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor.

3.8 Property, plant and equipment

Items of property, plant and equipment are assets which the Nova KBM Group uses for conducting its business. They are recorded at historical cost less accumulated depreciation and any impairment loss. Transaction costs directly attributable to the acquisition of an asset are included in the initial cost recognition.

Subsequent costs are included in the asset´s book value only when it is probable that future economic benefits associated with the item will flow to the Nova KBM 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 Nova KBM Group starts to depreciate items of property, plant and equipment when these assets are available for use. Depreciation of assets is provided individually on a straight-line basis over their estimated useful lives.

The following depreciation rates were applied by the Nova KBM Group in both 2015 and 2014:

	Nova KBM Group
- buildings	1.1% to 5%
- investments in third-party buildings	3% to 10%
- 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 Nova KBM Group´s acquisition cost of the respective part of the building.

Items of property, plant and equipment are assessed due to possible impairment each time when there are indicators that, due to events or changes in the circumstances, the book value of an asset may not be recovered. If the estimated recoverable value of an asset is lower than its book value, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in profit or loss. The recoverable amount is the higher of the asset´s fair value less costs to sell and the value in use.

An asset is derecognised upon disposal or if the future economic benefits are no longer expected from its use.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the book value of an item of property, plant and equipment, and are recognised net in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized 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 Nova KBM 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 Nova KBM 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 Nova KBM Group possesses only intangible assets with a determinable period of useful life.

Initial recognition of an acquisition cost includes costs which are directly linked to the acquisition of an asset and are necessary for the asset to be put into use. The Nova KBM Group depreciates intangible assets on a straight-line basis over their estimated useful lives.

The following amortisation rates were applied by the Nova KBM Group in both 2015 and 2014:

	Nova KBM Group
- licences	10% to 33.33%
- other investments	5% to 33.33%
- other long-term property rights	10%

The Nova KBM Group stops amortising intangible assets when they are defined as non-current assets held for sale, or when they are derecognised as the Nova KBM Group no longer expects any further economic benefits.

Intangible assets are tested for impairment when there are indicators that the book value may not be recovered. If the assessed recoverable amount of an asset is lower than its book value, the book value should be reduced to the recoverable amount and the reduction recognised as an impairment loss in profit or loss. The recoverable amount is the higher of the fair value less costs of sale and the value in use.

3.11 Inventory

Items of inventory are measured at the lower of cost and net realisable value. Net realisable value is the estimated sales price achieved in the ordinary course of business net of estimated costs of completion and costs of sale. Inventories are not revalued as a result of the increase in value.

Finished goods and work-in-progress (real estate for sale) are initially measured at direct production costs plus indirect production costs.

Upon initial recognition, the Nova KBM Group measures items of real estate received in settlement of receivables on the basis of an appraiser´s report. The Nova KBM Group holds the items of real estate so acquired with the intention of selling them.

The acquisition cost of inventory items seized under lease agreements consists of the debt of the lessee (past-due and unpaid as well as outstanding principal, past-due and unpaid interest and other costs attributable to the lessee).

3.12 Non-current assets held for sale

Non-current assets are classified as held for sale if their book value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of book and fair value, reduced by the costs of sale. These assets are not depreciated.

3.13 Financial liabilities

Financial liabilities include financial liabilities held for trading and financial liabilities measured at amortised cost. Financial liabilities held for trading include liabilities arising from the valuation of forward sale of securities, and are measured at fair value.

Financial liabilities measured at amortised cost are deposits and loans from banks (including central banks) and customers, debt instruments issued, and other financial liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After they are initially recognised, the liabilities are measured at amortised cost, and any difference between net proceeds and the redemption value is recognised in profit or loss using the effective interest rate method.

A financial liability is derecognised only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the book value of a financial liability that is cancelled, or transferred to another party, and the compensation paid is recognised in profit or loss.

3.14 Provisions

The Nova KBM Group recognises non-current provisions for liabilities and expenses due to present obligations (legal or constructive) arising from past events for which it is possible that an outflow of resources will be required to settle the obligation and a reasonable estimate of the obligation can be made. The Nova KBM Group creates provisions for pensions and similar liabilities, for off-balance sheet liabilities, for pending legal issues, for the restructuring, and other provisions.

The Nova KBM Group recognises provisions for pensions and similar liabilities that reflect the present value of liabilities for severance benefits and loyalty bonuses. When calculating the present value, a discount interest rate is used that is equal to the market rate of return on 10-year euro area corporate bonds with a high credit rating; the discount rate used for 2015 was 1.72% (2014: 1.9%). The Nova KBM Group recognises provisions for each employee by taking into account severance benefits at retirement provided for by the employment contract, as well as the costs of expected loyalty bonuses for the total years of service at the company until retirement. In making the calculation, the Nova KBM Group takes into consideration, among other factors, the employee turnover in the range of 0.0% to 7.5% (2014: 0.0% to 6%) and the projected increase in salaries in the range of 0.8% to 1.4% (2014: 0.6% to 1.2%). The calculation of these liabilities is carried out by a certified actuary.

Recognition and derecognition of provisions for employee benefits are recognised in profit or loss, except for actuarial gains or losses related to severance benefits that are recognised in comprehensive income.

The Nova KBM Group recognises provisions for off-balance sheet liabilities on the basis of risk classification of the customer and transaction concerned, taking into consideration similar criteria as for the impairment of loans.

The level of provisions for pending legal issues has been determined on the basis of a reliable assessment of liabilities arising from these issues at the reporting date. These provisions are estimated based on known facts of the legal proceeding, previous experience with similar proceedings, and opinions provided by legal experts.

Provisions for the restructuring of the Nova KBM Group have been recognised based on the adopted Restructuring Programme. These provisions cover only expenses that are directly attributable to the restructuring of the Nova KBM Group.

3.15 Equity

Share capital of Nova KBM is split into ordinary no-par-value shares.

Treasury shares are deducted from equity.

Nova KBM shares are freely transferrable and have been issued in book-entry form. All shares issued by Nova KBM are of the same class. Holders of Nova KBM shares have the following rights: participation in the voting at the Nova KBM Shareholders´ Meetings in proportion to their share of the capital of Nova KBM, participation in profits of Nova KBM appropriated for dividends, and pro-rata distribution of residual assets in case of bankruptcy or liquidation of Nova KBM, as stipulated by the applicable legislation. All shares have been fully paid for.

In accordance with Nova KBM´s Articles of Association, regulatory reserves are established until the aggregate amount of regulatory reserves and share premium equals four times the amount of Nova KBM´s share capital. Share premium cannot be paid out to shareholders, but can only be used for the purposes and under the conditions as laid down in the ZGD-1.

Reserves set aside under Nova KBM´s Articles of Association (statutory reserves) are established up to the amount which equals eight times the amount of Nova KBM´s share capital.

Dividends on shares are recognised as a financial liability in the period in which the Shareholders´ Meeting approves the dividend payment.

3.16 Commitments and contingencies

The Nova KBM 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 Nova KBM Group will make payments in the event a customer cannot fulfil its obligations vis-à-vis third parties.

Fees received are amortised to profit or loss using the straight-line method.

Risks associated with off-balance sheet financial commitments and contingent liabilities are assessed similarly as for loans. Any increase in liability as a result of estimated expenses required for the settlement of contractual obligations is included in provisions.

3.17 Interest income and interest expenses

Income is recognised when a probability of future economic benefits exists, and such benefits can be reliably measured.

Interest income and interest expenses are recognised in accrued amounts at a level, with maturities, and in the manner set out in the Nova KBM Group´s decision on interest rates, or as stipulated in the agreement between the Nova KBM Group and the respective customer.

All new loan and deposit agreements made by the Nova KBM Group in 2015 included a provision regarding the minimum reference interest rate (the interest rate floor). Given that the provision of paragraph 11 of IAS 39, which requires that an embedded financial instrument be separated from a host contract, was not implemented according to the requirements of the said standard, an assessment was made of the impact of the embedded interest rate floor on the financial statements of the Nova KBM Group and Nova KBM. For the purpose of calculating the effects of embedded options, the exercise price on the reference interest rate was set at 0% for all loans and deposits. An assessment was also made of the impact of options on the aggregate interest rate, for which case the exercise price was set at 0.01% (which equals the interest rate on demand deposits). The results of these assessments have shown that the effects of the interest rate floor are not material to the 2015 financial statements of the Nova KBM Group and Nova KBM. If these effects are material in future reporting periods, they will be subject to an appropriate accounting treatment.

All interest income and expenses from operations in financial assets are recognised in profit or loss using the effective interest rate method.

The following items are included in interest income: regular, default and accrued interest, as well as prepaid fees for costs of repaying non-current loans given to households. These fees are transferred to income in line with the loan repayment period.

Income from finance lease is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor; it is disclosed as interest income.

All interest on deposits, securities issued, loans received and other expenses on financial liabilities are included in interest expenses.

3.18 Dividend income

Dividend income comprises dividends and shares in profits received by the Nova KBM Group from its investments in the equity of companies. Dividend income is recognised in profit or loss when the right to receive payment is established.

3.19 Fee and commission income and fee and commission expenses

Fee and commission income includes fees and commissions received for services rendered by the Nova KBM Group. Fee and commission expenses include amounts paid by the Nova KBM Group for services provided by others.

Fee and commission income and expenses are recognised in profit or loss when the service is rendered.

3.20 Realised gains and losses on financial assets not measured at fair value through profit or loss

Realised gains and losses on available-for-sale financial assets, loans and held-to-maturity financial assets are recognised in profit or loss upon selling the asset, at maturity, or upon other derecognition of the financial asset.

3.21 Net gains and losses on financial assets held for trading

Net gains and losses from trading include realised and unrealised gains and losses on financial assets held for trading, including derivatives, and net gains from buying and selling foreign currency.

3.22 Other net operating income or loss

Other net operating income or loss includes realised gains and losses from non-banking activities (income from leases and from selling inventory, expenses for memberships and contributions, and other expenses).

3.23 Impairments

Impairments comprise impairments of financial assets not measured at fair value through profit or loss, impairments of property, plant and equipment, impairments of intangible assets, and impairments of investment property.

3.24 Taxes

Income tax is recognised at the amount as reported by the Nova KBM Group companies on the basis of the applicable local legislation. Deferred taxes are calculated for all temporary differences between the value of assets and liabilities for tax purposes and their book value. The deferred taxes are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

The most significant temporary differences arise from the valuation of financial instruments and provisions.

Deferred taxes are recognised for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which temporary differences can be utilised.

Deferred taxes associated with measurement of available-for-sale financial assets at fair value are recognised directly in comprehensive income.

3.25 Segment reporting

A segment is recognisable as an integral part of the Nova KBM 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 Nova KBM 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 ZBan-2: 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 payment system development.

The management monitors the results of operating segments to make proper investment decisions and to assess the performance of segments. Segment performance is assessed based on operating profit or loss which, in certain respects, is different to operating results disclosed in the consolidated financial statements.

For the purpose of reporting, the operations of the Nova KBM Group are divided into the following three geographical segments: Slovenia, Western Europe and Eastern Europe.

3.26 Standards and interpretations

a) Standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU

The accounting policies used to prepare the financial statements are consistent with those of the previous financial year, except for new and amended standards and interpretations issued by the IASB or the IFRS Interpretations Committee and adopted by the EU, as presented below.

In the current period, the following amendments to the existing standards apply:

- **Amendments to various standards – Improvements to IFRSs (cycle 2011–2013)** resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording; adopted by the EU on 18 December 2014 (effective for annual periods beginning on or after 1 January 2015).
- **IFRIC 21 – Levies;** adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

The amendments to the existing standards have not led to any material changes in the Nova KBM Group´s accounting policies.

b) Standards and interpretations issued by the IASB and adopted by the EU but not yet effective

At the date of authorization of the financial statements included in this report the following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU were in issue but not yet effective:

- **Amendments to various standards – Improvements to IFRSs (cycle 2010–2012)** resulting from the annual improvement project of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording; adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).
- **Amendments to IAS 19 – Employee Benefits** – Defined Benefit Plans: Employee Contributions; adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).
- **Amendments to IFRS 11 – Joint Arrangements** – Accounting for Acquisition of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 1 – Presentation of Financial Statements** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 16 – Property, Plant and Equipment,** and **IAS 38 – Intangible Assets** – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 16 – Property, Plant and Equipment,** and **IAS 41 – Agriculture** – Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 27 – Separate Financial Statements** – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to various standards – Improvements to IFRSs (cycle 2012–2014)** resulting from the annual improvement project of IFRSs (IFRS 5, IFRS 7, IFRS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2016).

Amendments to the existing standards that are not yet effective have not been early adopted by the Nova KBM Group. The Nova KBM Group estimates that the adoption of these amendments will have no material impact on its financial statements in the period of initial application.

c) Standards and interpretations issued by the IASB but not yet adopted by the EU

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 at the date of authorization of the financial statements included in this report:

- **IFRS 9 – Financial Instruments** (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 14 – Regulatory Deferral Accounts** (effective for annual periods beginning on or after 1 January 2016).
- **IFRS 15 – Revenue from Contracts with Customers** (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 16 – Leases** (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IFRS 10 – Consolidated Financial Statements,** and **IAS 28 – Investments in Associates and Joint Ventures** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the date of initial application has been postponed; the draft for discussion was expected to be released by the IASB on 1 January 2016).
- **Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Disclosure of Interests in Other Entities,** and **IAS 28 – Investments in Associates and Joint Ventures** – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

The Nova KBM Group estimates that the 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 its financial statements, if applied as at the statement of financial position date.

The Nova KBM Group has not early adopted any standard or interpretation that has been issued but is not yet effective. It 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, with the exception of IFRS 9.

The effects of the introduction of the new standard on financial instruments (IFRS 9) have not yet been assessed by Nova KBM or the Nova KBM Group. The Nova KBM Management Board is aware that ensuring compliance with this standard will require the implementation of changes in various areas of banking operations (such as changes of work processes, information systems and information support systems, methodologies, methods of providing relevant data, etc.) and the strong involvement of employees. Therefore, in order to ensure timely compliance with the standard, the Management Board has decided to take a project approach to the implementation of necessary changes, inviting an external adviser with experience in standard implementation to participate in the project.

The project, currently at the stage of signing the agreement with the selected external adviser, will be carried out in two phases, as set out below:

- First phase: the performance of a gap analysis and of an impact analysis – this phase is scheduled to be completed by the end of April 2016.
- Second phase: the development of necessary models – the precise timeline and deadlines for this phase will be determined based on the results of the gap analysis.

It is expected that the introduction of IFRS 9 will have an impact mainly on the level of impairment losses and will increase its volatility, as a result of changes made to models for calculating expected credit losses as well as the classification and measurement of financial assets.

4 RISK REVIEW

The Nova KBM 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 Nova KBM 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 specialized in defining, measuring and controlling individual risks. The organizational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organizationally separate from the unit it monitors. In accordance with the rules of procedure, each risk management policy has to be approved by the Policy Approval Committee and, in addition, agreed by the President of the Management Board or his deputy. The Nova KBM 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 arising from the failure of a counterparty to meet its financial obligations to the Nova KBM Group. The Nova KBM Group is exposed to credit risk through its loan portfolio.

The management of credit risk is carried out at the customer level, by individual Nova KBM Group companies, as well as at the Nova KBM Group level.

The Nova KBM Group manages credit risk in several ways, such as by:

- identifying the risk related to customers and recognising impairment of financial assets and provisions for off-balance sheet liabilities in accordance with the IFRSs
- providing capital to ensure sufficient capital coverage of credit risks
- setting exposure limits for customers, groups of related customers, industry sectors and market segments
- properly securing financial assets.

The management of credit risk is carried out at the customer level, by individual Nova KBM Group companies, as well as at the Nova KBM Group level.

4.1.1 Non-performing exposures

The Nova KBM Group defines as non-performing exposures (NPEs) such exposures for which it reasonably believes that the debtor will not discharge all of its liabilities within the contractual period.

The Nova KBM Group considers as NPEs those exposures that satisfy any of the following criteria:

- exposures classified as 'defaulted' or 'impaired' according to the Nova KBM Group Methodology for Assessing Credit Risk Losses
- material exposures which are more than 90 days past-due
- exposures which have been subject to restructuring that caused the Nova KBM Group to incur significant economic losses, or which are unlikely to be repaid (restructured exposures with a low probability of being repaid)
- NPEs that do not meet the applicable exit criteria.

An exposure is reclassified as non-performing after being restructured, if the following criterion is met:

- during the probation period, the exposure is more than 30 days past-due or has been restructured once again.

The portfolio of customers classified into the credit rating categories D and E is managed by the Loan Workout Department and the Legal Office.

4.1.2 Interest rates and loan approval fees

Interest rates are determined in accordance with the adopted credit policies of the Nova KBM Group companies. Interest rates depend on the basic interest rate, the purpose of a loan, the customer´s track record of cooperation with the Nova KBM Group companies, the customer´s credit rating, the maturity of a loan, and the type of collateral provided for a loan.

Loan approval fees are determined in accordance with the applicable decisions adopted by the management board of individual Nova KBM Group companies, and in accordance with their respective lending policies.

4.1.3 Exposure limits

With respect to limiting its exposure, the Nova KBM 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 Nova KBM Group´s equity.

For the purpose of mitigating credit risk, the Nova KBM Group has adopted rules that apply to the setting of maximum allowable exposures to customers and groups of related customers. These rules are set out in detail in the Nova KBM Group Methodology for Determining Upper Lending Limits for Customers.

4.1.4 Loan collateral policy

As a rule, loans are not granted without the customer providing at least one type of collateral.

Unsecured loans are exception and are approved only to risk-free customers. Loans granted to all other customers are secured by at least one type of collateral. The type of collateral required depends on:

- type of a customer (including its legal status)
- customer´s credit rating
- type and maturity of a loan
- customer´s repayment capabilities
- customer´s relationship with the Nova KBM Group and with other customers
- customer´s track record of cooperation with the Nova KBM Group.

Banks in the Nova KBM 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 Nova KBM Group are legal owners of assets leased under lease agreements.

Non-banking companies in the Nova KBM Group define the type of collateral to be provided in their risk management policies.

4.1.5 Analysis of exposure to credit risk by taking account of collateral

As of 31 December 2015, the proportion of A- and B-rated loans accounted for 54.99% of the total loan portfolio, compared to 52.65% at the end of 2014.

The following table sets forth, for the periods indicated, the structure of the loan portfolio by credit rating categories:

Credit rating category	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
A	44.45	42.42	48.37	46.15
B	10.54	10.23	10.59	9.51
C	8.75	7.07	8.75	7.47
D	10.99	16.23	12.22	19.12
E	25.27	24.05	20.07	17.75
Total	**100.00**	**100.00**	**100.00**	**100.00**

Analysis of exposure to credit risk

Nova KBM Group	Loans to customers		Loans to banks	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Individual impairments				
Gross amount	830,023	966,592	0	730
Impairment	(532,218)	(531,869)	0	(3)
Net amount	297,805	434,723	0	727
Collective impairments				
Credit rating A	993,030	941,848	0	0
Credit rating B	268,203	298,683	0	0
Credit rating C	197,786	174,665	0	0
Credit rating D	22,257	29,477	0	0
Credit rating E	77,556	71,194	0	0
Gross amount	**1,558,832**	**1,515,867**	**0**	**0**
Impairments	**(88,431)**	**(86,958)**	**0**	**0**
Net amount	**1,470,401**	**1,428,909**	**0**	**0**
Net non-impaired loans	**40,167**	**57,243**	**61,229**	**49,397**
Total net outstanding loans	**1,808,373**	**1,920,875**	**61,229**	**50,124**

Nova KBM d.d.	Loans to customers		Loans to banks	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Individual impairments				
Gross amount	560,484	672,926	5,170	5,015
Impairment	(347,573)	(344,441)	(5,170)	(5,013)
Net amount	212,911	328,485	0	2
Collective impairments				
Credit rating A	878,222	804,293	0	0
Credit rating B	218,998	232,345	0	0
Credit rating C	177,806	154,612	0	0
Credit rating D	21,395	26,815	0	0
Credit rating E	68,642	58,294	0	0
Gross amount	**1,365,063**	**1,276,359**	**0**	**0**
Impairments	**(78,807)**	**(67,558)**	**0**	**0**
Net amount	**1,286,256**	**1,208,801**	**0**	**0**
Net non-impaired loans	**39,116**	**56,008**	**61,439**	**59,297**
Total net outstanding loans	**1,538,283**	**1,593,294**	**61,439**	**59,299**

The Nova KBM Group´s total net loans outstanding at the end of 2015 amounted to €1,869,602,000, down 5.14% on the 2014 year-end figure. Loans of €830,023,000 were individually impaired, with impairment losses of €532,218,000 being recorded on these loans. Loans totalling €1,558,832,000 were collectively impaired, and the level of impairment losses recorded by the Nova KBM Group on these loans reached €88,431,000.

The following table shows net loans by credit rating category and impairment method, without taking account of the value of collateral provided:

Analysis of net loans without taking account of collateral

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Individual impairments	**359,034**	**484,847**	**274,350**	**387,784**
Collective impairments				
Credit rating A	1,028,402	993,487	908,013	856,161
Credit rating B	263,036	293,628	219,596	228,654
Credit rating C	180,212	156,799	162,454	138,610
Credit rating D	15,588	19,503	14,323	18,166
Credit rating E	23,330	22,735	20,986	23,218
Total net loans	**1,869,602**	**1,970,999**	**1,599,722**	**1,652,593**

Analysis of exposure to credit risk by market segments

The following tables set forth, for the periods indicated, the volume of loans and loan impairment losses by market segments:

Analysis of gross loans and loan impairment losses by market segments

Nova KBM Group	Gross loans	Loan impairment losses	Gross loans	Loan impairment losses
		31.12.2015		31.12.2014
State	45,266	107	38,218	1,050
Credit institutions (banks)	61,229	0	50,127	3
Other financial intermediaries	41,947	10,445	56,067	19,945
Large non-financial companies	1,092,953	463,892	1,183,472	451,690
Non-financial SMEs	244,758	79,385	272,722	85,653
SMEs (sole proprietors and non-profit societies)	90,000	22,084	92,725	21,674
Individuals	914,098	44,736	896,498	38,815
Total	**2,490,251**	**620,649**	**2,589,829**	**618,830**

Nova KBM d.d.	Gross loans	Loan impairment losses	Gross loans	Loan impairment losses
		31.12.2015		31.12.2014
State	37,319	12	28,271	138
Credit institutions (banks)	66,609	5,170	64,312	5,013
Other financial intermediaries	58,660	18,765	71,601	24,109
Large non-financial companies	845,454	322,184	891,142	306,272
Non-financial SMEs	148,186	36,094	155,682	38,599
SMEs (sole proprietors and non-profit societies)	66,326	12,818	65,326	12,299
Individuals	808,718	36,507	793,271	30,582
Total	**2,031,272**	**431,550**	**2,069,605**	**417,012**

Past-due and unpaid claims

						31.12.2015
Nova KBM Group	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total	Past-due over 90 days as a % of total past-due claims
Banks	18	0	0	179	197	90.86
State	31	5	5	12	53	22.64
Legal entities	15,732	24,353	623	496,217	536,925	92.42
Households	1,698	433	306	72,270	74,707	96.74
Total	**17,479**	**24,791**	**934**	**568,678**	**611,882**	**92.94**

						31.12.2014
Nova KBM Group	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total	Past-due over 90 days as a % of total past-due claims
Banks	14	0	0	2	16	12.50
State	112	5	5	3	125	2.40
Legal entities	44,698	34,190	24,941	486,058	589,887	82.40
Households	1,984	525	3,044	60,256	65,809	91.56
Total	**46,808**	**34,720**	**27,990**	**546,319**	**655,837**	**83.30**

						31.12.2015
Nova KBM d.d.	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total	Past-due over 90 days as a % of total past-due claims
Banks	0	0	0	179	179	100.00
State	26	0	0	0	26	0.00
Legal entities	8,848	23,220	128	303,726	335,922	90.42
Households	884	358	253	51,415	52,910	97.17
Total	**9,758**	**23,578**	**381**	**355,320**	**389,037**	**91.33**

						31.12.2014
Nova KBM d.d.	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total	Past-due over 90 days as a % of total past-due claims
Banks	14	0	0	2	16	12.50
State	107	0	1	0	108	0.00
Legal entities	28,321	32,892	19,981	271,318	352,512	76.97
Households	1,465	339	2,930	38,068	42,802	88.94
Total	**29,907**	**33,231**	**22,912**	**309,388**	**395,438**	**78.24**

Past-due but not impaired claims

	Nova KBM Group		**Nova KBM d.d.**	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Up to 30 days	21	211	21	211
31 to 90 days	0	1	0	1
Over 90 days	45	0	45	0
Total	**66**	**212**	**66**	**212**

Outstanding loan recovery

Banks in the Nova KBM Group have special departments in charge of distressed loan recovery. These departments are responsible for monitoring and resolving past-due and distressed loans in accordance with regulatory requirements as well as internal instructions and documents.

The Loan Workout Department is responsible for monitoring and resolving past-due and distressed loans in accordance with regulatory requirements and internal documents. The latter determine the method of transferring distressed loans to the Loan Workout Department for recovery. If a debtor is in default on a materially significant amount for more than 90 days, Nova KBM declares such customer as a defaulting customer and undertakes all the necessary steps to collect the debt, or restructures the loan if this might mitigate the loss incurred by it.

Where an obligation is past-due for more than 90 days, or if the debtor declares the implementation of an insolvency procedure, the collection of the debt is transferred to the Loan Workout Department or the Legal Office. As long as the past-due period does not exceed 90 days, the collection of debts is managed within the commercial departments, with the professional assistance provided by the Loan Restructuring and Intensive Corporate Customer Monitoring Department. In cooperation with other specialized departments, the Loan Workout Department prepares internal regulations (policy, rules of procedure and instructions) that govern the recovery of distressed loans.

When outstanding loans are transferred to the Loan Workout Department, the department evaluates all available information, particularly collateral coverage of outstanding loans, on the basis of which it assesses the expected loss. The Loan Workout Department also evaluates the underlying reasons for default to prevent other loans from becoming distressed loans.

Together with the debtor, the Loan Workout Department tries to find out the options for restructuring the loan in order to restore the debtor´s ability to resume repayments of liabilities to Nova KBM (extension of maturity date, possible grace period on the principal, change of interest rate). In such cases, the Loan Workout Department also tries to obtain additional collateral. If the loan is restructured, the Loan Workout Department monitors the debtor´s compliance with the terms of the restructured loan.

Internal regulations governing the management of distressed loans include provisions regarding the preventive restructuring proceedings and other novelties related to the debt collection, as stipulated in the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP – F). If a loan cannot be restructured, or if another solution acceptable to Nova KBM cannot be agreed upon, the Loan Workout Department lodges a request for carrying out appropriate court procedures under which Nova KBM and the debtor try to reach an in-court or out-of-court settlement (e.g. through mediation). The Loan Workout Department might try to reach an agreement with a debtor together with other companies in the Nova KBM Group, or through bank syndicates. Sometimes additional measures can be taken to recover some or all of the given funds, such as selling Nova KBM´s claims to third parties.

In carrying out its work, the Loan Workout Department complies with internal rules and applicable legislation and, as needed, collaborates with legal and other experts, both in-house and outside Nova KBM. Distressed loans are written off after the Loan Workout Department has taken all the necessary and sufficient legal measures provided by law and internal regulations to recover the loans.

NPLs as a proportion of total loans

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Total gross loans	2,490,251	2,589,829	2,031,272	2,069,605
Total net loans	1,869,602	1,970,999	1,599,722	1,652,593
Net NPLs	317,945	462,519	253,628	370,457
Net NPLs/total net loans (%)	17.01	23.47	15.85	22.42

In 2015, the Nova KBM 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 Nova KBM Group has recorded an adequate level of impairment losses for NPLs on the basis of anticipated cash flows generated from the liquidation of collateral. The parameters used to calculate individual impairments are verified at least once a year.

If the out-of-court settlement is not successful, the Loan Workout Department assesses the expected cash flow generated from the liquidation of pledged property by generally taking into account 50% of the appraised value of pledged property and the liquidation period of five years.

In cases where the property cannot be sold at auctions, it is purchased by KBM Invest, a subsidiary company engaged in the sale and brokerage of real estate.

Other types of collateral can be taken into account in the calculation of individual impairments only if the expected cash flow generated from the liquidation of collateral and the repayment period can be realistically assessed.

Analysis of restructured loans

	Nova KBM Group		Nova KBM d.d.	
Gross restructured loans	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Restructured loans with uncertain repayment prospects	79,354	23,142	74,173	17,837
Loans restructured at a material economic loss and with a low repayment probability	356,461	373,360	306,952	321,430
Total	**435,815**	**396,502**	**381,125**	**339,267**

As of 31 December 2015, the volume of restructured loans in the Nova KBM Group´s loan portfolio totalled €435,815,000, of which €40,851,000 was in retail loans and €394,964,000 was in corporate loans (loans outstanding to companies and sole proprietors).

Analysis of performing loans and NPLs by industry sectors

The following tables set forth, for the periods indicated, the total net loans and net NPLs outstanding to individual industry sectors, and the proportion of net NPLs within net loans:

	31.12.2015			31.12.2014		
Nova KBM Group	Total net loans	Net NPLs	Proportion of NPLs (%)	Total net loans	Net NPLs	Proportion of NPLs (%)
Households	869,362	34,953	4.02	857,683	33,849	3.95
Agriculture and hunting, forestry, fishing	23,893	6,419	26.87	23,240	8,532	36.71
Mining	13,572	233	1.72	2,786	676	24.26
Manufacturing industry	268,828	82,916	30.84	342,155	142,670	41.70
Electricity, gas and steam supply	51,164	912	1.78	46,771	3,946	8.44
Water supply, waste and sewage management, rehabilitation of the environment	26,887	1,286	4.78	24,052	979	4.07
Construction	59,971	34,044	56.77	71,471	31,088	43.50
Trade, maintenance and repair of motor vehicles	179,803	65,371	36.36	188,896	76,590	40.55
Transportation and storage	43,623	3,409	7.81	52,511	6,025	11.47
Accommodation and food service activities	35,400	14,537	41.06	39,621	19,292	48.69
Information and communication activities	17,673	13,385	75.74	22,526	13,507	59.96
Financial intermediation	98,801	8,797	8.90	92,590	20,442	22.08
Real estate activities	27,478	21,792	79.31	39,025	29,712	76.14
Professional, scientific and technical activities	39,292	18,360	46.73	47,680	25,601	53.69
Other various business activities	9,824	2,580	26.26	15,764	2,758	17.50
Public administration and defence services, compulsory social security activities	43,809	455	1.04	32,415	185	0.57
Education	2,134	0	0.00	3,181	392	12.32
Health and welfare security	21,666	6,973	32.18	23,128	8,704	37.63
Arts, entertainment and recreation	32,449	839	2.59	38,824	35,957	92.62
Other activities	3,973	684	17.22	6,680	1,614	24.16
Total net loans	**1,869,602**	**317,945**	**17.01**	**1,970,999**	**462,519**	**23.47**

	31.12.2015			31.12.2014		
Nova KBM d.d.	Total net loans	Net NPLs	Proportion of NPLs (%)	Total net loans	Net NPLs	Proportion of NPLs (%)
Households	772,211	32,792	4.25	762,689	31,509	4.13
Agriculture and hunting, forestry, fishing	18,218	2,854	15.67	17,216	4,626	26.87
Mining	13,294	229	1.72	1,989	229	11.51
Manufacturing industry	215,908	61,040	28.27	272,295	111,133	40.81
Electricity, gas and steam supply	48,740	862	1.77	43,954	3,838	8.73
Water supply, waste and sewage management, rehabilitation of the environment	21,424	254	1.19	14,602	241	1.65
Construction	44,774	27,001	60.31	42,208	14,273	33.82
Trade, maintenance and repair of motor vehicles	132,575	50,823	38.34	130,157	57,208	43.95
Transportation and storage	42,383	3,105	7.33	48,826	5,151	10.55
Accommodation and food service activities	27,494	10,522	38.27	29,728	13,940	46.89
Information and communication activities	13,591	9,975	73.39	14,362	8,022	55.86
Financial intermediation	106,042	17,465	16.47	111,939	32,035	28.62
Real estate activities	19,633	14,673	74.74	32,292	23,907	74.03
Professional, scientific and technical activities	25,216	12,787	50.71	31,597	18,478	58.48
Other various business activities	5,807	1,471	25.33	8,021	1,196	14.91
Public administration and defence services, compulsory social security activities	36,041	28	0.08	26,229	0	0.00
Education	2,073	0	0.00	3,020	369	12.22
Health and welfare security	19,708	6,939	35.21	20,497	8,673	42.31
Arts, entertainment and recreation	31,550	272	0.86	37,555	35,184	93.69
Other activities	3,040	536	17.63	3,417	445	13.02
Total net loans	**1,599,722**	**253,628**	**15.85**	**1,652,593**	**370,457**	**22.42**

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 Nova KBM 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 Nova KBM Group may use the generalized market value as determined in the process of the mass real estate valuation, and published by the Surveying and Mapping Authority of the Republic of Slovenia. The market value of real estate as set out in the applicable sales agreement may also be used for the needs of establishing collateral.

Because of the complexity of real estate valuations, the following two valuation methods are used:

- Simple valuation method: this method is used for the valuation of real estate whose value does not exceed €1,000,000, in particular for family houses, apartments, building plots, individual agricultural land parcels, individual business premises, and smaller industrial buildings.
- Complex valuation method: this method is used for the valuation of real estate of high value, specialized 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 Nova KBM Group selects appraisers to carry out the value assessment. Selection is through a tender process.

Valuation reports requested by the Nova KBM Group are checked by the Credit Analysis Department, which confirms whether the valuation carried out is appropriate for the Nova KBM Group´s needs. Statistical revaluation is used by the Nova KBM Group as the method to assess changes in the value of real estate over time.

Analysis of collateral – value of collateral for given loans

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
1. Collateral for individually impaired loans	**626,233**	**677,162**	**272,526**	**336,255**
– movable and immovable property	472,575	536,445	256,829	294,621
– debt securities	0	1,940	0	1,912
– equity instruments	7,061	18,923	6,716	17,831
– other	146,597	119,854	8,981	21,891
2. Collateral for collectively impaired loans	**1,697,104**	**2,072,967**	**1,523,105**	**1,815,446**
– movable and immovable property	1,489,360	1,839,763	1,341,209	1,645,377
– equity instruments	596	6,406	476	5,254
– other	207,148	226,798	181,420	164,815
3. Collateral for non-impaired loans	**15,132**	**76,143**	**11,407**	**71,349**
– movable and immovable property	4,547	3,800	1,641	349
– other	10,585	72,343	9,766	71,000
4. Total	**2,338,469**	**2,826,272**	**1,807,038**	**2,223,050**

As of 31 December 2015, the total value of collateral provided for loans in the form of movable and immovable property was €1,966,482,000, of which 75.74% related to collectively impaired loans, 24.03% related to individually impaired loans, and 0.23% related to non-impaired loans.

Collateral of €7,657,000 was in the form of equity instruments, of which 7.78% related to collectively impaired loans, and 92.22% related to individually impaired loans.

A significant proportion of the Nova KBM Group´s loan portfolio is secured by real estate. The estimated value of this collateral, which may have a material effect on the financial statements owing to inactivity of the Slovene real estate market, is based on market data. In addition, a number of equity instruments pledged as security for loans are not quoted on a stock exchange and are not traded in markets. There is uncertainty as to the future economic situation, which may have an impact on the value of collateral and the time needed for its realisation.

Analysis of net loans by market segments and regions

Nova KBM Group	Loans to customers		Loans to banks	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Net book value	**1,808,373**	**1,920,875**	**61,229**	**50,124**
By market segment	**1,808,373**	**1,920,875**	**61,229**	**50,124**
– non-financial companies	758,902	860,765	0	0
– deposit-taking companies, except the central bank	0	0	21,929	19,222
– investment funds, except money market funds	1	0	0	0
– other financial intermediaries, except insurance companies and pension funds	4,773	13,086	0	0
– auxiliary financial service providers	8,767	483	0	0
– captive financial institutions and money lenders	7,982	12,572	0	0
– insurance companies	11	13	0	0
– pension funds	1	2	0	0
– central government	32,258	26,921	0	0
– local government	12,899	7,882	0	0
– households	934,796	925,491	0	0
– non-profit institutions serving households	2,165	2,460	0	0
– rest of the world	45,818	71,200	39,300	30,902
By region	**1,808,373**	**1,920,875**	**61,229**	**50,124**
– Slovenia	1,762,555	1,849,675	21,929	19,222
– European Monetary Union (EMU)	1,161	1,311	27,037	28,384
– non-EMU EU countries	38,781	54,041	12,263	2,506
– republics of the former Yugoslavia	5,876	12,802	0	12
– other	0	3,046	0	0

Nova KBM d.d.	Loans to customers		Loans to banks	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Net book value	**1,538,283**	**1,593,294**	**61,439**	**59,299**
By market segment	**1,538,283**	**1,593,294**	**61,439**	**59,299**
– non-financial companies	607,132	664,305	0	0
– deposit-taking companies, except the central bank	0	0	22,305	29,123
– investment funds, except money market funds	1	0	0	0
– other financial intermediaries, except insurance companies and pension funds	4,180	11,846	0	0
– auxiliary financial service providers	8,677	333	0	0
– captive financial institutions and money lenders	7,982	12,572	0	0
– insurance companies	11	13	0	0
– pension funds	1	2	0	0
– central government	31,563	22,924	0	0
– local government	5,742	2,844	0	0
– households	822,227	813,586	0	0
– non-profit institutions serving households	2,018	2,131	0	0
– rest of the world	48,749	62,738	39,134	30,176
By region	**1,538,283**	**1,593,294**	**61,439**	**59,299**
– Slovenia	1,489,534	1,530,556	22,305	29,123
– European Monetary Union (EMU)	1,799	1,311	27,037	28,384
– non-EMU EU countries	40,813	45,579	12,097	1,792
– republics of the former Yugoslavia	5,977	12,802	0	0
– other	160	3,046	0	0

As of 31 December 2015, the Nova KBM Group´s net loans outstanding to banks and to customers totalled €61,229,000 and €1,808,373,000, respectively. Of the latter figure, the largest proportion related to households (51.69%), followed by non-financial companies (41.97%).

Loans outstanding to customers headquartered in the Republic of Slovenia accounted for 97.47% of the total loans to customers. Of the loans outstanding to foreign non-bank customers, the largest proportion, i.e. 2.14% of the total loans to customers, related to customers residing in the EU countries.

Loans outstanding to local banks accounted for 35.81% of the total loans to banks. At 44.16%, loans outstanding to banks residing in the EMU accounted for the largest proportion of the total loans outstanding to foreign banks.

4.2 Liquidity risk

Liquidity risk is the risk of loss resulting from a Nova KBM Group company´s inability to meet all of its payment obligations, or the risk that it has to provide necessary funding at significantly higher than usual costs. It arises from maturity mismatches between assets and liabilities. The Nova KBM 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, Nova KBM takes into account liquidity needs of other Nova KBM Group companies. The Nova KBM Group uses a harmonized method for monitoring structural liquidity.

During the year ended 31 December 2015, the Nova KBM Group managed liquidity risk in accordance with the Nova KBM Group Policy of Managing Liquidity Risk which sets out the methods and responsibilities for managing assets and liabilities to provide for sufficient cash inflows within a certain period of time. This policy sets out the measures for assessing, measuring, managing and monitoring liquidity risk. The policy includes liquidity planning for the timely repayment of obligations, measures to be adopted under adverse liquidity conditions, and procedures for checking variables on the basis of which the policy for managing liquidity risk has been formulated.

The Nova KBM 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 Nova KBM Group carries out, on a monthly basis, liquidity stress tests in compliance with the Nova KBM Group Methodology for Implementing Stress Scenarios of Liquidity Risk. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on the Nova KBM Group´s liquidity position, and for preparing measures for dealing with any liquidity crisis.

The Nova KBM Business Continuity Plan for Managing Liquidity Risk sets out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position of Nova KBM. Nova KBM carries out, on a monthly basis, liquidity stress tests in compliance with the Nova KBM Group Methodology for Implementing Stress Scenarios of Liquidity Risk. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on Nova KBM´s liquidity position, and for preparing measures for dealing with any liquidity crisis.

Net liquid assets

The Nova KBM 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 Nova KBM Group´s liabilities that may become due in the same short period of time. According to an internal regulation, the level of net liquid assets must be at least positive to ensure the Nova KBM 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 Nova KBM Group cannot avoid the liquidity gap, but can manage it effectively. A positive gap represents a surplus of funds that can be invested profitably. On the other hand, a negative gap is a sign of a shortage of funds that needs to be provided for.

Liquidity ratios and obligatory deposits

During the year ended 31 December 2015, Nova KBM complied with the Bank of Slovenia´s regulations on minimum liquidity. As of 31 December 2015, Nova KBM´s Category I Liquidity Ratio was 1.867, compared to 1.980 a year earlier. The prescribed minimum value of the liquidity ratio is set at 1.0. Nova KBM also complied with the Bank of Slovenia´s regulations on obligatory deposits.

Stability of deposits

Nova KBM uses its own econometric model for calculating the proportion of stable demand deposits. This model is based on regression analysis which is used to examine the movements in demand deposits over time. For using the model, the dependent variable and independent variables must be determined. The results derived from the model provide a basis for analysing the predictive power, and for carrying out retroactive testing. For the period from 1 January to 31 December 2015, the results of this model gave a higher level of stable demand deposits than the one that was taken into account in the calculation of liquidity ratios according to the regulations. The average stability of total demand deposits was 84.02% in 2015, compared to 83.79% a year earlier, while the average stability of household deposits was as high as 93.58%, against 93.03% reported for 2014.

The following tables set forth, for the periods indicated, the distribution of significant statement of financial position items with maturity of up to and over five years:

Analysis of exposure to liquidity risk as of 31 December 2015

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash, cash balances at central banks and demand deposits at banks	322,889	322,889	0	0	0	0
Financial assets held for trading	1,563	1,563	0	0	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0
Available-for-sale financial assets	1,675,907	31,301	106,682	366,891	819,902	351,131
Loans and advances	1,798,627	270,453	104,601	279,350	720,572	423,651
Held-to-maturity financial assets	129,548	1,181	18,958	20,315	72,929	16,165
Other assets*	206,451	78,937	1,057	8,659	19,316	98,482
Total assets	**4,148,406**	**719,745**	**231,298**	**675,215**	**1,632,719**	**889,429**
Liabilities						
Financial liabilities held for trading	270	270	0	0	0	0
Financial liabilities measured at amortised cost	3,483,783	395,605	301,170	568,949	1,514,719	703,340
Other liabilities*	751,610	79,455	3,616	40,578	43,225	584,736
Total liabilities and equity	**4,235,663**	**475,330**	**304,786**	**609,527**	**1,557,944**	**1,288,076**
Assets-liabilities (including equity) mismatch	**(87,257)**	**244,415**	**(73,488)**	**65,688**	**74,775**	**(398,647)**
Guarantees	**36,859**	**3,640**	**2,262**	**8,257**	**18,912**	**3,788**

* Assets and liabilities without a direct impact on liquidity.

Analysis of exposure to liquidity risk as of 31 December 2014

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash, cash balances at central banks and demand deposits at banks	422,264	422,264	0	0	0	0
Financial assets held for trading	1,841	1,841	0	0	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0
Available-for-sale financial assets	1,482,120	33,017	44,670	327,017	890,448	186,968
Loans and advances	1,933,959	301,119	114,409	334,177	709,655	474,599
Held-to-maturity financial assets	206,540	607	37,319	75,662	65,543	27,409
Other assets*	247,046	32,920	1,158	74,044	28,358	110,566
Total assets	**4,311,627**	**809,625**	**197,556**	**810,900**	**1,694,004**	**799,542**
Liabilities						
Financial liabilities held for trading	1,229	1,229	0	0	0	0
Financial liabilities measured at amortised cost	3,548,874	420,718	349,149	651,385	1,427,941	699,681
Other liabilities*	781,888	31,679	64,149	65,379	39,316	581,365
Total liabilities and equity	**4,331,991**	**453,626**	**413,298**	**716,764**	**1,467,257**	**1,281,046**
Assets-liabilities (including equity) mismatch	**(20,364)**	**355,999**	**(215,742)**	**94,136**	**226,747**	**(481,504)**
Guarantees	**44,935**	**4,707**	**4,736**	**20,007**	**10,827**	**4,658**

* Assets and liabilities without a direct impact on liquidity.

Analysis of exposure to liquidity risk as of 31 December 2015

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash, cash balances at central banks and demand deposits at banks	260,860	260,860	0	0	0	0
Financial assets held for trading	116	116	0	0	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0
Available-for-sale financial assets	1,442,288	27,039	81,696	340,623	695,172	297,758
Loans and advances	1,423,754	160,831	73,022	221,790	607,590	360,521
Held-to-maturity financial assets	28,566	606	0	210	14,975	12,775
Other assets*	194,582	4,273	0	0	18,103	172,206
Total assets	**3,363,587**	**467,146**	**154,718**	**562,623**	**1,335,840**	**843,260**
Liabilities						
Financial liabilities held for trading	270	270	0	0	0	0
Financial liabilities measured at amortised cost	2,837,634	308,999	232,215	454,636	1,300,420	541,364
Other liabilities*	668,056	13,093	2,837	37,886	39,972	574,268
Total liabilities and equity	**3,505,960**	**322,362**	**235,052**	**492,522**	**1,340,392**	**1,115,632**
Assets-liabilities (including equity) mismatch	**(142,373)**	**144,784**	**(80,334)**	**70,101**	**(4,552)**	**(272,372)**
Guarantees	**5,968**	**845**	**673**	**1,811**	**2,396**	**243**

* Assets and liabilities without a direct impact on liquidity.

Analysis of exposure to liquidity risk as of 31 December 2014

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash, cash balances at central banks and demand deposits at banks	335,417	335,417	0	0	0	0
Financial assets held for trading	187	187	0	0	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0
Available-for-sale financial assets	1,275,213	22,932	42,347	326,334	738,723	144,877
Loans and advances	1,522,471	158,190	101,132	270,266	596,659	396,224
Held-to-maturity financial assets	89,950	608	24,665	36,930	4,997	22,750
Other assets*	225,244	7,429	6	0	22,701	195,108
Total assets	**3,466,339**	**542,620**	**168,150**	**633,530**	**1,363,080**	**758,959**
Liabilities						
Financial liabilities held for trading	1,170	1,170	0	0	0	0
Financial liabilities measured at amortised cost	2,898,016	308,491	269,182	525,571	1,253,721	541,051
Other liabilities*	671,768	22,972	2,771	64,369	38,345	543,311
Total liabilities and equity	**3,570,954**	**332,633**	**271,953**	**589,940**	**1,292,066**	**1,084,362**
Assets-liabilities (including equity) mismatch	**(104,615)**	**209,987**	**(103,803)**	**43,590**	**71,014**	**(325,403)**
Guarantees	**5,489**	**794**	**238**	**2,187**	**1,827**	**443**

* Assets and liabilities without a direct impact on liquidity.

The following tables set forth, for the periods indicated non-discounted contractual balance sheet liabilities. A significant proportion of the Nova KBM Group´s liabilities falls due within a one-month period, referring to demand deposits. The Nova KBM Group monitors the stability of demand deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in these deposits.

Non-derivative balance sheet liabilities as of 31 December 2015

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities held for trading	270	270	0	0	0	0
Financial liabilities measured at amortised cost	3,649,512	2,098,754	327,980	687,182	439,521	96,075
Other liabilities	751,610	79,455	3,616	40,578	43,225	584,736
Total liabilities	**4,401,392**	**2,178,479**	**331,596**	**727,760**	**482,746**	**680,811**
Guarantees	**257,387**	**33,900**	**28,909**	**81,126**	**100,887**	**12,565**

Non-derivative balance sheet liabilities as of 31 December 2014

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities measured at amortised cost	3,679,445	1,817,157	439,221	844,681	478,443	99,943
Other liabilities	781,888	31,923	64,149	65,379	39,316	581,121
Total liabilities	**4,461,333**	**1,849,080**	**503,370**	**910,060**	**517,759**	**681,064**
Guarantees	**260,135**	**36,033**	**13,842**	**106,074**	**82,892**	**21,294**

Non-derivative balance sheet liabilities as of 31 December 2015

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities held for trading	270	270	0	0	0	0
Financial liabilities measured at amortised cost	2,921,662	1,656,207	274,397	593,498	298,088	99,472
Other liabilities	668,055	13,094	2,837	37,887	39,972	574,265
Total liabilities	**3,589,987**	**1,669,571**	**277,234**	**631,385**	**338,060**	**673,737**
Guarantees	**229,312**	**32,483**	**25,851**	**69,585**	**92,074**	**9,319**

Non-derivative balance sheet liabilities as of 31 December 2014

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Liabilities						
Financial liabilities measured at amortised cost	2,977,808	1,390,521	369,472	722,065	396,578	99,172
Other liabilities	671,768	22,972	2,771	64,369	38,345	543,311
Total liabilities	**3,649,576**	**1,413,493**	**372,243**	**786,434**	**434,923**	**642,483**
Guarantees	**222,438**	**32,179**	**9,632**	**88,633**	**74,038**	**17,956**

Derivatives held as of 31 December 2015

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forwards						
outflow	36,822	17,232	15,531	4,059	0	0
inflow	36,710	17,137	15,523	4,050	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	216	1	3	26	181	5
inflow	979	1	2	117	855	4
TOTAL OUTFLOW	**37,038**	**17,233**	**15,534**	**4,085**	**181**	**5**
TOTAL INFLOW	**37,689**	**17,138**	**15,525**	**4,167**	**855**	**4**

The table above presents non-discounted cash flows on derivatives. Foreign currency amounts were translated into the euro using the ECB´s exchange rate effective on 31 December 2015. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

Derivatives held as of 31 December 2014

Nova KBM Group	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forwards						
outflow	64,350	34,515	29,835	0	0	0
inflow	64,296	34,439	29,857	0	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	244	59	105	80	0	0
inflow	193	0	107	86	0	0
TOTAL OUTFLOW	**64,594**	**34,574**	**29,940**	**80**	**0**	**0**
TOTAL INFLOW	**64,489**	**34,439**	**29,964**	**86**	**0**	**0**

The table above presents non-discounted cash flows on derivatives. Foreign currency amounts were translated into the euro using the ECB´s exchange rate effective on 31 December 2014. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

Derivatives held as of 31 December 2015

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forwards						
outflow	36,822	17,232	15,531	4,059	0	0
inflow	36,710	17,137	15,523	4,050	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	216	1	3	26	181	5
inflow	979	1	2	117	855	4
TOTAL OUTFLOW	**37,038**	**17,233**	**15,534**	**4,085**	**181**	**5**
TOTAL INFLOW	**37,689**	**17,138**	**15,525**	**4,167**	**855**	**4**

The table above presents non-discounted cash flows on derivatives. Foreign currency amounts were translated into the euro using the ECB´s exchange rate effective on 31 December 2015. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

Derivatives held as of 31 December 2014

Nova KBM d.d.	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forwards						
outflow	64,350	34,515	29,835	0	0	0
inflow	64,296	34,439	29,857	0	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	185	0	105	80	0	0
inflow	193	0	107	86	0	0
TOTAL OUTFLOW	**64,535**	**34,515**	**29,940**	**80**	**0**	**0**
TOTAL INFLOW	**64,489**	**34,439**	**29,964**	**86**	**0**	**0**

The table above presents non-discounted cash flows on derivatives. Foreign currency amounts were translated into the euro using the ECB´s exchange rate effective on 31 December 2014. The presentation of figures takes into account the method of settlement. In most cases, the settlement of contracts is carried out on a gross amount basis.

4.3 Market risks

The Nova KBM 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 Nova KBM 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 Nova KBM Group holds in its portfolio for the purpose of trading on its proprietary account.

The trading limit methodology is based on the VaR measure and is compliant with the Basel capital requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The basis for determining trading limits is the capital requirement set out in the financial plan. The Nova KBM Group measures the market value of all trading items on a daily basis. The volume of transactions in each type of financial instruments is defined in detail by the methodology for setting limits.

Nova KBM´s portfolio of equity instruments is limited by the highest market value, stop-loss limit, and the VaR measure. The portfolio of debt securities is limited by the highest market value and stop-loss limit. The limits determined for specific types of transactions may be changed by a decision of the ALCO. Changes to the structure of limits shall not affect the annual plan of capital adequacy.

The Nova KBM Group monitors VaR of trading portfolios on a daily basis. The aggregate value-at-risk of the Nova KBM Group´s and Nova KBM´s trading portfolios in 2015 suggests with a 99% probability that, by holding an unchanged position in securities, the portfolio loss over the 10 consecutive working days would not exceed €126,000 and €91,000, respectively.

10-day VaR of the trading portfolios in 2015

Nova KBM Group			Nova KBM d.d.		
Maximum	Minimum	Average	Maximum	Minimum	Average
126	38	78	91	0	32

10-day VaR of the trading portfolios in 2014

Nova KBM Group			Nova KBM d.d.		
Maximum	Minimum	Average	Maximum	Minimum	Average
95	46	57	63	0	14

A more detailed breakdown of financial assets held for trading and their movements is presented in the table 'Financial assets held for trading' in the notes to the financial statements.

Position risk in foreign exchange trading is controlled by Nova KBM by trading limits. Limits for foreign currency trading for the account of Nova KBM 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.

Nova KBM offers its customers the service of buying and selling derivatives as a broker only and does not take its own positions.

4.3.2 Interest rate risk

Interest rate risk is the risk of loss arising due to changes in interest rates or the structure of interest rates for maturity mismatches of interest-bearing assets and liabilities with regard to interest rate repricing and the remuneration method.

Rules applicable to the management of interest rate risk pertaining to the trading book items are included in the methodology for monitoring trading limits. Interest rate risk management of non-trading book items is carried out using an interest rate matching methodology.

The Nova KBM 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. Nova KBM monitors separately interest rate risk for EUR, USD and CHF, and the interest rate TOM (basic interest rate), which, as of 31 December 2015, together made up 94.18% of its entire exposure to interest rate changes. The results of the standardized stress test for interest rate risk as the impact of a parallel shift in the yield curve on equity and net interest income in a period of one year are calculated monthly for Nova KBM, and quarterly for the Nova KBM Group.

The impact of the results of the standardized stress test on the Nova KBM Group´s equity, as of 31 December 2015

Nova KBM Group	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(38)	(628)	(4,440)	(42,796)	(46,843)	(94,745)
Total	**(38)**	**(628)**	**(4,440)**	**(42,796)**	**(46,843)**	**(94,745)**

The impact of the results of the standardized stress test on the Nova KBM Group´s equity, as of 31 December 2014

Nova KBM Group	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(7)	(257)	(4,962)	(44,137)	(25,995)	(75,358)
Total	**(7)**	**(257)**	**(4,962)**	**(44,137)**	**(25,995)**	**(75,358)**

The impact of the results of the standardized stress test on Nova KBM´s equity, as of 31 December 2015

Nova KBM d.d.	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(33)	(495)	(3,955)	(31,623)	(40,356)	(76,462)
Total	**(33)**	**(495)**	**(3,955)**	**(31,623)**	**(40,356)**	**(76,462)**

The impact of the results of the standardized stress test on Nova KBM´s equity, as of 31 December 2014

Nova KBM d.d.	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
EUR	(5)	(192)	(4,559)	(32,094)	(20,344)	(57,194)
Total	**(5)**	**(192)**	**(4,559)**	**(32,094)**	**(20,344)**	**(57,194)**

The tables above show the decline in the fair value of the debt securities portfolio in the case of a parallel rise in the yield curve by 200 basis points. A change in fair value is reflected in equity.

The impact of the results of the standardized stress test on the Nova KBM Group´s net interest income

Nova KBM Group		31.12.2015		31.12.2014
	+ 200 basis points	- 200 basis points	+ 200 basis points	- 200 basis points
EUR	7,524	(163)	3,508	(56)
CHF	412	159	558	17
USD	240	(59)	281	(16)
HRK	2	(1)	11	(4)
Other currencies	27	16	41	0
Total	**8,205**	**(48)**	**4,399**	**(59)**

The impact of the results of the standardized stress test on Nova KBM´s net interest income

Nova KBM d.d.		31.12.2015		31.12.2014
	+ 200 basis points	- 200 basis points	+ 200 basis points	- 200 basis points
EUR	9,772	199	8,635	(154)
CHF	213	(50)	1,131	21
USD	810	157	309	(19)
Other currencies	28	16	42	0
Total	**10,823**	**322**	**10,117**	**(152)**

The tables above show the impact of a shift in the yield curve on the net interest income in a period of one year.

In addition to the standardized stress test analysis, the Nova KBM Group calculates its exposure to interest rate changes as the change of the net current value of the difference between assets and liabilities subject to variable interest rate in a given period and the expected interest rate changes in the next three months. The expected interest rate changes are calculated as the difference between current and term interest rates, separated for each currency and maturity handled. An analysis of interest rate risk for Nova KBM is included in a monthly risk management report and is subject to a monthly review by the ALCO. An analysis of interest rate risk at the Nova KBM Group level is made on a quarterly basis. The Nova KBM Group companies monitor interest rate risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The interest rate risk analysis treats net positions in individual interest rate repricing periods as fixed-coupon debt securities. A longer interest rate repricing period has a larger impact on net present value of assets and liabilities. The results of the interest rate risk analysis made for the Nova KBM Group for the 2015 and 2014 year-end suggested that the aggregate net present value of all interest-sensitive items would most likely decline by €2,622,000 and €1,160,000, respectively. As for Nova KBM, the results suggested that the aggregate net present value of all of its interest-sensitive items would most likely decline by €348,000 and €856,000, respectively. The main advantage of this analysis when compared to the standardized interest rate stress test lies in anticipation of probable interest rate changes in the observed period. The Nova KBM Group is exposed mainly to interest rates for EUR, USD, CHF and HRK.

The impact of interest rate changes on profit or loss is measured for a one-year period. To calculate the change in interest income, the current interest rate is used for the period until the change of interest rate, after which date and until the end of a one-year period the changed interest rate is taken into consideration. The average interest rate repricing period by individual time buckets is used to calculate interest. Taking into consideration the financial data for the 2015 year-end, the anticipated interest rate change in a three-month period would result in an annual increase of €34,300 in the net interest income earned by the Nova KBM Group, while the annual net interest income earned by Nova KBM would decline by €23,400. According to the financial data for the end of 2014, the anticipated interest rate change in a three-month period would cause the annual net interest income of the Nova KBM Group to fall by €287,000, while that of Nova KBM would increase by €517,000.

Nova KBM calculates, on a monthly basis, the impact on all its interest-sensitive items of the results of the standardized stress test of a parallel shift in the yield curve by 200 basis points, taking into consideration the stable portion of demand deposits. According to the financial data for the end of 2015, the results suggested that an increase in the yield curve by 200 basis points would cause the aggregate net present value of all interest-sensitive items of Nova KBM to increase by an amount equal to 5.94% of its regulatory capital, while a decline in the yield curve by 200 basis points would cause the aggregate net present value of all interest-sensitive items of Nova KBM to decline by an amount equal to 3.76% of its regulatory capital. In compliance with the applicable legislation, the regulator may impose certain measures for reducing the risk if the result of the standardized stress test exceeds 20% of Nova KBM´s equity.

A more detailed breakdown of the Nova KBM Group´s statement of financial position by maturity of items as of 31 December 2015 and 2014 is presented in the tables 'Analysis of exposure to interest rate risk', which show the distribution of items with regard to the interest rate repricing periods. Exposure to changes in interest rates is managed using an interest rate matching methodology, taking into account the characteristics of individual items.

Analysis of exposure to interest rate risk as of 31 December 2015

Nova KBM Group	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash, cash balances at central banks and demand deposits at banks	322,889	69,247	253,642	253,642	0	0	0	0
Financial assets held for trading	1,563	1,563	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0	0	0
Available-for-sale financial assets	1,675,907	26,740	1,649,167	36,810	174,881	365,520	720,058	351,898
Loans and advances	1,896,388	113,830	1,782,558	1,005,696	380,938	290,696	96,993	8,235
Held-to-maturity financial assets	129,548	0	129,548	0	17,787	19,983	64,938	26,840
Other assets	29,706	29,706	0	0	0	0	0	0
Total assets	**4,069,422**	**254,507**	**3,814,915**	**1,296,148**	**573,606**	**676,199**	**881,989**	**386,973**
Liabilities								
Financial liabilities held for trading	270	270	0	0	0	0	0	0
Financial liabilities measured at amortised cost	3,494,287	6,851	3,487,436	2,202,621	337,897	748,803	196,603	1,512
Other liabilities	3,079	3,079	0	0	0	0	0	0
Total liabilities	**3,497,636**	**10,200**	**3,487,436**	**2,202,621**	**337,897**	**748,803**	**196,603**	**1,512**
Assets-liabilities mismatch	**571,786**	**244,307**	**327,479**	**(906,473)**	**235,709**	**(72,604)**	**685,386**	**385,461**

Analysis of exposure to interest rate risk as of 31 December 2014

Nova KBM Group	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash, cash balances at central banks and demand deposits at banks	422,264	77,106	345,158	345,158	0	0	0	0
Financial assets held for trading	1,841	1,841	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0	0	0
Available-for-sale financial assets	1,482,120	19,013	1,463,107	7,005	49,876	326,138	888,013	192,075
Loans and advances	1,991,342	131,384	1,859,958	961,333	435,935	349,945	91,213	21,532
Held-to-maturity financial assets	206,540	0	206,540	0	35,755	75,329	62,150	33,306
Other assets	45,952	45,952	0	0	0	0	0	0
Total assets	**4,167,916**	**293,153**	**3,874,763**	**1,313,496**	**521,566**	**751,412**	**1,041,376**	**246,913**
Liabilities								
Financial liabilities held for trading	1,229	1,170	59	59	0	0	0	0
Financial liabilities measured at amortised cost	3,585,893	7,064	3,578,829	1,864,215	442,476	988,942	281,274	1,922
Other liabilities	18,140	18,075	65	65	0	0	0	0
Total liabilities	**3,605,262**	**26,309**	**3,578,953**	**1,864,339**	**442,476**	**988,942**	**281,274**	**1,922**
Assets-liabilities mismatch	**562,654**	**266,844**	**295,810**	**(550,843)**	**79,090**	**(237,530)**	**760,102**	**244,991**

Analysis of exposure to interest rate risk as of 31 December 2015

Nova KBM d.d.	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash, cash balances at central banks and demand deposits at banks	260,860	46,951	213,909	213,909	0	0	0	0
Financial assets held for trading	116	116	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0	0	0
Available-for-sale financial assets	1,442,288	22,096	1,420,192	32,000	151,883	344,670	592,677	298,962
Loans and advances	1,623,522	71,761	1,551,761	872,755	304,587	276,866	85,270	12,283
Held-to-maturity financial assets	28,566	0	28,566	0	0	0	5,189	23,377
Other assets	12,967	12,967	0	0	0	0	0	0
Total assets	**3,381,740**	**167,312**	**3,214,428**	**1,118,664**	**456,470**	**621,536**	**683,136**	**334,622**
Liabilities								
Financial liabilities held for trading	270	270	0	0	0	0	0	0
Financial liabilities measured at amortised cost	2,895,029	66	2,894,963	1,765,813	281,436	663,950	183,023	741
Other liabilities	2,242	2,242	0	0	0	0	0	0
Total liabilities	**2,897,541**	**2,578**	**2,894,963**	**1,765,813**	**281,436**	**663,950**	**183,023**	**741**
Assets-liabilities mismatch	**484,199**	**164,734**	**319,465**	**(647,149)**	**175,034**	**(42,414)**	**500,113**	**333,881**

Analysis of exposure to interest rate risk as of 31 December 2014

Nova KBM d.d.	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash, cash balances at central banks and demand deposits at banks	335,417	40,847	294,570	294,570	0	0	0	0
Financial assets held for trading	187	187	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0	0	0
Available-for-sale financial assets	1,275,213	13,779	1,261,434	5,000	41,039	324,051	742,256	149,088
Loans and advances	1,664,347	62,488	1,601,859	812,894	379,461	328,322	59,115	22,067
Held-to-maturity financial assets	89,950	0	89,950	0	24,665	36,721	0	28,564
Other assets	19,231	19,231	0	0	0	0	0	0
Total assets	**3,402,202**	**154,389**	**3,247,813**	**1,112,464**	**445,165**	**689,094**	**801,371**	**199,719**
Liabilities								
Financial liabilities held for trading	1,170	1,170	0	0	0	0	0	0
Financial liabilities measured at amortised cost	2,935,277	78	2,935,199	1,444,492	361,978	872,805	255,008	916
Other liabilities	14,322	14,322	0	0	0	0	0	0
Total liabilities	**2,950,769**	**15,570**	**2,935,199**	**1,444,492**	**361,978**	**872,805**	**255,008**	**916**
Assets-liabilities mismatch	**451,433**	**138,819**	**312,614**	**(332,028)**	**83,187**	**(183,711)**	**546,363**	**198,803**

The tables above show the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

Average interest rates (%)

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Average interest rate on assets	3.08	3.56	2.95	3.44
Average interest rate on liabilities	0.39	0.96	0.46	1.08

4.3.3 Foreign exchange risk

Foreign exchange risk represents a potential loss arising from an open foreign exchange position and the volatility of foreign exchange rates. Nova KBM controls exposure to foreign exchange risk by maintaining neutral position in individual foreign currencies.

In accordance with the resolution adopted by the ALCO, Nova KBM maintains a daily aggregate closed foreign exchange position. The aggregate open position for all currencies is limited by its impact on Nova KBM´s capital adequacy. The methodology for monitoring and maintaining a balanced foreign exchange position is based on the VaR method in compliance with the Basel capital requirements. The maximum allowable VaR is established at the individual currency level just as for the entire foreign exchange portfolio. VaR depends on the exposure amount and the volatility of individual pair of currencies.

The open position for each foreign currency is monitored daily, and Nova KBM calculates the daily result due to discrepancies in the foreign exchange position. In case of an increase in volatility, Nova KBM reduces the allowable open position in individual currencies, in accordance with the adopted methodology. Any changes in volatility are reviewed on a monthly basis.

The Nova KBM Group controls its exposure to foreign exchange risk by maintaining target positions in individual currencies. The Nova KBM Group companies monitor currency risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

While the Nova KBM Group regularly monitors the foreign exchange risk of its statement of financial position and off-balance sheet items by individual currencies, it is exposed to foreign exchange risk against USD, CHF and HRK.

A more detailed breakdown of the open foreign exchange position as of 31 December 2015 and 2014 is presented in the tables 'Analysis of exposure to foreign exchange risk'.

A 10-day VaR of of the open foreign exchange position is calculated by Nova KBM on the basis of one-year data and a 99% confidence interval. The results of the calculation made for Nova KBM suggest with a 99% probability that, by holding an unchanged currency positions, the loss over the 10 consecutive working days would not exceed €97,000, taking into account the highest level of exposure to foreign exchange risk during 2015. The VaR of Nova KBM´s foreign exchange position is presented in the tables below.

10-day VaR of Nova KBM´s foreign exchange position in 2015

Nova KBM d.d.			
	Maximum	Minimum	Average
	97	7	30

10-day VaR of Nova KBM´s foreign exchange position in 2014

Nova KBM d.d.			
	Maximum	Minimum	Average
	56	8	20

Analysis of exposure to foreign exchange risk as of 31 December 2015

Nova KBM Group	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash, cash balances at central banks and demand deposits at banks	304,557	10,327	1,773	1,299	4,933	322,889
Financial assets held for trading	1,563	0	0	0	0	1,563
Financial assets designated at fair value through profit or loss	13,421	0	0	0	0	13,421
Available-for-sale financial assets	1,675,907	0	0	0	0	1,675,907
Loans and advances	1,814,437	23,379	51,971	528	6,073	1,896,388
Held-to-maturity financial assets	129,548	0	0	0	0	129,548
Other assets	148,587	0	0	1,675	56,189	206,451
Total assets	**4,088,020**	**33,706**	**53,744**	**3,502**	**67,195**	**4,246,167**
Liabilities						
Financial liabilities held for trading	270	0	0	0	0	270
Financial liabilities measured at amortised cost	3,429,166	33,828	21,444	750	9,099	3,494,287
Other liabilities	737,485	0	0	(25,355)	39,480	751,610
Total liabilities and equity	**4,166,921**	**33,828**	**21,444**	**(24,605)**	**48,579**	**4,246,167**
Assets-liabilities (including equity) mismatch	**(78,901)**	**(122)**	**32,300**	**28,107**	**18,616**	**0**
Derivatives	32,623	0	(32,735)	0	0	(112)
Assets-liabilities (including equity and derivatives) mismatch	**(46,278)**	**(122)**	**(435)**	**28,107**	**18,616**	**(112)**

Analysis of exposure to foreign exchange risk as of 31 December 2014

Nova KBM Group	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash, cash balances at central banks and demand deposits at banks	408,799	3,372	6,026	1,096	2,971	422,264
Financial assets held for trading	1,841	0	0	0	0	1,841
Financial assets designated at fair value through profit or loss	17,857	0	0	0	0	17,857
Available-for-sale financial assets	1,482,120	0	0	0	0	1,482,120
Loans and advances	1,898,339	24,839	67,197	539	428	1,991,342
Held-to-maturity financial assets	206,540	0	0	0	0	206,540
Other assets	184,267	0	0	2,955	59,824	247,046
Total assets	**4,199,763**	**28,211**	**73,223**	**4,590**	**63,223**	**4,369,010**
Liabilities						
Financial liabilities held for trading	1,229	0	0	0	0	1,229
Financial liabilities measured at amortised cost	3,533,917	28,234	16,173	296	7,273	3,585,893
Other liabilities	753,573	7	0	(16,838)	45,146	781,888
Total liabilities and equity	**4,288,719**	**28,241**	**16,173**	**(16,542)**	**52,419**	**4,369,010**
Assets-liabilities (including equity) mismatch	**(88,956)**	**(30)**	**57,050**	**21,132**	**10,804**	**0**
Derivatives	54,544	0	(54,456)	0	(141)	(53)
Assets-liabilities (including equity and derivatives) mismatch	**(34,412)**	**(30)**	**2,594**	**21,132**	**10,663**	**(53)**

Analysis of exposure to foreign exchange risk as of 31 December 2015

Nova KBM d.d.	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash, cash balances at central banks and demand deposits at banks	243,853	10,035	1,396	1,111	4,465	260,860
Financial assets held for trading	116	0	0	0	0	116
Financial assets designated at fair value through profit or loss	13,421	0	0	0	0	13,421
Available-for-sale financial assets	1,442,288	0	0	0	0	1,442,288
Loans and advances	1,542,100	23,356	51,971	23	6,072	1,623,522
Held-to-maturity financial assets	28,566	0	0	0	0	28,566
Other assets	194,582	0	0	0	0	194,582
Total assets	**3,464,926**	**33,391**	**53,367**	**1,134**	**10,537**	**3,563,355**
Liabilities						
Financial liabilities held for trading	270	0	0	0	0	270
Financial liabilities measured at amortised cost	2,827,566	34,615	21,318	408	11,122	2,895,029
Other liabilities	668,056	0	0	0	0	668,056
Total liabilities and equity	**3,495,892**	**34,615**	**21,318**	**408**	**11,122**	**3,563,355**
Assets-liabilities (including equity) mismatch	**(30,966)**	**(1,224)**	**32,049**	**726**	**(585)**	**0**
Derivatives	32,623	0	(32,735)	0	0	(112)
Assets-liabilities (including equity and derivatives) mismatch	**1,657**	**(1,224)**	**(686)**	**726**	**(585)**	**(112)**

Analysis of exposure to foreign exchange risk as of 31 December 2014

Nova KBM d.d.	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash, cash balances at central banks and demand deposits at banks	323,440	3,228	5,407	747	2,595	335,417
Financial assets held for trading	187	0	0	0	0	187
Financial assets designated at fair value through profit or loss	17,857	0	0	0	0	17,857
Available-for-sale financial assets	1,275,213	0	0	0	0	1,275,213
Loans and advances	1,566,903	24,819	67,197	0	5,428	1,664,347
Held-to-maturity financial assets	89,950	0	0	0	0	89,950
Other assets	225,244	0	0	0	0	225,244
Total assets	**3,498,794**	**28,047**	**72,604**	**747**	**8,023**	**3,608,215**
Liabilities						
Financial liabilities held for trading	1,170	0	0	0	0	1,170
Financial liabilities measured at amortised cost	2,883,581	27,978	15,790	272	7,656	2,935,277
Other liabilities	671,768	0	0	0	0	671,768
Total liabilities and equity	**3,556,519**	**27,978**	**15,790**	**272**	**7,656**	**3,608,215**
Assets-liabilities (including equity) mismatch	**(57,725)**	**69**	**56,814**	**475**	**367**	**0**
Derivatives	54,544	0	(54,456)	0	(141)	(53)
Assets-liabilities (including equity and derivatives) mismatch	**(3,181)**	**69**	**2,358**	**475**	**226**	**(53)**

The tables above present the distribution of the statement of financial position items by currency. The tables only include items in which the Nova KBM Group has significant positions in currencies other than the euro.

Foreign exchange sensitivity analysis

	Nova KBM Group				Nova KBM d.d.			
	31.12.2015		31.12.2014		31.12.2015		31.12.2014	
	Exchange rate change against EUR (%)	Impact on profit or loss	Exchange rate change against EUR (%)	Impact on profit or loss	Exchange rate change against EUR (%)	Impact on profit or loss	Exchange rate change against EUR (%)	Impact on profit or loss
USD	+13	(16)	+7	(2)	+13	(159)	+7	5
CHF	+18	(78)	+16	415	+18	(123)	+16	377
HRK	+5	1,405	+2	423	+5	36	+2	10
Other currencies	+10	1,862	+9	960	+10	(59)	+9	20

The impact of foreign exchange rate changes on equity is negligible and is therefore not presented in the table.

4.4 Geographical analysis of assets and liabilities

Geographical analysis of assets and liabilities as of 31 December 2015

Nova KBM Group	Total	Slovenia	Total foreign countries	EU	Republics of the former Yugoslavia	Other
Assets						
Cash, cash balances at central banks and demand deposits at banks	322,889	289,157	33,732	23,753	0	9,979
Financial assets held for trading	1,563	1,529	34	34	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0
Available-for-sale financial assets	1,675,907	1,006,313	669,594	621,598	0	47,996
Loans and advances	1,896,388	1,812,187	84,201	83,185	825	191
Held-to-maturity financial assets	129,548	112,648	16,900	16,900	0	0
Other assets	206,451	148,522	57,929	1,683	56,246	0
Total assets	**4,246,167**	**3,383,777**	**862,390**	**747,153**	**57,071**	**58,166**
Liabilities						
Financial liabilities held for trading	270	66	204	204	0	0
Financial liabilities measured at amortised cost	3,494,287	3,420,688	73,599	63,518	4,508	5,573
Other liabilities	751,610	755,350	(3,740)	(43,261)	39,489	32
Total liabilities and equity	**4,246,167**	**4,176,104**	**70,063**	**20,461**	**43,997**	**5,605**
Assets-liabilities (including equity) mismatch	**0**	**(792,327)**	**792,327**	**726,692**	**13,074**	**52,561**

Geographical analysis of assets and liabilities as of 31 December 2014

Nova KBM Group	Total	Slovenia	Total foreign countries	EU	Republics of the former Yugoslavia	Other
Assets						
Cash, cash balances at central banks and demand deposits at banks	422,264	409,513	12,751	12,751	0	0
Financial assets held for trading	1,841	1,799	42	42	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0
Available-for-sale financial assets	1,482,120	1,180,148	301,972	301,972	0	0
Loans and advances	1,991,342	1,899,676	91,666	80,611	7,803	3,252
Held-to-maturity financial assets	206,540	143,095	63,445	63,445	0	0
Other assets	247,046	202,732	44,314	(15,509)	59,823	0
Total assets	**4,369,010**	**3,854,820**	**514,190**	**443,312**	**67,626**	**3,252**
Liabilities						
Financial liabilities held for trading	1,229	951	278	278	0	0
Financial liabilities measured at amortised cost	3,585,893	3,478,352	107,541	79,499	23,350	4,692
Other liabilities	781,888	766,608	15,280	(29,892)	45,146	26
Total liabilities and equity	**4,369,010**	**4,245,911**	**123,099**	**49,885**	**68,496**	**4,718**
Assets-liabilities (including equity) mismatch	**0**	**(391,091)**	**391,091**	**393,427**	**(870)**	**(1,466)**

Geographical analysis of assets and liabilities as of 31 December 2015

Nova KBM d.d.	Total	Slovenia	Total foreign countries	EU	Republics of the former Yugoslavia	Other
Assets						
Cash, cash balances at central banks and demand deposits at banks	260,860	228,887	31,973	21,994	0	9,979
Financial assets held for trading	116	82	34	34	0	0
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	0	0
Available-for-sale financial assets	1,442,288	841,253	601,035	553,039	0	47,996
Loans and advances	1,623,522	1,530,447	93,075	86,911	5,995	169
Held-to-maturity financial assets	28,566	28,566	0	0	0	0
Other assets	194,582	194,524	58	0	58	0
Total assets	**3,563,355**	**2,837,180**	**726,175**	**661,978**	**6,053**	**58,144**
Liabilities						
Financial liabilities held for trading	270	66	204	204	0	0
Financial liabilities measured at amortised cost	2,895,029	2,820,224	74,805	65,327	4,019	5,459
Other liabilities	668,056	667,753	303	271	8	24
Total liabilities and equity	**3,563,355**	**3,488,043**	**75,312**	**65,802**	**4,027**	**5,483**
Assets-liabilities (including equity) mismatch	**0**	**(650,863)**	**650,863**	**596,176**	**2,026**	**52,661**

Geographical analysis of assets and liabilities as of 31 December 2014

Nova KBM d.d.	Total	Slovenia	Total foreign countries	EU	Republics of the former Yugoslavia	Other
Assets						
Cash, cash balances at central banks and demand deposits at banks	335,417	335,417	0	0	0	0
Financial assets held for trading	187	145	42	42	0	0
Financial assets designated at fair value through profit or loss	17,857	17,857	0	0	0	0
Available-for-sale financial assets	1,275,213	1,039,500	235,713	235,713	0	0
Loans and advances	1,664,347	1,569,849	94,498	78,452	12,804	3,242
Held-to-maturity financial assets	89,950	43,895	46,055	46,055	0	0
Other assets	225,244	216,536	8,708	8,708	0	0
Total assets	**3,608,215**	**3,223,199**	**385,016**	**368,970**	**12,804**	**3,242**
Liabilities						
Financial liabilities held for trading	1,170	951	219	219	0	0
Financial liabilities measured at amortised cost	2,935,277	2,841,616	93,661	85,848	3,187	4,626
Other liabilities	671,768	671,537	231	222	0	9
Total liabilities and equity	**3,608,215**	**3,514,104**	**94,111**	**86,289**	**3,187**	**4,635**
Assets-liabilities (including equity) mismatch	**0**	**(290,905)**	**290,905**	**282,681**	**9,617**	**(1,393)**

Available-for-sale financial assets of foreign issuers

Country of issuer	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Australia	3,003	0	3,003	0
Austria	62,982	49,817	33,857	20,221
Belgium	57,756	44,633	46,506	29,187
Czech Republic	14,279	0	14,279	0
Denmark	10,035	0	10,035	0
Finland	17,926	0	17,926	0
France	89,722	75,114	78,178	63,288
Ireland	2,275	0	2,275	0
Italy	47,014	0	43,126	0
Canada	12,936	0	12,936	0
Latvia	10,019	0	10,019	0
Luxembourg	23,455	21,455	23,455	19,454
Germany	74,737	51,178	74,737	51,178
Netherlands	87,667	48,171	80,868	42,868
Norway	13,762	0	13,762	0
Poland	21,289	0	21,289	0
Romania	5,788	0	5,788	0
Slovakia	9,352	11,604	9,352	9,517
Spain	10,050	0	10,050	0
Sweden	24,233	0	18,280	0
Great Britain	53,019	0	53,019	0
USA	18,295	0	18,295	0
Total	**669,594**	**301,972**	**601,035**	**235,713**

4.5 Operational risk

Operational risk, which includes legal risk, is the risk of loss arising from inappropriate or failed implementation of internal processes, the actions of people, the functioning of systems or due to external factors.

Both the Nova KBM Group and Nova KBM 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 requirements for operational risk. These monthly assessments take into consideration the dynamics of income during the first half of the year and the projection of income over the next few months.

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

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

- operational risk loss events recorded across the Nova KBM Group
- technical protection
- information security
- operational disruptions and business continuity plans of Nova KBM
- compliance and integrity of operations.

Nova KBM has defined as an operational risk loss event any event that has a negative material effect on its operations and is recorded in its accounts. Operational risk loss events may also be non-financial in nature. Since not all operational risk losses can be measured, an assessment of losses is made when determining the annual risk profile of Nova KBM. The determination of the risk profile with respect to operational risk is of particular importance, given that the operational risk loss events make up the largest proportion of loss events suffered by Nova KBM that cannot be reliably measured; they can only be, and must be, assessed.

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

In 2015, the main focus in the monitoring of operational risk was on the identification of fraud (carried out by the Corporate Governance Division), IT risks (carried out by the Information Technology Department and the Corporate Security Department) and outsourcing risks (carried out by Infrastructure Department). Through the provision to the Operational Risk Committee of reports on the work of each of the four departments referred to above, Nova KBM has ensured that the reporting on all operational risks to which it is exposed is carried out in an integrated and systematic fashion.

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 Nova KBM Group, or from difficulties in acquiring new capital. The Nova KBM Group has set up appropriate procedures and mechanisms to ensure adequate structure and size of its capital.

The Nova KBM Group manages its capital by:

- monitoring current and anticipated capital requirements for credit, market and operational risks
- monitoring available capital and examining options to increase its additional capital by raising subordinated instruments, taking into account regulatory restrictions
- monitoring movements in its capital adequacy.

For the purpose of capital risk management, the Nova KBM 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 Nova KBM Group calculates capital requirements for credit risk using the standardized approach. As a reference Export Credit Agency (ECA) for the category 'Exposure to Central Governments or Central Banks', the Nova KBM Group nominated SID Banka. As a reference External Credit Assessment Institution (ECAI) for the classification of assets into the category 'Exposure to Institutions', the Nova KBM Group nominated the rating agency Moody´s.

The Nova KBM Group calculates capital requirements for market risks in accordance with the applicable regulations and does not use internal models for the time being. The capital requirement for operational risk is calculated according to the basic indicator approach.

To determine the level of adequate internal capital of the Nova KBM Group in accordance with the ICAAP, the same methodology is used as for Nova KBM.

Regulation (EU) No. 575/2013 (CRR) of the European Parliament and the European Council on prudential requirements for credit institutions and investment firms, adopted on 26 June 2013, became effective from 1 January 2014. Among other changes, the CRR introduced several alterations to the calculation of capital and capital requirements, all of which have been successfully implemented by Nova KBM. The implementation of these changes resulted in an elevation of the capital adequacy ratios calculated by both Nova KBM and the Nova KBM Group.

Composition of regulatory capital and capital requirements

ITEM DESCRIPTION	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Tier 1 capital	**569,394**	**549,824**	**559,245**	**521,962**
Paid-in capital instruments	150,000	150,000	150,000	150,000
Share premium	360,572	360,572	360,572	360,572
Retained earnings and value adjustments of investment property from previous years	58,733	50,122	35,836	1,030
(-) Loss for the current financial year	0	(5,743)	0	0
Accumulated other comprehensive income	(4,045)	(5,187)	1,460	(343)
Other reserves	28,224	27,895	27,389	27,389
(-) Intangible assets	(21,806)	(25,483)	(11,908)	(14,335)
(-) Deferred tax assets	(2,284)	(2,352)	(4,104)	(2,351)
Additional Tier 1 capital	**0**	**0**	**0**	**0**
Tier 2 capital	**0**	**0**	**0**	**0**
Total capital	**569,394**	**549,824**	**559,245**	**521,962**
Risk weighted exposure amounts for credit risk	**1,969,832**	**2,029,975**	**1,762,717**	**1,773,173**
Central governments or central banks	6,155	11,822	6,155	10,736
Regional governments or local authorities	12,604	1,497	5,761	561
Public sector entities	5,193	1,305	174	147
Multilateral development banks	0	0	0	0
International organizations	0	0	0	0
Institutions	176,066	101,892	149,192	82,173
Corporates	504,131	424,425	440,199	336,354
Retail	640,485	676,203	531,356	559,299
Exposures secured by mortgages on immovable property	79,667	54,636	79,667	54,636
Exposures in default	344,264	532,059	249,614	397,374
Items associated with particular high risk	57,295	59,067	186,046	207,044
Collective investment undertakings	5,836	6,155	2,815	2,814
Equity	937	16,854	869	14,538
Other items	137,199	144,060	110,869	107,497
Risk weighted exposure amounts for market risks	**29,697**	**40,719**	**26,791**	**37,332**
Traded debt instruments	10	1,542	0	1,476
Equity instruments	29,663	39,034	26,767	35,713
Foreign exchange	0	0	0	0
Credit value adjustment risk	24	143	24	143
Risk weighted exposure amounts for operational risk	**266,496**	**289,222**	**203,088**	**216,403**
Total risk weighted exposure amount	**2,266,025**	**2,359,916**	**1,992,596**	**2,026,908**
Total capital adequacy ratio	25.13%	23.30%	28.07%	25.75%
Tier 1 capital ratio	25.13%	23.30%	28.07%	25.75%
Common Equity Tier 1 capital ratio	25.13%	23.30%	28.07%	25.75%

5 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Where possible, the Nova KBM Group determines the fair value of financial instruments on the basis of their market prices. The Nova KBM Group starts to measure the value of financial assets according to the valuation model once it establishes that the market is not active. In accordance with the IFRSs, the Nova KBM Group divides fair values of financial instruments into three levels.

Classified into Level 1 are financial assets whose fair value is determined entirely on the basis of prices quoted on active markets. Included in Level 1 are also investments in bonds that are valued based on the Bloomberg Generic Price (BGN), given that this price is regarded as a market-consensus price by the interbank market and the OTC market. The BGN price is not a price at which the Nova KBM Group can actually sell securities. However, its use ensures impartiality in the valuation of bonds, and the BGN price is the reflection of prices of actual transactions in the market, as well as a reliable indicator of the price that the Nova KBM Group would achieve upon the sale of a bond in the market. The prices quoted by bidders do not deviate significantly from the BGN price used for valuation purposes, and Nova KBM undertakes regular market analysis to ensure that the BGN price used for valuation reflects the market price.

Classified into Level 2 are financial assets whose fair value is estimated on the basis of valuation models which take into account variables derived from public market data, such as yield curves, market interest rates, and the volatility of currency exchange rates and interest rates. In most cases, the Nova KBM Group uses the Bloomberg information system as its source of information about market parameters.

Classified into Level 3 are financial assets whose fair value is estimated on the basis of valuation models which take into account subjective variables that are not publicly available.

Analysis of fair value hierarchy

	31.12.2015				31.12.2014			
Nova KBM Group	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Derivatives	116	0	116	0	187	0	187	0
Financial assets held for trading	1,447	1,447	0	0	1,654	1,654	0	0
– equity instruments	1,447	1,447	0	0	1,654	1,654	0	0
Available-for-sale financial assets	1,675,907	1,430,315	239,584	6,008	1,482,120	1,038,487	440,529	3,104
– debt securities	1,649,171	1,425,232	223,939	0	1,463,106	1,022,577	440,529	0
– equity instruments	26,736	5,083	15,645	6,008	19,014	15,910	0	3,104
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	17,857	17,857	0	0
– equity instruments	13,421	13,421	0	0	17,857	17,857	0	0
Financial liabilities								
Derivatives	270	0	270	0	1,229	0	1,229	0

	31.12.2015				31.12.2014			
Nova KBM d.d.	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Derivatives	116	0	116	0	187	0	187	0
Available-for-sale financial assets	1,442,288	1,211,595	224,896	5,797	1,275,213	844,020	428,304	2,889
– debt securities	1,420,193	1,209,543	210,650	0	1,261,435	833,131	428,304	0
– equity instruments	22,095	2,052	14,246	5,797	13,778	10,889	0	2,889
Financial assets designated at fair value through profit or loss	13,421	13,421	0	0	17,857	17,857	0	0
– equity instruments	13,421	13,421	0	0	17,857	17,857	0	0
Financial liabilities								
Derivatives	270	0	270	0	1,170	0	1,170	0

The following table presents for each type of financial instrument the triggers that lead to the transfer of a financial instrument between the fair value hierarchy levels:

Transfer	Financial instruments	Reason for transfer between levels
From Level 2 to Level 1	bonds	Re-availability of the market price of the financial instrument. The price of a bond is considered to be available if the published market price is the result of the actual turnover in the period of less than one month.
From Level 3 to Level 1	shares and funds	Re-availability of the market price of the financial instrument. The price of a share or an investment fund is considered to be available if the published market price is the result of the actual turnover in the period of less than one month.
From Level 1 to Level 2	bonds	Valuation of bonds that have been previously valued according to the market price. The reason for the valuation of a bond and for changing its level is either the withdrawal of a bond from the regulated market or its illiquidity (no transaction has been concluded in a one-month period).
From Level 1 to Level 3	shares and funds	Valuation of shares and investment funds that have been previously valued according to the market price. The reason for the valuation of a share or an investment fund and for changing its level is the withdrawal of a share or an investment fund from the regulated market.
From Level 2 to Level 3	derivatives	The underlying instrument to which the derivative refers has been reclassified from Level 1 to either Level 2 or Level 3. The market price of the underlying instrument is no longer available.
From Level 3 to Level 2	derivatives	The underlying instrument to which the derivative refers has been reclassified to Level 1. The market price of the underlying instrument is available.

Analysis of transfers between fair value hierarchy levels

	31.12.2015					31.12.2014
Nova KBM Group	Transfer from Level 1 to Level 2	Transfer from Level 2 to Level 1	Transfer from Level 1 to Level 3	Transfer from Level 1 to Level 2	Transfer from Level 2 to Level 1	Transfer from Level 1 to Level 3
Available-for-sale financial assets	1,064	0	0	404,152	0	0
– debt securities	1,064	0	0	404,152	0	0

	31.12.2015					31.12.2014
Nova KBM d.d.	Transfer from Level 1 to Level 2	Transfer from Level 2 to Level 1	Transfer from Level 1 to Level 3	Transfer from Level 1 to Level 2	Transfer from Level 2 to Level 1	Transfer from Level 1 to Level 3
Available-for-sale financial assets	0	0	0	391,927	0	0
– debt securities	0	0	0	391,927	0	0

Determining the fair value of financial assets classified into Level 2
The Nova KBM Group classifies into Level 2 of the fair value hierarchy those debt financial instruments and derivatives that are valued on the basis of models that use data derived from the market.

The Nova KBM Group starts to measure the value of debt financial instruments according to the valuation model once it establishes that the market is not active. Debt securities with determinable cash flows and without an available market price are valued at the end of each month using the discounted cash flow method. The interest rate applicable to the discounting is the sum of the interest rate on a risk-free instrument of comparable maturity, plus a margin for credit risk.

For valuing interest rate derivatives, the Nova KBM Group uses models that take into consideration the market interest rate curve and the forward interest rate curve. The models used to value currency derivatives are based on market exchange rates for individual pairs of currencies. Derivatives on securities are valued using models that take into account market prices of underlying securities. If the market price is not available, the valuation of a derivative is based on the price of the underlying security determined using a fair value model. Whichever model is used to determine the value of derivatives, the future cash flows are discounted to the present value on the basis of risk-free yield curves.

If the fair value of stocks and shares of companies cannot be determined on the basis of current prices on an active market, the Nova KBM Group recognises and discloses the fair value of an asset within Level 2 – fair value determined on the basis of valuation models that take into consideration variables derived from publicly available market data (e.g. market or quoted prices of comparable companies).

Stocks and shares of such companies are valued by the Nova KBM Group using a value assessment methodology that is based on three hierarchical levels – approaches, methods and procedures used for value assessment. For the purpose of assessing values, the Nova KBM Group uses the market comparison approach, and within this approach it uses the comparable listed companies method.

The comparable listed companies method is the most appropriate method used to assess the value of assets classified into Level 2 of the fair value hierarchy. The market comparison approach is designed on the assumption that the quoted (market) prices of assets similar to those being valued provide satisfactory information and empirical proof regarding the value of the asset that is subject to the value assessment. This concept is based on the use of market value, meaning that a market category (quoted or market price) is used as the numerator, while as the denominator, various categories from financial statements are used. When using the comparable listed companies method, the basic financial categories of the assessed company are multiplied by market multiples derived from listed comparable companies.

Determining the fair value of financial assets classified into Level 3
If the fair value of stocks and shares of companies cannot be determined either on the basis of current prices on an active market, or on the basis of valuation models that take into consideration variables derived from publicly available market data, the Nova KBM Group recognises and discloses the fair value of an asset within Level 3 – fair value determined on the basis of valuation models that take into consideration subjective variables that are not publicly available on markets.

Stocks and shares of such companies are valued by the Nova KBM Group using a value assessment methodology that is based on three hierarchical levels – approaches, methods and procedures used for value assessment. For the purpose of assessing values, the Nova KBM Group uses the following three value assessment approaches: the return-based valuation approach, and within this approach the discounted cash flow model; the market comparison approach, and within this approach the comparable transactions method; and the asset-based valuation approach.

The return-based valuation approach is the most commonly used approach to value assessment, and within this the discounted cash flow model is used. According to definition, the value of an asset is the sum of all future returns to the owner of that asset, whereby each return is discounted to the present value using the discount rate that reflects the time value of money and the level of risk associated with the realisation of return. Thus, it takes into consideration the inflow of expected future returns, the distribution of these returns over time, and the risks borne by the asset owner. The bases for the prediction of expected future returns are performance projections (the income statement and the statement of financial position) for at least the next five years. Using these projections, the net cash flows are calculated for the discrete projection period. The net cash flows for the discrete projection period are then discounted at a discount rate to arrive at the present value of net cash flows generated in the discrete projection period. The weighted average cost of capital (WACC) is taken as the discount rate. The present value of expected cash flows generated after the discrete projection period (i.e. when the company enters the mature stage of operations) is determined by calculating the remaining value, usually by applying the Gordon growth model. When calculating the remaining value, the normalized net cash flow is taken into consideration (calculated on the basis of individual assumptions – profitability of operations, depreciation and amortisation, gross investments, tax rate, and changes in the operating working capital), as is the expected constant long-term rate of growth of net cash flows (between 2% and 2.5%).

Use of unobservable inputs
The assessment of the fair value of stocks and shares classified into Level 3 is made on the basis of inputs for which market information and data are not available and which are developed using the best available information and assumptions that the market participants would use in determining the price of an asset. When assessing the fair value of stocks and shares classified into Level 3, the Nova KBM Group uses, as the values of unobservable inputs, the projections of performance (income statement, net cash flows) made on the basis of a reasonable and potential volume of operations, but selects those inputs that are in line with the expectations of other market participants.

Sensitivity analysis
Using a sensitivity analysis, a simulation is made of the impact of changes in key parameters (market input data), such as a change in the discount rate (WACC) and a change in the expected constant long-term rate of growth of normalized net cash flows (g), on the estimated value or fair value. The sensitivity analysis aims to present changes in fair values of stocks and shares (classified into Level 3) deriving from the range increase or decrease in the value of key parameters.

Movements in financial assets classified into Level 3

Available-for-sale financial assets	Nova KBM Group			Nova KBM d.d.		
	Total	Shares	Stocks	Total	Shares	Stocks
1 January 2014	**3,167**	**2,553**	**614**	**3,026**	**2,540**	**486**
Change due to sale	(972)	(972)	0	(972)	(972)	0
Change due to debt-to-equity conversions	2,116	2,036	80	2,036	2,036	0
Shares returned from the BAMC	834	834	0	834	834	0
Change due to revaluation	(2,041)	(2,041)	0	(2,035)	(2,036)	1
31 December 2014	**3,104**	**2,410**	**694**	**2,889**	**2,402**	**487**
Change due to debt-to-equity conversions	362	362	0	362	362	0
Change in the portfolio of Adria Abwicklungs GmbH in Liqu.	**(4)**	0	**(4)**	0	0	0
Change due to the revaluation of shares (PTNR)	(362)	(362)	0	(362)	(362)	0
Change due to the revaluation of the investment in Visa Europe	2,908	2,908	0	2,908	2,908	0
31 December 2015	**6,008**	**5,318**	**690**	**5,797**	**5,310**	**487**

The 2015 change in the level of financial assets classified in Level 3 of the fair value hierarchy was mainly attributable to the revaluation of the investment in Visa Europe.

Fair value of financial instruments measured at amortised cost

Nova KBM Group					31.12.2015
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash, cash balances at central banks and demand deposits at banks	322,889	322,889	322,889	0	0
Loans and advances to banks	61,229	67,165	0	67,165	0
Loans and advances to customers	1,808,373	1,817,154	0	0	1,817,154
Other financial assets	26,786	26,786	0	0	26,786
Held-to-maturity financial assets	129,548	137,745	127,470	10,275	0
Financial liabilities					
Deposits from banks and central banks	29,768	29,979	0	29,979	0
Deposits from customers	3,094,447	3,098,048	0	3,098,048	0
Loans from banks and central banks	316,242	316,684	0	316,684	0
Loans from customers	909	910	0	910	0
Debt securities	12,368	13,195	0	13,195	0
Subordinated liabilities	610	610	0	610	0
Other financial liabilities	39,943	39,943	0	0	39,943

Nova KBM Group					31.12.2014
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash, cash balances at central banks and demand deposits at banks	422,264	422,264	422,264	0	0
Loans and advances to banks	50,124	56,173	0	56,173	0
Loans and advances to customers	1,920,875	1,928,869	0	0	1,928,869
Other financial assets	20,343	20,343	0	0	20,343
Held-to-maturity financial assets	206,540	213,247	208,635	4,612	0
Financial liabilities					
Deposits from banks and central banks	20,875	20,768	0	20,768	0
Deposits from customers	3,074,146	3,080,697	0	3,080,697	0
Loans from banks and central banks	394,213	395,259	0	395,259	0
Loans from customers	2,729	2,732	0	2,732	0
Debt securities	59,129	63,012	0	63,012	0
Subordinated liabilities	1,250	1,250	0	1,250	0
Other financial liabilities	33,551	33,551	0	0	33,551

Nova KBM d.d.					31.12.2015
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash, cash balances at central banks and other demand deposits at banks	260,860	260,860	260,860	0	0
Loans and advances to banks	61,439	67,375	0	67,375	0
Loans and advances to customers	1,538,283	1,546,673	0	0	1,546,673
Other financial assets	23,800	23,800	0	0	23,800
Held-to-maturity financial assets	28,566	34,212	29,529	4,683	0
Financial liabilities					
Deposits from banks and central banks	32,833	33,044	0	33,044	0
Deposits from customers	2,513,618	2,517,084	0	2,517,084	0
Loans from banks and central banks	299,554	299,996	0	299,996	0
Loans from customers	909	910	0	910	0
Debt securities	14,418	15,245	0	15,245	0
Other financial liabilities	33,697	33,697	0	0	33,697

Nova KBM d.d.					31.12.2014
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash, cash balances at central banks and demand deposits at banks	335,417	335,417	335,417	0	0
Loans and advances to banks	59,299	65,348	0	65,348	0
Loans and advances to customers	1,593,294	1,601,398	0	0	1,601,398
Other financial assets	11,754	11,754	0	0	11,754
Held-to-maturity financial assets	89,950	95,101	90,489	4,612	0
Financial liabilities					
Deposits from banks and central banks	11,780	11,673	0	11,673	0
Deposits from customers	2,463,368	2,469,612	0	2,469,612	0
Loans from banks and central banks	363,552	364,598	0	364,598	0
Loans from customers	2,729	2,732	0	2,732	0
Debt securities	67,452	71,335	0	71,335	0
Other financial liabilities	26,396	26,396	0	0	26,396

The Nova KBM Group determines fair values according to the following hierarchy: market value, valuation made using a market interest rate model, acquisition cost. The tables above present fair values of individual statement of financial position items. The fair value of held-to-maturity financial assets has been, where possible, determined on the basis of market prices of financial instruments. The fair value of items measured at amortised or acquisition cost is determined on the basis of a model that takes into account market interest rates. The fair value is calculated for items with a fixed interest rate and residual maturity of over one year. The fair value of each item is established on the basis of discounted cash flows, taking into consideration the market interest rates prevailing at the reporting date. The same amount of credit risk is taken into account to determine the fair value of an asset as to determine its amortised or book value. As for other items, Nova KBM considers there is no material difference between the book and fair values.

6 REPORTING BY OPERATING SEGMENTS

Analysis by operating segments as of 31 December 2015

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationships	Relationships with third parties
A. Net income/(expenses)	**155,020**	**1,190**	**5,060**	**460**	**547**	**162,277**	**405**	**161,872**
Interest income	121,828	2,346	16	1	364	124,555	2,173	122,382
Interest expenses	(25,187)	(832)	0	(282)	(67)	(26,368)	(2,130)	(24,238)
Net interest income	**96,641**	**1,514**	**16**	**(281)**	**297**	**98,187**	**43**	**98,144**
Dividend income	1,117	0	0	0	0	1,117	0	1,117
Fee and commission income	75,223	74	6,532	0	200	82,029	735	81,294
Fee and commission expenses	(25,799)	(60)	(1,565)	(7)	(17)	(27,448)	(631)	(26,817)
Net fee and commission income	**49,424**	**14**	**4,967**	**(7)**	**183**	**54,581**	**104**	**54,477**
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	14,072	(173)	18	0	13	13,930	179	13,751
Net gains/(losses) on financial assets and liabilities held for trading	(4,127)	0	77	0	3	(4,047)	0	(4,047)
Net (losses) on financial assets and liabilities designated at fair value through profit or loss	(4,435)	0	0	0	0	(4,435)	0	(4,435)
Net foreign exchange rate differences	6,841	(112)	(2)	0	1	6,728	(2)	6,730
Net gains/(losses) on derecognition of assets	(140)	77	5	40	0	(18)	0	(18)
Other net operating income/(loss)	(4,373)	(130)	(21)	708	50	(3,766)	81	(3,847)
B. Other items by segments	**(115,360)**	**(14,534)**	**(3,333)**	**(427)**	**(2,840)**	**(136,494)**	**(788)**	**(135,706)**
Administration costs	(77,111)	(2,696)	(2,254)	(415)	(2,540)	(85,016)	(264)	(84,752)
Depreciation and amortisation	(11,125)	(367)	(1,067)	(6)	(108)	(12,673)	(10)	(12,663)
Provisions	12,503	(2,533)	(12)	(2)	(358)	9,598	(44)	9,642
Impairment losses	(41,895)	(8,938)	0	(4)	166	(50,671)	(1,891)	(48,780)
Share of profits of associates and joint ventures accounted for using the equity method	528	0	0	0	0	528	393	135
Total profit from non-current assets and disposal groups classified as held for sale	1,740	0	0	0	0	1,740	1,028	712
C. Profit or loss								
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	39,660	(13,344)	1,727	33	(2,293)	25,783	(383)	26,166
Income taxes on continuing operations	(8,288)	0	(299)	0	(443)	(9,030)	0	(9,030)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	31,372	(13,344)	1,428	33	(2,736)	16,753	(383)	17,136
Total (loss) after tax from discontinued operations	(176)	0	0	0	0	(176)	0	(176)
NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR	31,196	(13,344)	1,428	33	(2,736)	16,577	(383)	16,960
D. Segment assets and liabilities								
Total assets	4,293,648	48,406	13,345	7,810	9,371	4,372,580	126,413	4,246,167
– non-current assets held for sale and discontinued operations	57,427	22	0	0	0	57,449	0	57,449
– investments in the equity of associates and joint ventures accounted for using the equity method	81,400	0	0	0	0	81,400	81,400	0
Liabilities (excluding equity) by segments	3,647,099	24,855	951	3,447	8,575	3,684,927	61,833	3,623,094
Total equity	646,549	23,551	12,394	4,363	796	687,653	64,580	623,073
Increase in property, plant and equipment and intangible assets	4,764	0	339	0	0	5,103	0	5,103

The column 'Inter-segment relationships' includes the following items: intra-group income and expenses, income from dividends from subsidiaries, additional impairments/reversal of impairments as a result of changing over to a harmonized customer classification across the Nova KBM Group, impairment of investments in the equity of subsidiaries and of loans given to subsidiaries, the effects of valuation of the associated company using the equity method, claims and liabilities between the Nova KBM 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 2014

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationships	Relationships with third parties
A. Net income/(expenses)	**184,886**	**(55)**	**4,751**	**317**	**23**	**189,922**	**3,905**	**186,017**
Interest income	167,531	4,180	3	406	3	172,123	10,868	161,255
Interest expenses	(52,146)	(7,225)	(5)	(1,281)	0	(60,657)	(10,128)	(50,529)
Net interest income	**115,385**	**(3,045)**	**(2)**	**(875)**	**3**	**111,466**	**740**	**110,726**
Dividend income	1,470	0	0	0	0	1,470	424	1,046
Fee and commission income	80,583	68	5,622	0	0	86,273	830	85,443
Fee and commission expenses	(28,724)	(268)	(1,087)	(24)	0	(30,103)	(619)	(29,484)
Net fee and commission income	**51,859**	**(200)**	**4,535**	**(24)**	**0**	**56,170**	**211**	**55,959**
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	14,163	0	110	873	0	15,146	46	15,100
Net gains/(losses) on financial assets and liabilities held for trading	(1,013)	2	114	0	0	(897)	(1)	(896)
Net (losses) on financial assets and liabilities designated at fair value through profit or loss	5,718	0	0	0	0	5,718	0	5,718
Net foreign exchange rate differences	1,279	(66)	(1)	0	0	1,212	0	1,212
Net gains/(losses) on derecognition of assets	3,660	(227)	0	14	0	3,447	3,286	161
Other net operating income/(loss)	(7,635)	3,481	(5)	329	20	(3,810)	(801)	(3,009)
B. Other items by segments	**(154,000)**	**(11,262)**	**(3,185)**	**(903)**	**(4)**	**(169,354)**	**(21,301)**	**(148,053)**
Administration costs	(83,907)	(2,613)	(2,132)	(893)	(4)	(89,549)	(403)	(89,146)
Depreciation and amortisation	(13,029)	(397)	(1,040)	(7)	0	(14,473)	(11)	(14,462)
Provisions	8,838	(1,526)	(13)	(4)	0	7,295	(8,202)	15,497
Impairment losses	(65,925)	(6,618)	0	1	0	(72,542)	(12,531)	(60,011)
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	(154)	154
Total profit from non-current assets and disposal groups classified as held for sale	23	(108)	0	0	0	(85)	0	(85)
C. Profit or loss								
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	30,886	(11,317)	1,566	(586)	19	20,568	(17,396)	37,964
Income taxes on continuing operations	5,057	(275)	(257)	(98)	(4)	4,423	(1)	4,424
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	35,943	(11,592)	1,309	(684)	15	24,991	(17,397)	42,388
Total (loss) after tax from discontinued operations	(19,107)	0	0	0	0	(19,107)	0	(19,107)
NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR	16,836	(11,592)	1,309	(684)	15	5,884	(17,397)	23,281
D. Segment assets and liabilities								
Total assets	4,428,561	64,012	13,563	13,492	225	4,519,853	150,843	4,369,010
– non-current assets held for sale and discontinued operations	60,687	586	0	0	0	61,273	0	61,273
– investments in the equity of associates and joint ventures accounted for using the equity method	96,764	0	0	0	0	96,764	93,600	3,164
Liabilities (excluding equity) by segments	3,787,901	27,134	973	9,160	1	3,825,169	72,516	3,752,653
Total equity	640,660	36,878	12,590	4,332	224	694,684	78,327	616,357
Increase in property, plant and equipment and intangible assets	4,646	16	237	(37)	0	4,862	0	4,862

The column 'Inter-segment relationships' includes the following items: intra-group income and expenses, income from dividends from subsidiaries, additional impairments/reversal of impairments as a result of changing over to a harmonized customer classification across the Nova KBM Group, impairment of investments in the equity of subsidiaries and of loans given to subsidiaries, the effects of valuation of the associated company using the equity method, claims and liabilities between the Nova KBM Group companies, investments in subsidiaries and the proportional share of equity of subsidiaries, and other consolidation entries.

Analysis by geographical segments as of 31 December 2015

Activity/ Name of the company	Turnover	Non-current assets	Number of employees	Profit/(loss) before tax	Income tax	Public subsidies received
Slovenia – total	**164,204**	**191,999**	**1,334**	**36,520**	**8,589**	**0**
Banking – total	**157,288**	**181,692**	**1,279**	**39,660**	**8,288**	**0**
Nova KBM d.d.	130,886	171,655	1,060	42,251	7,816	0
Poštna banka Slovenije d.d.	26,402	10,037	219	(2,591)	472	0
Leasing – total	**1,380**	**2,247**	**15**	**(4,912)**	**0**	**0**
KBM Leasing d.o.o. (in liquidation)	267	102	6	(2,638)	0	0
Gorica Leasing d.o.o. (in liquidation)	1,113	2,145	9	(2,274)	0	0
Fund management – total	**5,060**	**6,997**	**33**	**1,727**	**299**	**0**
KBM Infond d.o.o.	5,060	6,997	33	1,727	299	0
Real estate – total	**460**	**1,063**	**7**	**33**	**0**	**0**
KBM Invest d.o.o.	460	1,063	7	33	0	0
Other activities – total	**16**	**0**	**0**	**12**	**2**	**0**
M-PAY d.o.o.	16	0	0	12	2	0
Western Europe – total	**531**	**0**	**11**	**(2,305)**	**441**	**0**
Other activities – total	**531**	**0**	**11**	**(2,305)**	**441**	**0**
Adria Abwicklungs GmbH in Liqu.	531	0	11	(2,305)	441	0
Eastern Europe – total	**4,045**	**2,688**	**255**	**(11,940)**	**(242)**	**0**
Banking – total	**4,235**	**2,546**	**249**	**(3,508)**	**(242)**	**0**
KBM Banka a.d.	4,235	2,546	249	(3,508)	(242)	0
Leasing – total	**(190)**	**142**	**6**	**(8,432)**	**0**	**0**
KBM Leasing Hrvatska d.o.o. (in liquidation)	(190)	142	6	(8.432)	0	0
Total	**168,780**	**194,687**	**1,600**	**22,275**	**8,788**	**0**

In accordance with the recommendation provided by the EBA under question ID 2014_1045, the category 'Turnover' comprises net banking income before consolidation adjustments and elimination of transactions with subsidiaries. Included in turnover are the following items: net interest income, net fee and commission income, dividend income, realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net gains or losses on financial assets and liabilities held of trading, gains or losses on financial assets and liabilities designated at fair value through profit or loss, net foreign exchange rate differences, net gains or losses on derecognition of assets, other net operating income or loss, net profit or loss from investments in the equity of subsidiaries, associates and joint ventures, and total profit or loss from non-current assets and disposal groups classified as held for sale.

The category 'Non-current assets' comprises property, plant and equipment, intangible assets, investment property, and investments in the equity of subsidiaries, associates and joint ventures.

The number of employees is expressed in full-time equivalent terms.

Analysis by geographical segments as of 31 December 2014

Activity/ Name of the company	Turnover	Non-current assets	Number of employees	Profit/(loss) before tax	Income tax	Public subsidies received
Slovenia – total	**187,835**	**220,470**	**1,427**	**22,785**	**4,496**	**0**
Banking – total	**183,359**	**204,177**	**1,364**	**31,032**	**5,130**	**0**
Nova KBM d.d.	151,306	192,857	1,133	30,831	5,085	0
Poštna banka Slovenije d.d.	32,053	11,320	231	201	45	0
Leasing – total	**(615)**	**7,327**	**20**	**(9,246)**	**(275)**	**0**
KBM Leasing d.o.o. (in liquidation)	830	138	9	(4,146)	(275)	0
Gorica Leasing d.o.o. (in liquidation)	(1,445)	7,189	11	(5,100)	0	0
Fund management – total	**4,751**	**7,726**	**33**	**1,566**	**(257)**	**0**
KBM Infond d.o.o.	4,751	7,726	33	1,566	(257)	0
Real estate – total	**317**	**1,240**	**10**	**(586)**	**(98)**	**0**
KBM Invest d.o.o.	(891)	1,240	7	(1,345)	0	0
Other activities – total	1,208	0	3	759	(98)	0
M-PAY d.o.o.	**23**	**0**	**0**	**19**	**(4)**	**0**
Western Europe – total	23	0	0	19	(4)	0
Other activities – total	**1,550**	**108**	**30**	**(146)**	**(73)**	**0**
Adria Abwicklungs GmbH in Liqu.	**1,550**	**108**	**30**	**(146)**	**(73)**	**0**
Eastern Europe – total	1,550	108	30	(146)	(73)	0
Banking – total	**6,660**	**5,221**	**267**	**(4,432)**	**241**	**0**
KBM Banka a.d.	**6,208**	**4,924**	**259**	**(2,361)**	**241**	**0**
Leasing – total	6,208	4,924	259	(2,361)	241	0
KBM Leasing Hrvatska d.o.o. (in liquidation)	**452**	**297**	**8**	**(2,071)**	**0**	**0**
Total	**196,045**	**225,799**	**1,724**	**18,207**	**4,664**	**0**

The 2014 data on turnover have been adjusted to comply with the recommendation provided by the EBA under question ID 2014_1045. Consequently, the turnover figures have been changed to include net banking income before consolidation adjustments and the elimination of intra-group transactions.

Reconciliation of operating segments

Income	2015	2014
Segment income – turnover	168,780	196,045
Elimination of inter-segment items	(2,721)	(9,443)
Consolidation adjustments	(3,340)	(516)
Consolidated segment income	162,719	186,086

Profit from continuing operations	2015	2014
Profit from continuing operations	22,275	18,207
Consolidation adjustments	3,891	19,757
Consolidated profit from continuing operations	26,166	37,964

Assets	2015	2014
Segment assets	4,388,757	4,536,260
Consolidation adjustments	(88,550)	(97,485)
Elimination of inter-segment items	(54,040)	(69,765)
Consolidated segment assets	4,246,167	4,369,010

Liabilities	2015	2014
Segment liabilities	3,684,927	3,825,169
Consolidation adjustments	(7,793)	(2,751)
Elimination of inter-segment items	(54,040)	(69,765)
Consolidated segment liabilities	3,623,094	3,752,653



NOTES TO THE INCOME STATEMENT ITEMS

7 INTEREST INCOME AND INTEREST EXPENSES

7.1 Analysis of interest by type

	Nova KBM Group				Nova KBM d.d.			
	2015		2014		2015		2014	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Regular interest	115,685	24,238	147,576	50,529	95,304	21,825	126,418	43,147
Default interest	6,697	0	13,679	0	5,622	0	10,320	0
Total	**122,382**	**24,238**	**161,255**	**50,529**	**100,926**	**21,825**	**136,738**	**43,147**
Net interest income	**98,144**		**110,726**		**79,101**		**93,591**	

7.2 Analysis of interest by type of assets and liabilities

	Nova KBM Group				Nova KBM d.d.			
	2015		2014		2015		2014	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Interest income								
Financial assets held for trading	111	0	173	0	111	0	173	0
Available-for-sale financial assets	31,284	7,204	33,514	12,378	31,034	1,703	33,246	6,007
Loans and deposits (including finance leases and other financial assets)	19,455	61,008	31,454	76,926	14,348	52,029	25,338	68,418
Held-to-maturity financial assets	77	3,232	412	6,367	0	1,697	264	3,289
Other assets	11	0	31	0	4	0	3	0
Total by maturity	**50,938**	**71,444**	**65,584**	**95,671**	**45,497**	**55,429**	**59,024**	**77,714**
Total	**122,382**		**161,255**		**100,926**		**136,738**	
Interest expenses								
Financial liabilities held for trading	0	108	0	165	0	108	0	165
Financial liabilities measured at amortised cost	2,261	21,503	10,163	40,201	1,775	19,636	7,667	35,315
Other liabilities	366	0	0	0	306	0	0	0
Total by maturity	**2,627**	**21,611**	**10,163**	**40,366**	**2,081**	**19,744**	**7,667**	**35,480**
Total	**24,238**		**50,529**		**21,825**		**43,147**	
Net interest income	**98,144**		**110,726**		**79,101**		**93,591**	

7.3 Analysis of interest by market segments

	Nova KBM Group				Nova KBM d.d.			
	2015		2014		2015		2014	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Non-financial companies	35,168	902	55,035	3,618	26,858	825	40,762	3,182
State	38,927	824	49,893	1,559	32,395	469	41,150	965
Banks	1,852	7,217	2,849	10,807	2,297	6,981	4,719	9,500
Other financial organizations	1,781	1,804	2,094	3,814	1,667	1,780	6,213	3,579
Households	41,893	13,114	45,139	29,932	35,484	11,406	38,364	25,173
Foreign persons	2,672	296	6,112	618	2,144	296	5,422	618
Non-profit institutions serving households	89	81	133	181	81	68	108	130
Total	**122,382**	**24,238**	**161,255**	**50,529**	**100,926**	**21,825**	**136,738**	**43,147**
Net interest income	**98,144**		**110,726**		**79,101**		**93,591**	

7.4 Average interest rates

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Average interest rate on assets (%)	3.08	3.56	2.95	3.44
Average interest rate on liabilities (%)	0.39	0.96	0.46	1.08

8 DIVIDEND INCOME

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Financial assets held for trading	**27**	**21**	**8**	**1**
– stocks and shares of other issuers	27	21	8	1
Financial assets designated at fair value through profit or loss	**776**	**785**	**776**	**785**
– stocks and shares of other issuers	776	785	776	785
Available-for-sale financial assets	**314**	**240**	**249**	**141**
– stocks and shares of other issuers	314	240	249	141
Total	**1,117**	**1,046**	**1,033**	**927**

9 FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSES

9.1 Analysis of fees and commissions by type

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Fee and commission income	**81,294**	**85,443**	**44,699**	**46,163**
Guarantees	3,410	3,676	2,905	3,133
Services provided to banks in the Nova KBM Group	0	0	380	483
Services provided to other Nova KBM Group companies	0	0	428	371
Local payment transactions	43,034	45,034	19,206	18,520
Transactions under current accounts	12,606	13,556	9,160	9,960
Payment card operations	8,370	8,170	6,600	6,433
International payment transactions	1,443	1,476	1,344	1,354
Brokerage and agency services	658	1,378	608	1,338
Transactions in securities for customers	450	559	450	559
Lending operations	4,567	5,649	3,476	3,826
Safekeeping of objects and valuables	107	92	107	92
Other services	6,649	5,853	35	94
Fee and commission expenses	**26,817**	**29,484**	**4,163**	**4,041**
Local banking services	6,056	6,758	2,283	2,849
Banking services abroad	1,042	451	1,024	432
Brokerage and agency services	1,078	807	62	46
Stock exchange transactions and other transactions in securities	314	407	305	385
Payment transactions	16,975	19,534	230	300
Services provided by banks in the Nova KBM Group	0	0	19	25
Other services	1,352	1,527	240	4
Net fee and commission income	**54,477**	**55,959**	**40,536**	**42,122**

9.2 Analysis of fees and commissions by market segments

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Fee and commission income	**81,294**	**85,443**	**44,699**	**46,163**
Non-financial companies	37,329	41,473	14,130	15,564
State	853	1,827	298	1,225
Banks	5,861	5,772	5,842	5,490
Other financial organizations	7,582	6,707	1,209	1,058
Households	28,344	28,346	22,221	21,757
Foreign persons	1,106	1,139	984	1,055
Non-profit institutions serving households	219	179	15	14
Fee and commission expenses	**26,817**	**29,484**	**4,163**	**4,041**
Net fee and commission income	**54,477**	**55,959**	**40,536**	**42,122**

9.3 Fee and commission income and fee and commission expenses relating to fiduciary activities

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Income from fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**7,135**	**6,321**	**698**	**740**
Receipt, transmission and execution of orders	714	859	596	667
Management of financial instruments	6,371	5,427	52	38
Administration of book-entry securities accounts of customers	50	35	50	35
Expenses for fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**232**	**325**	**232**	**314**
Fees and commissions in connection with the Central Securities Clearing Corporation and similar organizations	217	276	217	265
Fees and commissions in connection with the stock exchange and similar organizations	15	49	15	49

10 REALISED GAINS ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Nova KBM Group	2015			2014		
	Realised gains	Realised losses	Net realised gains/ (losses)	Realised gains	Realised losses	Net realised gains/ (losses)
Available-for-sale financial assets	12,423	3,979	8,444	13,260	4	13,256
Loans and advances (including finance leases)	6,672	1,301	5,371	2,501	553	1,948
Financial liabilities measured at amortised cost	3	0	3	2	0	2
Other financial assets and liabilities	202	269	(67)	105	211	(106)
Total	**19,300**	**5,549**	**13,751**	**15,868**	**768**	**15,100**

Nova KBM d.d.	2015			2014		
	Realised gains	Realised losses	Net realised gains	Realised gains	Realised losses	Net realised gains
Available-for-sale financial assets (Note 26.3)	10,936	3,798	7,138	8,668	4	8,664
Loans and advances (including finance leases)	6,510	568	5,942	1,668	129	1,539
Other financial assets and liabilities	197	111	86	0	0	0
Total	**17,643**	**4,477**	**13,166**	**10,336**	**133**	**10,203**

11 NET LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

Nova KBM Group			2015			2014
	Gains	Losses	Net gains/ (losses)	Gains	Losses	Net gains/ (losses)
Trading in equity instruments	447	478	(31)	675	460	215
Trading in debt securities	43	0	43	1	0	1
Trading in foreign exchange (purchase/sale)	2,248	970	1,278	1,289	541	748
Trading in derivatives	4,150	9,439	(5,289)	1,303	3,141	(1,838)
– futures/forwards	3,139	9,335	(6,196)	625	1,846	(1,221)
– swaps	124	104	20	406	145	261
– other derivatives	887	0	887	272	1,150	(878)
Trading in financial liabilities	0	48	(48)	0	22	(22)
Total	**6,888**	**10,935**	**(4,047)**	**3,268**	**4,164**	**(896)**

Nova KBM d.d.			2015			2014
	Gains	Losses	Net gains/ (losses)	Gains	Losses	Net gains/ (losses)
Trading in equity instruments	103	91	12	133	78	55
Trading in debt securities	43	0	43	1	0	1
Trading in foreign exchange (purchase/sale)	1,942	938	1,004	955	499	456
Trading in derivatives	4,147	9,439	(5,292)	1,033	3,141	(2,108)
– futures/forwards	3,139	9,335	(6,196)	625	1,846	(1,221)
– swaps	121	104	17	136	145	(9)
– other derivatives	887	0	887	272	1,150	(878)
Trading in financial liabilities	0	48	(48)	0	22	(22)
Total	**6,235**	**10,516**	**(4,281)**	**2,122**	**3,740**	**(1,618)**

The Nova KBM Group uses derivatives (futures/forwards) to economically hedge its exposure to foreign exchange risk. The effects of derivatives are linked to the effects arising from foreign exchange rate differences (Note 13).

12 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Nova KBM Group and Nova KBM d.d.			2015			2014
	Gains	Losses	Net (losses)	Gains	Losses	Net gains
Financial assets designated at fair value through profit or loss	228	4,663	(4,435)	7,277	1,559	5,718
Total	**228**	**4,663**	**(4,435)**	**7,277**	**1,559**	**5,718**

Gains and losses on financial assets designated at fair value through profit or loss are attributable to the valuation of stocks and shares for which joint-selling agreements have been made by the Nova KBM Group.

13 NET GAINS FROM FOREIGN EXCHANGE RATE DIFFERENCES

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Foreign exchange gains	29,130	8,242	28,558	8,105
Foreign exchange losses	22,400	7,030	21,682	6,867
Net foreign exchange gains	**6,730**	**1,212**	**6,876**	**1,238**

The year-on-year increase in the level of foreign exchange rate gains and losses was mainly the result of effects arising from derivatives used by Nova KBM with the purpose of maintaining neutral positions in individual currencies.

14 NET GAINS AND LOSSES ON DERECOGNITION OF ASSETS

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
	Net gains/(losses)		Net gains/(losses)	
Derecognition of items of property, plant and equipment	(134)	191	(166)	415
Derecognition of intangible assets	0	(22)	0	0
Derecognition of investment property	91	(25)	0	0
Derecognition of other assets other than those held for sale	25	17	0	(3)
Total	**(18)**	**161**	**(166)**	**412**

15 OTHER NET OPERATING LOSS

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Income	**11,640**	**15,433**	**4,028**	**1,866**
Income from non-banking services	156	233	0	0
Income from investment property given under operating lease	3,586	3,755	3,062	91
Other operating income	7,898	11,445	966	1,775
Expenses	**15,487**	**18,442**	**7,240**	**6,949**
Taxes	5,610	7,222	4,215	5,637
Contributions	524	537	489	474
Other charges	2	3	0	0
Membership fees and similar fees	204	232	121	134
Expenses for investment property given under operating lease	118	102	34	21
Other operating expenses	9,029	10,346	2,381	683
Other net operating (loss)	**(3,847)**	**(3,009)**	**(3,212)**	**(5,083)**

The largest proportion of other operating income and loss generated by the Nova KBM Group in 2015 related to the income from the sale of real estate, totalling €5,240,000, and the associated expenses of €5,166,000. Other operating expenses incurred by the Nova KBM Group in 2015 include expenses arising from the making of a contribution to the EU Single Resolution Fund.

The largest proportion of other operating income and loss generated by the Nova KBM Group in 2014 related to the income from the sale of real estate, totalling €8,697,000, and the associated expenses of €8,942,000.

16 ADMINISTRATION COSTS

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Staff costs	**45,362**	**49,779**	**33,105**	**34,515**
Gross salaries	34,955	38,203	25,905	26,710
Social security contribution	2,798	3,209	1,887	1,948
Pension insurance contribution	2,992	3,104	2,266	2,342
Other contributions from gross salaries	39	45	0	0
Transportation allowance	1,034	1,086	699	716
Meal allowance	1,316	1,383	961	1,002
Employee bonuses	8	10	0	0
Severance benefits and early retirement payments	373	439	31	156
Supplementary pension insurance premiums	452	501	377	400
Pay for annual leave	1,124	1,184	895	939
Solidarity aid and loyalty bonuses	24	24	21	21
Other staff costs under employment contracts	247	591	63	281
General and administrative costs	**39,390**	**39,367**	**30,052**	**28,664**
Costs of materials	1,426	1,843	928	1,328
Costs of energy	1,096	1,127	983	961
Costs of specialized text books	76	92	5	12
Other costs of materials	193	219	166	149
Costs of renting business premises	3,983	3,190	3,092	2,047
Postal costs	2,507	2,269	1,903	1,627
Transport costs	1,709	1,730	1,709	1,729
Information system costs	6,337	5,691	5,726	5,161
Costs of other services	4,347	5,082	2,961	2,740
Business travel expenses	176	240	83	101
Maintenance costs of fixed assets	5,912	6,077	3,873	3,872
Advertising costs	3,005	3,177	2,492	2,691
Entertainment costs	155	129	125	88
Consulting, auditing, accounting and other services	7,039	6,091	5,008	5,078
School fees, scholarships and other training costs	283	299	234	227
Cost of insurance	817	870	683	699
Other administrative costs	329	1,241	81	154
Total administration costs	**84,752**	**89,146**	**63,157**	**63,179**

Remuneration of auditors

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Audit of the annual report	310	397	157	198
Other audit services	253	45	103	29
Non-audit services	4	0	4	0
Total	**567**	**442**	**264**	**227**

17 DEPRECIATION AND AMORTISATION

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Depreciation of items of property, plant and equipment	5,448	6,389	4,000	4,620
Amortisation of intangible assets	7,215	8,073	5,504	6,246
Total	**12,663**	**14,462**	**9,504**	**10,866**

18 PROVISIONS

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Provisions for pensions and similar benefits	625	648	249	91
Provisions for restructuring costs (Note 40)	1,995	(8,151)	1,995	1,449
Provisions for off-balance sheet liabilities	(18,885)	(11,511)	(17,276)	(11,718)
Provisions for tax claims and other pending legal issues	4,879	1,140	3,937	1,721
Other provisions (Note 40)	1,744	2,377	282	(3)
Total	**(9,642)**	**(15,497)**	**(10,813)**	**(8,460)**

In 2015, the Nova KBM Group set aside provisions of €1,790,000 (2014: €2,394,000) for potential claims arising from lease transactions. These provisions are included in the item 'Other provisions'.

19 IMPAIRMENT LOSSES

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Financial assets not measured at fair value through profit or loss	45,937	55,493	21,839	39,525
Other assets	2,843	4,518	4,948	12,014
Total impairment losses	**48,780**	**60,011**	**26,787**	**51,539**

19.1 Impairment of financial assets not measured at fair value through profit or loss

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Available-for-sale financial assets	1,639	3,486	1,639	3,472
Financial assets measured at amortised cost	44,298	52,007	20,200	36,053
– demand deposits at banks	3	0	(19)	42
– loans and advances to banks (Note 27.1)	(2)	(34)	(6)	(14,741)
– loans and advances to customers (Note 28.1)	41,551	51,823	19,628	50,530
– other financial assets (Note 29.1)	2,746	218	597	222
Total impairment of financial assets not measured at fair value through profit or loss	**45,937**	**55,493**	**21,839**	**39,525**

19.2 Impairment of other assets

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Property, plant and equipment	117	135	0	0
Investment property (Note 32)	272	1,161	207	299
Investments in the equity of subsidiaries, associates and joint ventures	0	0	3,595	11,040
Other assets (Note 36.1)	2,454	3,222	1,146	675
Total impairment of other assets	**2,843**	**4,518**	**4,948**	**12,014**

20 SHARE OF PROFITS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Moja naložba d.d.	135	154	0	0
KBM Infond d.o.o.	0	0	528	488
KBM Fineko d.o.o.	0	0	0	3,285
Total	**135**	**154**	**528**	**3,773**

The amount of dividends paid by KBM Infond to Nova KBM in 2015 totalled €528,000 (2014: €488,000).

The Nova KBM Group´s share in the 2015 profit of Moja naložba, Nova KBM´s ex-associated company that was sold in December 2015, was €135,000 (2014: €154,000).

After the liquidation proceedings against KBM Fineko were completed on 30 September 2014, the remaining assets of the company were transferred to Nova KBM, its sole owner, which recognised a profit of €3,285,000 as the difference between the value of the assets received (€4,139,000) and the value of its equity investment in the company (€854,000). The winding up of KBM Fineko had no impact on the results of the Nova KBM Group.

21 INCOME TAXES ON CONTINUING OPERATIONS

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Income tax on continuing operations	(1,365)	(3,146)	(1,062)	(2,508)
Deferred tax relating to continuing operations (Note 35.3)	(7,665)	7,570	(6,754)	7,593
Total	**(9,030)**	**4,424**	**(7,816)**	**5,085**

21.1 Reconciliation of effective tax rate

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Profit before tax	26,166	37,964	42,251	30,835
Income tax calculated using the official tax rate of 17%	4,448	6,454	7,183	5,242
Non-taxable income	(946)	(1,863)	(412)	(1,373)
Non-allowable tax expenses	2,014	8,157	864	5,875
Tax reliefs	(404)	(4,049)	(373)	(3,637)
Effects of reduced tax rate	(483)	(215)	0	0
Effects of non-recognised deferred taxes on the current tax loss	3,764	2,047	0	0
Adjustment of deferred tax assets	637	(14,955)	554	(11,192)
Total income taxes	**9,030**	**(4,424)**	**7,816**	**(5,085)**
Effective tax rate (%)	34.5%	/	18.5%	/

The total income tax liability reported by the Nova KBM Group for 2015 amounted to €1,365,000, of which €1,062,000 was attributable to Nova KBM. Net expenses incurred by the Nova KBM Group and Nova KBM with respect to deferred taxes amounted to €7,665,000 and €6,754,000 respectively.

Nova KBM determines the level of its deferred tax assets on the basis of the projections of its future taxable profits in the next five years. In 2015, it recorded expenses of €554,000 as a result of an adjustment to the level of its deferred taxes.

22 BASIC EARNINGS PER SHARE

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
Net profit/(loss) for the financial year (€000)	16,567	21,898	34,435	35,916
Weighted average number of ordinary no-par-value shares	10,000,000	10,000,000	10,000,000	10,000,000
Basic earnings per share (€)	**1.66**	**2.19**	**3.44**	**3.59**

Following the December 2013 state-sponsored recapitalization of Nova KBM, the Republic of Slovenia became the sole owner of all of Nova KBM´s 10,000,000 ordinary no-par-value shares with the ticker symbol KBMS.

Basic earnings per share is calculated as the ratio between the net profit or loss reported for the period and the weighted average number of ordinary no-par-value shares outstanding during the period.



NOTES TO THE STATEMENT OF FINANCIAL POSITION ITEMS

23 CASH, CASH BALANCES AT CENTRAL BANKS AND DEMAND DEPOSITS AT BANKS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cash in hand	68,702	64,359	46,950	40,847
Cash balances at central banks	215,746	283,992	178,219	232,344
Demand deposits at banks	38,441	73,913	35,691	62,226
Total	**322,889**	**422,264**	**260,860**	**335,417**

23.1 Cash and cash equivalents

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cash, cash balances at central banks and demand deposits at banks	322,889	422,264	260,860	335,417
Loans and advances to banks	46,706	32,923	41,522	30,182
Cash and cash equivalents of discontinued operations (Note 54)	29,241	22,644	0	0
Total	**398,836**	**477,831**	**302,382**	**365,599**

24 FINANCIAL ASSETS HELD FOR TRADING

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Derivatives	**116**	**187**	**116**	**187**
Equity instruments	**1,447**	**1,654**	**0**	**0**
– issued by other issuers	1,447	1,654	0	0
Total	**1,563**	**1,841**	**116**	**187**
Quoted	0	281	0	0
Unquoted	1,563	1,560	116	187
Total	**1,563**	**1,841**	**116**	**187**

No assets held in the Nova KBM Group´s portfolio of financial assets held for trading have been pledged as collateral.

None of the instruments included in the portfolio of financial assets held for trading have the characteristics to qualify as subordinated debt.

24.1 Movements in financial assets held for trading

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**1,841**	**1,786**	**187**	**612**
Increase during the year	**63,804**	**6,385**	**62,966**	**4,670**
– acquisition	63,387	6,031	62,826	4,526
– foreign exchange rate differences	0	11	0	11
– change in fair value (recovery and reversal of impairment)	216	210	0	0
– other (deferred interest, realised gains)	201	133	140	133
Decrease during the year	**64,082**	**6,330**	**63,037**	**5,095**
– disposal (sale and redemption)	63,605	4,600	62,879	4,591
– change in fair value (impairment and reversal of recovery)	390	463	71	426
– foreign exchange rate differences	2	6	2	0
– other (deferred interest, realised losses)	85	1,261	85	78
31 December	**1,563**	**1,841**	**116**	**187**

25 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Equity instruments	13,421	17,857	13,421	17,857
Total	**13,421**	**17,857**	**13,421**	**17,857**
Quoted	13,421	17,857	13,421	17,857
Total	**13,421**	**17,857**	**13,421**	**17,857**

As of 31 December 2015, the Nova KBM Group had no assets of this portfolio pledged as collateral, and during the year ended 31 December 2015, it did not receive any financial assets of this portfolio from the realisation of collateral provided as security for loans.

The portfolio of financial assets designated at fair value through profit or loss includes equity instruments for which joint-selling agreements have been made by the Nova KBM Group.

None of the instruments included in the portfolio of financial assets designated at fair value through profit or loss have the characteristics to qualify as subordinated debt.

25.1 Movements in financial assets designated at fair value through profit or loss

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**17,857**	**24,586**	**17,857**	**24,586**
Increase during the year	**(1)**	**7,277**	**(1)**	**7,277**
– acquisition	(1)	0	(1)	0
– change in fair value (recovery and reversal of impairment)	0	5,614	0	5,614
– other	0	1,663	0	1,663
Decrease during the year	**4,435**	**14,006**	**4,435**	**14,006**
– disposal (sale and redemption)	0	12,447	0	12,447
– change in fair value (impairment and reversal of recovery)	4,435	1,552	4,435	1,552
– other	0	7	0	7
31 December	**13,421**	**17,857**	**13,421**	**17,857**

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

26.1 Analysis by type and quotation

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Equity instruments measured at fair value	26,736	19,014	22,095	13,778
Debt securities	1,649,171	1,463,106	1,420,193	1,261,435
– issued by the state and the central bank	1,320,329	1,377,062	1,106,992	1,185,493
– issued by banks	282,552	47,692	274,009	44,598
– issued by other issuers	46,290	38,352	39,192	31,344
Total	**1,675,907**	**1,482,120**	**1,442,288**	**1,275,213**
Quoted	1,649,245	1,472,541	1,420,193	1,269,513
Unquoted	26,662	9,579	22,095	5,700
Total	**1,675,907**	**1,482,120**	**1,442,288**	**1,275,213**

As of 31 December 2015, the Nova KBM Group had assets of this portfolio worth €592,603,000 pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme, the guaranteed claims of depositors and the Bank Resolution Fund. During the year ended 31 December 2015, the Nova KBM Group did not receive any financial assets of this portfolio from the realisation of collateral provided as security for loans.

In 2015, the Nova KBM Group paid a total of €15,651,000 into the Bank Resolution Fund that had been set up by the Bank of Slovenia (€14,252,000 was paid by Nova KBM, while €1,399,000 was paid by PBS).

None of the instruments included in the portfolio of available-for-sale financial assets have the characteristics to qualify as subordinated debt.

26.2 Analysis by type and market segments

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Equity instruments measured at fair value	**26,736**	**19,014**	**22,095**	**13,778**
– equity investments in other financial organizations	21,076	14,202	16,646	9,177
– equity investments in non-financial organizations	5,652	4,804	5,441	4,593
– equity investments in other foreign entities	8	8	8	8
Debt securities	**1,649,171**	**1,463,106**	**1,420,193**	**1,261,435**
– issued by the state and the central bank	1,320,329	1,377,062	1,106,992	1,185,493
– issued by banks	282,552	47,692	274,009	44,598
– issued by other issuers	46,290	38,352	39,192	31,344
Total	**1,675,907**	**1,482,120**	**1,442,288**	**1,275,213**
Quoted	1,649,245	1,472,541	1,420,193	1,269,513
Unquoted	26,662	9,579	22,095	5,700
Total	**1,675,907**	**1,482,120**	**1,442,288**	**1,275,213**

26.3 Movements in available-for-sale financial assets

Nova KBM Group	Equity instruments	Debt securities	Total
1 January 2015	**19,014**	**1,463,106**	**1,482,120**
Recognition of additional financial assets	17,290	684,011	701,301
Interest	0	(269)	(269)
Net revaluation through equity	(3,820)	(8,851)	(12,671)
Net impairments through profit or loss (Note 19.1)	(1,639)	0	(1,639)
Derecognition of financial assets upon disposal	(10,050)	(54,541)	(64,591)
Derecognition of financial assets upon maturity	0	(436,788)	(436,788)
Net gains on sale (Note 10)	5,941	2,503	8,444
31 December 2015	**26,736**	**1,649,171**	**1,675,907**

Nova KBM Group	Equity instruments	Debt securities	Total
1 January 2014	**34,761**	**1,432,103**	**1,466,864**
Recognition of additional financial assets	2,949	514,209	517,158
Interest	0	934	934
Capitalization of net foreign exchange rate differences	(3)	(1,167)	(1,170)
Net revaluation through equity	4,049	37,818	41,867
Net impairments through profit or loss	(3,050)	(450)	(3,500)
Derecognition of financial assets upon disposal	(24,804)	(106,901)	(131,705)
Derecognition of financial assets upon maturity	0	(412,894)	(412,894)
Net gains on sale	5,156	8,180	13,336
Other	(44)	(8,726)	(8,770)
31 December 2014	**19,014**	**1,463,106**	**1,482,120**

Nova KBM d.d.	Equity instruments	Debt securities	Total
1 January 2015	**13,778**	**1,261,435**	**1,275,213**
Recognition of additional financial assets	15,891	643,209	659,100
Interest	0	(76)	(76)
Net revaluation through equity	(2,823)	(7,417)	(10,240)
Net impairments through profit or loss (Note 19.1)	(1,639)	0	(1,639)
Derecognition of financial assets upon disposal	(8,189)	(50,632)	(58,821)
Derecognition of financial assets upon maturity	0	(428,387)	(428,387)
Net gains on sale (Note 10)	5,077	2,061	7,138
31 December 2015	**22,095**	**1,420,193**	**1,442,288**

Nova KBM d.d.	Equity instruments	Debt securities	Total
1 January 2014	**29,820**	**1,180,979**	**1,210,799**
Recognition of additional financial assets	2,869	445,606	448,475
Interest	0	2,029	2,029
Net revaluation through equity	2,987	30,049	33,036
Net impairments through profit or loss (Note 19.1)	(3,022)	(450)	(3,472)
Derecognition of financial assets upon disposal	(23,908)	(38,479)	(62,387)
Derecognition of financial assets upon maturity	0	(361,931)	(361,931)
Net gains on sale (Note 10)	5,032	3,632	8,664
31 December 2014	**13,778**	**1,261,435**	**1,275,213**

27 LOANS AND ADVANCES TO BANKS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Current loans	56,211	47,915	51,539	47,199
Impairment of current loans	0	(3)	0	0
Non-current loans	5,018	2,212	15,070	17,113
Impairment of non-current loans	0	0	(5,170)	(5,013)
Total – net amount	**61,229**	**50,124**	**61,439**	**59,299**
Impairment	**0**	**3**	**5,170**	**5,013**
Total – gross amount	**61,229**	**50,127**	**66,609**	**64,312**

27.1 Movements in impairments of loans and advances to banks

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**3**	**2,546**	**5,013**	**20,396**
Reversal of impairment of principals (Note 19.1)	(2)	(34)	(6)	(14,741)
Additional impairment/reversal of impairment of interest	0	(1)	163	(642)
Foreign exchange rate differences	(1)	8	0	0
Other impairments	0	(2,516)	0	0
31 December	**0**	**3**	**5,170**	**5,013**

While the largest proportion of other impairments reversed by the Nova KBM Group in 2014 related to the transfer of KBM Banka´s portfolio to discontinued operations, the largest proportion of reversed impairments recorded by Nova KBM in 2014 on loans and advances to banks related to the reversal of impairment losses incurred on loans outstanding to Adria Bank.

Recognition of additional impairment/reversal of impairment of interest on loans given to banks is reflected in Note 7 (Interest income and interest expenses) to the income statement.

28 LOANS AND ADVANCES TO CUSTOMERS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Current loans	397,479	500,375	251,756	333,318
Impairment of current loans	(130,743)	(139,005)	(52,767)	(61,026)
Non-current loans	2,015,270	2,024,575	1,697,966	1,662,228
Impairment of non-current loans	(477,644)	(471,195)	(362,363)	(344,483)
Claims under guarantees	16,273	14,752	14,941	9,747
Impairment of claims under guarantees	(12,262)	(8,627)	(11,250)	(6,490)
Total – net amount	**1,808,373**	**1,920,875**	**1,538,283**	**1,593,294**
Impairment	**620,649**	**618,827**	**426,380**	**411,999**
Total – gross amount	**2,429,022**	**2,539,702**	**1,964,663**	**2,005,293**

28.1 Movements in impairments of loans and advances to customers

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**618,827**	**589,957**	**411,999**	**446,871**
Additional impairment of principals (Note 19.1)	41,551	51,823	19,628	50,530
Additional impairment of interest	11,849	16,931	9,365	12,275
Additional impairment/reversal of impairment of fees	34	(592)	34	179
Write-off of loans and advances to customers	(43,919)	(52,533)	(24,169)	(48,297)
Foreign exchange rate differences	16	(375)	0	0
Assets received from subsidiaries	0	0	12,066	33,849
Conversion of loans outstanding to subsidiaries into their equity	0	0	0	(83,408)
Other impairments	(7,709)	13,616	(2,543)	0
31 December	**620,649**	**618,827**	**426,380**	**411,999**

Reversal of other impairments recorded by the Nova KBM Group in 2015 was attributable mainly to the reclassification from 'Loans and advances to customers' to 'Other financial assets' of value adjustments recorded by the Nova KBM Group leasing companies, and to the conversion of loans outstanding to Cimos TAM AI into equity of this company.

Other impairments of €13,616,000 recorded by the Nova KBM Group in 2014 were attributable mainly to the reclassification from 'Other assets' to 'Loans and advances to customers' of value adjustments of items seized by the Nova KBM Group leasing companies. This reclassification was partially the result of the transfer of real estate items to the BAMC (€17,425,000), and partially due to the sale of items that had been seized by the Nova KBM Group leasing companies (€10,920,000). The increase in other impairments resulting from this reclassification was partially offset by a decrease of €12,625,000 arising from the reclassification into discontinued operations of KBM Banka´s assets.

In 2015, Nova KBM took over loans worth €12,066,000 from its subsidiaries. Loans worth €11,873,000 in total were taken over from PBS, while loans worth €193,000 were taken over from Adria Abwicklungs. In addition, Nova KBM converted its loans outstanding to Cimos TAM AI into an equity investment in this company. Impairment losses recorded on loans that were subject to the conversion, totalling €2,543,000, were book-transferred to equity investments.

In 2014, Nova KBM converted loans given to its subsidiaries KBM Leasing (in liquidation), Gorica Leasing (in liquidation) and KBM Invest into investments in the equity of subsidiaries. Impairment losses recorded on loans that were subject to the conversion, totalling €76,773,000, were book-transferred to 'Investments in the equity of subsidiaries'. In accordance with the rules set out in IAS 39 that govern the transfer of assets, it was necessary to record additional impairment losses of €6,635,000 prior to converting loans into equity. These additional impairment losses were also book-transferred to 'Investments in the equity of subsidiaries'. Thus, the total impairment losses in respect of the converted loans amounted to €83,408,000.

Recognition of additional impairment/reversal of impairment of interest and fees on loans given to customers is reflected in Note 7 (Interest income and interest expenses) and Note 9 (Fee and commission income and fee and commission expenses) to the income statement.

29 OTHER FINANCIAL ASSETS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cheques	30	46	27	39
Claims for fees and commissions	1,821	1,909	1,184	1,396
Accounts receivables	2,618	2,324	92	38
Other financial assets	22,317	16,064	22,497	10,281
Total – net amount	**26,786**	**20,343**	**23,800**	**11,754**
Impairment	**11,674**	**4,552**	**2,170**	**1,537**
Total – gross amount	**38,460**	**24,895**	**25,970**	**13,291**

Other financial assets of the Nova KBM Group in both 2015 and 2014 were mostly made up of the claims accounted for in respect of transactions with households (transactions under credit and charge cards).

The balance of Nova KBM´s other financial assets at the end of 2015 included a claim of €4,815,000 against Adria Abwicklungs with respect to the repayment of its share capital.

29.1 Movements in impairments of other financial assets

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**4,552**	**4,853**	**1,537**	**1,667**
Assets acquired through business combinations	0	8	0	8
Additional impairment of principals (Note 19.1)	2,746	218	597	222
Additional impairment of interest	18	30	19	29
Additional impairment/reversal of impairment of fees	(27)	390	(27)	240
Write-off of other financial assets	(936)	(759)	(289)	(628)
Foreign exchange rate differences	1	(2)	2	(1)
Other financial assets	5,320	(186)	331	0
31 December	**11,674**	**4,552**	**2,170**	**1,537**

Recognition of additional impairment/reversal of impairment of interest and fees on other financial assets is reflected in Note 7 (Interest income and interest expenses) and Note 9 (Fee and commission income and fee and commission expenses) to the income statement.

30 HELD-TO-MATURITY FINANCIAL ASSETS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Debt securities	**129,548**	**206,540**	**28,566**	**89,950**
– current securities issued by the state and the central bank	17,495	30,930	0	0
– non-current securities issued by the state and the central bank	98,338	142,078	24,699	79,943
– non-current securities issued by banks and savings banks	5,114	24,920	0	6,136
– non-current securities issued by other issuers	8,601	8,612	3,867	3,871
Total	**129,548**	**206,540**	**28,566**	**89,950**
Quoted	129,548	206,540	28,566	89,950
Total	**129,548**	**206,540**	**28,566**	**89,950**

As of 31 December 2015, the Nova KBM Group had assets of this portfolio worth €72,926,000 pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.

30.1 Movements in held-to-maturity financial assets

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**206,540**	**280,153**	**89,950**	**192,437**
Increase during the year	**38,291**	**91,313**	**1,695**	**3,553**
– acquisition	34,982	84,527	0	0
– reversal of impairments	0	7	0	0
– other (deferred interest)	3,309	6,779	1,695	3,553
Decrease during the year	**115,283**	**164,926**	**63,079**	**106,040**
– disposal (sale and redemption)	109,204	154,865	60,000	100,000
– impairments	0	178	0	0
– foreign exchange rate differences	0	8	0	0
– other (interest received)	6,079	9,875	3,079	6,040
31 December	**129,548**	**206,540**	**28,566**	**89,950**

31 PROPERTY, PLANT AND EQUIPMENT

Nova KBM Group	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2015	**91,029**	**22,592**	**32,668**	**627**	**146,916**
Transfer between types of assets	686	288	383	(1,142)	215
Additions	0	154	73	1,338	1,565
Disposals	(280)	(981)	(1,854)	(8)	(3,123)
Foreign exchange rate differences	0	0	2	0	2
31 December 2015	**91,435**	**22,053**	**31,272**	**815**	**145,575**
Accumulated depreciation					
1 January 2015	**38,553**	**19,270**	**27,233**	**429**	**85,485**
Transfer between types of assets	(1)	0	0	0	(1)
Depreciation (Note 17)	2,164	1,887	1,397	0	5,448
Disposals	(128)	(970)	(1,701)	0	(2,799)
Revaluation (Note 19.2)	117	0	0	0	117
Foreign exchange rate differences	(1)	0	1	0	0
31 December 2015	**40,704**	**20,187**	**26,930**	**429**	**88,250**
Book value as of 1 January 2015	**52,476**	**3,322**	**5,435**	**198**	**61,431**
Book value as of 31 December 2015	**50,731**	**1,866**	**4,342**	**386**	**57,325**

Nova KBM Group	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2014	**104,104**	**35,240**	**36,846**	**2,040**	**178,230**
Transfer between types of assets	(8,211)	(590)	(707)	(1,628)	(11,136)
Additions	0	508	56	1,269	1,833
Disposals	(4,317)	(12,492)	(3,466)	(1,032)	(21,307)
Foreign exchange rate differences	(547)	(74)	(61)	(22)	(704)
31 December 2014	**91,029**	**22,592**	**32,668**	**627**	**146,916**
Accumulated depreciation					
1 January 2014	**46,001**	**28,995**	**28,576**	**981**	**104,553**
Assets acquired through business combinations	(351)	0	0	0	(351)
Transfer between types of assets	(7,188)	(783)	(632)	0	(8,603)
Depreciation	2,333	2,746	1,725	0	6,804
Disposals	(2,023)	(11,642)	(2,406)	(576)	(16,647)
Revaluation	212	0	10	24	246
Foreign exchange rate differences	(431)	(46)	(40)	0	(517)
31 December 2014	**38,553**	**19,270**	**27,233**	**429**	**85,485**
Book value as of 1 January 2014	**58,103**	**6,245**	**8,270**	**1,059**	**73,677**
Book value as of 31 December 2014	**52,476**	**3,322**	**5,435**	**198**	**61,431**

Nova KBM d.d.	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2015	**79,813**	**15,079**	**26,406**	**193**	**121,491**
Transfer between types of assets	689	288	402	(1,141)	238
Additions	0	0	0	1,338	1,338
Disposals	(229)	(798)	(1,134)	0	(2,161)
31 December 2015	**80,273**	**14,569**	**25,674**	**390**	**120,906**
Accumulated depreciation					
1 January 2015	**33,658**	**12,649**	**22,614**	**0**	**68,921**
Depreciation (Note 17)	1,793	1,290	917	0	4,000
Disposals	(77)	(795)	(1,052)	0	(1,924)
Foreign exchange rate differences	1	0	0	0	1
31 December 2015	**35,375**	**13,144**	**22,479**	**0**	**70,998**
Book value as of 1 January 2015	**46,155**	**2,430**	**3,792**	**193**	**52,570**
Book value as of 31 December 2015	**44,898**	**1,425**	**3,195**	**390**	**49,908**

Nova KBM d.d.	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2014	**81,784**	**26,218**	**26,536**	**332**	**134,870**
Transfer between types of assets	(1,243)	627	286	(1,224)	(1,554)
Additions	0	22	17	1,261	1,300
Disposals	(728)	(11,788)	(433)	(176)	(13,125)
31 December 2014	**79,813**	**15,079**	**26,406**	**193**	**121,491**
Accumulated depreciation					
1 January 2014	**33,087**	**21,895**	**21,878**	**0**	**76,860**
Transfer between types of assets	(886)	0	10	0	(876)
Additions	0	18	8	0	26
Depreciation (Note 17)	1,824	1,679	1,117	0	4,620
Disposals	(367)	(10,943)	(399)	0	(11,709)
31 December 2014	**33,658**	**12,649**	**22,614**	**0**	**68,921**
Book value as of 1 January 2014	**48,697**	**4,323**	**4,658**	**332**	**58,010**
Book value as of 31 December 2014	**46,155**	**2,430**	**3,792**	**193**	**52,570**

As of 31 December 2015, the acquisition cost of completely depreciated items of property plant and equipment that are still used by the Nova KBM Group totalled €37,687,000 (2014: €36,442,000).

The Nova KBM Group´s liabilities to suppliers of items of property plant and equipment equalled €238,000 at the end of 2015 (2014: €100,000).

While no items of property, plant and equipment were pledged by the Nova KBM Group at the end of 2015, the Nova KBM Group companies had items of this asset category worth €313,000 in total pledged as collateral with Nova KBM at the end of 2014.

Most of the 2014 transfers between types of assets were related to the reclassification of KBM Banka´s assets into 'Non-current assets held for sale and discontinued operations'. The net transfer value of this transaction was €2,624,000.

32 INVESTMENT PROPERTY

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**36,759**	**38,426**	**29,188**	**2,339**
Transfer between types of assets	(962)	114	(546)	0
Additions	3	27,163	4	27,148
Disposals	(4,344)	(27,783)	0	0
Change in fair value (Note 19.2)	(272)	(1,161)	(207)	(299)
31 December	**31,184**	**36,759**	**28,439**	**29,188**

As of 31 December 2015, the Nova KBM Group had in place 83 agreements for renting out investment properties (2014: 113).

The aggregate annual rent amounted last year to €3,998,000, inclusive of VAT (2014: €4,358,000).

Direct operating expenses incurred by the Nova KBM Group in respect of investment property amounted to €121,000 in 2015, compared to €102,000 in 2014.

Items of investment property are not subject to any sale restrictions.

The 2014 increase in the balance of investment property registered by Nova KBM pertained to the purchase of three real estate units worth €27,144,000 in total (the Mercator Shopping Centre, a commercial building at Cesta Krških žrtev 135 in Krško and the Kungota Primary School). The purchase of these real estate units had no impact on the balance of the Nova KBM Group´s investment property because they were purchased from a Nova KBM Group company.

33 INTANGIBLE ASSETS

Nova KBM Group	Computer software	Intangible assets in preparation	Other intangible assets	Total
Cost				
1 January 2015	**76,592**	**388**	**9,636**	**86,616**
Transfer between types of assets	2,623	(2,623)	0	0
Additions	153	3,215	170	3,538
Disposals	(49)	0	0	(49)
31 December 2015	**79,319**	**980**	**9,806**	**90,105**
Accumulated amortisation				
1 January 2015	**58,238**	**0**	**2,895**	**61,133**
Amortisation (Note 17)	6,239	0	976	7,215
Disposals	(49)	0	0	(49)
31 December 2015	**64,428**	**0**	**3,871**	**68,299**
Book value as of 1 January 2015	**18,354**	**388**	**6,741**	**25,483**
Book value as of 31 December 2015	**14,891**	**980**	**5,935**	**21,806**

The Nova KBM 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 Nova KBM Group totalled €35,201,000 at the end of 2015 (2014: €25,480,000).

The Nova KBM Group´s liabilities to suppliers of intangible assets totalled €515,000 at the end of 2015 (2014: €545,000).

The Nova KBM Group did not capitalize development costs in 2015.

Nova KBM Group	Computer software	Intangible assets in preparation	Other intangible assets	Total
Cost				
1 January 2014	**79,251**	**552**	**9,663**	**89,466**
Transfer between types of assets	(655)	(2,563)	(8)	(3,226)
Additions	596	2,419	14	3,029
Disposals	(2,430)	(20)	(33)	(2,483)
Foreign exchange rate differences	(170)	0	0	(170)
31 December 2014	**76,592**	**388**	**9,636**	**86,616**
Accumulated amortisation				
1 January 2014	**54,664**	**0**	**1,939**	**56,603**
Transfer between types of assets	(1,187)	0	(229)	(1,416)
Amortisation	7,247	0	1,203	8,450
Disposals	(2,427)	0	(11)	(2,438)
Foreign exchange rate differences	(59)	0	(7)	(66)
31 December 2014	**58,238**	**0**	**2,895**	**61,133**
Book value as of 1 January 2014	**24,587**	**552**	**7,724**	**32,863**
Book value as of 31 December 2014	**18,354**	**388**	**6,741**	**25,483**

Nova KBM d.d.	Computer software	Intangible assets in preparation	Total
Cost			
1 January 2015	**67,292**	**203**	**67,495**
Transfer between types of assets	2,519	(2,519)	0
Additions	0	3,076	3,076
Foreign exchange rate differences	1	0	1
31 December 2015	**69,812**	**760**	**70,572**
Accumulated amortisation			
1 January 2015	**53,160**	**0**	**53,160**
Amortisation (Note 17)	5,504	0	5,504
31 December 2015	**58,664**	**0**	**58,664**
Book value as of 1 January 2015	**14,132**	**203**	**14,335**
Book value as of 31 December 2015	**11,148**	**760**	**11,908**

Nova KBM d.d.	Computer software	Intangible assets in preparation	Total
Cost			
1 January 2014	**64,729**	**514**	**65,243**
Transfer between types of assets	2,563	(2,563)	0
Additions	0	2,252	2,252
31 December 2014	**67,292**	**203**	**67,495**
Accumulated amortisation			
1 January 2014	**46,914**	**0**	**46,914**
Amortisation (Note 17)	6,246	0	6,246
31 December 2014	**53,160**	**0**	**53,160**
Book value as of 1 January 2014	**17,815**	**514**	**18,329**
Book value as of 31 December 2014	**14,132**	**203**	**14,335**

34 INVESTMENTS IN THE EQUITY OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Investments in the equity of banks in the Nova KBM Group	**0**	**0**	**40,978**	**49,509**
– equity investments in banks in the Nova KBM Group	0	0	40,978	49,509
Investments in the equity of other Nova KBM Group companies	**0**	**3,164**	**40,422**	**47,255**
– equity investments in associated financial organizations	0	3,164	0	2,237
– equity investments in other subsidiary financial organizations	0	0	36,132	40,728
– equity investments in non-financial subsidiary companies	0	0	4,290	4,290
Total	**0**	**3,164**	**81,400**	**96,764**

34.1 Movements in investments in the equity of subsidiaries, associates and joint ventures

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**3,164**	**2,957**	**96,764**	**54,139**
Increase during the year	**818**	**207**	**1,744**	**58,870**
– acquisition	0	0	0	58,870
– realised gains	717	0	1,744	0
– other	101	207	0	0
Decrease during the year	**3,982**	**0**	**17,108**	**16,245**
– disposal	3,982	0	3,982	0
– derecognition related to the liquidation of KBM Fineko	0	0	0	854
– impairments	0	0	3,595	14,391
– other	0	0	9,531	1,000
31 December	**0**	**3,164**	**81,400**	**96,764**

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

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

In December 2015, Nova KBM derecognised its investment in the equity of its associated company Moja naložba as a result of this being sold to Sava Re. The proceeds received from the sale totalled €3,982,000, with Nova KBM recording a gain of €1,744,000 on the sale. In the consolidated financial statements of the Nova KBM Group, the investment in the equity of Moja naložba was accounted for using the equity method. Accordingly, the net gain generated by the Nova KBM Group on the sale amounted to €717,000, since the corresponding share of the Nova KBM Group in the profits of Moja naložba had already been recognised in the consolidated financial statements in previous years.

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

Other decreases in Nova KBM´s equity investments in both 2015 and 2014 included the repayment by KBM Infond of additional capital contribution of €1,000,000 in each of the years.

In May 2014, Nova KBM infused fresh capital of €12,200,000 into Adria Bank, while in July 2014 it infused fresh capital of €7,485,000 into KBM Leasing Hrvatska (in liquidation).

In December 2014, Nova KBM recapitalized several of its subsidiaries through debt-to-equity conversions. The book value of loans (including the impairment losses already recorded) outstanding to each subsidiary became the acquisition value of investment in its equity, except in the cases where, in accordance with the methodology for valuing equity investments, it was necessary, prior to conversion, to further impair loans that were subject to conversion. Subsidiaries were recapitalized as follows:

- KBM Leasing (in liquidation): €14,551,000 (gross loans of €56,699,000 less the amount of impairment losses that had already been recorded, totalling €39,890,000, and the amount of additionally required impairment losses, totalling €2,258,000).
- Gorica Leasing (in liquidation): €20,344,000 (gross loans of €46,894,000 less the amount of impairment losses that had already been recorded, totalling €23,775,000, and the amount of additionally required impairment losses, totalling €2,775,000).
- KBM Invest: €4,290,000 (gross loans of €19,000,000 less the amount of impairment losses that had already been recorded, totalling €13,108,000, and the amount of additionally required impairment losses, totalling €1,602,000).

In 2014, Nova KBM recorded additional impairment losses of €14,391,000 (2013: €119,483,000) on its investments in the equity of subsidiaries. Impairments made in respect of KBM Leasing Hrvatska (in liquidation), Adria Bank and KBM Banka totalled €7,371,000, €3,669,000 and €3,351,000, respectively.

In December 2014, Nova KBM´s equity investment in KBM Banka was reclassified into assets of discontinued operations when the process of selling KBM Banka began (Notes 37 and 54).

Other increases in investments in the equity of the Nova KBM Group´s affiliated companies registered in 2014 were attributable to the shares in profits and the revaluation surplus in respect of the associated company accounted for using the equity method.

34.2 Information about companies in which Nova KBM holds at least a 20% equity stake

	31.12.2015	2015					31.12.2015
Name and registered office of the company	Total equity	Net profit/(loss)	Equity attributable to Nova KBM	Acquisition cost	Nova KBM´s equity stake (%)	Nova KBM´s voting rights (%)	Investment value
Investments in the equity of banks				**53,635**			**40,978**
Poštna banka Slovenije d.d., Maribor	45,103	(3,063)	44,706	53,635	99.12	99.12	40,978
Investments in the equity of other companies				**165,530**			**40,422**
Adria Abwicklungs GmbH in Liqu., Vienna	562	(1,712)	562	19,489	100.00	100.00	0
Gorica Leasing d.o.o. (in liquidation), Nova Gorica	19,398	(2,274)	19,398	45,954	100.00	100.00	19,398
KBM Infond d.o.o., Maribor	12,394	1,428	9,791	4,660	72.73	72.73	4,660
KBM Invest d.o.o., Maribor	4,363	33	4,363	29,433	100.00	100.00	4,290
KBM Leasing d.o.o. (in liquidation), Maribor	12,016	(2,638)	12,016	48,613	100.00	100.00	12,016
KBM Leasing Hrvatska d.o.o. (in liquidation), Zagreb	(7,863)	(8,432)	(7,749)	17,323	98.54	98.54	0
M-PAY d.o.o., Maribor	234	10	117	58	50.00	50.00	58
Total				**219,165**			**81,400**
Assets of discontinued operations							
KBM Banka a.d., Kragujevac	10,894	(3,266)	9,753	30,057	89.53	89.53	0

35 TAX ASSETS AND LIABILITIES

35.1 Tax assets

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Current income tax assets	1,706	258	1,446	2
Deferred tax assets (Note 35.3)	7,275	12,726	7,275	12,289
Total	**8,981**	**12,984**	**8,721**	**12,291**

The amount of €1,706,000 represents a claim of the Nova KBM Group against the Financial Administration of the Republic of Slovenia (FURS) arising from the difference between the amount of tax prepayments made during 2015 and the reported tax liability for the year. Nova KBM´s claim against the FURS totalled €1,446,000, being the difference between the reported tax liability for 2015 of €1,062,000 and the tax prepayments of €2,508,000 made during the year.

35.2 Tax liabilities

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Current income tax liabilities	61	3,021	0	2,494
Deferred tax liabilities (Note 35.3)	1,580	1,536	0	0
Total	**1,641**	**4,557**	**0**	**2,494**

35.3 Net deferred taxes

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Deferred tax assets (Note 35.1)	**7,275**	**12,726**	**7,275**	**12,289**
– relating to tax loss	10,259	11,757	10,259	11,757
– relating to available-for-sale financial assets	(3,502)	(74)	(3,502)	(73)
– relating to other provisions for pending legal issues	0	70	0	70
– relating to other provisions for employees	519	968	519	535
– relating to temporary differences in respect of impairments	0	5	0	0
– relating to other items	(1)	0	(1)	0
Deferred tax liabilities (Note 35.2)	**1,580**	**1,536**	**0**	**0**
– relating to available-for-sale financial assets	1,741	1,807	0	0
– relating to other provisions for pending legal issues	(2)	(113)	0	0
– relating to other provisions for employees	(151)	(150)	0	0
– relating to other items	(8)	(8)	0	0
Included in profit or loss (Note 21)	**(7,665)**	**7,570**	**(6,754)**	**7,593**
– relating to tax loss	(1,498)	11,757	(1,498)	11,757
– relating to investments in fixed assets	0	(352)	0	(352)
– relating to available-for-sale financial assets	(5,547)	(3,783)	(5,170)	(3,786)
– relating to provisions for pending legal issues	(181)	38	(70)	0
– relating to other provisions for employees	(434)	52	(16)	(26)
– relating to temporary differences in respect of impairments	(5)	(139)	0	0
– relating to other items	0	(3)	0	0
Included in equity	**(6,723)**	**(8,832)**	**(5,283)**	**(7,023)**
– relating to available-for-sale financial assets (Note 44)	(6,727)	(8,849)	(5,283)	(7,023)
– relating to provisions for retirement benefits (Note 44)	4	17	0	0

For the year ended 31 December 2015, the Nova KBM Group reported the uncovered tax loss of €977,772,000, of which €748,606,000 was attributable to Nova KBM.

For a portion of this figure, totalling €60,346,000, Nova KBM has recorded deferred tax assets for losses, in the amount of €10,259,000. The remaining tax loss, in respect of which the Nova KBM Group had not established any deferred tax assets, amounted to €917,425,000 (of which €688,260,000 was attributable to Nova KBM), while the unrecognised deferred tax assets totalled €158,301,000 (of which €117,004,000 was attributable to Nova KBM). The total level of deferred tax assets was determined on the basis of the projections of future taxable income in the next five years.

As of 31 December 2015, Nova KBM had no deferred tax assets recognised in respect of the impairment of equity investments in its subsidiaries. The total amount of impairments recognised from 2011 to 2015 amounted to €182,393,000, while the unrecognised deferred tax assets in respect of these impairments totalled €31,007,000.

The negative amount of €3,503,000, included in the item 'Deferred tax assets relating to available-for-sale financial assets', is the result of Nova KBM disclosing deferred taxes by individual types. At the end of 2015, the total deferred tax assets and tax liabilities in respect of available-for-sale financial assets (securities) amounted to €2,792,000 and €6,295,000, respectively.

Expenses of €5,547,000 in respect of deferred taxes relating to available-for-sale financial assets were mainly attributable to expenses of €2,649,000 incurred as a result of the disposal of equity investment in Merkur and expenses of €1,463,000 incurred as a result of the disposal of Sava Re shares. Upon these disposals, the Nova KBM Group eliminated the deferred tax assets in respect of impairments that were regarded in the past as temporarily tax non-deductible ones.

36 OTHER ASSETS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Inventory	28,119	37,587	12,188	13,061
– assets received in settlement of claims	6,986	8,136	11,893	12,766
– other inventory	21,133	29,451	295	295
Claims for advance payments	130	254	30	36
Prepayments and accrued income	1,390	1,320	722	320
Other claims	67	6,791	27	5,814
Total – net amount	**29,706**	**45,952**	**12,967**	**19,231**
Impairment	**48,984**	**48,579**	**33,479**	**32,333**
Total – gross amount	**78,690**	**94,531**	**46,446**	**51,564**

Real estate units held for sale, totalling €16,009,000 (2014: €25,000,000), and movable and immovable items seized under lease agreements and held for the purpose of sale or lease, totalling €3,804,000 (2014: €4,100,000), accounted for the largest proportion of the Nova KBM Group´s inventory at the end of 2015.

The year-on-year reduction in other claims was the result of a significant reduction in claims in respect of VAT deductions, the reason for this being that Nova KBM did not make any transactions in investment properties in December 2015 that would affect the level of claims in respect of VAT.

36.1 Movements in impairments of other assets

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**48,579**	**106,825**	**32,333**	**30,221**
Additional impairment of principals (Note 19.2)	2,454	3,222	1,146	675
Additional impairment of fees	0	41	0	0
Write-off of other assets	(1,810)	(11,844)	0	0
Foreign exchange rate differences	11	(18)	0	0
Transfer to the BAMC	0	(40,522)	0	0
Other	(250)	(9,125)	0	1,437
31 December	**48,984**	**48,579**	**33,479**	**32,333**

A reduction of €250,000 in value adjustments of other assets recorded by the Nova KBM Group in 2015 (2014: €9,125,000) was attributable mainly to the reclassification into 'Loans and advances to customers' of value adjustments of items that had been seized by the Nova KBM Group leasing companies.

The 2014 reduction of €40,522,000 in value adjustments and the reduction of €11,844,000 in write-offs of other assets recorded by the Nova KBM Group were attributable to the transfer of real estate units to the BAMC.

37 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Items of property, plant and equipment held for sale	1,239	1,439	1,239	865
Long-term intangible assets held for sale	22	0	0	0
Items of investment property held for sale	0	11	0	0
Assets of discontinued operations	56,188	59,823	0	0
Total	**57,449**	**61,273**	**1,239**	**865**

The Nova KBM Group´s assets of discontinued operations at the end of 2015 and 2014 include assets of KBM Banka, Nova KBM´s subsidiary (Note 54).

In December 2014, Nova KBM made a decision to sell its investment in the equity of KBM Banka, based on which it reclassified this investment into 'Non-current assets held for sale and discontinued operations', in accordance with IFRS 5. Prior to making this reclassification, the equity investment in KBM Banka was impaired in full.

38 FINANCIAL LIABILITIES HELD FOR TRADING

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Derivatives	270	1,229	270	1,170
– forwards	173	107	173	107
– swaps	39	197	39	138
– other derivatives	58	925	58	925
Total	**270**	**1,229**	**270**	**1,170**

39 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Deposits (Note 39.1)	3,124,215	3,095,021	2,546,451	2,475,148
Loans (Note 39.2)	317,151	396,942	300,463	366,281
Debt securities (Note 39.4)	12,368	59,129	14,418	67,452
Subordinated liabilities (Note 39.5)	610	1,250	0	0
Other financial liabilities (Note 39.6)	39,943	33,551	33,697	26,396
Total	**3,494,287**	**3,585,893**	**2,895,029**	**2,935,277**

In 2014, a decline was recorded in the balance of loans taken by Nova KBM, as a result of the early repayment of funds borrowed through the longer-term refinancing operations from the ECB.

39.1 Deposits by type of customers and maturity

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Deposits from banks	**29,768**	**20,875**	**32,833**	**11,780**
– demand deposits	29,435	1,793	32,497	10,718
– current deposits	333	18,570	336	550
– non-current deposits	0	512	0	512
Deposits from customers	**3,094,447**	**3,074,146**	**2,513,618**	**2,463,368**
– demand deposits	1,807,122	1,469,985	1,408,068	1,116,225
– current deposits	425,582	585,405	335,784	458,957
– non-current deposits	861,743	1,018,756	769,766	888,186
Total	**3,124,215**	**3,095,021**	**2,546,451**	**2,475,148**

39.2 Loans by type of customers and maturity

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans from banks	**316,242**	**394,213**	**299,554**	**363,552**
– non-current loans	316,242	394,213	299,554	363,552
Loans from customers	**909**	**2,729**	**909**	**2,729**
– non-current loans	909	2,729	909	2,729
Total	**317,151**	**396,942**	**300,463**	**366,281**

39.3 Deposits and loans by market segments

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Deposits	**3,124,215**	**3,095,021**	**2,546,451**	**2,475,148**
– from banks	29,768	20,875	32,833	11,780
– from non-financial companies	433,547	341,088	401,599	316,823
– from the state	55,014	91,076	43,821	72,375
– from other financial organizations	74,372	81,889	81,999	83,757
– from foreign persons	42,629	41,432	44,692	40,496
– from non-profit institutions serving households	36,947	38,118	29,578	30,800
– from households	2,451,938	2,480,543	1,911,929	1,919,117
Loans	**317,151**	**396,942**	**300,463**	**366,281**
– from banks	316,242	394,213	299,554	363,552
– from the state	909	2,729	909	2,729
Total	**3,441,366**	**3,491,963**	**2,846,914**	**2,841,429**

39.4 Debt securities by type and maturity

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Non-current securities issued	**6,724**	**45,412**	**6,724**	**45,412**
– bonds	6,724	45,412	6,724	45,412
– other securities	0	0	0	0
Certificates of deposit issued	**5,644**	**13,717**	**7,694**	**22,040**
– current	(1)	7,646	0	7,646
– non-current	5,645	6,071	7,694	14,394
Total	**12,368**	**59,129**	**14,418**	**67,452**

39.5 Subordinated liabilities

				Nova KBM Group		Nova KBM d.d.	
Issuer	Currency	Date of maturity	Interest rate	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Subordinated debt							
Adria Abwicklungs Gmbh in Liqu.	EUR	perpetual; call option on each 28.12.	variable	610	1,250	0	0
Total				**610**	**1,250**	**0**	**0**

Subordinated liabilities are included in the calculation of capital adequacy. Capital risk is presented in Note 4.6.

39.6 Other financial liabilities

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Liabilities for fees and commissions	8	71	7	35
Liabilities for gross salaries of employees	3,132	3,141	2,407	2,305
Liabilities to suppliers	4,712	4,446	4,047	3,528
Liabilities related to payment card transactions	12,978	7,965	12,943	7,939
Liabilities related to ATM transactions	1,642	1,747	1,485	1,614
Liabilities related to funds provided by customers for making payments abroad	378	659	378	647
Liabilities related to cash transactions	2,198	2,596	969	1,279
Liabilities arising from shares in profits and dividends	0	22	0	22
Accruals and deferred income	7,403	5,797	4,073	2,596
Surplus arising from authorized transactions for customers	56	179	56	179
Other financial liabilities	7,436	6,928	7,332	6,252
Total	**39,943**	**33,551**	**33,697**	**26,396**

The largest proportion of the amount shown under the item 'Other financial liabilities' arises from the balances held in transitional accounts.

40 PROVISIONS

Nova KBM Group	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2015	**2,028**	**18,753**	**7,334**	**52,272**	**2,624**	**83,011**
Net creation of provisions through profit or loss (Note 18)	1,995	4,879	625	(18,885)	1,744	(9,642)
– provisions made during the year	1,995	11,555	1,187	24,115	1,790	40,642
– provisions reversed during the year	0	(6,676)	(562)	(43,000)	(46)	(50,284)
Net creation/reversal of provisions through equity	0	0	(511)	0	0	(511)
Provisions used during the year	(1,567)	(2,960)	(1,290)	0	(167)	(5,984)
Foreign exchange rate differences	0	0	1	0	0	1
Other	0	0	1	0	0	1
31 December 2015	**2,456**	**20,672**	**6,160**	**33,387**	**4,201**	**66,876**

Nova KBM Group	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2014	**11,280**	**17,785**	**6,549**	**64,060**	**489**	**100,163**
Net creation of provisions through profit or loss	(8,151)	1,151	490	(11,622)	2,377	(15,755)
– provisions made during the year	1,449	4,418	1,343	31,261	2,394	40,865
– provisions reversed during the year	(9,600)	(3,267)	(853)	(42,883)	(17)	(56,620)
Net creation/reversal of provisions through equity	0	0	864	0	0	864
Provisions used during the year	(1,101)	(167)	(428)	0	(238)	(1,934)
Foreign exchange rate differences	0	(5)	(10)	(78)	(1)	(94)
Other	0	(11)	(131)	(88)	(3)	(233)
31 December 2014	**2,028**	**18,753**	**7,334**	**52,272**	**2,624**	**83,011**

Nova KBM d.d.	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2015	**2,028**	**17,508**	**4,651**	**50,225**	**193**	**74,605**
Net creation of provisions through profit or loss (Note 18)	1,995	3,937	249	(17,276)	282	(10,813)
– provisions made during the year	1,995	10,255	364	22,190	285	35,089
– provisions reversed during the year	0	(6,318)	(115)	(39,466)	(3)	(45,902)
Net reversal of provisions through equity	0	0	(440)	0	0	(440)
Provisions used during the year	**(1,567)**	**(2,391)**	**(142)**	**0**	**(167)**	**(4,267)**
31 December 2015	2,456	19,054	4,318	32,949	308	59,085

Nova KBM d.d.	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2014	**1,680**	**15,867**	**3,940**	**61,943**	**421**	**83,851**
Net creation of provisions through profit or loss (Note 18)	1,449	1,721	91	(11,718)	(3)	(8,460)
– provisions made during the year	1,449	3,872	442	27,689	0	33,452
– provisions reversed during the year	0	(2,151)	(351)	(39,407)	(3)	(41,912)
Net reversal of provisions through equity	0	0	725	0	0	725
Provisions used during the year	(1,101)	(80)	(105)	0	(225)	(1,511)
31 December 2014	**2,028**	**17,508**	**4,651**	**50,225**	**193**	**74,605**

Claims brought against the Nova KBM Group totalled €46,235,000 at the end of 2015 (2014: €40,139,000). Considering legal opinions obtained, the Nova KBM Group had €20,672,000 of provisions set aside for these claims as of 31 December 2015 (2014: €18,753,000).

In 2015, the Nova KBM Group set aside provisions of €1,790,000 (2014: €2,394,000) for potential claims in respect of lease transactions. These provisions are included in the item 'Other provisions'.

41 OTHER LIABILITIES

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Liabilities for prepayments received	289	509	0	0
Liabilities related to taxes and contributions	1,498	7,502	1,083	7,063
Accruals and deferred income	1,292	10,129	1,159	7,259
Total	**3,079**	**18,140**	**2,242**	**14,322**

Most of the 2015 liabilities of the Nova KBM Group in respect of taxes and contributions related to the liabilities for VAT arising from the sale of goods and services, as well as to liabilities for the payment of contributions on wages and the financial services tax.

Liabilities reported for the end of 2014 in respect of taxes and contributions included the liability of Nova KBM for the payment of VAT on the purchase of investment properties, totalling €5,787,000, and a liability of €494,000 for the payment of the bank balance sheet tax. For the end of 2015, Nova KBM and the Nova KBM Group did not report any liabilities in respect of the items referred to in the previous sentence, the reasons being that they did not make any transactions in investment properties in 2015 and that the act regulating the balance sheet tax was repealed.

Accruals and deferred income reported by the Nova KBM Group for 2014 relate mainly to deferred income arising from loan origination fees, and to accrued expenses. Since November 2015, deferred loan origination fees have been recognised within loans.

42 SHARE CAPITAL

Nova KBM Group and Nova KBM d.d.	31.12.2015	31.12.2014
Ordinary shares	**150,000**	**150,000**
– subscribed by the state	150,000	150,000

In 2015 and 2014, the Nova KBM Group did not purchase or sell treasury shares, and no treasury shares were held by Nova KBM at the end of 2015, nor were shares of Nova KBM held by any of the Nova KBM Group companies.

43 SHARE PREMIUM

Nova KBM Group and Nova KBM d.d.	31.12.2015	31.12.2014
Paid-in capital surplus	360,572	360,572
Total	**360,572**	**360,572**

44 ACCUMULATED OTHER COMPREHENSIVE INCOME

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Accumulated other comprehensive income in respect of available-for-sale financial assets	32,863	43,375	25,792	34,292
– revaluation	39,590	52,224	31,075	41,315
– deferred taxes (Note 35.3)	(6,727)	(8,849)	(5,283)	(7,023)
Accumulated other comprehensive income/(loss) in respect of actuarial gains or losses on defined benefit pension plans	(48)	(534)	7	(433)
– revaluation	(52)	(551)	7	(433)
– deferred taxes (Note 35.3)	4	17	0	0
Total	**32,815**	**42,841**	**25,799**	**33,859**

44.1 Movements in accumulated other comprehensive income

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**42,841**	**8,981**	**33,859**	**7,140**
Net change arising from the valuation of available-for-sale financial assets	(12,634)	41,722	(10,240)	33,036
– recognised gains/(losses)	(12,779)	41,718	(10,240)	33,036
– transfer of gains to profit or loss	145	4	0	0
Net change in accumulated other comprehensive income in respect of actuarial gains or losses on defined benefit pension plans	499	(850)	440	(725)
Foreign exchange rate differences	0	0	0	0
Net change in deferred taxes	2,109	(7,012)	1,740	(5,592)
Other	0	0	0	0
31 December	**32,815**	**42,841**	**25,799**	**33,859**

45 RESERVES FROM PROFIT

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Regulatory reserves	3,939	2,302	3,518	1,796
Statutory reserves	33,420	17,062	33,420	17,062
Other reserves from profit	16,710	8,531	16,710	8,531
Total	**54,069**	**27,895**	**53,648**	**27,389**

45.1 Movements in reserves from profit

	Nova KBM Group		Nova KBM d.d.	
	2015	2014	2015	2014
1 January	**27,895**	**663**	**27,389**	**0**
Increase in regulatory reserves	1,637	1,639	1,722	1,796
Increase in statutory reserves	16,358	17,062	16,358	17,062
Increase in other reserves	8,179	8,531	8,179	8,531
31 December	**54,069**	**27,895**	**53,648**	**27,389**

In accordance with the provisions of the ZGD-1 and Nova KBM´s Articles of Association, the Nova KBM Management Board has, with the consent of the Supervisory Board, appropriated the 2015 net profit to reserves as follows:

- for regulatory reserves: €1,722,000
- for statutory reserves: €16,358,000
- for other reserves from profit: €8,179,000.

46 RETAINED EARNINGS (INCLUDING NET PROFIT FOR THE FINANCIAL YEAR)

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Retained earnings from previous years	35,455	41,081	8,527	0
Net profit/(loss) for the financial year	(9,724)	(5,743)	8,183	8,527
Total	**25,731**	**35,338**	**16,710**	**8,527**

47 PROFIT AVAILABLE FOR APPROPRIATION

	Nova KBM d.d.	
	31.12.2015	31.12.2014
Net profit for the financial year	**34,435**	**35,916**
Retained earnings from previous years	8,527	0
Increase in reserves from profit	(26,259)	(27,389)
– regulatory reserves	(1,722)	(1,796)
– statutory reserves	(16,358)	(17,062)
– other reserves from profit	(8,179)	(8,531)
Other	7	0
Profit available for appropriation	**16,710**	**8,527**

For 2015, Nova KBM reported a net profit of €34,435,000. After transferring €26,259,000 to reserves, a total of €16,710,000 of the profit remains undistributed and constitutes the profit available for appropriation. The decision regarding the use of the profit available for appropriation is to be made by the Nova KBM Shareholders´ Meeting. The Management and Supervisory Boards of Nova KBM have made a proposal that the entire profit available for appropriation remains undistributed.



OTHER NOTES

48 COMMITMENTS AND CONTINGENT LIABILITIES BY TYPE

	Nova KBM Group			Nova KBM d.d.		
	31.12.2015			31.12.2015		
	Current	Non-current	Total	Current	Non-current	Total
Financial guarantees	47,343	27,807	75,150	44,172	25,122	69,294
Service guarantees	96,592	85,645	182,237	83,749	76,269	160,018
Total guarantees	**143,935**	**113,452**	**257,387**	**127,921**	**101,391**	**229,312**
Unsecured letters of credit	**0**	**0**	**0**	**168**	**0**	**168**
Approved and undrawn loans	132,670	12,760	145,430	129,894	12,127	142,021
Approved and undrawn overdrafts	189,417	1,030	190,447	163,914	0	163,914
Approved credit lines	7,386	0	7,386	0	0	0
Total commitments and contingent liabilities	**329,473**	**13,790**	**343,263**	**293,808**	**12,127**	**305,935**
Derivatives	**55,072**	**15,000**	**70,072**	**55,072**	**15,000**	**70,072**
Total	**528,480**	**142,242**	**670,722**	**476,969**	**128,518**	**605,487**

	Nova KBM Group			Nova KBM d.d.		
	31.12.2014			31.12.2014		
	Current	Non-current	Total	Current	Non-current	Total
Financial guarantees	48,703	30,379	79,082	42,934	26,854	69,788
Service guarantees	107,269	73,784	181,053	87,509	65,142	152,651
Total guarantees	**155,972**	**104,163**	**260,135**	**130,443**	**91,996**	**222,439**
Unsecured letters of credit	**58**	**0**	**58**	**172**	**0**	**172**
Approved and undrawn loans	138,665	4,290	142,955	135,475	4,034	139,509
Approved and undrawn overdrafts	180,752	1,232	181,984	155,570	0	155,570
Approved credit lines	8,078	0	8,078	0	0	0
Total commitments and contingent liabilities	**327,495**	**5,522**	**333,017**	**291,045**	**4,034**	**295,079**
Derivatives	**124,910**	**0**	**124,910**	**122,910**	**0**	**122,910**
Total	**608,435**	**109,685**	**718,120**	**544,570**	**96,030**	**640,600**

In the past, Nova KBM had provided guarantees, worth USD 11.6 million in total (€10,736,000), in favour of the Iraqi Rafidain Bank. These guarantees, issued as per the request of Metalna of Maribor, were covered by Republic of Slovenia bonds. In the period between 1989 and 1990, Rafidain Bank several times called upon Nova KBM to honour the guarantees, which Nova KBM refused to do because of the sanctions against Iraq. In 2013, based on an appropriate risk assessment, Nova KBM set aside provisions to cover any potential payments to be made under these guarantees, given that the respective Republic of Slovenia bonds had expired. In February 2016, Nova KBM received a legal opinion reasoning that the Republic of Slovenia´s obligations in respect of these guarantees should have continued to be in effect. Consequently, Nova KBM will request that the state guarantee be provided once again. Provisions set aside for these guarantees are still on the books of Nova KBM because it is not clear what the outcome of negotiations with the government will be.

Liabilities under rental agreements

	Nova KBM Group			Nova KBM d.d.		
	Annual amount in 2016	2 to 5 years (2017–2020)	Over 5 years	Annual amount in 2016	2 to 5 years (2017–2020)	Over 5 years
Business premises, parking places and ATMs	960	3,535	4,569	802	2,903	3,073
Computer software	167	669	1,631	201	799	1,996
Information channels	564	2,255	5,639	411	1,641	4,100
Other equipment	1,779	6,415	770	1,877	6,805	1,762
Total	**3,470**	**12,874**	**12,609**	**3,291**	**12,148**	**10,931**

Liabilities with respect to renting business premises, ATMs and information channels under operating lease agreements account for the largest proportion of the Nova KBM Group´s liabilities under rental agreements.

The Nova KBM Group has not entered into any irrevocable rental agreements.

Receivables under rental agreements

	Nova KBM Group			Nova KBM d.d.		
	Annual amount in 2016	2 to 5 years (2017–2020)	Over 5 years	Annual amount in 2016	2 to 5 years (2017–2020)	Over 5 years
Business premises, parking places and apartments	3,984	15,622	24,134	3,935	15,578	24,597
Computer software	0	0	0	101	399	995
Information channels	0	0	0	101	399	995
Other equipment	20	79	197	121	478	1,192
Total	**4,004**	**15,701**	**24,331**	**4,258**	**16,854**	**27,779**

The most significant rental agreements have been made for renting out business premises and apartments under operating leases.

49 DERIVATIVES

49.1 Analysis of derivatives by type

	Nova KBM Group			Nova KBM d.d.		
	31.12.2015			31.12.2015		
	Current	Non-current	Total	Current	Non-current	Total
Forwards	**36,822**	**0**	**36,822**	**36,822**	**0**	**36,822**
– trading	36,822	0	36,822	36,822	0	36,822
Other derivatives	**16,254**	**0**	**16,254**	**16,254**	**0**	**16,254**
– trading	16,254	0	16,254	16,254	0	16,254
Swaps	**1,996**	**15,000**	**16,996**	**1,996**	**15,000**	**16,996**
– trading	1,996	15,000	16,996	1,996	15,000	16,996
Total	**55,072**	**15,000**	**70,072**	**55,072**	**15,000**	**70,072**

	Nova KBM Group			Nova KBM d.d.		
	31.12.2014			31.12.2014		
	Current	Non-current	Total	Current	Non-current	Total
Forwards	**64,349**	**0**	**64,349**	**64,349**	**0**	**64,349**
– trading	64,349	0	64,349	64,349	0	64,349
Other derivatives	**16,254**	**0**	**16,254**	**16,254**	**0**	**16,254**
– trading	16,254	0	16,254	16,254	0	16,254
Swaps	**44,307**	**0**	**44,307**	**42,307**	**0**	**42,307**
– trading	44,307	0	44,307	42,307	0	42,307
Total	**124,910**	**0**	**124,910**	**122,910**	**0**	**122,910**

49.2 Derivatives held for trading purposes

		Nova KBM Group				Nova KBM d.d.		
				31.12.2015				31.12.2015
Type of risk	Type of derivative	Book value taken to the statement of financial position		Off-balance sheet value	Type of derivative	Book value taken to the statement of financial position		Off-balance sheet value
		Assets	Liabilities			Assets	Liabilities	
Interest rate risk	Interest rate swaps	62	39	16,996	Interest rate swaps	62	39	16,996
Equity instrument price risk	Other derivatives	20	58	16,254	Other derivatives	20	58	16,254
Foreign exchange risk	Currency forwards	34	173	36,822	Currency forwards	34	173	36,822
Total		**116**	**270**	**70,072**		**116**	**270**	**70,072**

		Nova KBM Group				Nova KBM d.d.		
				31.12.2014				31.12.2014
Type of risk	Type of derivative	Book value taken to the statement of financial position		Off-balance sheet value	Type of derivative	Book value taken to the statement of financial position		Off-balance sheet value
		Assets	Liabilities			Assets	Liabilities	
Interest rate risk	Interest rate swaps	144	197	44,307	Interest rate swaps	144	138	42,307
Equity instrument price risk	Other derivatives	0	925	16,254	Other derivatives	0	925	16,254
Foreign exchange risk	Currency forwards	43	107	64,349	Currency forwards	43	107	64,349
Total		**187**	**1,229**	**124,910**		**187**	**1,170**	**122,910**

50 AUTHORIZED TRANSACTIONS

	Nova KBM Group		Nova KBM d.d.	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Non-financial companies	32	0	32	0
State	3,179	5,277	3,179	5,277
Banks and other financial organizations	5,294	4,143	6,247	9,272
Households	6	7	6	7
Non-profit institutions serving households	1,329	1,273	1,329	1,273
Liabilities related to transactions in securities	1,369	2,580	1,369	2,580
Total fiduciary activities	**11,209**	**13,280**	**12,162**	**18,409**
Other activities	0	555,882	0	555,882
Total fiduciary and other activities	**11,209**	**569,162**	**12,162**	**574,291**

51 FIDUCIARY ACTIVITIES

Nova KBM Group and Nova KBM d.d.	31.12.2015	31.12.2014
ASSETS	**1,343**	**2,336**
Claims of settlement and transaction accounts for customer assets	**273**	**821**
– from financial instruments	120	135
– against the Central Securities Clearing Corporation or Nova KBM´s clearing account for sold financial instruments	12	243
– against other settlement systems and institutions for sold financial instruments (buyers)	141	443
Customers´ cash	**1,070**	**1,515**
– in the settlement account for customer assets	416	811
– in banks´ transaction accounts	654	704
LIABILITIES	**1,343**	**2,336**
Liabilities of settlement and transaction accounts for customer assets	**1,343**	**2,336**
– to customers from cash and financial instruments	1,219	2,201
– to the Central Securities Clearing Corporation or Nova KBM´s clearing account for purchased financial instruments	26	18
– to other settlement systems and institutions for purchased financial instruments (suppliers)	1	19
– to Nova KBM or Nova KBM´s settlement account for commissions, fees, etc.	97	98
OFF-BALANCE SHEET ITEMS	**27**	**37**
Customers´ financial instruments, itemized by service	**27**	**37**
– receipt, transmission and execution of orders	27	37

52 RELATED PARTY TRANSACTIONS

52.1 Statement of financial position and off-balance sheet items

	Associates		Associates		Subsidiaries	
	Nova KBM Group		**Nova KBM d.d.**		**Nova KBM d.d.**	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Assets						
Deposits and loans given (gross amount)	0	2	0	2	26,326	29,291
– deposits and loans to banks	0	0	0	0	9,900	9,888
– deposits and loans to customers	0	2	0	2	11,546	19,106
– other financial assets	0	0	0	0	4,880	297
Investments in securities	0	2,237	0	2,237	81,401	177,935
– equity instruments	0	2,237	0	2,237	81,401	177,935
Liabilities						
Deposits and loans received	0	1,755	0	1,755	15,314	15,914
– deposits and loans from banks	0	0	0	0	3,066	10,080
– deposits and loans from customers	0	1,755	0	1,755	12,079	5,675
– other financial liabilities	0	0	0	0	169	159
Securities issued	0	0	0	0	2,049	8,323
– debt securities	0	0	0	0	2,049	8,323
Off-balance sheet items	**0**	**3**	**0**	**4**	**2,175**	**1,983**

	Key management personnel				Other related persons			
	Nova KBM Group		**Nova KBM d.d.**		**Nova KBM Group**		**Nova KBM d.d.**	
	31.12. 2015	31.12. 2014	31.12. 2015	31.12. 2014	31.12. 2015	31.12. 2014	31.12. 2015	31.12. 2014
Assets								
Deposits and loans given (gross amount)	257	332	257	332	562	44,406	269	306
– loans to customers	257	332	257	332	562	44,406	269	306
Investments in securities	1,527	0	1,527	0	417	417	383	383
– equity instruments	1,527	0	1,527	0	417	417	383	383
Liabilities								
Deposits and loans received	441	495	396	495	1,432	1,678	803	654
– deposits and loans from customers	441	495	396	495	1,350	1,479	721	535
– other financial liabilities	0	0	0	0	82	199	82	119
Other liabilities	0	0	6	0	0	0	0	0
Off-balance sheet items	**57**	**44**	**57**	**44**	**184**	**3,487**	**117**	**122**

Key management personnel of the Nova KBM Group include members of the Management Board, executive directors and members of the Supervisory Board of Nova KBM.

Other related persons of the Nova KBM Group include:

- immediate families of the key management personnel
- entities, the owners or key management personnel of which are members of key management personnel of the Nova KBM Group or their immediate families
- key management personnel of subsidiaries (management boards and executive directors)
- immediate families of the key management personnel of subsidiaries
- entities, the owners or key management personnel of which are members of key management personnel of subsidiaries or their immediate families.

Transactions with related persons are conducted on an arm´s length basis.

52.2 Income statement

	Associates		Associates		Subsidiaries	
	Nova KBM Group		**Nova KBM d.d.**		**Nova KBM d.d.**	
	2015	2014	2015	2014	2015	2014
Net interest income	(91)	(89)	(91)	(89)	1,940	9,085
Dividend income	0	0	0	0	476	583
Net fee and commission income	(15)	(7)	5	7	658	679
Other operating income	32	32	0	0	59	79
Costs of services	0	0	0	0	(50)	(66)
Loan impairments	0	0	0	0	423	16,074
Provisions	0	0	0	0	(33)	1,412
Impairment of equity investments	0	0	0	0	(3,595)	(14,391)
Total	**(74)**	**(64)**	**(86)**	**(82)**	**(122)**	**13,455**

	Key management personnel				Other related persons			
	Nova KBM Group		**Nova KBM d.d.**		**Nova KBM Group**		**Nova KBM d.d.**	
	2015	2014	2015	2014	2015	2014	2015	2014
Net interest income	2	(2)	3	(1)	1,946	1,478	9	285
Net fee and commission income	1	0	1	0	(260)	(328)	7	3
Costs of services	(252)	(258)	(190)	(179)	(3,948)	(2,364)	(3,872)	(2,248)
Impairments	0	0	0	0	303	7,462	0	(1,139)
Provisions	0	0	0	0	(181)	(435)	(2)	0
Total	**(249)**	**(260)**	**(186)**	**(180)**	**(2,140)**	**5,813**	**(3,858)**	**(3,099)**

52.3 Loans and guarantees given

Nova KBM Group	Management Board members		Supervisory Board members		Other Nova KBM Group employees on individual contracts	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans	0	92	23	29	1,907	2,111
Average interest rate on loans (%)	3.23	4.14	3.42	3.61	3.06	3.36
Repayments	3	7	6	7	487	496
Guarantees	0	0	0	0	0	0

Nova KBM d.d.	Management Board members		Supervisory Board members		Other Nova KBM employees on individual contracts	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans	0	92	23	29	1,142	1,336
Average interest rate on loans (%)	3.23	4.14	3.42	3.61	2.89	3.22
Repayments	3	7	6	7	203	262
Guarantees	0	0	0	0	0	0

53 SUBSIDIARY AND ASSOCIATED COMPANIES

53.1 Disclosures for subsidiaries with material non-controlling interests

Nova KBM holds 72.73% of equity and voting rights in KBM Infond, a Nova KBM Group company in which the non-controlling interest is material.

	KBM Infond d.o.o.	
	2015	2014
Share of non-controlling interests in voting rights (%)	**27.27**	**27.27**
Share of non-controlling interests in equity (%)	**27.27**	**27.27**
Financial assets held for trading	1,447	1,373
Available-for-sale financial assets	3,109	3,545
Loans and advances	584	618
Other assets	77	77
Financial liabilities measured at amortised cost	601	428
Net worth (equity)	**12,394**	**12,590**
Equity attributable to non-controlling interests	**2,603**	**2,383**
Net income	5,060	4,751
Operating costs	(3,321)	(3,172)
Provisions and impairment losses	(12)	(13)
Profit from continuing operations	1,727	1,566
Income taxes on continuing operations	(299)	(257)
Net profit for the financial year	**1,428**	**1,309**
Net profit for the financial year attributable to non-controlling interests	**389**	**357**
Other comprehensive income	31	191
Total comprehensive income	1,459	1,501
Total comprehensive income attributable to non-controlling interests	**398**	**409**
Cash flows from operating activities	2,925	912
Cash flows from financing activities	(334)	(237)
Cash flows from investing activities	(1,655)	(583)
Net increase in cash and cash equivalents during the financial year	**936**	**92**
Dividends paid to non-controlling interests	**179**	**159**

54 TOTAL LOSS AFTER TAX FROM DISCONTINUED OPERATIONS

KBM Banka was founded in 1955 and has focused on the provision of corporate and retail banking services. It became a member of the Nova KBM Group in 2010. In December 2014, the Nova KBM Management Board passed a decision to sell KBM Banka to a strategic investor. Considering that the sale of KBM Banka will be completed in 2016, its assets and liabilities at the end of 2015 were classified as non-current assets and liabilities of discontinued operations. Components of profit and loss and assets and liabilities of discontinued operations are presented in the tables below.

Income statement of discontinued operations

ITEM DESCRIPTION	Year ended 31.12.2015	Year ended 31.12.2014
Income of discontinued operations	6,598	9,406
Expenses of discontinued operations	(8,506)	(12,363)
(Loss) of discontinued operations before tax	(1,908)	(2,957)
Income tax relating to discontinued operations	241	257
Fair value measurement profit/(loss), reduced by costs to sell	1,491	(16,407)
Total (loss) after tax from discontinued operations	**(176)**	**(19,107)**
a) Attributable to owners of the parent	(176)	(17,560)
b) Attributable to non-controlling interests	0	(1,547)

In 2014, the Nova KBM Group recognised a loss of €16,407,000 arising from the impairment as a result of the initial write-down of assets of discontinued operations to fair value less cost to sell. A further loss of €176,000 in respect of discontinued operations was recognised by the Nova KBM Group in 2015.

The effects on Nova KBM´s profit or loss of the reclassification into discontinued operations of the investment in the equity of KBM Banka are reported in the item 'Total loss after tax from discontinued operations' and totalled €3,351,000 in 2014.

Statement of comprehensive income of discontinued operations

ITEM DESCRIPTION	Year ended 31.12.2015	Year ended 31.12.2014
NET (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**(176)**	**(19,107)**
OTHER COMPREHENSIVE (LOSS) AFTER TAX	**(60)**	**(703)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(8)**	**(6)**
Actuarial (losses) on defined benefit pension plans	(8)	(6)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(52)**	**(697)**
Translation differences arising from consolidation	**(47)**	**(753)**
– translation (losses) taken to equity	(47)	(753)
Available-for-sale financial assets	**(5)**	**56**
– valuation gains/(losses) taken to equity	(5)	56
TOTAL COMPREHENSIVE (LOSS) FOR THE FINANCIAL YEAR AFTER TAX	**(236)**	**(19,810)**
a) Attributable to owners of the parent	(231)	(18,189)
b) Attributable to non-controlling interests	(5)	(1,621)

Statement of cash flows of discontinued operations

ITEM DESCRIPTION	Year ended 31.12.2015	Year ended 31.12.2014
CASH FLOWS FROM OPERATING ACTIVITIES	**6,538**	**(8,261)**
CASH FLOWS FROM INVESTING ACTIVITIES	**133**	**1,960**
Receipts from investing activities	434	2,030
Cash payments on investing activities	(301)	(70)
Effects of changes in foreign exchange rates on cash and cash equivalents	(74)	(997)
Net increase/(decrease) in cash and cash equivalents	**6,671**	**(6,301)**
Opening balance of cash and cash equivalents	**22,644**	**29,942**
Closing balance of cash and cash equivalents	**29,241**	**22,644**

Assets and liabilities of discontinued operations

ITEM DESCRIPTION	31.12.2015	31.12.2014
Cash, cash balances at central banks and demand deposits at banks	29,931	22,613
Financial assets held for trading	111	1,183
Available-for-sale financial assets	14,185	8,770
Loans and advances	5,257	20,711
– loans and advances to banks	58	27
– loans and advances to customers	5,043	20,461
– other financial assets	156	223
Held-to-maturity financial assets	7	26
Non-current assets held for sale and discontinued operations	4,027	604
Property, plant and equipment	1,515	4,534
Investment property	45	0
Intangible assets	1,314	1,138
Tax assets	549	44
– deferred tax assets	549	44
Other assets	0	200
TOTAL ASSETS	**56,941**	**59,823**
Financial liabilities measured at amortised cost	56,443	59,212
– deposits from banks	0	3,232
– deposits from customers	56,007	55,648
– loans from banks	0	45
– loans from customers	2	2
– other financial liabilities	434	285
Provisions	234	321
Tax liabilities	0	(267)
– deferred tax liabilities	0	(267)
Other liabilities	264	557
TOTAL LIABILITIES	**56,941**	**59,823**

In the note on operating segments, KBM Banka is presented in a separate item titled 'Total loss after tax from discontinued operations'.

55 EXPOSURE TO THE BANK OF SLOVENIA, REPUBLIC OF SLOVENIA AND STATE-OWNED INSTITUTIONS

	Nova KBM Group		Nova KBM d.d.	
On-balance sheet exposure to:	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Bank of Slovenia	**231,391**	**281,328**	**192,464**	**232,344**
– settlement account	201,358	266,557	167,157	221,167
– other	14,388	14,771	11,061	11,177
– Bank Resolution Fund	15,645	0	14,246	0
Republic of Slovenia	**884,548**	**853,765**	**664,357**	**656,439**
– bonds	661,786	548,532	475,202	416,031
– other securities	189,389	276,093	156,910	213,222
– loans and advances	30,763	22,099	30,070	20,864
– other	2,610	7,041	2,175	6,322
State-owned institutions	**310,381**	**350,481**	**369,875**	**395,784**
– securities	54,384	97,913	120,425	153,227
– loans and advances	184,069	186,426	183,354	190,177
– total	71,928	66,142	66,096	52,380
Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	**1,426,320**	**1,485,574**	**1,226,696**	**1,284,567**
Total exposure as a proportion of the balance sheet total (%)	33.59	34.00	34.43	35.60
Balance sheet total	**4,246,167**	**4,369,010**	**3,563,355**	**3,608,215**
Off-balance sheet exposure to:				
Republic of Slovenia				
– commitments and contingencies	628	614	32	18
State-owned institutions				
– commitments and contingencies	128,846	101,867	128,426	100,312
Total off-balance sheet exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	**129,474**	**102,481**	**128,458**	**100,330**
Loans secured by guarantees provided by the Republic of Slovenia	**207,223**	**403,161**	**194,998**	**390,931**
– on-balance sheet	207,223	402,260	194,998	390,030
– off-balance sheet	0	901	0	901

56 MOVEMENTS IN PAST-DUE AND UNPAID CLAIMS

Nova KBM Group	01.01.2015	(%)	Net increase	Write-offs	Foreign exchange rate differences	31.12.2015
Loans and advances to banks	16	0.03	181	0	0	197
Loans and advances to customers	655,821	25.82	1,056	(45,220)	28	611,685
Other financial assets	4,963	19.94	1,004	(1,086)	0	4,881
Total	**660,800**		**2,241**	**(46,306)**	**28**	**616,763**

Nova KBM Group	01.01.2014	(%)	Net increase/ (decrease)	Write-offs	Foreign exchange rate differences	31.12.2014
Loans and advances to banks	2,524	1.91	(2,376)	0	(132)	16
Loans and advances to customers	614,762	21.79	95,234	(53,084)	(1,091)	655,821
Other financial assets	4,613	20.29	1,311	(961)	0	4,963
Total	**621,899**		**94,169**	**(54,045)**	**(1,223)**	**660,800**

Nova KBM d.d.	01.01.2015	(%)	Net increase	Write-offs	31.12.2015
Loans and advances to banks	16	0.02	163	0	179
Loans and advances to customers	395,422	19.72	18,173	(24,737)	388,858
Other financial assets	1,647	12.39	894	(400)	2,141
Total	**397,085**		**19,230**	**(25,137)**	**391,178**

Nova KBM d.d.	01.01.2014	(%)	Net increase	Write-offs	31.12.2014
Loans and advances to banks	2	0.02	14	0	16
Loans and advances to customers	345,156	15.18	98,618	(48,352)	395,422
Other financial assets	1,781	13.89	567	(701)	1,647
Total	**346,939**		**99,199**	**(49,053)**	**397,085**

57 REMUNERATION

	Nova KBM Group		**Nova KBM d.d.**	
	2015	2014	2015	2014
Management Board	**274**	**374**	**274**	**374**
Robert Senica	132	52	132	52
Sabina Župec Kranjc	121	15	121	15
Aleš Hauc	21	135	21	135
Igor Žibrik	0	172	0	172
Supervisory Board members	**125**	**130**	**125**	**130**
Members of Supervisory Board committees	**56**	**70**	**56**	**70**
Other Nova KBM Group employees on individual contracts	**4,945**	**6,745**	**2,828**	**2,841**
Total	**5,400**	**7,319**	**3,283**	**3,415**

Remuneration paid to Management Board members comprises: salary, pay for annual leave, bonuses, the payment of supplementary pension insurance premiums, and other remuneration under employment contracts.

Remuneration paid to members of the Supervisory Board, the Audit Committee, the Remuneration and Nomination Committee, the Remuneration Committee, the Nomination Committee and the Risk Committee comprises: a payment for holding the office, and to cover attendance fees, reimbursement of costs, seminar participation fees, and the payment of liability insurance premiums.

Remuneration paid to other Nova KBM Group employees working on individual contracts comprises: salary, pay for annual leave, bonuses, the payment of supplementary pension insurance premiums, and other remuneration under employment contracts (severance benefits paid to employees who are made redundant for business reasons, retirement benefits, compensations for a non-competition clauses, and some other remuneration under employment contracts).

Robert Senica and Sabina Župec Kranjc were appointed as new members of the Nova KBM Management Board on 1 August 2014 and 17 November 2014, respectively. Igor Žibrik ended his term of office as a member of the Nova KBM Management Board on 31 October 2014. In February 2015, the Supervisory Board recalled Aleš Hauc from the position of the President of the Nova KBM Management Board, and appointed Robert Senica, who was then a member of the Management Board, as the new President.

The total amount paid in 2015 to Robert Senica, President of the Management Board, and Aleš Hauc, ex-President of the Management Board, for meeting attendances, reimbursement of costs, and bonuses in respect of their work on the Supervisory Board of the Nova KBM Group´s associated company was €1,535.01 and €5,215.22, respectively.

Analysis of remuneration paid to Management Board members, Executive Directors, Supervisory Board members and members of Supervisory Board committees

Remuneration of the Management Board

€

													2015
Nova KBM d.d.	Salary		Pay for annual leave			Awards	Bonuses	Supplementary pension insurance premiums		Other emolument			Total
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Robert Senica	122,008.00	56,345.00	791.00	470.00	0.00	0.00	6,522.00	2,819.00	0.00	0.00	132,140.00	56,815.00	
Sabina Župec Kranjc	111,667.00	52,695.00	791.00	486.00	0.00	0.00	5,904.00	2,819.00	0.00	0.00	121,181.00	53,181.00	
Aleš Hauc (up to 10 May 2015)	19,223.00	8,942.00	0.00	0.00	0.00	0.00	1,108.00	470.00	0.00	0.00	20,801.00	8,942.00	
Total	**252,898.00**	**117,982.00**	**1,582.00**	**956.00**	**0.00**	**0.00**	**13,534.00**	**6,108.00**	**0.00**	**0.00**	**274,122.00**	**118,938.00**	

€

													2014
Nova KBM d.d.	Salary		Pay for annual leave			Awards	Bonuses	Supplementary pension insurance premiums		Other emolument			Total
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Aleš Hauc	126,346.57	59,663.83	789.15	474.25	0.00	0.00	4,662.79	2,819.04	0.00	0.00	134,617.55	60,138.08	
Igor Žibrik (up to 31 October 2014)	100,647.49	46,321.93	789.15	476.59	0.00	0.00	8,328.40	2,349.20	60,388.38	23,521.28	172,502.62	70,319.80	
Robert Senica (from 1 August 2014)	48,154.21	23,140.90	328.81	200.87	0.00	0.00	2,666.23	1,174.60	0.00	0.00	52,323.85	23,341.77	
Sabina Župec Kranjc (from 17 November 2014)	14,302.49	7,183.22	0.00	0.00	0.00	0.00	318.82	234.92	0.00	0.00	14,856.23	7,183.22	
Total	**289,450.76**	**136,309.88**	**1,907.11**	**1,151.71**	**0.00**	**0.00**	**15,976.24**	**6,577.76**	**60,388.38**	**23,521.28**	**374,300.25**	**160,982.87**	

Remuneration of Executive Directors

€

													2015
Nova KBM d.d.	Salary		Pay for annual leave			Awards	Bonuses	Supplementary pension insurance premiums		Other emolument			Total
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Total	**445,396.00**	**223,243.00**	**3,888.00**	**2,502.00**	**0.00**	**0.00**	**17,671.00**	**2,700.00**	**60,942.00**	**23,968.00**	**530,597.00**	**249,713.00**	

€

													2014
Nova KBM d.d.	Salary		Pay for annual leave			Awards	Bonuses	Supplementary pension insurance premiums		Other emolument			Total
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Total	**483,013.23**	**241,918.07**	**4,077.28**	**2,608.82**	**0.00**	**0.00**	**21,324.08**	**3,050.00**	**0.00**	**0.00**	**511,464.59**	**244,526.89**	

Remuneration of the Supervisory Board

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees and liability insurance	Total
Peter Kukovica	24,230.00	5,001.00	8,597.00	37,828.00
Niko Samec	19,030.00	503.00	136.00	19,669.00
Andrej Fatur	17,443.00	4,674.00	9,054.00	31,171.00
Miha Glavič	17,730.00	0.00	514.00	18,244.00
Peter Kavčič	16,685.00	844.00	941.00	18,470.00
Total	**95,118.00**	**11,022.00**	**19,242.00**	**125,382.00**

€

Nova KBM d.d.				2014
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees and liability insurance	Total
Peter Kukovica	24,945.00	2,391.35	113.33	27,449.68
Niko Samec	19,470.04	452.77	113.33	20,036.14
Karmen Dvorjak	1,810.47	67.32	0.00	1,877.79
Andrej Fatur	17,739.96	1,205.29	113.32	19,058.57
Miha Glavič	18,664.96	0	113.32	18,778.28
Peter Kavčič	17,299.96	534.21	367.52	18,201.69
Egon Žižmond	4,040.64	0.00	0.00	4,040.64
Keith Charles Miles	13,237.19	7,541.46	113.32	20,891.97
Total	**117,208.22**	**12,192.40**	**934.14**	**130,334.76**

Remuneration of the Audit Committee

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Keith Charles Miles	2,427.00	1,679.00	0.00	4,106.00
Andrej Fatur	5,142.00	951.00	0.00	6,093.00
Peter Kavčič	6,213.00	201.00	0.00	6,414.00
Jernej Pirc	4,380.00	784.00	0.00	5,164.00
Miha Glavič	3,612.00	0.00	0.00	3,612.00
Mario Gobbo	1,478.00	133.00	0.00	1,611.00
Total	**23,252.00**	**3,748.00**	**0.00**	**27,000.00**

€

Nova KBM d.d.				2014
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Aleksander Igličar	6,950.00	786.78	0.00	7,736.78
Keith Charles Miles	7,426.12	1,782.79	0.00	9,208.91
Andrej Fatur	5,009.96	1,625.76	0.00	6,635.72
Peter Kavčič	4,840.81	105.89	0.00	4,946.70
Gojko Koprivec	5,998.21	654.12	0.00	6,652.33
Jernej Pirc	3,364.84	331.18	0.00	3,696.02
Total	**33,589.94**	**5,286.52**	**0.00**	**38,876.46**

Remuneration of the Remuneration and Nomination Committee

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Peter Kukovica	5,535.00	391.00	0.00	5,926.00
Niko Samec	3,097.00	112.00	0.00	3,209.00
Peter Kavčič	2,827.00	10.00	0.00	2,837.00
Romana Košorok	3,313.00	291.00	0.00	3,604.00
Total	**14,772.00**	**804.00**	**0.00**	**15,576.00**

€

Nova KBM d.d.				2014
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Peter Kukovica	6,567.52	552.46	0.00	7,119.98
Niko Samec	4,129.96	0.00	0.00	4,129.96
Peter Kavčič	3,859.13	30.28	0.00	3,889.41
Romana Košorok	8,460.00	427.54	0.00	8,887.54
Adriana Rejc Buhovac	6,510.00	209.64	0.00	6,719.64
Total	**29,526.61**	**1,219.92**	**0.00**	**30,746.53**

On 9 July 2015, the Remuneration and Nomination Committee was transformed into two separate committees – the Remuneration Committee and the Nomination Committee.

Remuneration of the Remuneration Committee

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Niko Samec	3,550.00	112.00	0.00	3,662.00
Peter Kukovica	963.00	0.00	0.00	963.00
Miha Glavič	1,775.00	0.00	0.00	1,775.00
Total	**6,288.00**	**112.00**	**0.00**	**6,400.00**

Remuneration of the Nomination Committee

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Peter Kukovica	360.00	132.00	0.00	492.00
Niko Samec	1,032.00	0.00	0.00	1,032.00
Peter Kavčič	0.00	0.00	0.00	0.00
Total	**1,392.00**	**132.00**	**0.00**	**1,524.00**

Remuneration of the Risk Committee

€

Nova KBM d.d.				2015
Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Andrej Fatur	3,330.00	0.00	0.00	3,330.00
Peter Kukovica	1,413.00	234.00	0.00	1,647.00
Peter Kavčič	220.00	36.00	0.00	256.00
Total	**4,963.00**	**270.00**	**0.00**	**5,233.00**

The Risk Committee was set up on 9 July 2015.

58 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

In 2015, Nova KBM started taking steps towards fully merging the operations of PBS with its own. This merger, which was consented to by the Supervisory Boards of both banks, is one of the strategically most important projects undertaken as part of the restructuring and consolidation of the Nova KBM Group.

Until the legal merger, which is scheduled for 1 July 2016, the banks will continue to operate as separate legal entities, given that, prior to taking any further steps towards their integration, they must obtain the necessary approvals from the Bank of Slovenia, the ECB and other competent bodies, and must also meet all relevant regulatory requirements. PBS will cease to exist as an independent legal entity after the merger is completed.

On 17 February 2016, based on the prior consent of the Nova KBM Supervisory Board, Nova KBM signed the agreement concerning the sale of its 546,683 shares in KBM Banka, representing 89.53% of all outstanding shares of KBM Banka. The completion of the sale process is expected to take place within a period that is customary in similar transactions.

As part of the Nova KBM Group´s restructuring, and to facilitate the completion of the sale of its investment in the equity of KBM Banka, its subsidiary, Nova KBM has set up a project company named 'KBM ASCO', to which, in the first quarter of 2016, it intends to transfer certain assets of KBM Banka, primarily its non-performing loans and real estate.