



2011

ANNUAL REPORT

NOVA KBM GROUP AND NOVA KBM d.d.

150yrs.



Nova KBM
READY FOR TOMORROW

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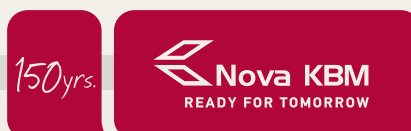
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{ INTRODUCTION }

2011 was a year that enriched us with new experiences and new achievements and we're thankful for new knowledge and business success. Now we are looking ahead at 2012 - a year that will be particularly important to us. In 2012 our Group is celebrating an anniversary. 150 years have passed since the founding of the Municipal Savings Bank, Nova KBM's predecessor. 150 years of work, business challenges and history.

With our beginnings reaching back into the 19th century, Nova KBM is considered to have the longest banking tradition in Slovenia. It is directly related to the establishment of the Municipal Savings Bank, which first opened its doors to its customers on 4 January 1862 - 150 years ago. We've come far since then. The largest step forward on our journey was in the 1990s, when we formed the Nova KBM Group, which now includes 14 companies in four countries.

You are looking at a book that describes the successes, challenges and achievements of the Nova KBM Group in 2011. The growth and development of the Group and all affiliated companies are the result of hard-working employees and satisfied customers and business partners. We are proud of our past. Of all 150 years of our history. And we are ready for the future.



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Business success is a result of devotion. It is a result of knowledge,
hard work and challenges that can be turned into achievements.

We've achieved a lot in the past 150 years.
And we're very proud of what we've achieved.

BUSINESS REPORT



{ Municipal Savings Bank, Maribor }

1 KEY PERFORMANCE INDICATORS

1.1 KEY PERFORMANCE INDICATORS OF THE NOVA KBM GROUP¹

CONTENTS 1	2011 2	2010 3	2009 4	Index 5=4/3
Statement of financial position (€000)	31.12.	31.12.	31.12.	
Total assets	5,816,197	5,866,657	5,785,637	99
Total deposits from the non-banking sector	3,764,964	3,712,652	3,507,626	101
Total loans and advances to the non-banking sector	3,844,085	4,034,927	3,844,138	95
Total shareholders' equity	435,563	438,989	431,274	99
Total impairment of financial assets measured at amortised cost, provisions	497,601	363,416	304,863	137
Total off-balance sheet items	889,136	960,167	884,656	93
Statement of income (€000)	12M 2011	12M 2010	12M 2009	
Net interest income	135,593	147,302	136,489	92
Net fee and commission income	62,332	82,591	71,301	75
Staff costs, general and administrative costs	108,455	113,418	99,296	96
Depreciation and amortisation	16,644	15,252	14,079	109
Impairment losses and provisions	175,391	83,222	76,811	211
Profit/(loss) before tax from continuing and discontinued operations	(102,565)	18,001	17,604	
Income tax expense related to continuing and discontinued operations	(21,443)	6,588	4,718	
	31.12.	31.12.	31.12.	
Number of employees	2,991	3,025	2,725	99
Shares				
Number of shareholders	98,354	100,295	102,514	98
Number of shares (000)	39,123	26,082	26,082	150
Accountable par value of one share (€)	1.04	1.04	1.04	100
Book value per share (€)	10.07	15.22	15.04	66
Ratios				
a) Equity				
- capital adequacy (total equity)	11.47	10.89	11.72	
b) Profitability				
- interest margin	2.31	2.53	2.42	
- margin of financial intermediation	3.37	3.95	3.69	
- ROAA before tax	(1.75)	0.31	0.31	
- ROAE before tax	(21.51)	4.14	4.26	
- ROAE after tax	(17.01)	2.62	3.12	
c) Operating costs				
- operating costs/average total assets	2.13	2.21	2.01	
- cost/income	63.21	55.97	54.56	
d) Net loans and advances to customers/deposits from customers	102.10	108.68	109.59	

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

1.2 KEY PERFORMANCE INDICATORS OF NOVA KBM d.d.^{2,3}

CONTENTS 1	2011 2	2010 3	2009 4	Index 5 = 4/3
Statement of financial position (€000)	31.12.	31.12.	31.12.	
Total assets	4,811,091	4,806,511	4,789,377	100
Total deposits from the non-banking sector	3,066,152	3,024,912	2,946,371	101
a) from legal and other entities	1,071,144	1,050,810	1,015,381	102
b) from households	1,995,008	1,974,102	1,930,990	101
Total loans and advances to the non-banking sector	3,342,123	3,505,866	3,335,635	95
a) to legal and other entities	2,412,756	2,568,022	2,513,509	94
b) to households	929,367	937,844	822,126	99
Total shareholders' equity	373,736	375,256	367,886	100
Total impairment of financial assets measured at amortised cost, provisions	367,653	259,298	225,192	142
Total off-balance sheet items	799,531	866,209	811,180	92
Statement of income (€000)	12M 2011	12M 2010	12M 2009	
Net interest income	99,257	110,105	106,012	90
Net fee and commission income	43,651	59,774	50,886	73
Staff costs, general and administrative costs	75,580	78,203	75,247	97
Depreciation and amortisation	13,162	12,128	10,813	109
Impairment losses and provisions	158,184	68,183	55,689	232
Profit/(loss) before tax from continuing and discontinued operations	(104,018)	11,365	15,149	
Income tax expense related to continuing and discontinued operations	(20,043)	1,993	3,002	
Net profit/(loss)	(83,975)	9,372	12,147	
	31.12.	31.12.	31.12.	
Number of employees	1,346	1,393	1,456	97
Shares				
Number of shareholders	98,354	100,295	102,514	98
Number of shares (000)	39,123	26,082	26,082	150
Accountable par value of one share (€)	1.04	1.04	1.04	100
Book value per share (€)	9.55	14.39	14.10	66
Ratios (%)				
a) Equity				
- capital adequacy (total equity)	10.83	10.05	10.59	
- capital adequacy (original own funds)	8.47	7.67	7.85	
b) Quality of assets				
- impairment of financial assets measured at amortised cost and provisions for commitments/classified on- and off- balance sheet items	7.94	5.77	5.27	
- premium for risk	2.78	1.83	1.63	
- NPLs as a percentage of gross loan portfolio	12.05	9.18	5.89	
- total impairment losses as a percentage of NPLs	65.90	62.81	89.46	
c) Profitability				
- interest margin	2.05	2.27	2.23	
- margin of financial intermediation	2.96	3.51	3.29	
- ROAA before tax	(2.15)	0.23	0.32	
- ROAE before tax	(24.32)	3.01	4.31	
- ROAE after tax	(19.63)	2.48	3.45	
d) Operating costs				
- operating costs/average total assets	1.84	1.87	1.81	
- cost/income	62.10	53.17	54.85	
e) Net loans and advances to customers/deposits from customers	109.00	115.90	113.21	
f) Liquidity				
- liquid assets/current deposits from the non-banking sector	33.93	37.65	35.75	
- liquid assets/average total assets	12.74	14.51	16.36	

² Bank of Slovenia methodology.

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

2 STATEMENT BY THE MANAGEMENT BOARD



{ DEAR SHAREHOLDERS AND BUSINESS PARTNERS }

In 2011, the global economy was once again marked by deteriorated conditions in the financial markets. Throughout 2011, the rating agencies had been steadily downgrading credit ratings assigned to European countries and commercial banks, and Slovenia as well as Slovene banks were no exception in this regard. What followed was that the investors required higher returns on debt securities issued by the Republic of Slovenia and some Slovene banks. The increase in required returns on securities was the result of several factors: escalation of the debt crisis in several Eurozone countries; general uncertainty prevailing in the international financial arena; and events and trends in the local economic and political environment.

We saw the Slovene banking system facing a number of challenges in 2011. The dynamics of growth in allowances for impairment and other credit provisions was relatively high at an annual rate of over 30%, causing the total net loss from continuing operations of the Slovene banking system to reach approximately €500 million, according to unaudited and non-consolidated accounts.



The operating results of the Group demonstrate that the crisis hit with full force in 2011. The Nova KBM Group performed weakly and ended the year 2011 with a net loss of €81.1 million. Impairment losses and provisions of €175.4 million, a figure which was as much as 161% above the projection, had the most adverse effect on the results of the Group.

The 2011 year-end total assets of the Nova KBM Group remained flat at the level of the previous year. The total capital adequacy ratio as of 31 December 2011 was 11.47%, while the total shareholders' equity of the Group used for the calculation of capital adequacy amounted to €421.6 million, up 7.5% on the previous year. Nova KBM passed the 2011 EU-wide stress test successfully.

Operating costs as a percentage of the average total assets decreased from 2.21% in 2010 to 2.13% in 2011. Year-on-year, the number of staff at the Nova KBM Group and Nova KBM was reduced from 3,025 to 2,991 and from 1,393 to 1,346, respectively, which resulted in a decrease in administration costs at the Group level of 4.4% in 2011.

At the end of 2011, Nova KBM had 98,354 shareholders, the largest number of any Slovene company. Nova KBM shares lost 69.0% of their value in 2011, with the share price dropping from €10.20 at the beginning

of the year to €3.16 as of 31 December 2011. The decrease in the share price was closely related to the global financial crisis, the debt crisis in Europe, weaker confidence in the European banking system, and lower than projected performance of the Group. We saw a similar trend for the shares of many European banks, predominantly during the second half of 2011.

{ IMPORTANT EVENTS DURING 2011 }

In spite of the crisis, Nova KBM introduced and completed a number of innovations and projects in 2011, the most important being the successful increase in capital of the Bank and the parallel listing of Bank shares on the Warsaw Stock Exchange, starting on 11 May. By issuing new shares, the Bank raised over €104 million of fresh capital, thereby strengthening its capital position.

The funds raised through the increase of capital have facilitated the implementation of several strategic objectives and have helped to consolidate the market position of the Nova KBM Group. We have earmarked the funds raised for the improvement of the capital adequacy of both the Bank and the Group, for a further consolidation of companies within the Group, and for the strategic expansion of the Group into the target markets in the region. Several steps with respect to consolidating the Group companies were made during 2011. Following the takeover bid for Zavarovalnica Maribor, the Bank increased its shareholding in this company to 51.0%. Further, our subsidiary company, KBM Infond, took over the assets and management of mutual funds of Krekova družba d.o.o. in October 2011 and Probanka DZU d.o.o. in February 2012. Also, Nova KBM injected additional capital in several Group companies: KBM Infond, Credi banka, and the leasing companies.

At the 2011 regular Annual Meeting of Shareholders, some changes were made in the composition of the Bank's Supervisory Board. Despite the changes, the cooperation between the Management and the Supervisory Board continues to run smoothly and professionally. In December 2011, the Supervisory Board of Nova KBM passed a decision to mutually terminate the term of office of Matjaž Kovačič, President of the Management Board, and appointed Andrej Plos as the new President.

{ THE YEAR 2012 }

The year 2012 is expected to be very demanding in economic terms. In its spring economic forecast, the Institute of Macroeconomic Analysis and Development predicted stagnation of domestic consumption and negative economic growth. The probability is increasing that Slovenia's main export markets will face a shrinkage of activities at the beginning of 2012. As a result of weak overseas demand, the growth in industrial production is slowing down. In addition, conditions in the construction industry remain difficult and the income generated by most trade segments is falling. If these trends continue to dominate, we cannot expect the situation in the labour market to see any improvement. Unfavourable economic developments, adverse

conditions in the financial markets and high borrowing costs will probably continue to drive the business throughout 2012. As for the banking sector, we anticipate weak results to be reported again in 2012 since the banks will need to further impair their assets. In addition, a number of banks will look for fresh capital injections. Healthy balance sheets, supported by strong capital positions, will be crucial to enable the banks to help boost the economy going forward.

In spite of unfavourable economic projections, we believe that, in business terms, 2012 will be a better year than 2011. Based on our strategic guidelines and the knowledge we have about the market conditions, we project the 2012 pre-tax profit of the Group from continuing operations to be €8.0 million, while the net profit will be €7.8 million. Net interest income will account for about 62% of the total income of the Group, followed by net fee and commission income which will make up about 30% of the total income. Other income will contribute 8% to the total income of the Group.

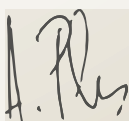
We at the Nova KBM Group are endeavouring to follow the adopted development strategy and to overcome all possible obstacles in our way. The Group possesses all the resources required for further growth and development. The planning of our business policy and financial plan for the year 2012 was based mainly on the data set out in last year's autumn forecasts of the Institute of Macroeconomic Analysis and Development. The management forecast that the projected total assets of the Group will amount to €5,768.3 million at the 2012 year-end, which is approximately 1.2% below the 2011 year-end level.

{ CONCLUSION }

We wish to express our sincere gratitude to all our colleagues who have, through their work and commitment, helped the Group overcome all hindrances in the business environment. Considering its long-term tradition of delivering good results, we are confident the Nova KBM Group will deal successfully with any new challenges, notwithstanding that 2011 was a tough year for our operations. The Nova KBM Group remains a stable and well-capitalised institution with strong liquidity. We will continue implementing our strategy, which is focused on risk management discipline, diversification of income, and the improvement of operational efficiency. Dear shareholders, we would like to thank you for contributing to making the Nova KBM Group a well-respected business partner for our and the global economy.

MANAGEMENT BOARD OF NOVA KBM d.d.


MANJA ŠKERNIŠAK
Member


ANDREJ PLOS
President

3 REPORT OF THE SUPERVISORY BOARD

Introduction

The Supervisory Board of the Bank pursued its activities during 2011 in two different formations. In the first half of the year, the Supervisory Board was composed of the following members: Danilo Toplek, Chairman, Franc Škufca, Deputy Chairman, and members Andrej Svetina, Dušan Jovanovič, Anton Guzej, Ivan Vizjak, Janez Košak, Alenka Bratušek and Aleš Krisper.

On 22 July 2011, the Shareholders' Meeting recalled the following three Supervisory Board members: Danilo Toplek, Alenka Bratušek and Ivan Vizjak, and appointed instead Vida Lebar, Ivan Simič and Darjan Petrič (all three for a full term of office).

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

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

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

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

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

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

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

In accordance with the Corporate Governance Code for Public Limited Companies, all members of the Supervisory Board have signed a statement declaring that they meet the criteria of independence, that they are



professionally qualified to act on the Supervisory Board, and that they have sufficient experience and skills to perform such work.

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

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

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

The Supervisory Board believes that its members carried out their work with great responsibility and commitment. In 2011, some members of the Supervisory Board attended the supervisory board members' training programmes organised by the Slovene Directors' Association and the Bank Association of Slovenia.

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

Based on a self-assessment of the Supervisory Board and its committees carried out in 2011, it was established that, as regards the preparation for the meetings, their participation in and activity at the meetings, and their contribution to formulating individual decisions reached, the Supervisory Board members effectively, actively and successfully performed their supervising function during 2011. In so doing, they contributed to the efficient corporate governance of the Bank and the Group, as well as to the protection of the Bank's shareholders' and creditors' interests.

Compared to 2010, the Supervisory Board noticed some deterioration in its performance in 2011, mainly due to external factors such as the impact of the economic crisis. In addition, amendments made to the legislation governing the management of capital investments, which set out new principles, guidelines and standards, as well as a new regulatory framework for a more efficient corporate governance, had an impact on the work of the Supervisory Board. The Supervisory Board believes that some of these changes adversely affected its performance.

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

During 2011 the Supervisory Board (in both formations) met at 14 regular and five correspondence meetings. The most important issues discussed at the Supervisory Board meetings in 2011 were connected with the Bank's current operations that had been impacted by the changed market conditions as a result of the financial and economic crisis. The Supervisory Board monitored the implementation of the 2011 Business Policy and Financial Plan of Nova KBM and the Nova KBM Group. It was given the reports prepared by the Bank's Management Board on the exposure to customers with financial difficulties, and the reports on changes in the quality of portfolios of leasing companies and banks in the Group. It was also informed of the measures and activities undertaken by the Bank's Management Board with the aim of reducing the Bank's exposure.

Furthermore, the Supervisory Board was given reports prepared by the Bank's Management Board on the method and progress of the capital raising by Nova KBM. In January 2012 it gave consent to the 2012 Business Policy and Financial Plan of Nova KBM, while in February 2012 it was informed of the 2012 Business Policy and Financial Plan of the Nova KBM Group. In addition to these key issues, the Supervisory Board deliberated on and approved the 2010 Annual Report of the Bank and the Group, as well as other materials which the Supervisory Board submitted for approval to the Shareholders' Meeting. It discussed other important affairs as well.

The Supervisory Board dealt with the following key affairs and issues in 2011:

- At the beginning of the year, it reviewed the unaudited 2010 report on operations of the Bank and the Group.
- Within the scope of following the operations of the Bank, it regularly discussed quarterly reports on the Bank's and the Group's performance and quarterly internal audit reports.
- It discussed and approved the 2010 Annual Report of Nova KBM and the Nova KBM Group.
- It discussed the materials for the 20th Shareholders' Meeting, and proposed to the Shareholders' Meeting to reach decisions on the appropriation of the profit available for distribution; on granting the discharge to the Management and the Supervisory Board; on nominating the auditor; and on amendments to the Bank's Articles of Association. Furthermore, the Shareholders' Meeting was informed of the remuneration provided to members of management and supervisory bodies in 2010, and proposed to the Shareholders' Meeting to reach a decision with respect to basic remuneration, attendance fees and other benefits payable to, as well as the reimbursement of costs incurred by, members of the Supervisory Board and Supervisory Board committees.
- It reached a decision on remuneration of, and reimbursement of costs incurred by, members of the Supervisory Board standing committees and bodies.
- It consented to the Management Board's proposal for setting up a system of internal controls in the Bank. It regularly followed and assessed the strategies and policies of risk acceptance and management, and of the risk management system and capital adequacy.
- For the Shareholders' Meeting, it formulated a proposal for nominating the auditor for 2011.
- It agreed to the capital injection into Credi banka.
- It consented to the Management Board's proposal for the capital injection into Zavarovalnica Maribor, and agreed to the decision of the Management Board on the increase in Nova KBM's shareholding in Zavarovalnica Maribor to above 50%, and on the take-over of Zavarovalnica Maribor.
- It agreed to the capital injection into KBM Infond DZU d.o.o. by Nova KBM.
- It agreed to the capital injection into KBM Leasing, KBM Leasing Hrvatska and PBS.
- It gave its consent to the determination of the final share price and the total number of shares issued in the capital raising by Nova KBM.

- It gave its consent to the Management Board regarding the allocation of shares following the public offering of new shares, regarding the increase in the Bank's share capital, and regarding amendments to the Bank's Articles of Association.
- In December 2011, it agreed to the early termination of the term of office of Matjaž Kovačič, President of Nova KBM's Management Board, with effect from 31 December 2011.
- In December 2011, it agreed to the early termination of the term of office of Manja Skernišak, member of Nova KBM's Management Board. Her term of office and her employment at the Bank will end on the day that newly appointed Management Board members obtain a licence from the Bank of Slovenia confirming them as members of the Bank's Management Board.
- Also in December 2011, it elected Andrej Plos as the President of Nova KBM's Management Board, with his term of office from 1 January 2012 to 1 December 2014.
- On 27 January 2012, the Supervisory Board was informed of the resignation of Ivan Simič as one of its members.
- On 17 February 2012, it accepted the resignation of Andrej Plos, President of the Bank's Management Board. Mr. Plos will continue to hold this office until a new president is appointed.
- On 9 March 2012, the Supervisory Board appointed Aleš Hauc as the President of the Bank's Management Board. Aleš Hauc will start his five-year term of office after being granted a licence by the Bank of Slovenia.

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

- A report on the Bank's exposure to the largest borrowers, including collateral provided.
- It gave its consent to the upper limit of long-term borrowings of the Bank in 2011.
- It gave its consent to the annual plan of work of the Internal Audit Centre for 2011.
- It was informed of the Report on Internal Audit for 2010.
- It adopted the Corporate Governance Statement for 2010.
- It adopted the Rules of Procedure of the Remuneration and Nomination Committee, by the adoption of which the Personnel Committee was transformed into the Remuneration and Nomination Committee. It also appointed Ivan Simič, a Supervisory Board member, as a member of the Remuneration and Nomination Committee.
- It was informed of the letters of the Bank of Slovenia to the Management and the Supervisory Board, and of the decisions, resolutions and recommendations of the Bank of Slovenia and the explanations of the Management Board in respect of these documents.
- It was informed of the letters and recommendations of the Capital Assets Management Agency of the Republic of Slovenia to the Management and the Supervisory Board.
- It was informed of the public auction of brand names owned by the company Delo Revije d.d.
- It requested the Internal Audit Centre to carry out an extraordinary audit review of transactions involving brand names of Delo Revije d.d., and of transactions in shares of electric companies.
- It took note of the report by the Internal Audit Centre on transactions related to the group of companies owned by Matej Raščan, and of transactions concluded by electric companies.

- It was informed of the extraordinary audit review of the Bank and the Group carried out by the Bank of Slovenia on the request of the Capital Assets Management Agency of the Republic of Slovenia.
- It gave its consent to the proposal of the Audit Committee with regard to the appointment of Deloitte Revizija d.o.o. of Ljubljana to carry out the agreed procedures for assessing the economy, efficiency and cost-effectiveness of the purchasing and financing brand names owned by Delo Revije d.d.
- In January 2012, it was informed of the report drafted by Deloitte Revizija d.o.o. regarding the actual findings of the agreed procedures carried out in connection with the purchasing, financing and leasing of brand names owned by Delo Revije d.d.
- It set up the Strategy Committee of Nova KBM and appointed Aleš Krisper as the President, and Dušan Jovanovič and Darjan Petrič as members of this Committee.
- It agreed to the purchase by Nova KBM of real estate owned by KBM Projekt, and gave its consent to the liquidation of KBM Projekt.
- It was informed of the rehabilitation programmes of the Group leasing companies.
- It took note of the reports drafted by individual Supervisory Board committees.
- At its regular and correspondence meetings, the Supervisory Board gave its consent to the Bank's exposure to individual customers pursuant to the Banking Act, and approval to the exposure of the Bank to persons having a special relation with the Bank.
- It appointed Jože Glazer as a new member of the Supervisory Board Appointment Board to replace Borut Bratina, who had resigned from his position.

Based on the aforementioned, and Articles 272 and 281 of the Companies Act, the Supervisory Board asserts and establishes that it regularly and thoroughly monitored the operations of the Bank and the Group in 2011 within its competencies, thus adequately supervising the management and operations of the Bank and the Nova KBM Group and the work of the Internal Audit Centre.

Supervisory Board committees

The following committees carried out their work during 2011 in accordance with the Companies Act (ZGD-1) and the Banking Act (ZBan-1): the Audit Committee, the Personnel Committee, the Remuneration and Nomination Committee, and the Appointment Board. The Personnel Committee carried out its work until 13 September 2011, when the Supervisory Board, in accordance with the amended Banking Act (ZBan-1) and the Resolution on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, passed a decision to appoint a single Remuneration and Nomination Committee. The Personnel Committee was dissolved on the day the Remuneration and Nomination Committee was formed.

Supervisory Board committees performed their work in accordance with the respective programme of work or in accordance with decisions and duties adopted by the Supervisory Board. Supervisory Board committees provided support to the Supervisory Board in controlling the management of the Bank and Group companies. Committees carried out their work in accordance with law, and the Bank's Articles of Association and Rules of Procedure which set out the areas and the method of work of individual committees. Committees are

composed of Supervisory Board members and one or more external experts who have extensive knowledge of the area for which a particular committee is responsible.

Review and approval of the Annual Report and taking note of the proposal of the Bank's Management Board with regard to covering the 2011 loss

The Management Board submitted to the Supervisory Board the audited 2011 Annual Report of Nova KBM and the Nova KBM Group, together with the auditor's report, within the legal deadline. It also submitted the annual report on the internal audit for the year 2011.

The Supervisory Board deliberated on the audited 2011 Annual Report of Nova KBM and the Nova KBM Group. It established that both annual reports gave a complete overview of the Bank's and the Group's operations in 2011. The Supervisory Board was also informed of the opinions of the certified auditor Ernst & Young d.o.o. As stated in these opinions, the financial statements of the Bank and the consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2011, and their financial performance and their cash flows for the year ended 31 December 2011 in accordance with International Financial Reporting Standards as endorsed by the EU, and in accordance with the requirements of the Companies Act relating to the drafting of the financial statements. The external auditor is of the opinion that the business part of the annual report is also in compliance with the audited financial statements.

The Supervisory Board also took note of the Bank's Management Board's proposal with regard to the amount and the covering of the 2011 loss. It was informed that the 2011 loss of Nova KBM, in the amount of €83,716,623.69, would not be covered, but would be, in its full amount, transferred to retained earnings or losses of the Bank.

Maribor, 17 April 2012

SUPERVISORY BOARD OF NOVA KBM d.d.



DUŠAN JOVANOVIČ, Chairman

4 PROFILE OF THE NOVA KBM GROUP AND NOVA KBM d.d.

4.1 IMPORTANT EVENTS DURING 2011

{ January }

- Nova KBM was awarded the prize for 'Best large company', while Matjaž Kovačič, President of the Management Board of Nova KBM, received the 'Best Manager' prize from the magazine Mariborčan.
- KBM Infond d.o.o. (hereafter also referred to as 'KBM Infond') launched its redesigned and upgraded website.
- Moja naložba d.d. (hereafter also referred to as 'Moja naložba') started offering a new product called 'Moja renta' (*My annuity*).
- Borut Celcer was given a licence to hold the office of a member of the Management Board of Zavarovalnica Maribor d.d. (hereafter also referred to as 'Zavarovalnica Maribor').

{ February }

- Nova KBM started offering its product 'Kredit takoj' (*Instant loan*) through more than 500 post offices across Slovenia.

{ March }

- Poštna banka Slovenije d.d. (hereafter also referred to as 'PBS') and Nova KBM intensified their cooperation in the area of payment services by transferring the SWIFT connection of PBS to Nova KBM.
- Zavarovalnica Maribor opened new business premises in Nova Gorica.
- Zavarovalnica Maribor started offering a new life insurance product, 'ZM Prizma Hibrid'.
- Based on the data as of 28 February 2011, the Infond BRIC fund was for the third time awarded the full five stars for superb management by the Morningstar agency.

{ April }

- Nova KBM successfully completed the raising of capital by offering new shares to the public. The Bank raised €104,327,912 of additional capital and allocated 13,040,989 new shares to the investors.
- Representatives of Nova KBM participated in the investors' conference in Zürs and in the Slovene Capital Market Days in Ljubljana.
- The Bank presented its products and services at the international conference PODIM.
- Representatives of Nova KBM participated in the Investment Forum 2011 in London, which was organised by the European Bank of Reconstruction and Development (EBRD).

{ May }

- Nova KBM was the first Slovene company whose shares started trading simultaneously on the local and a foreign stock exchange, namely the Warsaw Stock Exchange. After the successful capital raising, Nova KBM remained the company with the largest number of shareholders of any Slovene company. Following

the registration of the share capital increase in the court register, the total number of Bank shares increased to 39,122,968.

- Fitch Ratings downgraded Nova KBM from A-/F2 to BBB+/F2.
- Representatives of Nova KBM participated in the 1st CEE IPO SUMMIT in Warsaw.
- Representatives of Nova KBM participated in the investors' conference in Stockholm.
- Together with several other partners, Zavarovalnica Maribor founded the Network for Corporate Social Responsibility Slovenia.
- PBS started carrying out documentary operations in cooperation with Nova KBM.

{ June }

- Nova KBM was one of the first institutions to join the new Slovenia-wide system for the interbank exchange of E-invoices.
- On 8 June 2011, Moody's Investors Service downgraded Nova KBM from Baa1/P-2/D to Baa3/P-3/D-. The outlook was set at 'negative'.
- The running of KBM Leasing was taken over by Igor Šujica, previously manager of KBM Fineko d.o.o. (hereafter also referred to as 'KBM Fineko').
- The running of KBM Fineko was taken over by Zdravka Kašan, previously deputy manager of the company.

{ July }

- The Shareholders' Meeting of Nova KBM recalled the following three Supervisory Board members: Danilo Toplek, Ivan Vizjak and Alenka Bratušek, and appointed instead Darjan Petrič, Ivan Simič and Vida Lebar as new Supervisory Board members.
- Zavarovalnica Maribor increased its capital by €12.8 million, thus satisfying the request of the Insurance Supervision Agency. The increase in share capital was entered into the court register on 1 July 2011.
- Nova KBM participated in the capital raising by Zavarovalnica Maribor and increased its shareholding in this company. Nova KBM was granted a permit by the Securities Market Agency to take over Zavarovalnica Maribor.
- Nova KBM injected additional capital of €5 million into Credy banka a.d. (hereafter also referred to as 'Credy banka'), thereby increasing its shareholding from 72.38% to 76.64%.
- Nova KBM successfully passed the EU-wide recapitalisation exercise, conducted by the European Banking Authority (EBA).
- The running of KBM Invest d.o.o. (hereafter also referred to as 'KBM Invest') for a five-year period was taken over by Srečko Judar, previously the manager of general services at Nova KBM and responsible for investments and suppliers (excluding IT equipment).
- KBM Infond started marketing the new equity sub-fund Infond Frontier. The mutual funds Infond Global and Infond Dynamic, which had been traded until then, started operating as unquoted mutual funds, while the balanced mutual fund Infond Global started operating as a flexible investment fund.

{ August }

- Supervisors of Nova KBM nominated Dušan Jovanovič as the new Chairman of the Supervisory Board.
- Nova KBM launched a new service at ATMs, the 'mini statement'.

{ September }

- Nova KBM started providing certain banking services at its branch offices to customers of PBS, such as facilities to check the balance in their personal accounts, and to make deposits or withdraw funds from their accounts.
- Fitch Ratings downgraded the long-term and short-term ratings of Nova KBM from BBB+ to BBB and from F2 to F3, respectively. The outlook was set at 'stable'.
- With the aim of further consolidating its market position, Nova KBM launched a large marketing campaign under the slogan 'Pripravljeni na jutri' (*Ready for tomorrow*), the purpose of which was to improve the financial condition of Slovene citizens.
- The Bank launched a new marketing campaign for young people, 'Več od lajfa' (*Get more from life*) to support its brand name 'Sveta vladar' (*Ruler of the world*). This was the first 3D campaign carried out in Slovenia.
- Nova KBM opened a new Facebook page 'Sveta vladar' (*Ruler of the world*) adapted to young people.
- Zavarovalnica Maribor launched its redesigned and upgraded website.
- KBM Fineko celebrated its 20th anniversary.

{ October }

- The Bank registered itself on Skype and thereby provided its customers with the option of using this electronic communication channel to contact the Bank every working day until 10:00 p.m.
- KBM Infond took over from Krekova družba d.o.o. the management of its umbrella fund with six sub-funds. In addition, Nova KBM began marketing these funds.
- Lojze Grobelnik, President of the Management Board of Moja naložba, began his new five-year term of office.
- Drago Cotar, President of the Management Board of Zavarovalnica Maribor, was awarded the 'Primus' prize for being the most efficient communicator among managers.
- Zavarovalnica Maribor launched a new non-life insurance product, the photovoltaic insurance.

{ November }

- Nova KBM hosted a meeting with analysts and investors in Ljubljana.
- Representatives of Nova KBM participated in the investors' conference in New York.
- Nova KBM started offering the mobile application 'Varčevalnik' (*Saver*) to its customers, thus enabling them to make deposits via their mobile devices at every step.
- Nova KBM and Abanka Vipava d.d. reached an agreement whereby the customers of Nova KBM can obtain account statements at ATMs of Abanka Vipava d.d., and vice versa.
- Zavarovalnica Maribor was the first institution in Slovenia to launch a web platform to be used by employees for writing an insurance blog.

{ December }

- Nova KBM injected additional capital of €3,000,000 and €1,997,000 into KBM Leasing and KBM Leasing Hrvatska d.o.o. (hereafter also referred to as 'KBM Leasing Hrvatska'), respectively. By injecting capital into KBM Leasing Hrvatska, the shareholding of the Bank increased from 90% to 94.38%.
- Representatives of Nova KBM participated in the investors' conference in Warsaw, which was organised by the ING Group, in the Slovene Capital Market Days in Ljubljana, and in the founding meeting of the IR Club. Nova KBM will take an active part in the work of the latter.
- Nova KBM received the prize for the greatest progress made in communication with investors in the previous year. This prize was awarded jointly by the Ljubljana Stock Exchange and the Central Securities Clearing Corporation. For executing the capital increase and the parallel listing of its shares on the Warsaw Stock Exchange since May 2011, the Bank also received the 'Smeli borzni koraki' (*Daring stock exchange steps*) prize from the Pan-Slovenian Shareholders' Association.
- Moody's Investors Service downgraded the rating of Nova KBM from Baa3/P-3/D- to Ba1/Non-Prime/D-. The outlook was set at 'negative'. Nova KBM's rating downgrade was the result of a downgrade of Slovenia's sovereign rating to A1 with a negative outlook.
- The Supervisory Board of Nova KBM passed a decision to mutually terminate the term of office of Matjaž Kovačič, President of the Management Board.
- KBM Infond obtained consent for taking over the management of the Probanka Umbrella Fund and Probanka Global Investment Fund.
- The new Mercator shopping centre, one of largest of its kind in Maribor, was financed and put into operation by KBM Leasing.

4.2 MILESTONES IN THE HISTORY OF THE GROUP AND THE BANK**{ 1862 }**

- Mestna hranilnica Maribor begins its operations.

{ 1948 }

- Mestna hranilnica Maribor is dissolved.

{ 1952 }

- Renewed establishment of Mestna hranilnica Maribor with its registered office in Maribor.

{ 1955 }

- Komunalna banka Maribor is established – the name is changed to Okrajna Banka in the same year.

{ 1962 }

- Merger of Mestna hranilnica Maribor and Okrajna Banka.

{ 1965 }

- The name of Mestna hranilnica Maribor and Okrajna Banka is changed to Kreditna Banka Maribor – the bank begins undertaking commercial and credit services.

{ 1971 }

- Kreditna banka Ptuj is acquired by Kreditna banka Maribor.

{ 1972 }

- The Bank is granted full authorisation for carrying out international banking transactions.

{ 1978 }

- Merger with 22 other banks to create Ljubljanska banka – Združena banka.

{ 1990 }

- Kreditna banka Maribor becomes a joint-stock company.

{ 1991 }

- Start of formation of the Nova KBM Group.
- KBM purchases a 10% shareholding in Zavarovalnica Maribor.
- KBM Fineko is established.

{ 1993 }

- KBM severs its links with Ljubljanska banka – Združena banka. Start of the Bank's rehabilitation.
- Mariborska borznoposredniška hiša d.o.o. (MBH d.o.o.) and KBM Infond are established.

{ 1994 }

- The name of the Bank is changed to Nova KBM.
- Nova KBM opens a branch in Ljubljana.
- KBM Leasing is established.

{ 1995 }

- Komercialna banka Nova Gorica d.d. is merged with Nova KBM.

{ 1996 }

- Nova KBM is the first bank in Slovenia to obtain an internationally recognised certificate of quality ISO 9001 for its retail banking operations.
- Nova KBM is the first Slovene bank to set up a website.
- Shareholding in Zavarovalnica Maribor is increased to 25%.

{ 1997 }

- KBM Leasing d.d. (hereafter also referred to as 'KBM Leasing') is restructured to become a limited liability company (d.o.o.).
- Nova KBM successfully ends the rehabilitation process.
- Nova KBM purchases from Hipotekarna banka Brežice d.d. the entire commercial business and opens the Brežice Branch with offices in Krško and Brežice, and an office in Koper, operating under the Ljubljana Branch.
- Nova KBM opens a branch in Dravograd – Koroška Branch.

{ 1998 }

- Nova KBM and KBM Fineko jointly establish KBM Invest.
- All shares of Nova KBM (ticker symbol: KBMR) are entered into the central registry of the Central Securities Clearing Corporation – the Republic of Slovenia is a 100% owner of shares.

- Nova KBM provides online banking Bank@Net to retail customers.
- Gorica Leasing d.o.o. (hereafter also referred to as 'Gorica Leasing') is established.

{ 1999 }

- Start of renewal of the information system in Nova KBM – the NOBIS project.

{ 2000 }

- The Republic of Slovenia transfers 5% of KBMR shares to each Kapitalska družba d.d. and Slovenska odškodninska družba d.d. and retains a 90% shareholding in Nova KBM.
- The rating agency Moody's Investors Service assigns for the first time a rating to Nova KBM.
- Nova KBM introduces online banking for corporate customers – Poslovni Bank@Net.
- Nova KBM increases its shareholding in Zavarovalnica Maribor to 49.96%. The pension company Moja naložba is established – Nova KBM acquires a shareholding of 45% in the company.

{ 2001 }

- Nova KBM takes over the entire commercial business (assets and liabilities) from the savings-credit institutions Goriška brda, Žiri and Dobrovo, and purchases a controlling stake in LLT Murska Sobota d.d.
- Nova KBM acquires a 25.04% shareholding in Adria Bank AG (hereafter also referred to as 'Adria Bank').

{ 2002 }

- Nova KBM injects additional capital into Zavarovalnica Maribor.

{ 2003 }

- The new NOBIS information system starts running.
- Nova KBM injects additional capital into Moja naložba.

{ 2004 }

- The Republic of Slovenia transfers its 55% shareholding in PBS to Nova KBM which thus becomes a majority owner of PBS, now a subsidiary bank in the Nova KBM Group.
- Together with Mobitel d.d., a mobile network operator, Nova KBM establishes the company M-Pay d.o.o. (hereafter also referred to as 'M-Pay').
- Nova KBM injects additional capital into Moja naložba.

{ 2005 }

- Integration into TARGET – a pan-European interbank payment system.
- Mariborska borznoposredniška hiša d.o.o. (MBH d.o.o.) is integrated into Nova KBM.
- Nova KBM opens a state-of-the-art information centre in Tezno near Maribor.
- The company Multiconsult d.o.o.⁴ starts its operations.
- Nova KBM injects additional capital into Moja naložba.

{ 2006 }

- Nova KBM and Pošta Slovenije d.o.o. inject additional capital into PBS.

⁴ Multiconsult d.o.o. changed its name to KBM Projekt d.o.o. (hereafter also referred to as 'KBM Projekt') in 2010.

- Transition to International Financial Reporting Standards.
- The company Multiconsult Leasing d.o.o.⁵ starts its operations.

{ 2007 }

- A hybrid deposit of €6 million is given to PBS by its owners. The Shareholders' Meeting of PBS passes a decision on the increase in share capital through the 7th issue of shares. The first part of the issue was purchased by the existing shareholders Nova KBM and Pošta Slovenije d.o.o.
- Nova KBM becomes a 100% owner of KBM Invest.
- The introduction of the euro in Slovenia.
- The first part of the privatisation of Nova KBM is carried out – the initial public offering of shares to retail investors and well-informed institutional investors.
- Trading in Nova KBM shares commences. Nova KBM becomes the first bank in Slovenia whose shares are quoted on the regulated stock market.
- Nova KBM injects additional capital into Adria Bank, thus increasing its shareholding to 50.54%.
- Nova KBM injects additional capital into Gorica Leasing.

{ 2008 }

- Nova KBM and Pošta Slovenije d.o.o. purchase the remaining shares of the 7th issue of shares of PBS.
- Introduction of new capital standards – Basel II.
- Setting up of the single euro payments area – SEPA.
- A local credit rating system, SISBON, begins operations.
- Nova KBM injects additional capital into Moja naložba.
- Nova KBM, along with other partners, injects additional capital into Multiconsult d.o.o. – the Bank acquires a 69.19% shareholding.

{ 2009 }

- As a part of the Nova KBM Group restructuring, the company KBM Leasing becomes a leading company within the Group's leasing division.
- Nova KBM injects additional capital into KBM Leasing, Gorica Leasing, Multiconsult Leasing d.o.o., KBM Invest and Zavarovalnica Maribor.
- Nova KBM acquires a 90% shareholding in Multiconsult Leasing d.o.o. on the basis of the agreement on transferring a business stake from Multiconsult d.o.o. to Nova KBM.
- Nova KBM is granted a certificate of admission of Nova KBM shares to the prime market of the Ljubljana Stock Exchange.

{ 2010 }

- The Management Board of Nova KBM adopts the strategy of Nova KBM and the Nova KBM Group for the period 2010 – 2013.
- Nova KBM becomes the majority shareholder of the Serbian bank Credi banka, which thus becomes the 14th member of the Nova KBM Group.

⁵ Multiconsult Leasing d.o.o. changed its name to KBM Leasing Hrvatska d.o.o. in 2010.

- The Supervisory Board of Nova KBM gives consent to the Management Board to prepare the documentation and procedures for the increase in capital of Nova KBM.

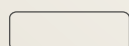
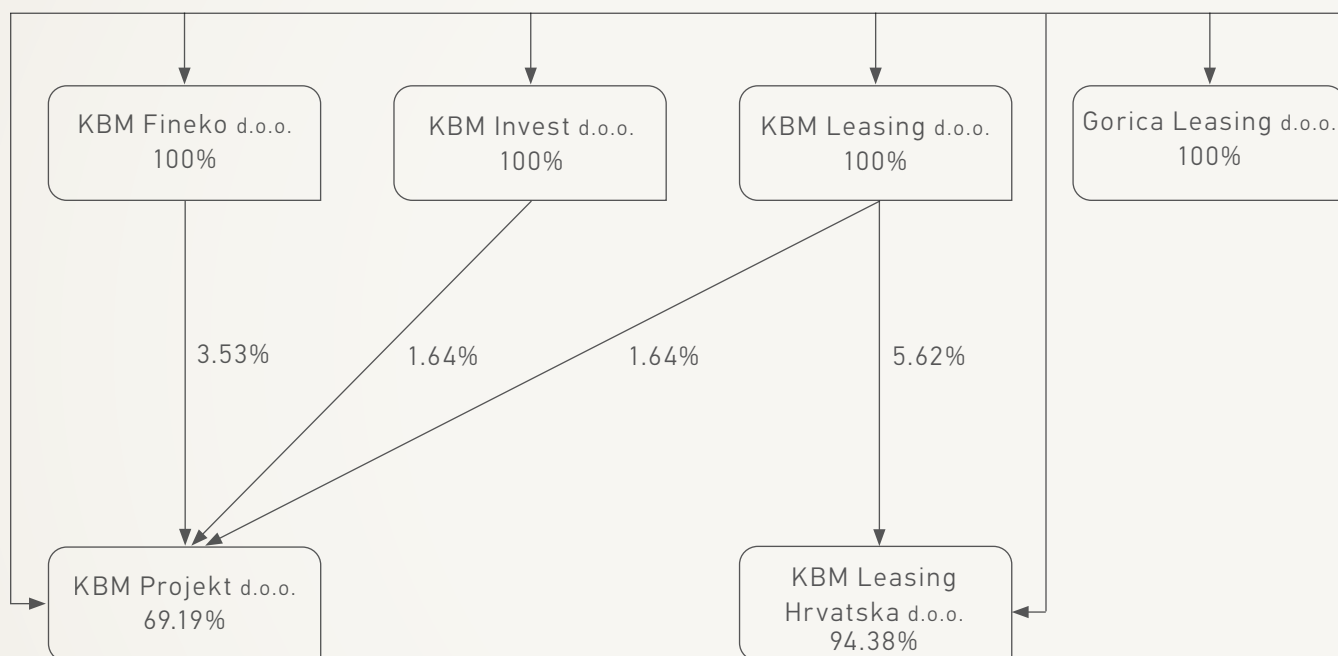
{ 2011 }

- Nova KBM successfully raises capital by offering its shares to the public.
- Nova KBM is the first Slovene company whose shares start trading simultaneously on the Ljubljana Stock Exchange and the Warsaw Stock Exchange. Following the successful capital raising, Nova KBM remains the company with the largest number of shareholders of any Slovene company.
- Nova KBM increases its shareholding in Zavarovalnica Maribor from 49.96% to 51.00%.
- Nova KBM injects additional capital into KBM Leasing, KBM Leasing Hrvatska and Credy banka.
- KBM Infond takes over from Krekova družba d.o.o. the management of its umbrella fund with six sub-funds.
- KBM Infond obtains consent for taking over the management of the Probanka Umbrella Fund and the Probanka Global Investment Fund.

4.3 GOVERNANCE OF THE GROUP AND THE BANK

4.3.1 ORGANISATIONAL STRUCTURE OF THE GROUP

NOVA K

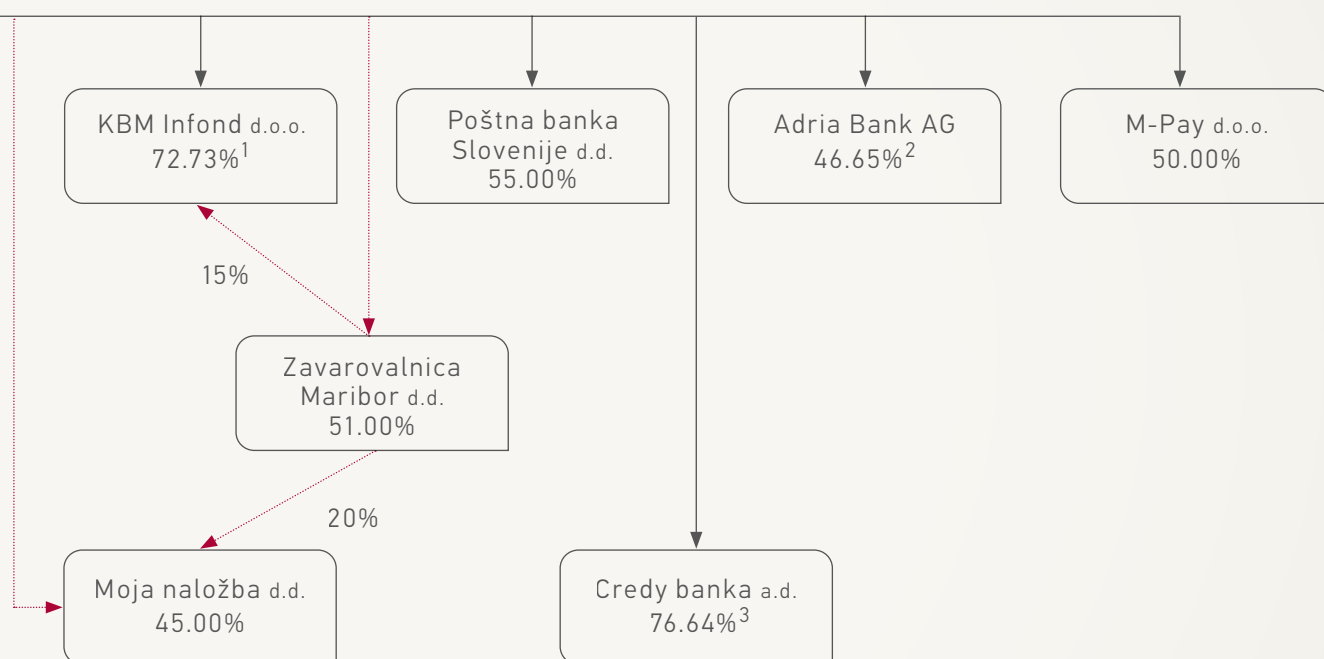


Direct shareholding of the Bank in an entity.

Direct shareholding of a subsidiary in an entity.

Direct shareholding of an associated company in an entity.

KBM d.d.



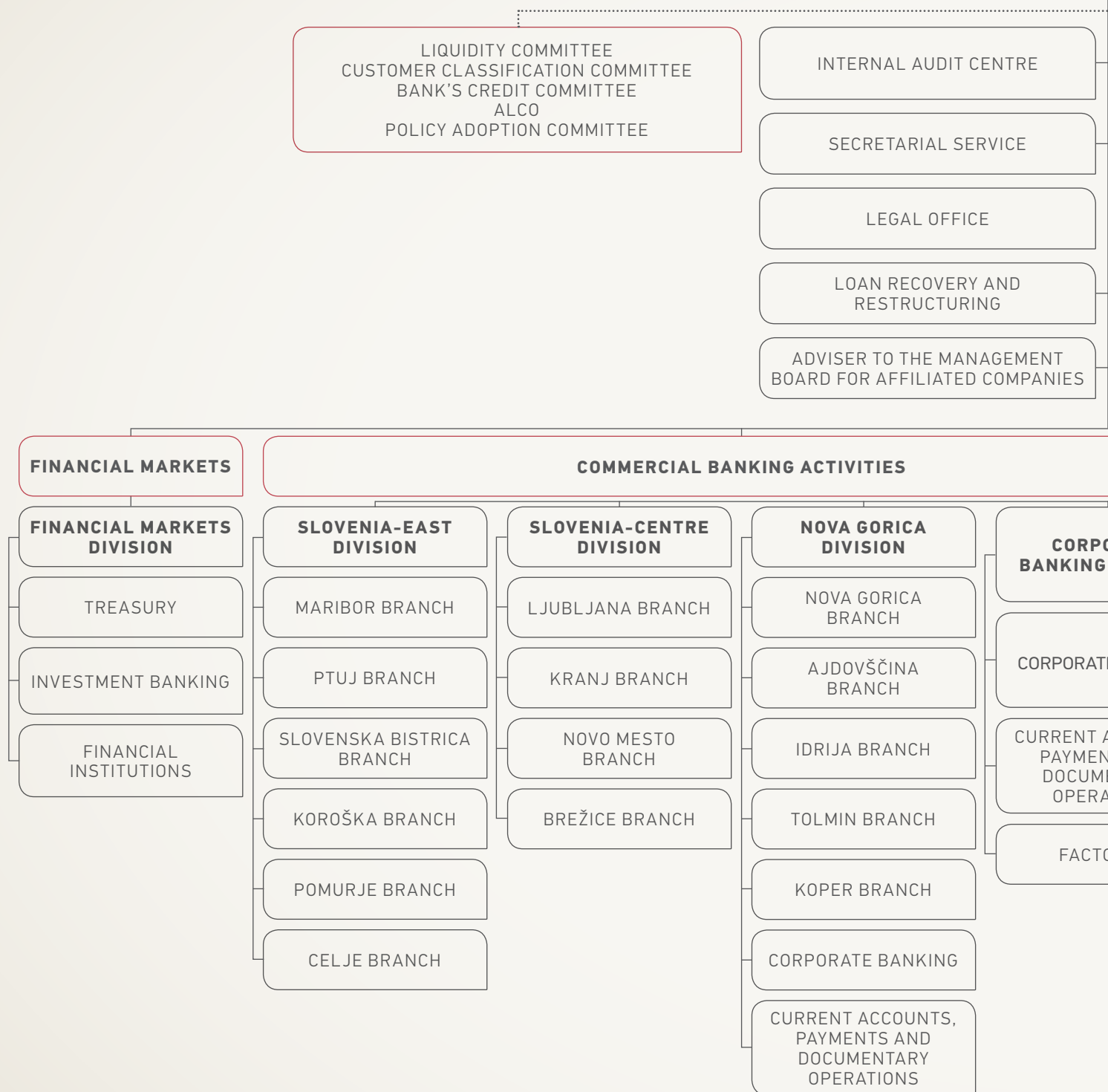
NOTES:

- 1 The shareholding of the Group in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain percentage of its own shares, the Group's share in the capital and voting rights of KBM Infond equals 72.73%.
- 2 The Group's share in voting rights and share capital of Adria Bank accounts for 50.54%, while its share in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.
- 3 The shareholders' agreement entered into between the Bank and the Republic of Serbia includes a provision under which a 12.89% stake of the Republic of Serbia in Credy banka is subject to a call option available to the Bank and a put option available to the Republic of Serbia. Following the exercise of the option, which is disclosed in other liabilities and the price of which is set at € 5,636,000, the shareholding of the Bank in Credy banka will increase to 89.53%, while the shareholding of the Republic of Serbia will fall to 0%.

4.3.2 ORGANISATIONAL STRUCTURE OF THE BANK

NOVA K

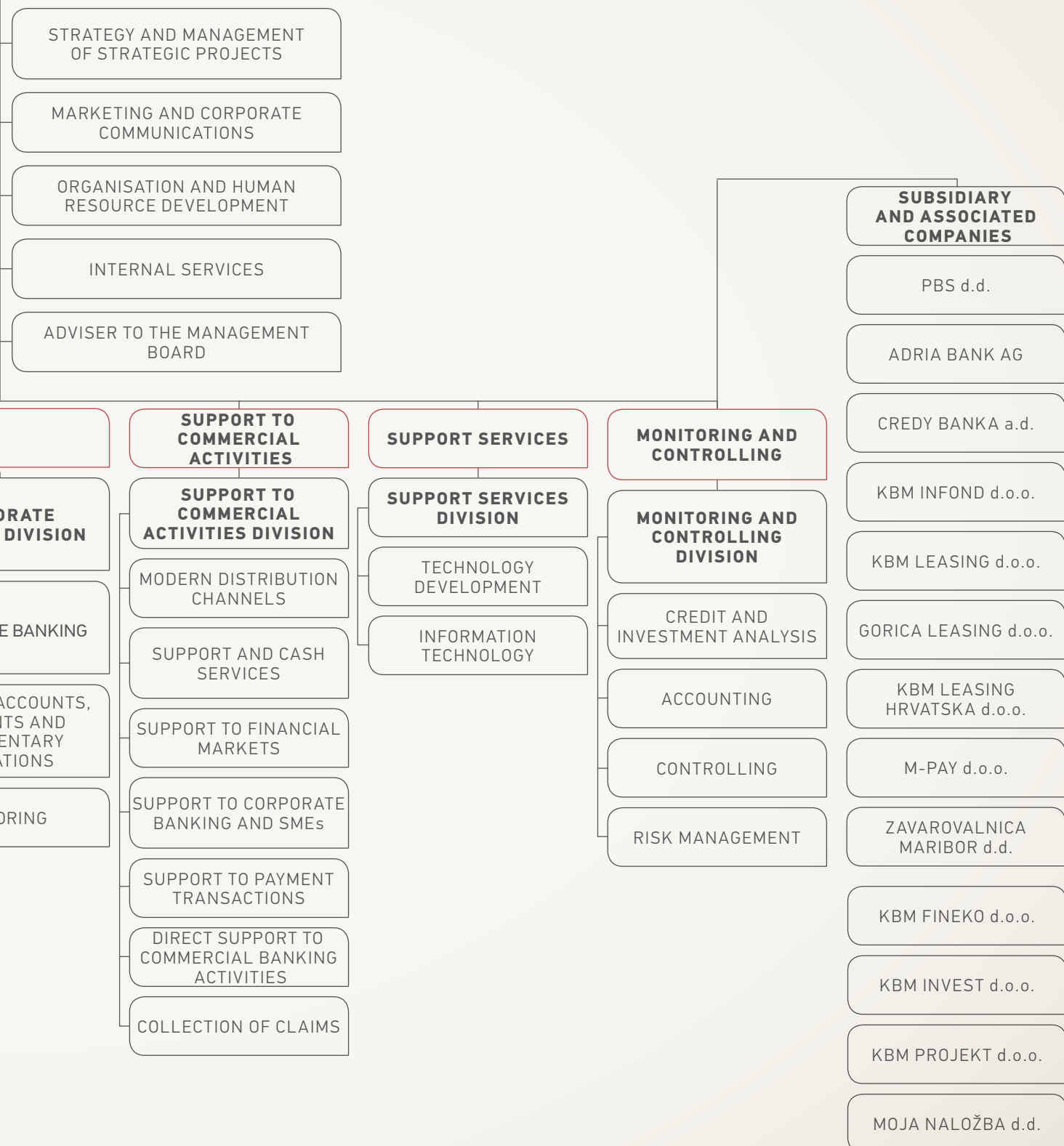
MANAGEMENT



KBM d.d.

NOVA KBM GROUP

BOARD



4.4.3 GOVERNING BODIES OF THE BANK

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

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

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

Nova KBM followed the recommendation of the Code and formulated in 2010 the Corporate Governance Policy of Nova KBM. In line with the recommendations of the Code, this policy stipulates the principal directions in governing the Bank, taking into consideration the Bank's long-term objectives, its values, and its responsibility toward the broader social environment, which should increase the standards or transparency of members of management and supervisory bodies as well as of other stakeholders (employees) in conducting the regular operations of the Bank.

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

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

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

Management Board of Nova KBM

As of 31 December 2011, the Management Board of Nova KBM had three members.

Matjaž Kovačič has been the President of the Management Board since May 2005, and a Board member since 1997. On 23 December 2009, the Supervisory Board of Nova KBM re-elected Matjaž Kovačič as the President of the Management Board for another five-year term of office, starting on 22 May 2010. On 7 December 2011, the Supervisory Board of Nova KBM resolved to recall Matjaž Kovačič from the position of the President of Nova KBM's Management Board with effect from 31 December 2011. At the end of 2011, he was the Chairman of the Supervisory Board of Zavarovalnica Maribor and Adria Bank, and a Supervisory Board member of Mercator d.d. and the Bank Association of Slovenia. He was also the President of the Board of Directors of Credy banka.

Manja Skernišak has been with Nova KBM since 1985 and was appointed to the Management Board in May 2005. On 24 March 2010, the Supervisory Board re-elected Manja Skernišak as a Management Board member for another five-year term of office, starting on 22 May 2010. On 7 December 2011, the Supervisory Board of Nova KBM resolved to recall Manja Skernišak from the position of a member of Nova KBM's Management Board. Her term of office and her employment at the Bank will end on the day that newly appointed Management Board members obtain a licence from the Bank of Slovenia confirming them as members of the Bank's Management Board. At the end of 2011, she was the Chairwoman of the Supervisory Board of KBM Infond and PBS, and a member of the Supervisory Board of Zavarovalnica Maribor.

Andrej Plos was appointed as a Management Board member on 21 October 2009, with his term of office starting on 1 December 2009. On 7 December 2011, the Supervisory Board of Nova KBM nominated Andrej Plos as the President of Nova KBM's Management Board, with his term of office from 1 January 2012 to 1 December 2014. At the end of 2011, he was the Chairman of the Supervisory Board of Moja naložba and Gorica Leasing, and a Supervisory Board member of KBM Leasing Hrvatska, Adria Bank and PBS.

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

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

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

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

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

Other committees of Nova KBM

Credit Committee

The Credit Committee is responsible for the management of credit risk and risks of large exposure during operations with legal entities. The members of the Credit Committee at the end of 2011 were: Manja Skernišak (President), Matjaž Kovačič (Deputy President), Simon Hvalec, Slavko Jarc, Irena Lah, Ksenija Mrevlje and Peter Budin. Deputy Members were Vlasta Brečko and Peter Kupljen. The Credit Committee meets once a week.

Liquidity Committee

The Liquidity Committee reviews the provision of short-term liquidity. The members of the Liquidity Committee at the end of 2011 were: Matjaž Kovačič (President), Manja Skernišak (Deputy President), Andrej Plos, Simon Hvalec, Slavko Jarc, Ksenija Mrevlje, Veronika Korošec, Peter Kupljen and Vlasta Brečko. Deputy Members were Sandra Vincekovič, Marjetka Šušterič, Anita Okretič, Valentino Mendek and Peter Budin. The Liquidity Committee meets daily.

Assets and Liabilities Committee (ALCO)

The ALCO reviews balance sheet structure, capital adequacy, interest rate risk, structural liquidity, market risks, currency risk, profitability and the performance of profit centres, financial plans, aggregate credit risks, regulatory requirements, tax aspects of operations and other risks associated with new products and services. The members of the ALCO at the end of 2011 were: Matjaž Kovačič (President), Manja Skernišak (Deputy President), Andrej Plos, Veronika Korošec, Peter Kupljen, Marjetka Šušterič and Tatjana Skaza. The ALCO meets once every month.

Policy Adoption Committee

The Policy Adoption Committee is responsible for: adopting business policies and strategies, reconciling open issues with regard to business policies, methodologies for the calculation of adequate economic capital of the Bank, the risk matrix, assessment matrix and the risk profile, and the assessment of the Bank's economic capital for covering risks for which the Bank does not calculate adequate internal capital. The members of the Policy Adoption Committee at the end of 2011 were: Matjaž Kovačič (President), Manja Skernišak (Deputy

President), Andrej Plos, Simon Hvalec, Ksenija Mrevlje, Aleksander Batič, Slavko Jarc, Vlasta Brečko, Nataša Fesel, Nataša Zihlerl, Marko Tišma, Alenka Erker Lozinšek, Miha Šlamberger, Matjaž Likar, Vesna Rožanc, Boža Korbar, Marjetka Šušterič, Irena Komel and Peter Kupljen.

Classification Committee

The Classification Committee is responsible for the review and approval of changes in the classification of customers. The members of the Classification Committee at the end of 2011 were: Peter Kupljen (President), Marjetka Šušterič (Deputy President), Irena Lah, Slavko Jarc, Ksenija Mrevlje and Irena Komel. Metka Čretnik Zavec was the substitute member for Irena Lah. The Classification Committee meets on a monthly basis.

Supervisory Board

As of 31 December 2011, the Supervisory Board of the Bank consisted of nine members: Dušan Jovanovič, Chairman, Franc Škufca, Deputy Chairman, and members Janez Košak, Anton Guzej, Andrej Svetina, Aleš Krisper, Darjan Petrič, Vida Lebar and Ivan Simič.

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

Dušan Jovanovič has been a Supervisory Board member since July 2009, and was appointed as the Chairman of the Supervisory Board on 26 August 2011. He has a PhD in Law and currently serves as a university teacher at the Faculty of Economics and Business in Maribor. He is a director of the Institute for Economic and Corporate Management (IECG Maribor) and of its subsidiary, IECG Naložbe d.o.o., Maribor. He is also a member of the Board of Directors of Credy banka.

Franc Škufca has been a Supervisory Board member since July 2008, and was appointed as the Chairman of the Supervisory Board on 21 August 2008. Following the decision of the Shareholders' Meeting held on 8 July 2009, he was appointed as the Deputy Chairman of the Supervisory Board on 20 August 2009. He holds an MSc in Business and Organisational Sciences from the Faculty of Economics in Ljubljana. Until 2004, he had held various management positions in government and insurance institutions, most recently as a management board member of Zavarovalnica Triglav d.d.

Andrej Svetina has been a Supervisory Board member since March 2005, and was appointed as the Chairman of the Bank's Supervisory Board in December 2005. He is the Chief Accountant of Iskratel d.d., Kranj. On 8 July 2008, the Shareholders' Meeting re-elected him as a Supervisory Board member for a four-year term of office. The Supervisory Board appointed him as the Deputy Chairman of the Supervisory Board on 21 August 2008. He had held this position until 20 August 2009, after which date he has been acting as a Supervisory Board member of Nova KBM.

Anton Guzej has been a Supervisory Board member since March 2005. On 8 July 2008, the Shareholders' Meeting re-elected him as a Supervisory Board member for another four-year term of office. He holds a BSc in Economics and has gained experience in the banking industry (Krekova banka d.d.) as well as in the area

of trade and media (General Manager of RTV Slovenia). He is currently acting as an adviser to the director of Pošta Slovenije d.o.o.

Janez Košak has been a Supervisory Board member since July 2009. He graduated and received an MSc from the Faculty of Economics in Ljubljana. Until July 2009, he had held various management positions in several corporations and financial institutions. He acted as a Vice-Governor of the Bank of Slovenia between 1991 and 2009.

Aleš Krisper has been a Supervisory Board member since June 2010. Since 2006, he has been working as an independent international adviser, and has participated in various local and international projects in the area of management, informatics, finances, payment services, and regional development. Until 2006, he had held various management positions in government bodies, corporations and other institutions.

Darjan Petrič has been a Supervisory Board member since July 2011. He holds an MSc in Organisational Sciences. Mr. Petrič works as an adviser in the company Strateško in informacijsko svetovanje Darjan Petrič s.p., mainly working with foreign customers interested in business consolidation, cost efficiency and business negotiations, as well as in the area of take-overs. Working at NLB d.d. for a number of years, he has gained experience in the banking industry.

Vida Lebar has been a Supervisory Board member since July 2011. She acts as an independent adviser on accounting, finance and taxes in the company LVN SVETOVANJE d.o.o. Ms. Lebar completed postgraduate studies at the Faculty of Economics and Business in Maribor and gained the qualification of Specialist for Auditing and Business Counselling. She was awarded the qualification of Certified Auditor by the Slovene Audit Institute.

Ivan Simič has been a Supervisory Board member since July 2011. He holds an MSc in Tax Law. Mr. Simič is employed at SIMIČ & PARTNERJI, davčno svetovanje d.o.o., Ljubljana, and at CAYO HOLDINGS LIMITED, Nicosia, Cyprus. He is also a director in the companies Davčno izobraževalni inštitut d.o.o., Ljubljana, CAYO holding d.o.o., Ljubljana, and AZOF nepremičnine d.o.o., Ljubljana. In addition, he is a member of the Chamber of Slovene Tax Advisers, the Slovene Managers' Association and the Fiscal Council of the Republic of Slovenia.

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

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

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

Supervisory Board committees

The following committees carried out their work during 2011 in accordance with the Companies Act (ZGD-1) and the Banking Act (ZBan-1): the Audit Committee, the Personnel Committee, the Remuneration and Nomination Committee, and the Appointment Board. The Personnel Committee carried out its work until 13 September 2011, when the Supervisory Board, in accordance with the amended Banking Act (ZBan-1) and the Resolution on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, passed a decision to appoint a single Remuneration and Nomination Committee. The Personnel Committee was dissolved on the day the Remuneration and Nomination Committee was formed.

Shareholders' Meeting of the Bank

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

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

One Shareholders' Meeting of Nova KBM was held in 2011.

At the Shareholders' Meeting held on 22 July 2011, the Bank's shareholders were informed of the 2010 internal audit report, the Supervisory Board's opinion, the Annual Report of the Nova KBM Group and Nova KBM for the year 2010, and of the auditor's and the Supervisory Board's report on the examination on the Annual Report of the Nova KBM Group and Nova KBM for 2010. On the proposal of the Management and Supervisory Board, the Shareholders' Meeting adopted a resolution on the appropriation of the profit available for distribution. Discharge was given to the Management and Supervisory Board for the year 2010. The shareholders were also informed of remuneration paid to members of the management and supervisory bodies in 2010. Further, the Shareholders' Meeting passed a decision on the amendments to the Nova KBM's Articles of Association, and a decision with respect to basic remuneration, attendance fees and other benefits payable to, as well as the reimbursement of costs incurred by, members of the Supervisory Board and Supervisory Board committees. The Shareholders' Meeting recalled three Supervisory Board members and instead appointed three new members. Ernst & Young d.o.o. of Ljubljana was elected as the auditor for the financial year 2011.

4.3.4 INTERNAL AUDIT CENTRE

The supervisory bodies and management boards of Nova KBM Group companies are aware that the setting up and implementation of a proper risk management system and a system of internal controls is of key importance for secure, effective, economical and successful management of the Nova KBM Group. In accordance with the principles of corporate governance, the Internal Audit Centre (hereafter 'CNR') has organised its work in such a way that the auditing of the Bank is performed separately from the audit reviews in subsidiary companies. CNR is responsible for coordinating the work of all internal auditors in the Group, and for the transfer of good practice. The internal auditors in the Group perform their activities through the Internal Audit Board of the Nova KBM Group. CNR gives assurance to the Bank's Supervisory Board, the Audit Committee and the Management Board of its organisational independence, which was not threatened in any way during 2011. CNR also gives assurance as to the consistency of the Charter of Internal Auditing in the Group, which provides for proper functioning of the internal auditors of Group companies with regard to their mission, the method of their work, their competences and responsibilities, and the area and scope of their work.

Functioning of internal auditors

The internal auditors perform their work with due care and diligence, and in compliance with the professional rules (principles and standards applicable to internal auditing), the Code of Ethics of Internal Auditors, and the Document of Internal Auditing. The internal auditors take account of applicable national legislation as well as of internal operational and organisational rules. CNR reports quarterly and annually to the Bank's Management and Supervisory Board, the Supervisory Board Audit Committee and, occasionally, to external supervisors. Through reports prepared by internal auditors, CNR gives independent and impartial assurances to the Bank's Supervisory and Management Board with respect to the adequacy of the system of internal controls for the management of risks in accomplishing operating objectives and preserving an ethical business environment. The internal audit is an independent and impartial function of the Group that offers advice to management at all levels. It involves carrying out supervisory activities, though this does not release management members

from their responsibility to set up and implement a secure, economical, effective and successful system of internal controls needed for proper risk management.

Implementation of the annual programme of work

The annual plan of internal auditing was prepared based on the Methodology for Planning Internal Auditing on the Basis of Risk Assessment, the Group's business policy, the annual business plan of individual Group companies, and on the basis of annual plan of work of the Group companies' internal auditors. The plan was carried out by 24 internal auditors of the Group.

Accomplishing the objectives of internal auditing

The principal objectives of internal auditors set out in the plan of internal auditing for 2011 were accomplished. The implementation of key findings and recommendations given by internal auditors to the management of Group companies contributed to the reduction of risk to an acceptable level.

The **banking division** includes the following companies: Nova KBM, Poštna banka Slovenije, Credy banka and Adria Bank.

In Nova KBM, audits were carried out of the following: the risk management system, commercial and support services, financial markets, financial reporting, compliance with legislation, the information system, and staff functions. In addition, on the basis of decisions passed by the Bank's Management or Supervisory Board, or on the basis of findings established during regular audit reviews, six extraordinary audit reviews were carried out last year.

As regards liquidity risk management, it was established that there is a proper division between the competences and responsibilities of the Risk Management Department and the Treasury Department. Also, an adequate system of reporting to and informing the Bank's Management Board of the Bank's exposure to liquidity risk has been set up. Liquidity risk management at the Group level is in compliance with the common standards of liquidity risk management, as are the activities related to the measurement of liquidity risk on an individual basis for periods longer than 30 days. The Bank has also defined the liquidity reserve and has adopted measures for preventing and remedying the causes of a lack of liquidity (liquidity management scenarios, crisis plans).

The Bank has set up an adequate system for limiting its exposure to currency risk. With respect to currency risk, the Bank strives to maintain a closed foreign currency position, while in setting limits for currency trading, capital requirements for foreign exchange risk are taken into consideration. Independent monthly monitoring of compliance with limits by individual currencies is provided for. The limits for currency trading may be changed depending on the volatility of exchange rates and the Bank's operational needs. The reporting on compliance with limits is done on a daily and monthly basis, and the Bank has decided measures to be taken if the limits are violated.

An adequate system for managing credit risk has been set up by the Bank, yet some improvements in certain segments will need to be implemented. The Bank has in place basic facilities for collecting debts: a debt collection policy, a warning letter procedure, and a system of reporting on the collection of debts to the senior management. It also manages claims written off in an adequate manner. The efficiency and effectiveness of debt collection may be ensured by optimising the debt collection process and by liquidating collateral provided for claims that have become overdue, and through more efficient monitoring of procedures for debt collection and the realisation of collateral. The monitoring of delinquent customers is provided for, as is the automatic generation of warning letters to legal entities and sole proprietors in respect of their overdue debts.

The organisation of procedures for individual assessment and impairment of financial assets and off-balance sheet commitments is considered to be adequate; however, these procedures need to be organisationally separate from the commercial departments and carried out independently in one organisational unit. Individual impairments of financial assets and off-balance sheet commitments measured at amortised cost are recognised based on the adopted Methodology for Assessing Credit Risk Losses and the Collateral Rules. When calculating individual impairment of financial assets on the basis of cash flow from the liquidation of immoveable or moveable property provided as collateral, the Bank must obtain a timely appraisal of the fair market value of collateral. It must also monitor the value of collateral more closely and carry out statistical revaluations. By setting up a department responsible for monitoring collateral, an improvement was made regarding the control over the value and quality of collateral. This department also ensures that collateral documents are up to date.

In the commercial area of the Bank, audits were carried out of lending operations in selected branch offices and of the functioning of credit committees. As regards the approval of investments, it was established that internal controls are, in general, at an adequate level. The Bank has effectively streamlined its loan approval procedures and has provided for increased commitment of loan officers. Furthermore, it has changed the structure of credit committee members by reducing the number of members from commercial departments and by including experts from other, non-commercial departments of the Bank. By so doing, it has provided for a better assessment of credit and other risks. Also, a special credit committee has been set up, which is in charge of approving loans to customers with a lower credit rating. The aim of this was to limit the risk of potential loss arising from the specifics related to the settlement of doubtful investments.

The auditing of cash operations provides for appropriate internal control in cash handling. Furthermore, the Bank, as a depositary, complies with contractual provisions and assures the quality of the euro banknotes it uses. Risks related to payment card operations are identified and managed in a timely manner. The system of internal controls in the area of cost management is an adequate one, compliance with the legislation is provided for, and the area of work is supported by instructions and regulations. The scope and the type of disclosures provided by the Bank are in accordance with the applicable legislation. Information included in the annual report is complete and accurate, while the scope of information meets the regulatory requirements. The information and reporting system is an adequate one and ensures compliance with the provisions of the

Regulation on Disclosures by Banks and Savings Banks. The Bank fully complies with the provisions of the Prevention of Money Laundering and Terrorist Financing Act.

In the area of information systems, an audit of the Moneta payment system was carried out. Assurances were given by the auditors that the functioning of this payment system is in compliance with the applicable legislation and regulations, and that the Bank, as a manager and a member of the Moneta payment system, has set up an appropriate risk management system in this area. Based on the audit of the management of operational processes, an assurance was given that the Bank's system for documenting operational processes is an adequate one and forms a sufficient basis for the management of operational processes, while providing proper evidence of these processes. As regards the Bank's online banking service, Bank@Net, the Bank has set up adequate controls to guarantee a proper level of security and reliability in the provision of electronic banking services for corporate customers. As for the audit of the payment system, assurances were given that the Bank executes outgoing SEPA payments on the basis of transaction systems, which ensures that the entry of payment order data as well as the execution or rejection of outgoing SEPA payments are at an adequate level. The verification and authorisation of payment orders guarantee the accuracy of the same.

Internal auditors specialising in information systems carried out the audit reviews in Zavarovalnica Maribor, KBM Infond and PBS. Audits were carried out of the software used for transactions in securities, of the software used for recording loans given to corporate customers, and of the accuracy and integrity of information in the central data warehouse of PBS.

As regards credit risk in PBS, audits were carried out of the following: credit risk management, the retail loan portfolio, the classification of customers-legal entities into credit rating categories, and individual impairment of financial assets. Based on the audits carried out, assurances were given that the procedures for approving and monitoring loans, as well as for classifying customers, are, in general, consistent with the applicable legislation, internal documentation, and common standards applicable to credit risk. An improvement was made in the recording of restructured loans and in the assessment by authorised officers of PBS of the value of real estate pledged as collateral. Also, it was necessary to ensure the calculation of exposure limits. Within the auditing of the retail loan portfolio, an assurance was given that the loan approval procedures are, in general, in compliance with the applicable legislation, internal documentation, terms and conditions of the insurance company, and competences. As for the classification of customers into credit rating categories, an assurance was given that an adequate methodology for classifying customers is in place. By implementing the recommendation following the audit of individual impairment of financial assets, an adequate system will be set up for the calculation of the recoverable amount of individually significant financial assets. Within the auditing of the assessment of adequate internal capital, an assurance was given that the process of assessing internal capital is, in general, carried out in compliance with the applicable legislation and internal documents, taking into account the characteristics, and the volume and complexity of operations carried out. An assurance was also given that PBS has sufficient internal capital in relation to its risk profile. Internal documents governing liquidity risk and interest rate risk were amended and implemented. Competent authorities of PBS produced and reviewed additional reports, calculations, stress scenarios and ratios. PBS has in place appropriate and adequate rules for the selection of outsourcers, which must be strictly observed. The findings of the audit in respect of the

legitimacy of operations give an assurance as to the credibility of published information (the semi-annual report of PBS). Also, the content and the scope of disclosures included in this report are consistent with legal and professional standards.

In Credi banka, the auditors carried out 10 regular audit reviews and, in accordance with the decision of the Executive Board, two extraordinary audit reviews. A legally required audit was carried out of the Bank's operations to verify the compliance of its internal documents with the legislation governing the protection of money laundering, and the compliance of its training programmes and methodologies with the implementation of the training of employees. With respect to the audit of its retail loan portfolio, an assurance was given that necessary controls are carried out and that the identification and measurement of credit and operational risk, as well as the limiting of risks, are properly managed. Based on the findings of the audit with regard to whether receivership proceedings are carried out and reported to the National Bank of Serbia in a timely manner, it was necessary to ensure the correctness of all procedures. Based on the findings of the audit of the central vault in Kragujevac, it was established that an improvement of control in cash transactions is required in order for operational risks to be reduced. Within the auditing of identification, measurement and monitoring of liquidity and currency risk, an assurance was given that adequate controls have been set up in the area of liquidity risk and currency risk management, and that the reporting to the National Bank of Serbia is carried out in a timely and accurate manner. Based on the audit of costs related to the reconstruction and refurbishing, of rents, and of other costs associated with the investments in intangible assets, it was necessary to strengthen control over the agreements entered into with external contractors. Audits were also carried out of the investments in the information system, and of the implementation of recommendations.

In Adria Bank, audits were carried out of the credit risk management, of loan approval procedures, and of the assessment of the loan portfolio quality. Based on the findings of audit reviews, recommendations were given on how to improve the warning letter procedure, obtain additional collateral, amend the documenting of transactions, and control individual stages in the construction of real estate projects financed by Adria Bank. Suggestions were also made regarding the ideal number of staff. The operations of Adria Bank were in compliance with the Minimum Standards for Granting and Managing Foreign Currency Loans, issued by the Austrian Financial Market Authority (FMA). The findings of the audit of computer systems gave an assurance that these are, in most cases, consistent with regulatory requirements and general accounting principles. The audit of transaction compliance detected some non-compliance with certain provisions of the Austrian Banking Act and the Securities Supervision Act, which were immediately rectified.

In the **insurance business division**, which includes Zavarovalnica Maribor, an audit was carried out of the procedures for managing insurance risk in the non-life insurance segment, which included an audit of risks arising from insurance contracts, an audit of the risk of loss, an audit of fraud in taking out insurance and in the repayment of damages, and an audit of risks related to re-insurance. In addition, an audit was carried out of credit risk management and of insurance risk in the area of life insurance, which included an audit of risks related to early termination or redemption of insurance policies, an audit of risks related to a loss of distribution channels, and an audit of risks regarding product development. With respect to operational risk management, an audit was carried out of compliance with external and internal legislation. Based on the

audit findings, recommendations were given for a more efficient system of internal controls to be set up, and for better management of risks in the audited areas. In accordance with the Insurance Act, Zavarovalnica Maribor has set up an internal audit function, which is independent and separate from other departments, and subordinated directly to the Management Board. In 2011, there were no significant changes in the organisation or the method of operation of internal audits.

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

Moja naložba has adequate internal controls in place in its working procedures. The organisation of the company is such that there is a proper division between commercial activities and investment and financial activities, meaning that the department responsible for selling the products is organisationally separate and not involved in recording transactions or carrying out payments. The Management Board controls the performance of the company through monthly reports. In addition, it is actively involved in the reporting and in the decision-making process in respect of investment activities of the company and the investment policy applied to the company's long-term business fund. Internal audits contributed to the improvement of the control environment in the company and to making operations more transparent. The internal audits carried out in 2011 confirmed that the accounting of the company was consistent with its internal rules and with best practice applicable to insurance companies.

Following the audits carried out in KBM Infond in accordance with the adopted annual plan, it was established that the company has set up proper internal controls in the key operating segments, both at the level of working procedures and at the level of independent control. Independent controls of the company's key segments and of funds managed by the company are carried out on a daily, weekly, monthly and occasional basis by the officer authorised by the Management Board to perform internal controls. A proper management system has been set up, which is reflected in the existence of an adequate number of employees with regard to the volume of operations and the complexity of services and transactions the company performs; in a clear and efficient organisational structure; in a reliable information system; and in an efficient system of internal controls. By implementing the recommendations made following the audits in the company, the work of the officer responsible for internal controls has been rationalised. Furthermore, full compliance has been achieved with the Decision on Staff, Technical and Organisational Requirements as regards information technology and business continuity. The internal audit function was clearly defined in a separate internal document. The Management Board of the company accepts recommendations, appoints officers responsible for their implementation, and sets deadlines for implementation.

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

The audit findings disclosed that the operating risks of individual companies increased further as a result of adverse economic conditions. Lower income, weak performance, an increase in financial expenses and

impairment losses, an increase in inventories of equipment seized under lease agreements, and poor liquidity of the companies had the most adverse effects on the performance of this division. As for the leasing companies, the proportion of income-generating investments fell quite substantially, which will cause the amount of income to decline and financial expenses to increase in the future. KBM Fineko is a partial exception in this group. This company managed to increase the volume of its operations and to improve its performance as a result of taking over (purchasing) an increased number of bad loans from the Bank, and collecting them efficiently. Most of the loss reported by this division derived from investments made before 2010, so it is reasonable to believe that the loss will decrease in the future. However, risks have risen due to a significant drop in the volume of business. Therefore, operating costs of the companies will need to be adjusted to reflect this drop in business volume. Reduced liquidity of the economy, economic recession, and the fact that a number of companies filed for bankruptcy, mainly in the construction industry, contributed the most to the enhanced exposure to risk. The bulk of recommendations issued by CNR were implemented in 2011. However, there are still some risks that are not at an acceptable level.

5 INFORMATION FOR SHAREHOLDERS

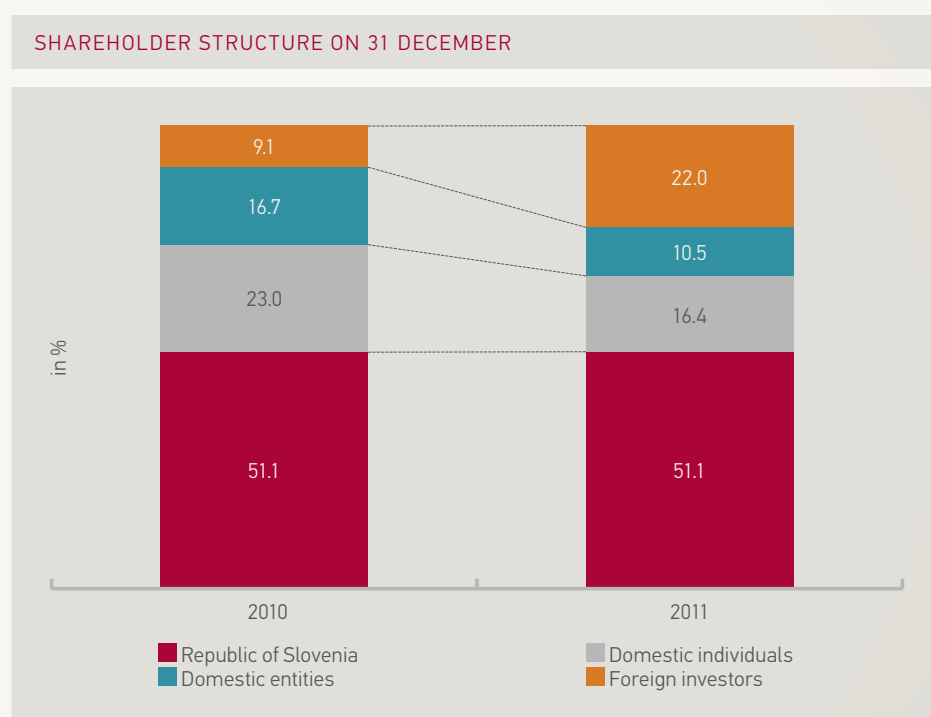
The **shareholders' equity** of the Bank consists of:

	31.12.2011	31.12.2010
1. Share capital	40,815	27,210
· ordinary shares – subscribed by non-financial companies	7,305	995
· ordinary shares – subscribed by the state	14,562	13,909
· ordinary shares – subscribed by banks	615	611
· ordinary shares – subscribed by other financial organisations	2,663	2,939
· ordinary shares – subscribed by households	6,693	6,264
· ordinary shares – subscribed by foreign investors	8,977	2,492
2. Share premium	165,775	78,314
· paid-in capital surplus	143,467	56,006
· share premium arising from the general capital revaluation	22,308	22,308
3. Capital related to compound financial instruments	0	0
4. Revaluation reserves	(24,181)	(8,704)
5. Reserves from profit	275,044	275,044
· regulatory reserves	12,145	12,145
· statutory reserves	172,158	172,158
· other reserves from profit	90,741	90,741
6. Treasury shares	0	0
7. Retained earnings/(loss) (including net profit/(loss) for the financial year)	(83,717)	3,392
· retained earnings	262	0
· net profit/(loss) for the financial year	(83,979)	3,392
8. Interim dividends	0	0
TOTAL	373,732	375,256

The total shareholders' equity of the Bank decreased marginally year-on-year, by 0.4% (€1,524,000), to €373,732,000 as of 31 December 2011. The May 2011 capital increase of €101,069,000 was offset by the 2011 net loss of €83,979,000, a drop in the market price of securities which are revalued through equity, in the total amount of €15,477,000, and the dividends for 2010 totalling €3,130,000.

In April and May 2011, in spite of unfavourable conditions in the capital markets, Nova KBM successfully carried out and completed the raising of capital by offering new shares to the public. The Bank raised €104,328,000 of additional capital (reduced by the direct costs of capital raising totalling €3,262,000) and allocated 13,040,989 new shares to the investors. Nova KBM was the first Slovene company whose shares started trading simultaneously on the local and a foreign stock exchange, namely the Warsaw Stock Exchange. After the successful capital raising, Nova KBM remained the company with the largest number of shareholders of any Slovene company. Following the registration of the share capital increase in the court register, the total number of Bank shares increased to 39,122,968.

Shareholder structure of the Bank



The share capital of the Bank at the end of 2011 was €40,814,313.08 and was split into 39,122,968 ordinary no-par value shares, the accountable par value of which is €1.04 per share.

During 2011, foreign investors increased their shareholding in the Bank at the expense of Slovene legal entities and citizens (see the chart above). The shareholder structure of the Bank at the end of 2011 was as follows: the Republic of Slovenia held 27.7% of shares; Pošta Slovenije d.o.o. – 6.6%; Gen d.o.o. – 6.4%; Kapitalska družba d.d. – 4.8%; Slovenska odškodninska družba d.d. – 3.2%; ELES d.o.o. – 2.4%; the total shareholding of the state was 51.1%, the same as at the 2010 year-end, of which 35.7% was a direct and 15.4% an indirect shareholding of the state in the Bank; households held 16.4% (down 6.6 percentage points from the beginning of the year); other financial organisations held 6.5% (down 4.3 percentage points from the beginning of the year); foreign investors held 22.0% (up 12.9 percentage points from the beginning of the year); non-financial

companies held 2.5% (down 1.2 percentage points from the beginning of the year); and banks held 1.5% (down 0.8 percentage points from the beginning of the year).

10 LARGEST SHAREHOLDERS ON 31 DECEMBER 2011

Shareholder	Number of shares	% of ownership ⁶
REPUBLIC OF SLOVENIA	10,822,794	27.66
KDPW – TRUST ACCOUNT	4,673,092	11.94
POŠTA SLOVENIJE d.o.o.	2,599,192	6.64
GEN d.o.o.	2,500,000	6.39
KAPITALSKA DRUŽBA d.d.	1,875,920	4.79
SLOVENSKA ODŠKODNINSKA DRUŽBA d.d.	1,250,614	3.20
ELES d.o.o.	937,500	2.40
NFD 1 DELNIŠKI PODSKLAD (equity sub-fund)	841,232	2.15
EAST CAPITAL BALKAN FUND	693,745	1.77
EAST CAPITAL EASTERN EUROPEAN FUND	532,186	1.36

NUMBER OF NOVA KBM SHARES HELD BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARD ON 31 DECEMBER 2011

Shareholder	Number of shares	% of ownership
Matjaž Kovačič	3,644	0.009314
Andrej Plos	1,304	0.003333
Manja Skernišak	872	0.002229
Dušan Jovanovič	499	0.001275
Anton Guzej	440	0.001125
Aleš Krisper	56	0.000143
Andrej Svetina	27	0.000069
Franc Škufca	10	0.000026

Information on shares

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

Holders of ordinary shares have the following rights:

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

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

⁶ Voting rights equal ownership share.

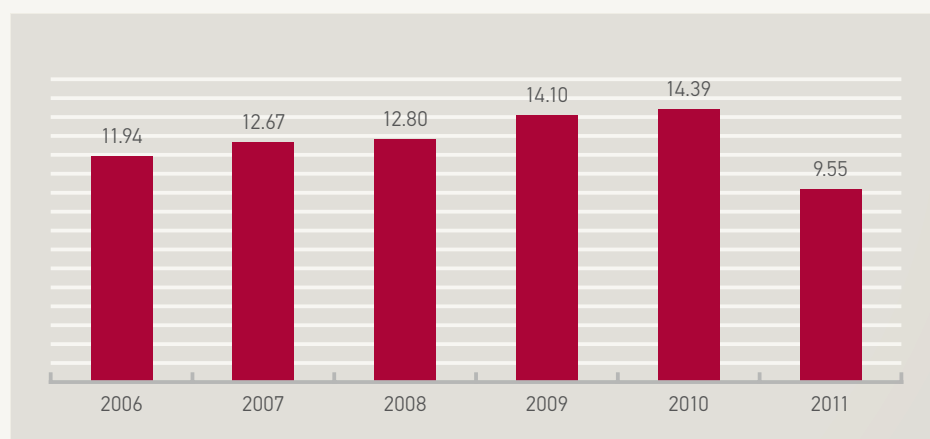
INFORMATION ON SHARES

	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Number of shareholders	98,354	100,295	102,514	102,531
Number of ordinary no-par value shares	39,122,968	26,081,979	26,081,979	26,081,979
Share price on the last trading day (€)	3.16	10.20	11.44	9.43
Market capitalisation (€000)	123,629	266,036	298,378	245,953

	Nova KBM				Nova KBM Group			
	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Book value per share ⁷ (€)	9.55	14.39	14.10	12.80	10.07	15.22	15.04	13.72
Net earnings per share ⁸ (€)	(2.42)	0.36	0.47	0.68	(2.38)	0.41	0.40	0.57
P/E ratio ⁹	(1.31)	28.33	24.34	13.87	(1.33)	24.88	30.11	16.54
P/B ratio ¹⁰	0.33	0.71	0.81	0.74	0.31	0.67	0.76	0.69

In the period from 2006 through 2010, the book value of a Nova KBM share increased by 21% (year-end data). Following the issue of new shares in May 2011 and as a result of loss reported for 2011, the book value of a Nova KBM share decreased by 34% to below the level before the crisis (see the chart below).

BOOK VALUE PER NOVA KBM SHARE IN THE PERIOD FROM 2006 THROUGH 2011 (€)



DIVIDEND POLICY

	2012–2014	2011	2010	2009	2008	2007	2006
Gross dividend per share ¹¹ (€)	-	0	0.08	0	0.2	0.2	0.7
Dividend yield ¹²	-	-	0.8%	-	2.1%	1.5%	-
Dividend as a percentage of net profit of the Bank ¹³	35%	-	36.2%	-	29.4%	11.0%	44.3%

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

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

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

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

11 Gross dividend per share from the profit for the financial year.

12 Gross dividend per share/share price on the last trading date.

13 Gross dividend per share/net earnings per share.

The Supervisory Board of Nova KBM approved the dividend policy envisaging an annual dividend payment equalling 35% of net profit for the financial years from 2010 to 2014, under the condition that the Bank generates a profit and that the capital adequacy of the Bank and the Group is not jeopardised.

Share performance

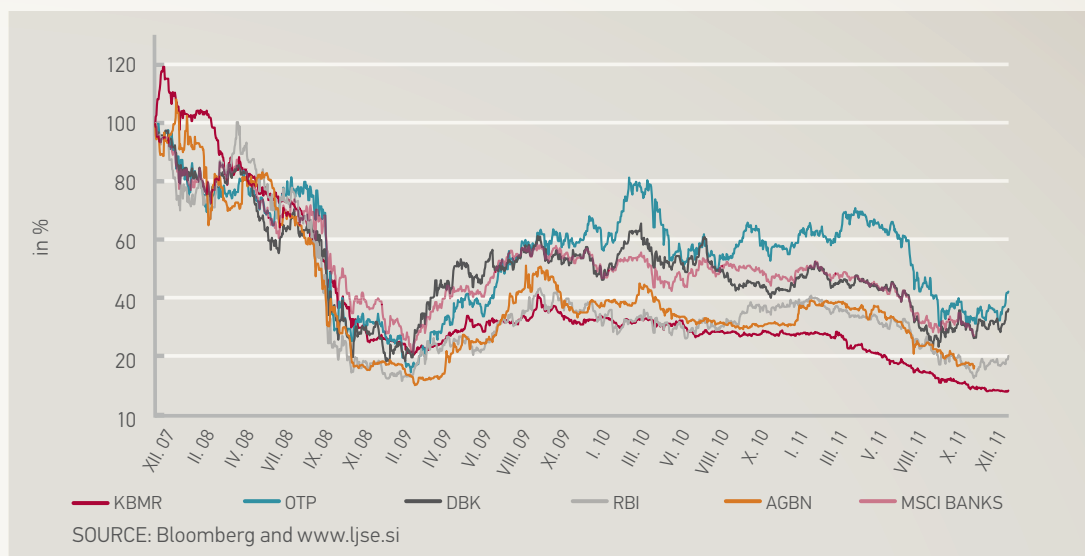
NOVA KBM SHARE (TICKER SYMBOL KBMR ON THE LJUBLJANA STOCK EXCHANGE AND KBM ON THE WARSAW STOCK EXCHANGE) PERFORMED IN LINE WITH MOVEMENTS IN STOCK MARKETS, AS EVIDENCED BY THE CHART BELOW.

A total of 2,436,588 Nova KBM shares changed ownership during 2011, of which 1,992,575 were traded on the Ljubljana Stock Exchange and 444,013 on the Warsaw Stock Exchange. The average daily turnover on the Ljubljana Stock Exchange was €61,863 or 7,939 shares, while on the Warsaw Stock Exchange it stood at €18,875 or 2,707 shares. The total number of shareholders had decreased by approximately 2,000 to 98,354 as of 31 December 2011. The price of a KBMR share at the beginning of the year was €10.13. As a result of the global financial crisis, the poor liquidity of KBMR shares and weak results reported by Nova KBM, the market price of a KBMR share steadily decreased throughout the year to reach €3.16 on 31 December 2011.

NOVA KBM SHARE PERFORMANCE IN 2011



MOVEMENT OF THE NOVA KBM (KBMR) SHARE PRICE SINCE THE START OF TRADING ON THE LJUBLJANA STOCK EXCHANGE IN COMPARISON WITH SHARE PRICES OF SEVERAL OTHER FINANCIAL INSTITUTIONS: RAIFFEISEN INTERNATIONAL (RIB), OTP BANK (OTP), DEUTSCHE BANK (DBK), AGROBANKA (AGBN); AND THE MSCI BANKS INDEX.



Our work is centered on earning your trust, which is our core value.

We are aware of our responsibility in everything we do. To live up to it we are actively working in developing our economic and social environment and we are grateful for your trust.

RISK MANAGEMENT



{ Slomškov square, around 1910 }

6 RISK MANAGEMENT

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

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

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

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

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

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

The decision-maker in respect of the methodologies for measuring, monitoring, and managing risks in the Group is Nova KBM. The banking companies within the Nova KBM Group take over the methodologies that are used by Nova KBM. This allows comparability of accepted risks. Non-banking companies in the Nova KBM Group manage risks in accordance with methodologies that reflect their activities and volume of operations, while taking legal requirements into consideration. Persons responsible in the Bank for individual risk policies are acquainted with the method of managing respective risks across all Group companies and have the opportunity and obligation to influence the setting up of adequate methods of managing risks in all Group

companies. Risk management procedures are conducted independently at the level of each Group company. The Group has set up methods of reporting on individual risk, which stipulate the content, the frequency, and recipients of reports.

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

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

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

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

6.1 CREDIT RISK

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

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

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

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

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

Credit risk management in Nova KBM comprises:

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

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

If it is expected that a customer will not be capable of repaying all of its obligations from its cash flow, and that the procedure for the realisation of collateral is to be initiated, the impairment of a financial asset is calculated on the basis of the recoverable amount of the financial asset. As the number of Bank debtors entering insolvency proceedings increased during 2011, the Bank has adopted appropriate organisational measures with the aim of collecting non-performing loans more efficiently.

6.2 LIQUIDITY RISK

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

Liquidity risk management is an integral part of the Bank's prudent and secure operations. Liquidity risk management in the Bank is applied separately to both operational liquidity and structural liquidity. The Bank manages its operational liquidity in such a way that it ensures the daily settlement of all liabilities that are

due, and compliance with regulations relating to the provision of liquidity and obligatory reserves. Structural liquidity risk is measured by calculating and analysing the net liquidity gap, the liquidity ratios, net liquid assets, and the average residual maturity of assets and liabilities.

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

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

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

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

During 2011, the Bank managed liquidity risk in accordance with the adopted policy and methodologies approved by the ALCO. It fully complied with the regulations on minimum requirements concerning liquidity position, which prescribe as obligatory the category one liquidity ratio (up to 30 days), while the category two ratio (up to 180 days) is only of an informative nature. The prescribed liquidity ratio is set at 1.0. The ALCO reviews regular reports on the diversification of funding and on the results of the dynamic liquidity gap analysis. The latter takes into consideration the time component of cash flows and is used for the early detection of negative moments in the anticipated liquidity position. The main cash flows are assessed on the basis of a statistical analysis of time series data on liquidity items.

THE BANK HAS DRAWN UP THREE DIFFERENT STRESS SCENARIOS, AT TWO DIFFICULTY LEVELS, THE AIM OF WHICH IS TO SUPPORT THE MANAGEMENT OF THE BANK TO ADOPT ADEQUATE MEASURES FOR REDUCING LIQUIDITY RISK.

Stress tests are carried out on a monthly basis. The main goal of carrying out stress tests is to provide a sufficient level of liquidity reserves in strictly defined future periods, taking into account the limit on the cumulative net liquidity gap depending on the type of stress scenario. The results of stress tests are reviewed by the ALCO.

6.3 MARKET RISKS

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

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

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

Currency risk represents a potential loss arising from an open foreign currency position and the volatility of foreign exchange rates. The maximum allowable 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 by the Risk Management Department, which, in accordance with internal regulations, also reports any violation of limits to the responsible authorities.

Interest rate risk is a risk of loss arising due to unexpected changes in market interest rates, and derives from maturity mismatches of interest-sensitive assets and liabilities.

To manage interest rate risk, the Bank calculates monthly the impact on its net interest income of interest rate changes in the next three months (data source: Bloomberg), as well as of the parallel shift of the yield curve by 200 basis points.

The impact of changes in interest rates on the Bank's profit or loss is measured for a one-year period.

In addition, the Bank regularly calculates the net present value of interest-sensitive items to determine whether, under the stress test scenario which takes into account a +/- 200 basis points change in interest rates, this value accounts for more than 20% of the Bank's equity.

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

6.4 OPERATIONAL RISK

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

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

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

The Bank classifies operational risk loss events by operating segment and by type of loss events, in accordance with the Basel directives. The majority of loss events in 2011 related to the operating segment 'Retail banking', while in terms of type, the majority of loss events occurred in the category 'Execution, delivery and process management'.

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

At the Group level, a risk profile has been created which considers all risks, including operational risk, to which the Bank is exposed. The Bank has set up the Policy Adoption Committee which, at the Bank level, submits proposals and gives consent to the formulation of new policies, adopts policies and methodologies for calculating the economic capital of the Bank, and discusses and confirms the Bank's risk profile.

6.5 CAPITAL RISK

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

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

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

6.6 PROTECTION OF INFORMATION

The information protection strategy of Nova KBM is based on guidelines laid down in the Bank's business strategy, and was formulated in accordance with the applicable legislation and requirements of the Bank of Slovenia and other regulators.

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

As the basis of the information security policy, the Bank has adopted the standards ISO/IEC 27001:2005 and ISO/IEC 17799:2005 (renamed to ISO/IEC 27002:2005), based on which the Bank, in pursuing its strategic objectives, uses a documented system for managing the protection of information. This system represents that part of the entire management system that is based on the appropriate approach to risks in all business processes to ensure the establishment, implementation, functioning, control, review, maintenance and improvement of data protection.

The Bank upgrades its information protection system on a regular basis. An external assessment of the compliance of the information protection system with the ISO/IEC 27001 standard was carried out in 2011. Based on the recommendations given, proposals for further improvements to the system will be drafted.

The protection of information in the Bank is organised through the Information Protection Forum (hereafter the 'Forum') which consists of Bank managers representing different business areas of the Bank. The main responsibility of the Forum is setting up, maintaining and adopting information security policies, as well as defining and implementing tasks needed to develop, implement and maintain a high level of information security awareness in the Bank.

The Forum adopts the documents related to the information security policy, of which all Bank employees are informed through the electronic information infrastructure. The aim of this is to make the employees properly aware of the rules, responsibilities and data protection procedures. Increasing the responsibility of employees for protecting information is one of the fundamental tasks of the information protection system. To that effect, a web-based training programme on the protection of information was conducted in 2011 for all Bank employees.

The volume of transactions performed through different electronic channels of the Bank is rapidly increasing. This strengthens the importance of, and the dependence on, information and communication technologies. Successful management, control and protection of all these systems, and indirectly of all data, are considered crucial for the sound performance of the Bank.

7 STRATEGY

Nova KBM is a modern and reliable bank with a tradition of understanding and supporting its business partners, following its development objectives, and living with the community. Business with individual customers as well as micro-, small- and medium-sized companies remains the Bank's prime focus.

Nova KBM is the parent company of the Nova KBM Group. The Group provides its customers with a first-class and comprehensive range of banking, insurance and fund management services.

The Bank thoroughly analyses and directs the implementation of its strategic activities. As a result of dynamic changes taking place in the global business environment, and taking account of conditions in the local and regional market, in 2011 the Bank started revising its strategic orientations. In accordance with these orientations, the Bank is putting considerable effort into streamlining its operations, increasing its profitability, stability and the security of its investments, and improving its cost-effectiveness. The current orientations include the strengthening of the Group's operations in all target markets and across all principal activities – banking, insurance business, and asset management. Special attention is devoted to further optimisation of governance and management as well as to the utilisation of cross-selling potential within the Group.

Being aware of their important role and responsibility towards the business society, the Group and the Bank amended the strategy in 2011 by adding the Social Responsibility and Sustainable Development Programme.

Mission of the Group and the Bank

The mission of the Group is to achieve reliability, stability and return. The mission of the Bank, as the parent member of the Group, is to operate as a modern and reliable bank with a tradition of understanding and supporting its customers, following its development objectives, and living with the community.

Vision of the Group and the Bank

In terms of integrity and contemporaneity of its service, the Group will be a recognised regional financial group and a market leader in the field of modern distribution channels in South East Europe by 2013. The Bank will remain modern and profitable, with a tradition of understanding and supporting its customers, with a regional presence, and with the support of the Nova KBM Group that provides a comprehensive range of financial services.

Values of the Group and the Bank

The Group's values are as follows: commitment to development, business excellence, focus on customers, transparency, concern for return, affiliation to the Group and the importance of each individual. In addition to these, the Bank attaches importance to the following values: professionalism, fairness and responsibility, cooperation at all levels, innovation, development and self-initiative.

Implementation of strategic objectives in 2011

In 2011, the Group carried out its business activities and development projects in accordance with its strategic orientations, taking into account adverse conditions in the operating environment.

Strategic projects

When formulating the current strategy, the Management Board of Nova KBM defined eight key strategic projects to be implemented to achieve its objectives. Of these projects, the following four were completed in 2010: automated reporting within the Group, implementation of a comprehensive CRM, a third-generation Bank@Net, and the drafting of the information technology support strategy. The OSBS project (setting up a common customer base) has been transformed into a regular activity of organisational units. The remaining three projects continued in 2011.

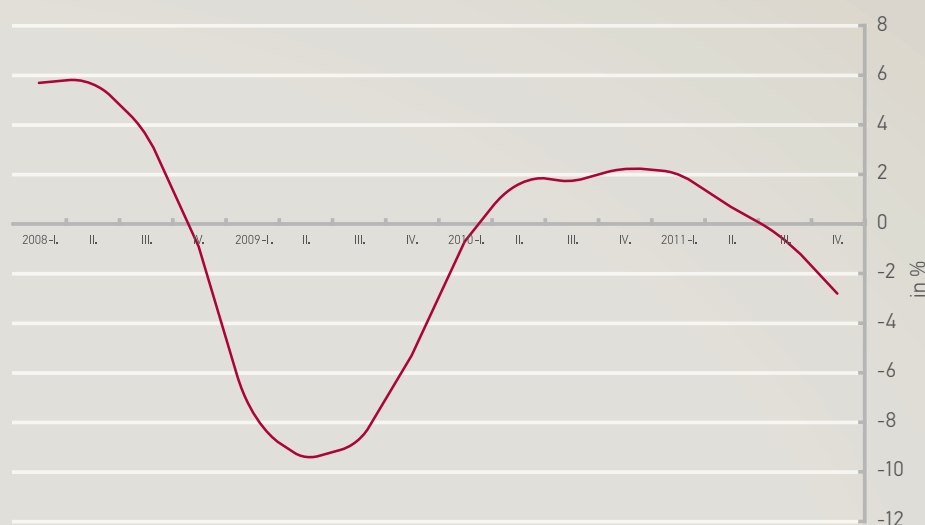
8 BUSINESS ANALYSIS

8.1 MACROECONOMIC ENVIRONMENT

GDP

In 2011, Slovenia once again slipped into recession, and economic activity declined throughout the year. In real terms, gross domestic product (GDP) decreased in the last quarter of 2011 by 2.8% relative to the same period of 2010. The economic activity, adjusted by seasonal impact and the number of working days, dropped in the fourth quarter of 2011 by 0.7% relative to the third quarter of the year. GDP had thus declined for several consecutive quarters (two consecutive drops in economic activity is technically considered a recession). According to the first estimate released by the Statistical Office of the Republic of Slovenia, the Slovene GDP decreased in real terms by 0.2% in 2011. At current prices, GDP amounted to €35,639 million, up 0.6% in nominal terms relative to 2010.

SLOVENE GDP QUARTERLY GROWTH RATES FROM Q1 2008 TO Q4 2011



SOURCE: STATISTICAL OFFICE OF THE REPUBLIC OF SLOVENIA

Last year was marked by weak external demand and a drop in domestic consumption. External consumption continued to have a positive effect on economic growth throughout the last quarter of 2011, but the rate of growth became weaker. Exports of goods and services in the last quarter of 2011 were up 3.0% year-on-year; however, this rate of growth in exports was significantly lower than that recorded in the second half of 2010 and in the first half of 2011. In real terms, domestic consumption once again recorded a sharp drop in the fourth quarter of 2011, decreasing by 4.4% year-on-year. This drop was due to a decrease in all components of consumption: households' consumption fell by 1.8%; government consumption fell by 2.6%; and gross fixed capital formation went down by 12.3%.

GDP GROWTH RATES BY QUARTER FROM 2009 THROUGH 2011

Year	2009				2010				2011			
Quarter	1	2	3	4	1	2	3	4	1	2	3	4
GDP ¹⁴	(8.1)	(9.5)	(8.9)	(5.3)	(0.7)	2.0	1.7	2.3	2.1	0.7	(0.5)	(2.8)
Quarterly GDP ¹⁵	(5.5)	(0.6)	0.4	(0.3)	0.2	1.2	0.5	0.3	(0.3)	(0.1)	(0.4)	(0.7)

Value added, measured as the difference between the value of goods and services produced and the value of inputs used in the production process, decreased slightly in all sectors: year-on-year, the manufacturing industry registered a drop of 2.6%; the construction industry registered a drop of 15.5%; trade, transport and food services registered a drop of 1.5%; and professional, scientific and similar activities registered a drop of 0.5%. Value added increased in the group of activities mainly producing non-market services (public administration, education, health) by 1% and in real estate activities by 0.5%. In the fourth quarter of 2011,

¹⁴ Non-deseasonalised; GDP change relative to the same period of the previous year.

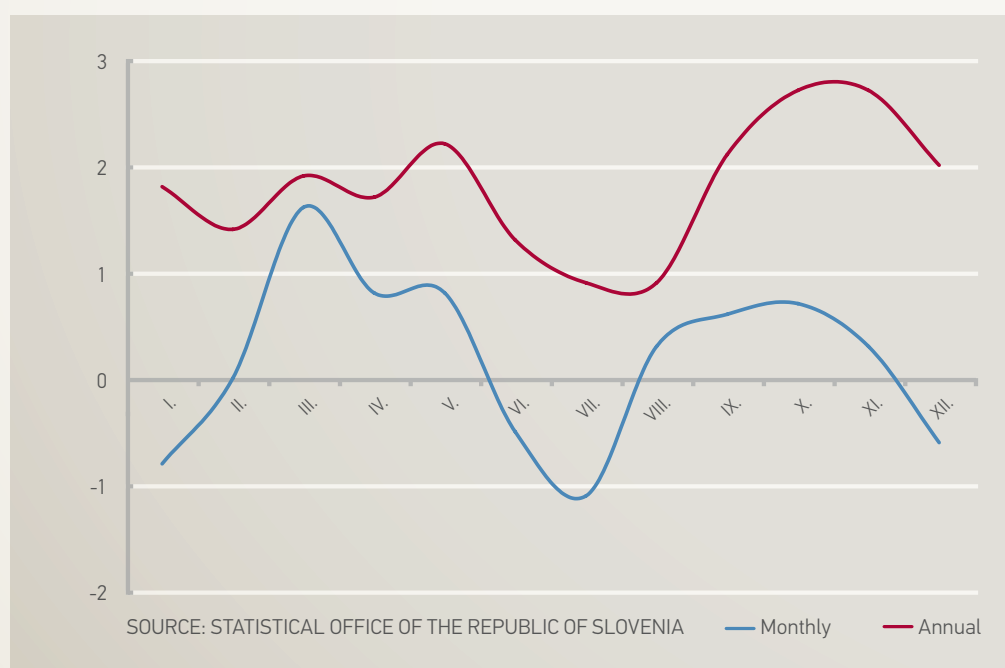
¹⁵ Adjusted by seasonal impact and the number of working days; GDP change relative to the previous period.

total value added decreased by 2.0% relative to the same period of 2010. The crisis in the construction industry deepened further in 2011. The volume of construction works decreased by over 25%, which was eight percentage points lower than in 2010. The large-size effect of the construction of a major sports and business complex in the first half of 2010 and the collapse of most leading construction companies in 2011 contributed in particular to this shrinkage in the construction industry. Due to weak demand, lack of accessible funding, and the high indebtedness of construction companies, a decline in the construction of new buildings continued further.

Inflation

At the end of 2011, the rate of inflation reached 2.0% (2010: 1.9%), while the average rate of inflation last year was 1.8% (the same as in 2010). The following categories registered the greatest increase in prices in 2011: food and non-alcoholic beverages (0.84 percentage points), housing (0.66 percentage points), alcoholic beverages and tobacco (0.27 percentage points) and transportation (0.20 percentage points). On the other hand, the following categories registered the most significant drop in prices in 2011: communications (0.16 percentage points), clothing and footwear (0.13 percentage points) and recreation and cultural activities (0.12 percentage points).

INFLATION IN SLOVENIA IN 2011 (in %)

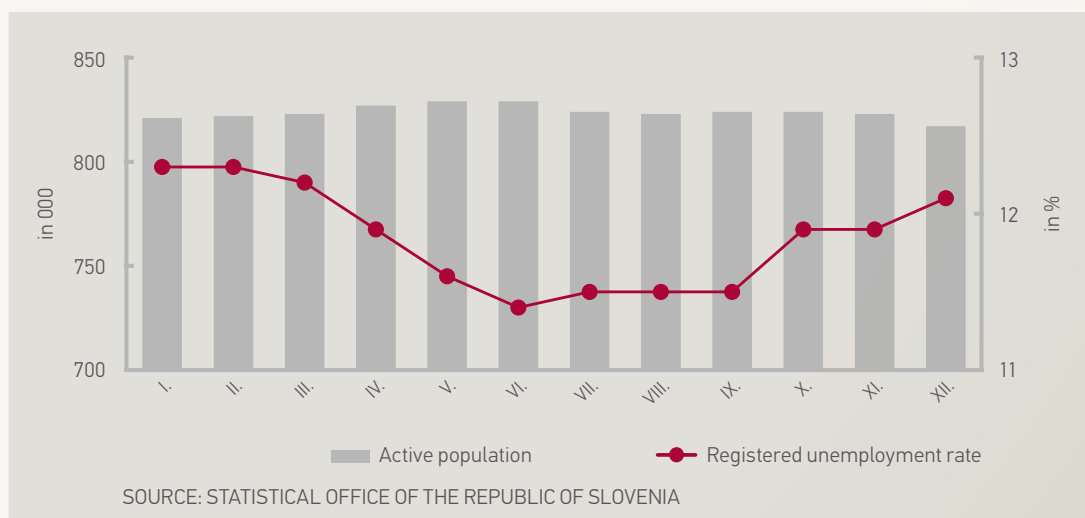


Employment

Compared to 2010, the situation in the labour market deteriorated most in the second half of the year, when a larger number of persons who had become unemployed due to companies filing for bankruptcy registered with the Employment Service of Slovenia. An increase in the number of unemployed was expected in 2011, since, as

a rule, unemployment continues to increase for a while after the start of economic recovery. According to the Survey on Workforce, the unemployment rate was 8.7% in the last quarter of 2011, compared to 7.9% a quarter earlier. At the end of 2011, the Slovene economically active population was 933,000, a decrease of 11,000 from the third quarter of 2011, but as much as 30,000 above the figure reported for the last quarter of 2010. According to the industry, most of those in the economically active population worked in the manufacturing industry (23.4% of the total economically active population), while according to profession, expert workers accounted for the largest number of economically active persons (19.2%). In the last quarter of 2011, the number of unemployed increased to 89,000, which was the highest figure since the Survey on Workforce had been conducted in Slovenia (since 1993). The unemployment rate at the end of 2011 was 8.7%, which was the highest figure since 1995. In the last quarter of 2011, the highest unemployment rate was among young people, i.e. persons aged between 15 and 24 (17.4%). Following three consecutive quarterly drops, the number of non-active persons slightly increased in the last quarter of the year and reached 738,000. Retired persons accounted for the largest proportion of the non-active population (64.9%), followed by students (19.5%). According to gender, women predominated over men and accounted for 57.1% of the non-active population. In the fourth quarter of 2011, the registered unemployment rate increased by 0.4 percentage points relative to the preceding quarter and reached 12.0% by the end of the year.

ACTIVE POPULATION AND THE REGISTERED UNEMPLOYMENT RATE IN SLOVENIA IN 2011 (BY MONTH)



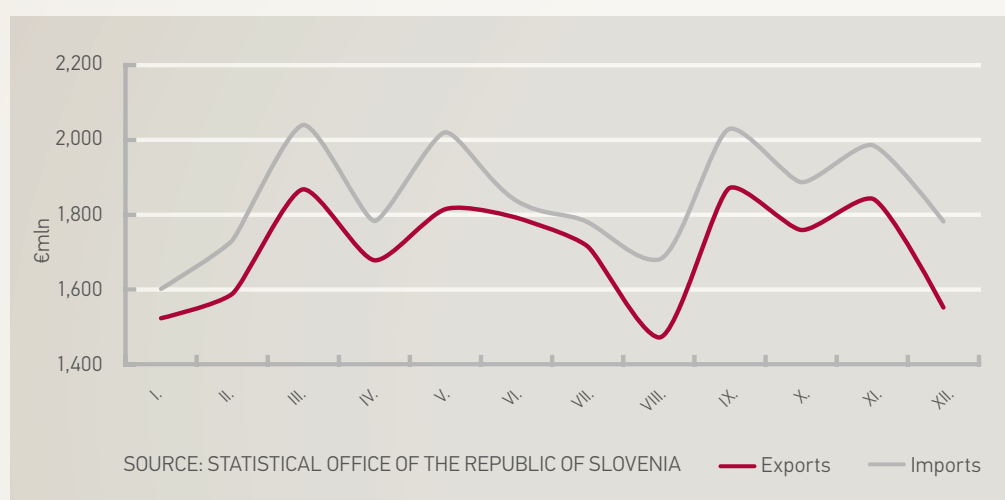
Foreign trade

The positive effect of international trade on economic growth continued in 2011. According to the preliminary data, the Slovene exports of goods in 2011 amounted to €20,461 million (up 12.2% on 2010), while the imports of goods were €22,110 million (up 11.2% on 2010). The 2011 deficit in the trade of goods was €1,649 million and the import-export coverage reached 92.5%.

SLOVENE EXPORTS AND IMPORTS OF GOODS IN 2011 (PRELIMINARY DATA)

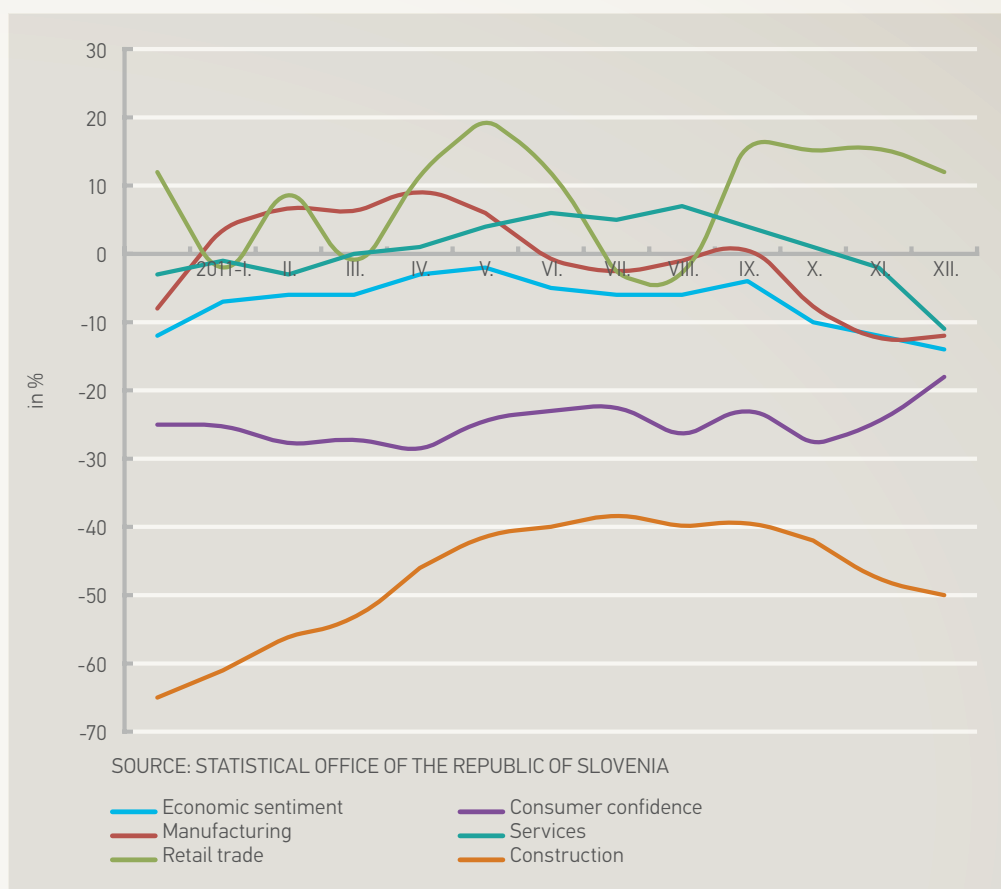
SOURCE: STATISTICAL OFFICE OF THE REPUBLIC OF SLOVENIA	I-XII 11 (€000)	XII 11	I-XII 11
		XII 10	I-XII 10
		Indices	
Exports	20,461,191	104.5	112.2
EU-27	14,810,882	105.1	113.3
Non-EU countries	5,650,309	103.1	109.3
Imports	22,110,065	102.1	111.2
EU-27	17,191,548	102.9	111.6
Non-EU countries	4,918,517	99.2	109.8
External balance	(1,648,874)	n.a.	n.a.
Import-export coverage (%)	92.5	n.a.	n.a.

SLOVENE EXPORTS AND IMPORTS IN 2011 (BY MONTH)

*Tendencies and prospects*

Economic sentiment indicator. The economic sentiment indicator stood at minus 10 percentage points at the end of December 2011, down 2 percentage points from December 2010, and 10 percentage points below the long-term average. The economic sentiment indicator is a composite indicator made up of five sectoral confidence indicators with different weights: the manufacturing confidence indicator, the services confidence indicator, the consumer confidence indicator, the construction confidence indicator and the retail trade confidence indicator. This indicator is designed to show the current economic situation and to help predict the economic climate over the coming months.

CONFIDENCE INDICATORS IN SLOVENIA FROM DECEMBER 2010 TO DECEMBER 2011 (BY MONTH)



Manufacturing confidence indicator. The value of the confidence indicator in the manufacturing industry stood at minus 5 percentage points at the end of 2011, a decrease of 4 percentage points from the 2010 year-end, and 2 percentage points below the long-term average.

Retail trade confidence indicator. The value of the confidence indicator in retail trade stood at 14 percentage points in December 2011, the same as in December 2010, and 5 percentage points above the long-term average. The main limiting factors for retail trade in December 2011 were competition in the sector (for 46% of companies), weak demand (for 44% of companies) and high labour costs (for 41% of companies), while 11% of companies did not state limiting factors.

Construction confidence indicator. The value of the confidence indicator in the construction industry was minus 41 percentage points in December 2011, 15 percentage points above the figure from December 2010, and 29 percentage points below the long-term average. The main limiting factors for the construction industry in December 2011 were weak demand (for 51% of construction companies) and severe competition in the industry (for 48% of construction companies), followed by high labour costs (for 39% of construction companies), high financing costs (for 34% of construction companies), difficulties in obtaining funding (for 32% of construction companies) and high costs of materials (for 32% of construction companies).

Services confidence indicator. The value of the services confidence indicator was minus 9 percentage points in December 2011, a decline of 8 percentage points from December 2010, and 28 percentage points below the long-term average. The main limiting factors for the service industry companies in December 2011 were weak demand (for 47% of companies), financial obstacles (for 33% of companies), difficulties arising from other factors (for 15% of companies) and lack of labour force (for 2% of companies), while 22% of companies did not state limiting factors.

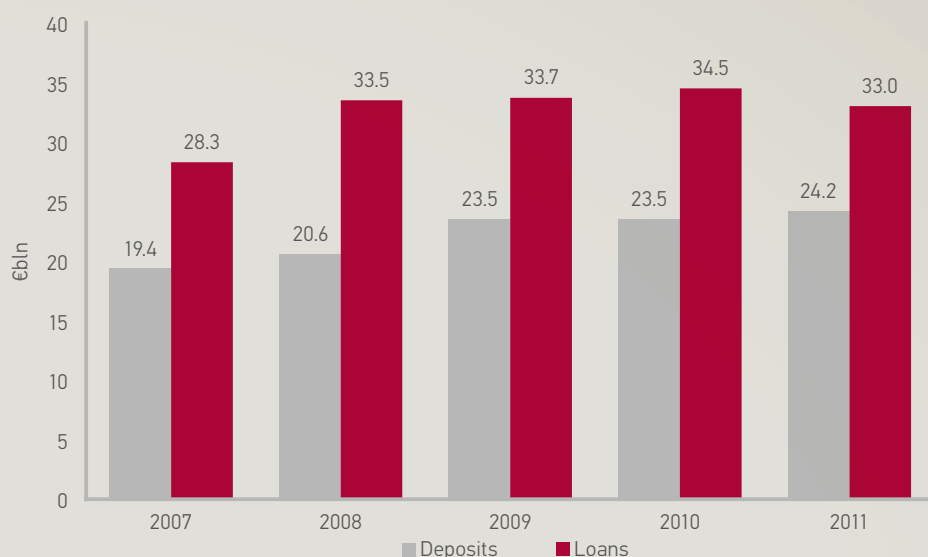
Banking sector

At the end of 2011, there were 19 commercial banks, three branches of foreign banks and three savings banks operating in Slovenia. The number of credit institutions did not change compared to the previous year. In addition to the three branches of foreign banks, eight banks were majority foreign-owned, one bank was fully owned by private local capital and, taking into consideration state ownership, three banks were fully owned by local capital. Taking into account majority local ownership – both private and state – there were 11 majority local-owned banks operating in Slovenia at the end of 2011.

The total assets of the Slovene banking system decreased year-on-year by €56 million or 0.1%. Total loans and advances to the non-banking sector declined by €1.5 billion, or 4.2%, with the largest drop, 5.6%, recorded in loans and advances given to companies, which account for the most important part of the loan portfolio. The growth of 2.3% in loans and advances given to households was more encouraging. Consumer optimism and the expected increase in consumption capacity were the main drivers of this growth. Deposits from the non-banking sector increased by 2.9%. Here, deposits from households, which accounted for 60% of deposits in this sector, recorded a growth of 1.8%. Through SID Bank, Inc., in which additional capital was invested for this purpose, the government continued to support the economy and the financial system by providing favourable funding. In addition, the government adopted some other measures with the aim of easing the credit crunch, such as government guarantees and the introduction of the balance sheet tax. At the beginning of 2011, the amended and modified Banking Act came into effect, according to which the guarantee for deposits was set at €100,000 and was thus aligned with common European standards.

The banking system as a whole reported a loss for 2011, which, according to preliminary unaudited accounts, totalled approximately €500 million. An increase in impairment losses and provisions of 41%, combined with a drop in both interest and non-interest income of nearly 3%, was the main reason for the loss reported for last year. Administration costs, including depreciation and amortisation, remained roughly at the 2010 level.

GROWTH IN LOANS TO/DEPOSITS FROM THE NON-BANKING SECTOR IN SLOVENIA IN THE PERIOD FROM 2007 THROUGH 2011



SOURCE: BANK OF SLOVENIA; 2011 DATA ARE PRELIMINARY AND UNAUDITED.

Deterioration of bank loan portfolios

The quality of the Slovene banking system's loan portfolio deteriorated drastically over 2011, which was reflected in the results reported by the banks. The deterioration was mainly due to high concentration of the loan portfolio, and significant difficulties faced by the real estate and construction industry (which on aggregate account for 10% to 15% of the banks' credit exposure) as well as by financial holdings with high financial leverage. A number of large, highly indebted holdings and construction companies declared insolvency in the last months of 2011, but the liquidity problems also started to put pressure on actively operating companies.

As a result of the weak macroeconomic environment, in 2011 the banks suffered a worsening of their loan portfolios, which also had a significant adverse effect on their capital adequacy. In view of the relatively high level of unsecured bad loans and exposure to problematic industries, the capital adequacy of the banks at the end of 2011 was considered to be low. Taking into consideration a moderate level of profit before provisioning, relatively high allowances for loan impairments, and weak demand for new loans by the corporate sector, the 2012 internal rates of growth in banks' capital are anticipated to be moderate. Consequently, the prospects for 2012 are not very inspiring.

8.2 IMPACT OF THE CRISIS ON THE GROUP'S PERFORMANCE

The uprisings in North African countries, the earthquake in Japan, and the financial difficulties in Greece adversely affected the capital markets in 2011. Shares of European financial institutions were the worst performers, mainly as a result of the debt crisis in Europe, increased mistrust in the European banking system, and enhanced risk due to the possible bankruptcy of Greece. The creation of a fiscal union across the Eurozone

and the assurance given by financial superpowers to preserve the euro at all costs caused the volatility in the stock markets across the globe to subside at the end of the year. Despite this, the leading European indices ended the year deep in negative territory.

The Ljubljana Stock Exchange closed 2011 in the negative zone as well. A pending pension reform, rating downgrade, and a vote of no confidence in the government were among the main reasons for declining share prices. In terms of liquidity, however, the Slovene capital market saw an improvement in 2011 compared to the previous year. Of the important events which affected the capital market in Slovenia, we need to highlight a new attempt by Pivovarna Laško d.d. to sell Mercator d.d., the capital raising by NLB d.d. and the capital raising by Nova KBM.

After the signs of recovery in 2010, the Slovene economic conditions deteriorated further during 2011, mainly due to the following factors¹⁶:

- adverse conditions in the international financial markets
- low capital adequacy of the Slovene banking system compared to the Eurozone
- over-indebtedness of non-financial companies
- a growing proportion of NPLs
- an increasing number of companies filing for bankruptcy
- a decline in the volume of loans
- lack of competitiveness in the Slovene business environment
- slow pace of structural reforms.

The business of the Group depends on the macroeconomic environment in which it operates. The majority of its business is carried out in Slovenia. Therefore, the economic and political environment in Slovenia affects the performance and financial standing of the Group in particular. However, the economic environment of Slovenia's most important trading partners also has an indirect impact on the Group's operations.

Nova KBM, which accounts for a substantial part of the Group's business (over four-fifths), did not raise long-term funding abroad in 2011. Access to foreign funding was critically difficult in 2011 due to the ongoing deteriorated situation in the international financial markets. Thus, the Bank covered its needs for long-term funding in the local market. For the financing of corporate customers, the Bank borrowed funds from the Slovene Export and Development Bank, Inc. In addition, at the end of 2011, it participated in longer-term refinancing operations which the ECB conducted via tender. The Governing Council of the ECB introduced these operations as a temporary measure to improve liquidity for banks in the Eurozone.

Due to the adverse economic conditions, the performance of companies worsened and the volume of their business shrank, which led to an increased number of unemployed and a growing number of customers failing to meet their obligations to the Group when due.

¹⁶ Source: Bank of Slovenia; Stability of the Slovene Banking System; December 2011.

The construction industry was among the industries that were hit most severely by the crisis, and the decline in the volume of construction works was even more acute than in the previous two years. Unfavourable conditions in the real estate market, an increase in payment defaults and a sharp drop in investments led to a collapse of a number of large construction companies that in the past were dependent mainly on public procurement. Difficulties in operations as a result of non-payments also affected small- and micro-companies which acted as subcontractors and performed mainly final construction works for large companies.

The Group also classified as non-performing some loans given to companies involved in information and communication services. Enhanced competition in this area, and high financial leverage leading to over-indebtedness caused a number of companies in this industry to encounter operational difficulties and to file for bankruptcy.

In 2011, the Group continued to collect the unpaid obligations of customers in an accelerated manner by liquidating instruments of collateral. This was reflected in a decrease in the proportion of NPLs to the total loans given to customers involved in trade, as well as the maintenance and repair of motor vehicles.

The Group has recognised sufficient impairment losses for all bad loans on the basis of anticipated cash flows generated from the liquidation of collateral.

Further details about the credit exposure of Nova KBM and the Nova KBM Group are set out in the section headed 'Exposure to various risks' in the Financial Report.

The Group is aware that, for its performance to be stable, sound and successful, it needs to implement an active, rapid and comprehensive approach to managing the consequences of the crisis. To that effect, a number of well thought-out activities and measures are being undertaken by the Group. For example, Nova KBM has focused even more on the efficient collection of bad loans and has reinforced staffing in the Loan Recovery Department, which cooperates actively with liquidators in order to facilitate bankruptcy proceedings and to achieve the optimum recovery of outstanding debts due to the Bank. Furthermore, the Group has adopted a proactive and systematic approach to dealing with investments of the Bank tied to real estate projects, with the aim of finding an optimum solution before the insolvency proceedings against the debtors are initiated.

In spite of adverse conditions in the capital markets, in May 2011 Nova KBM successfully raised additional capital and became the first Slovene company whose shares are simultaneously traded on the local and a foreign stock exchange. Nova KBM ended the year with a total capital adequacy ratio of 10.83%. In 2011, it successfully passed the EU-wide stress test, which was based on strict assumptions defined by the European Banking Authority. The Bank also carried out test calculations for the new liquidity standard (LCR or liquidity coverage ratio). The results of these calculations have shown that the Bank has sufficient highly liquid assets available to meet its liabilities on time in an adverse liquidity situation.

8.3 PERFORMANCE OF THE GROUP AND THE BANK

8.3.1 NOVA KBM GROUP

Financial results of the Group

For 2011, the Nova KBM Group reported a **pre-tax loss from continuing operations** of €102,565,000. Compared to the figures reported for 2010, the following items contributed the most to the poor 2011 results: higher provisions and impairment losses (up €92.2 million), lower other net operating income (down €14.7 million), lower net interest income (down €11.7 million), and lower fee and commission income (down €6.7 million). The following Group companies posted a pre-tax loss for last year: Nova KBM (€84.0 million), the leasing companies (except Gorica Leasing; €7.5 million in total), KBM Invest (€1.2 million) and Adria Bank (€96,000). A pre-tax profit was reported by both associated companies (Zavarovalnica Maribor and Moja naložba), PBS (€2.5 million), KBM Infond (€0.7 million), Credi banka (€0.3 million), KBM Fineko (€0.3 million) and KBM Projekt (€70,000).

The Group's **profit from continuing operations before provisions and impairment losses** totalled €72,826,000. In 2011, the operations of the Group were marked by difficult economic conditions, which deteriorated further in the second half of the year when the economic activity slowed down once again. Despite some optimistic projections, stabilisation of economic conditions did not take place in 2011. Consequently, the Group had to recognise high provisions and impairment losses, mainly due to increased credit risk. Net provisions and impairment losses totalled €175,391,000 in 2011.

In terms of business segments, based on the stand-alone financial statements of the Group companies, Nova KBM and some companies in the leasing division and the real estate division contributed the most to the net loss reported by the Group. The Group's share of 2011 net profit of both associated companies totalled €5,515,000 (approximately the same figure as in the previous year): the share of profit from Zavarovalnica Maribor was €5,330,000 and the share of profit from Moja naložba was €185,000.

The **net loss** reported by the Group stood at €81,122,000, which was €21,443,000 lower than the Group's pre-tax loss from continuing operations, due to the positive effect of deferred taxes. The net loss of the Group was €2,853,000 lower than the net loss reported by Nova KBM, mainly as a result of the impact of consolidation on the statement of income and the loss reported by some companies in the leasing division and the real estate division.

The 2011 **net interest income** of the Group was €135,593,000. A decrease in net interest income relative to 2010 was mainly the result of changes in the structure of the Group's assets, an increasing proportion of which is made up of investments that provide lower returns (portfolio of securities). Impairment of interest on loans granted to companies which had run into financial difficulties also had a negative effect on interest income. On the funding side, we saw a trend of households shifting towards long-term deposits with higher rate of interest. Also, the refinancing of long-term loans obtained from banks in the past became more costly in 2011.

Net fee and commission income of the Group totalled €56,428,000, down 10.5% on 2010, as a result of a 5.4% decrease in fee and commission income (€5.6 million) and a 2.5% increase in fee and commission expense (€1.0 million). Lower net fees and commissions were due to a drop in business volumes.

Dividend income amounted to €2,956,000 in 2011.

Losses on financial assets and liabilities not measured at fair value through profit or loss totalled €615,000. A substantial part of this loss was due to loan write-offs.

Net gains on financial assets and liabilities held for trading amounted to €3,682,000, mainly as a result of net gains on trading in derivatives totalling €2,400,000. Valuation of currency forwards, which the Group uses for the economic hedging of foreign currency exposure and the effects of which are linked to the effects of exchange rate differences, had the most significant impact on net gains on derivatives. Net gains on trading in foreign currencies totalled €1,231,000. The Group's trading in equity instruments also generated net gains last year.

Net loss on financial assets and liabilities designated at fair value through profit or loss amounted to €7,216,000 (2010: net loss of €1,428,000) and was related to the impairment of securities.

Net gains on exchange rate differences were €484,000. The item 'Net loss on financial assets and liabilities designated at fair value through profit or loss' and the item 'Net gains on exchange rate differences' are due to the nature of transactions and the method of recording related to the item 'Net gains on trading in derivatives' (within the main item 'Net gains on financial assets and liabilities held for trading'), so the effects need to be taken into account jointly.

Other net operating income, which includes mainly the income from the sale of real estate, totalled €248,000.

Administration costs, including depreciation and amortisation, totalled €125,099,000, down 2.8% on 2010. The ratio of operating costs as a percentage of the average total assets was 2.13% in 2011.

Deterioration of the loan portfolio, as measured by net impairment losses and provisions, escalated in the fourth quarter of 2011 much more than in previous crisis years. **Impairment losses and provisions** increased by €92.2 million relative to 2010. The Group projected the economic climate would improve during 2011, mainly due to encouraging macroeconomic developments in Slovenia's most important trading partners. However, this did not happen and the economic trends turned downward. As a result, net provisions and impairment losses totalled €175,391,000 in 2011.

The Group reported a **total comprehensive loss after tax** of €100,769,000 for 2011, 80.5% of which related to the net loss for the financial year and 19.5% related to other comprehensive income after tax.

Financial position of the Group

As of 31 December 2011, the Group's **total assets** amounted to €5,816,197,000¹⁷, a decrease of €50,460,000, or 0.9%, from the 2010 year-end.

STRUCTURE OF THE GROUP'S LIABILITIES AND EQUITY AS OF 31 DECEMBER 2010 AND 2011

Item description	31.12.2010 (€mln)	% of total liabilities and equity as of 31.12.2010	31.12.2011 (€mln)	% of total liabilities and equity as of 31.12.2011	Change (€mln)	Change in the structure of liabilities and equity (percentage points)
1	2	3	4	5	6 = 4 - 2	7 = 5 - 3
Deposits and loans from customers	3,712.7	63.3	3,765.0	64.7	52.3	1.4
Deposits and loans from banks	1,375.5	23.4	1,271.2	21.9	(104.3)	(1.5)
Debt securities	65.5	1.1	49.0	0.8	(16.5)	(0.3)
Provisions	22.6	0.4	38.3	0.7	15.7	0.3
Subordinated liabilities	192.0	3.3	187.9	3.2	(4.1)	(0.1)
Other liabilities	59.4	1.0	69.3	1.2	9.9	0.2
Equity attributable to owners of the parent	396.9	6.8	394.1	6.8	(2.8)	(0.0)
Equity attributable to non-controlling interest	42.1	0.7	41.5	0.7	(0.6)	0.0
TOTAL LIABILITIES AND EQUITY	5,866.7	100.0	5,816.2	100.0	(50.5)	0.0

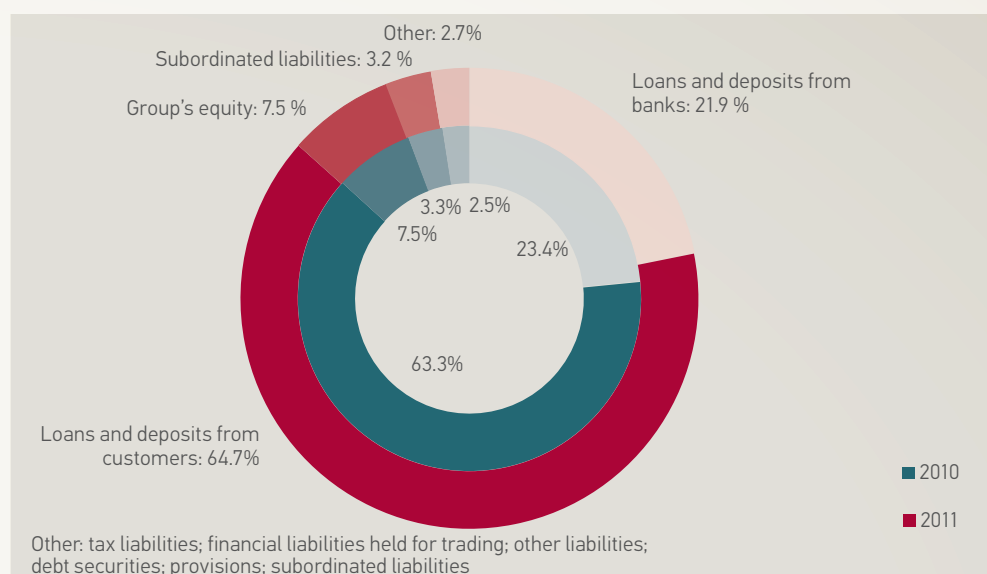
Deposits and loans from banks decreased in 2011 mainly due to the Group repaying €375,784,000 of loans to foreign banks. The Group substituted this funding source with an increased proportion of deposits from the central bank, which went up by €285,329,000 year-on-year.

Deposits and loans from customers recorded a notable increase as well. Year-on-year, deposits from the state increased by €69,415,000 and deposits from households increased by €33,377,000. The increase in deposits from the state was related mainly to deposits from the Ministry of Finance.

The total amount of **debt securities** decreased mainly due to the maturity of KBM7 bonds.

¹⁷ Total assets of Nova KBM accounted for 83% of the Group's total assets. A detailed analysis of Nova KBM's financial position is presented in the section 8.3.2.

STRUCTURE OF THE NOVA KBM GROUP'S LIABILITIES AND EQUITY (AS OF 31 DECEMBER)



As regards the year-on-year changes in the structure of the Group's liabilities and equity, the proportion of loans and deposits from the non-banking sector increased the most, by 1.4 percentage points, mainly due to an increase in deposits from the state. The proportion of deposits and loans from banks, consisting also of deposits from the central bank, fell by 1.5 percentage points.

STRUCTURE OF THE GROUP'S ASSETS AS OF 31 DECEMBER 2010 AND 2011

Item description	31.12.2010 (€mln)	% of total assets as of 31.12.2010	31.12.2011 (€mln)	% of total assets as of 31.12.2011	Change (€mln)	Change in the structure of assets (percentage points)
1	2	3	4	5	6 = 4 - 2	7 = 5 - 3
Loans and advances to customers	4,034.9	68.8	3,844.1	66.1	(190.8)	(2.7)
Available-for-sale financial assets	878.0	15.0	699.6	12.0	(178.4)	(3.0)
Loans and advances to banks	246.4	4.2	177.4	3.1	(69.0)	(1.1)
Held-to-maturity financial assets	180.2	3.1	449.6	7.7	269.4	4.6
Investments in Group companies	41.7	0.7	47.5	0.8	5.8	0.1
Financial assets designated at fair value	16.7	0.3	38.5	0.7	21.8	0.4
Financial assets held for trading	3.1	0.1	8.7	0.1	5.6	0.0
Other assets	465.6	7.9	550.7	9.5	85.1	1.6
TOTAL ASSETS	5,866.7	100.0	5,816.2	100.0	(50.5)	0.0

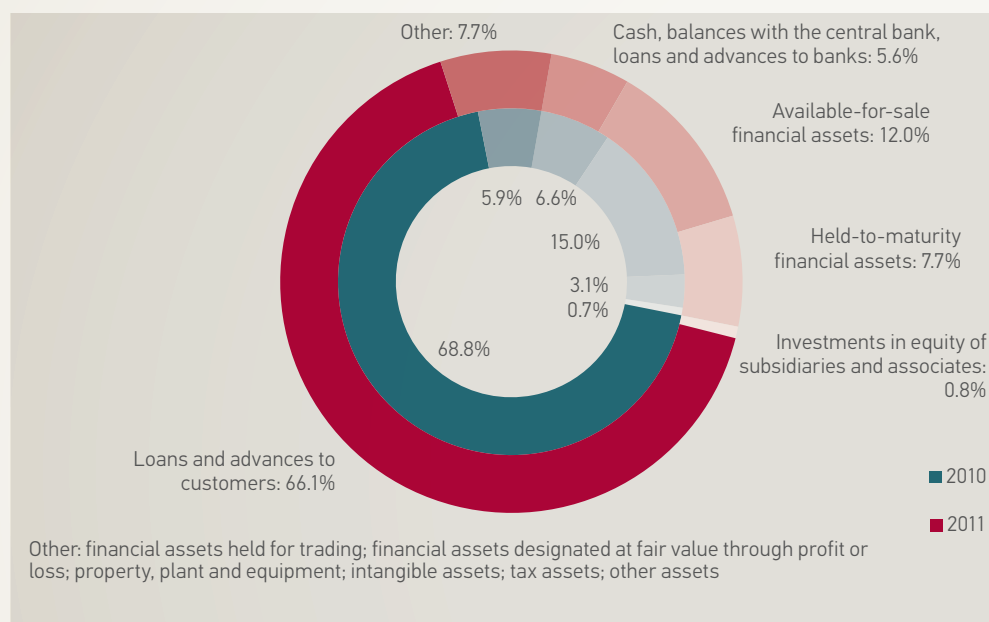
In nominal terms, **held-to-maturity financial assets** recorded the highest year-on-year increase, mostly due to the purchase of treasury bills.

Notable growth was also registered in **other assets**, as a result of an increase in inventories. Inventories of companies in the Group increased due to a growing number of real estate properties received for the repayment of debts as well as due to equipment seized under lease agreements, and as a result of weak demand for real estate.

Compared to the 2010 year-end, **loans and advances to customers** recorded the most notable decrease in nominal terms, particularly due to tight lending conditions, the difficult economic situation, and additional impairment losses.

We also saw a notable decrease in **available-for-sale financial assets**, mainly due to the maturity of bonds that Nova KBM held in its portfolio.

STRUCTURE OF THE NOVA KBM GROUP'S ASSETS (AS OF 31 DECEMBER)



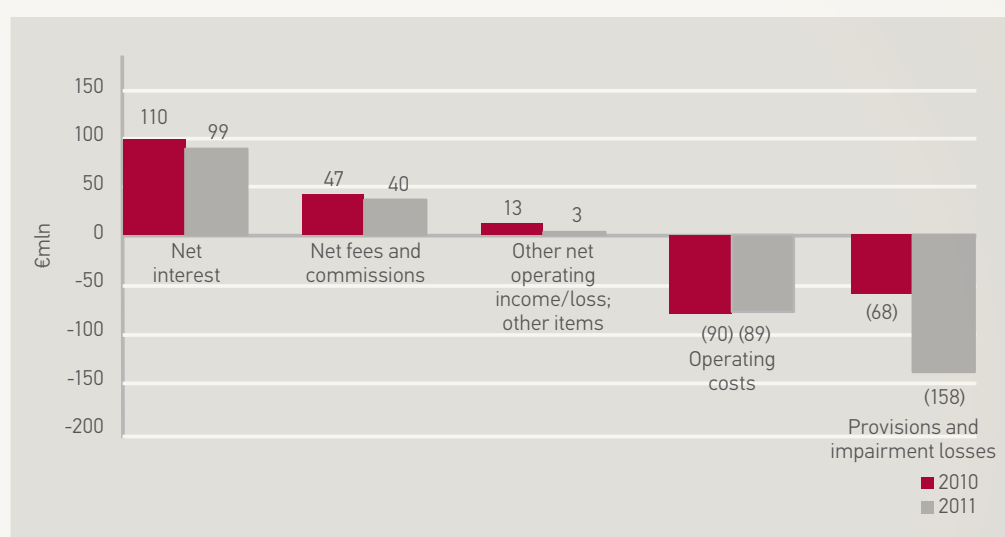
As regards the year-on-year changes in the structure of the Group's assets, the proportion of held-to-maturity financial assets increased the most, by 4.6 percentage points. The proportion of available-for-sale financial assets fell by 3.0 percentage points, while the proportion of loans and advances to customers decreased by 2.7 percentage points.

8.3.2 Nova KBM d.d.

Financial results of Nova KBM

For 2011, the Bank reported a **pre-tax loss from continuing operations** of €104,018,000. The **net loss** was €83,975,000, after taking account of deferred taxes. Compared to the figures reported for 2010, the following items contributed the most to the poor 2011 results: higher provisions and impairment losses (up €90.0 million), lower net interest income (down €10.8 million), lower fee and commission income (down €6.4 million), and other net operating income or loss and other items (down €9.7 million). The Bank's **profit from continuing operations before provisions and impairment losses** totalled €54,166,000, down €25.4 million from 2010.

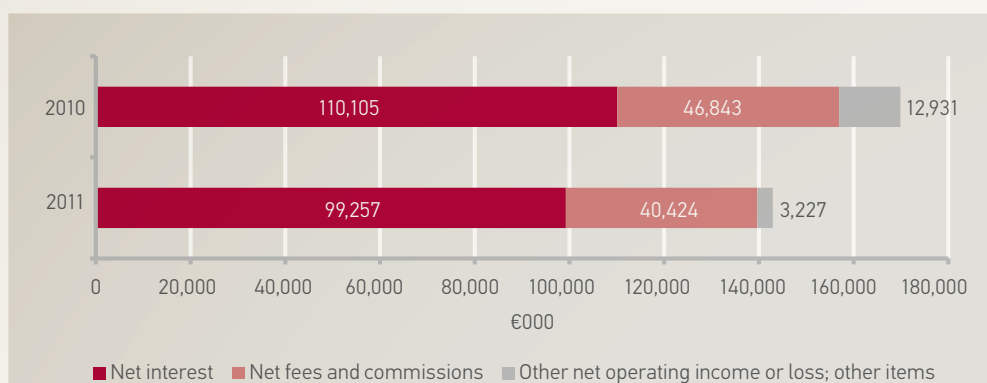
STRUCTURE OF NOVA KBM'S STATEMENT OF INCOME



In 2011, financial and operating income and expense¹⁸ totalled €142,621,000, a decrease of 15.9% from 2010, mainly due to a decline in net interest income and net fee and commission income. Lower other net operating income also had a negative effect on this income category. Higher dividend income than in 2010 (up €3.3 million) had a positive effect on financial and operating income and expense.

¹⁸ Financial and operating income and expense is the sum of the following items: net interest; net fees and commissions; dividend income; realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss; net gains/losses on financial assets and liabilities held for trading; gains/losses on financial assets and liabilities designated at fair value through profit or loss; net exchange rate differences; net gains/losses on derecognition of assets excluding non-current assets held for sale; other net operating income/loss.

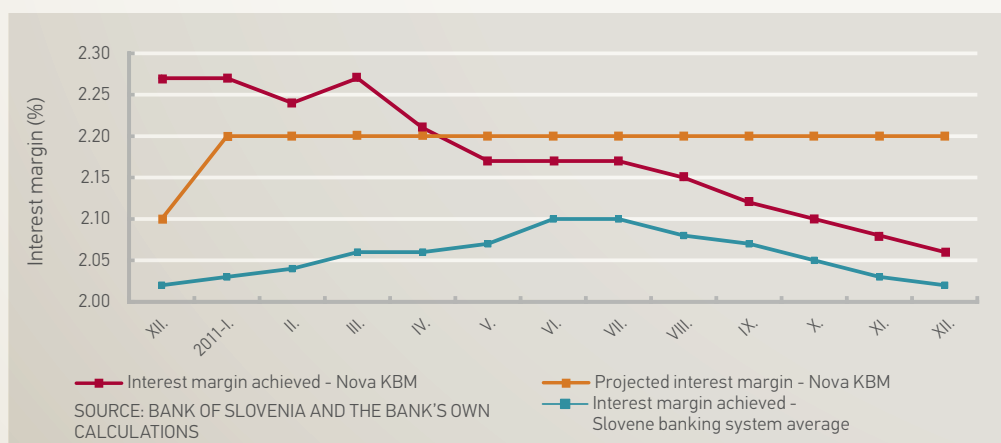
NET FINANCIAL AND OPERATING INCOME



Net interest income totalled €99,257,000, a decrease of €10,848,000 from 2010, mostly due to a decline in interest margin. Interest income increased by 2.5%, while interest expense and similar expense registered a 17.2% increase.

The **interest margin**, calculated on the average total assets, gradually declined in 2011 by 0.22 percentage points to reach 2.05% at the end of the year. For the banking system as a whole, the average interest rate on assets increased by just over 6% in 2011, while the interest rate on deposits went up by more than 12%. In 2011, the interest margin of the Bank started coming down to the average interest margin of the banking system and was no longer as much above the average level as in previous years.

INTEREST MARGIN BY MONTH



Dividend income was €8,800,000, which was above the figure reported for 2010. Dividends received from companies in the Group accounted for 66.6% of the total dividend income.

Net fees and commissions totalled €40,424,000, down 13.7% on 2010. Compared to 2010, fee and commission expense went up by 60.7% (€3.6 million), while fee and commission income decreased by 5.4% (€2.8 million).

The Bank covered 45.6% of its operating costs with net fees and commissions. **Fee and commission income** amounted to €49,944,000. Most of this amount related to fees earned on other services (39.7% – mostly fees relating to card operations and transactions on current accounts), followed by fees for local payments (29.3%) and fees charged on loans (15.2%). A decrease in fees charged on loans was the main reason for weak fee and commission income. Compared to 2010, fees charged on loans decreased by 27% as a result of a decline in loans given to households and non-financial companies. The Bank adopted a tighter lending policy and was not willing to take on additional risks, which led to reduced lending volumes and a decrease in fees earned on loans. Also, the priority in granting loans was given mainly to customers with higher credit ratings. Other types of fees earned remained approximately at the 2010 level. **Fee and commission expense** was €9,520,000, of which 71.5% related to fees paid for banking services abroad and 12.6% to fees paid for banking services at home. Year-on-year, fee and commission expense rose mainly due to a more than four times higher fees for banking services abroad, which was mostly the result of an 8% increase in the volume of international business, and of the payment of fees related to the early repayment of a term loan facility.

Net gains on financial assets and liabilities held for trading totalled €3,188,000, mainly as a result of **net gains on trading in derivatives** in the amount of €2,639,000, which derived mostly from the valuation of currency forwards (used by the Bank for economic hedging of currency risk) and the valuation of other forward contracts. **Net exchange rate gains** totalled €2,202,000.

Net loss on financial assets and liabilities designated at fair value through profit or loss was €7,135,000, as a result of net impairment of equities.

Other net operating loss totalled €2,963,000 (2010: net income of €3,861,000). Most of this loss was generated at the end of 2011 when the Bank had to account for tax expenses in the amount of €3,563,000 (relating mainly to the tax on real estate transactions to be paid when purchasing land, and the balance sheet tax).

Operating costs (administration costs and depreciation and amortisation) totalled €88,742,000, down 1.8% on 2010. Administration costs fell by 3.4%, offset by an 8.5% increase in depreciation and amortisation. Staff costs accounted for the largest proportion of operating costs (48.8%). Their share in total operating costs declined by 2 percentage points relative to 2010.

Net provisions and impairment losses amounted to €158,184,000, an increase of €90.0 million from 2010. Impairment losses on securities increased by €30,978,000 and impairment losses on investments in subsidiaries increased by €16,421,000. Impairment losses on loans and advances and provisions for off-balance sheet items increased by €41,951,000 relative to 2010. In 2011, **net impairment losses on loans and advances** totalled €93,078,000, or 65.4% of the total impairment losses. The quality of the loan portfolio deteriorated most at the end of 2011, when the economic conditions sharply worsened. During 2011, 17.2% (€746.3 million) of the total credit exposure was downgraded, while the rating category was changed for 19.4% of the total credit exposure. 2% of the total credit exposure was upgraded by one category and only 0.3% of the total credit

exposure was upgraded by more than one category. 13.2% of the total credit exposure was downgraded by one category and 4.0% was downgraded by more than one category.

Income tax expense related to continuing operations totalled €20,043,000 and was made up of the income from deferred tax in respect of the 2011 tax loss, in the amount of €11,256,000, and the income from deferred taxes in respect of other items, mainly impairment of securities and investments in equity of companies in the Group, in the amount of €8,787,000. Due to a tax loss of €56,280,000, no tax liability in respect of income from continuing operations has been accounted for by the Bank.

The Bank reported a **total comprehensive loss after tax** of €99,452,000 for 2011, 84.4% of which related to the net loss for the financial year and 15.6% related to other comprehensive income after tax.

Financial position of Nova KBM

As of 31 December 2011, the **total assets** of the Bank amounted to €4,811,091,000, up €4,580,000 on 2010. The May 2011 capital raising and the increase in customer deposits helped the Bank maintain the level of its total assets unchanged.

AT THE END OF 2011, THE BANK'S TOTAL ASSETS AMOUNTED TO €4.8 BILLION, APPROXIMATELY THE SAME FIGURE AS AT THE 2010 YEAR-END.

STRUCTURE OF THE BANK'S LIABILITIES AND EQUITY AS OF 31 DECEMBER 2010 AND 2011

Item description	31.12.2010 (€mln)	% of total liabilities and equity as of 31.12.2010	31.12.2011 (€mln)	% of total liabilities and equity as of 31.12.2011	Change (€mln)	Change in the structure of liabilities and equity (percentage points)
1	2	3	4	5	6 = 4 - 2	7 = 5 - 3
Deposits and loans from customers	3,024.9	62.9	3,066.2	63.7	41.3	0.8
Deposits and loans from banks	1,135.1	23.6	1,103.7	22.9	(31.4)	(0.7)
Debt securities	44.4	0.9	27.9	0.6	(16.5)	(0.3)
Provisions	15.7	0.3	31.3	0.7	15.6	0.4
Subordinated liabilities	178.0	3.7	178.0	3.7	0.0	(0.0)
Other liabilities	33.2	0.7	30.3	0.6	(2.9)	(0.1)
Total equity	375.3	7.8	373.7	7.8	(1.5)	(0.0)
TOTAL	4,806.5	100.0	4,811.1	100.0	4.6	0.0

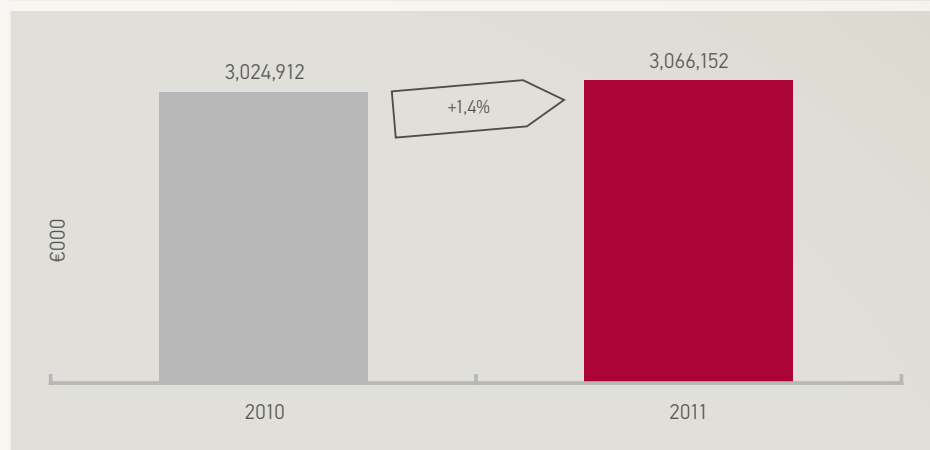
Deposits from the state and deposits from households contributed the most to the increase in the **Bank's liabilities**. The increase in deposits from the state was related mainly to deposits from the Ministry of Finance. Deposits from non-banking companies and deposits from other financial organisations affected negatively the growth in total customer deposits.

The decrease in **total equity** as a result of the net loss for 2011 was offset by the May 2011 capital raising.

Deposits and loans from banks decreased in 2011 mainly due to the Bank repaying €334,945,000 of loans to foreign banks. The Bank substituted this funding source with an increased proportion of deposits from the

central bank, which went up by €240,316,000 year-on-year. Deposits from banks increased by €55,181,000 and financial liabilities associated to transferred assets went up by €8,022,000.

NOVA KBM'S DEPOSITS AND LOANS FROM CUSTOMERS (AS OF 31 DECEMBER)



The total amount of **debt securities** decreased due to the November maturity of KBM7 bonds.

STRUCTURE OF THE BANK'S ASSETS AS OF 31 DECEMBER 2010 AND 2011

Item description	31.12.2010 (€mln)	% of total assets as of 31.12.2010	31.12.2011 (€mln)	% of total assets as of 31.12.2011	Change (€mln)	Change in the structure of assets (percentage points)
1	2	3	4	5	6 = 4 - 2	7 = 5 - 3
Loans and advances to customers	3,505.9	72.9	3,342.1	69.5	(163.7)	(3.5)
Available-for-sale financial assets	685.9	14.3	523.9	10.9	(162.0)	(3.4)
Loans and advances to banks	213.7	4.4	182.4	3.8	(31.3)	(0.7)
Held-to-maturity financial assets	78.9	1.6	339.8	7.0	260.9	5.4
Investments in Group companies	94.4	2.0	102.0	2.1	7.6	0.1
Financial assets designated at fair value	16.3	0.3	37.9	0.8	21.6	0.4
Financial assets held for trading	2.8	0.1	8.4	0.2	5.6	0.1
Other assets	208.7	4.3	274.4	5.7	65.7	1.4
TOTAL	4,806.5	100.0	4,811.1	100.0	4.6	0.0

The increase in **held-to-maturity financial assets** was mainly due to the purchase of non-current debt securities and the Republic of Slovenia treasury bills.

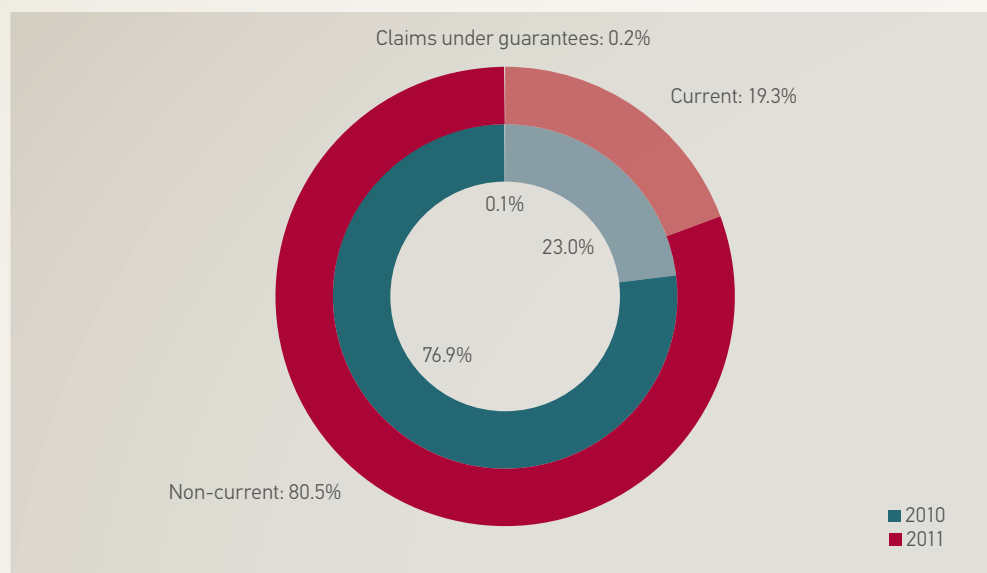
Year-on-year, **available-for-sale financial assets** decreased mostly as a result of the maturity of debt securities.

The growth in **other assets** was driven mainly by the increase in inventories of real estate received for the repayment of debts, and the increase in cash and deposits with the central bank.

Financial assets designated at fair value through profit or loss include debt securities and equities for which the Bank has entered into forward sale agreements.

The decline in **loans and advances to banks** related to a decrease in current funds that the Bank was placing with other banks, depending on its liquidity position.

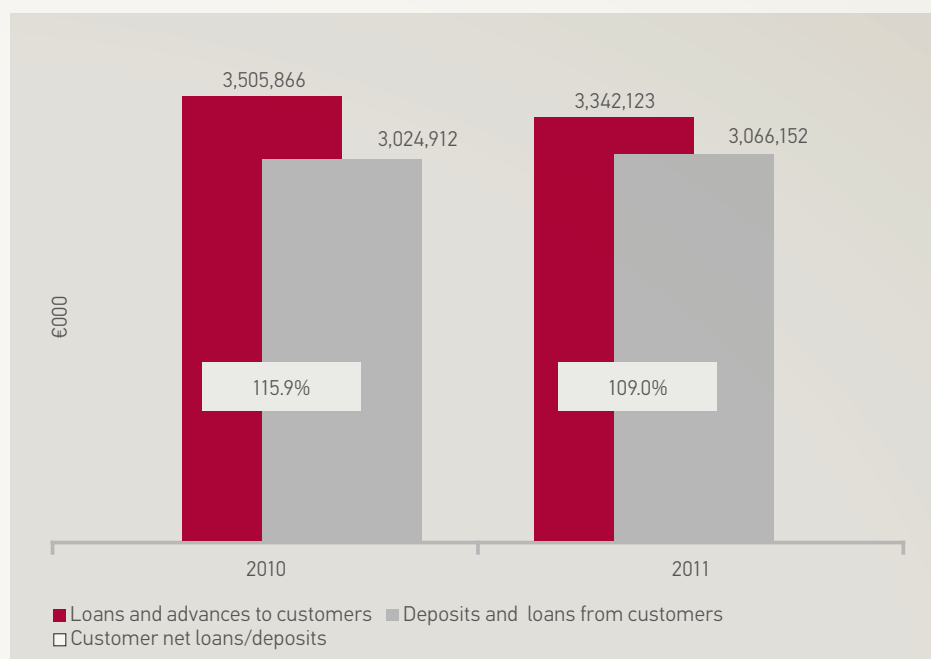
STRUCTURE OF NOVA KBM'S LOANS AND ADVANCES TO CUSTOMERS, BY MATURITY
(AS OF 31 DECEMBER)



As regards the changes in the structure of **loans and advances** given by the Bank **to the non-banking sector**, non-current loans to customers increased at the expense of current loans. In 2011, a decrease in loans and advances was registered in most segments. Loans and advances to customers declined mainly due to tight lending conditions, the difficult economic situation, and additional impairment losses.

Investments in equity of subsidiaries, associates and joint ventures increased year-on-year by 8.0%, or €7,615,000, mainly due to the capital injection into Zavarovalnica Maribor, Credi banka, KBM Infond, KBM Leasing and KBM Leasing Hrvatska, partially offset by impairment of investments in subsidiaries. Further details about this topic are set out in the Financial Report.

CUSTOMER NET LOANS-TO-DEPOSITS RATIO OF NOVA KBM (AS OF 31 DECEMBER)



The customer net loans-to-deposits ratio of the Bank declined by 6.9 percentage points to 109.0% at the end of 2011.

8.4 PROFILE OF NOVA KBM GROUP COMPANIES¹⁹

The Group is composed of the parent company, i.e. Nova KBM, nine companies headquartered in Slovenia, a company headquartered in Austria, two companies headquartered in Croatia, and a company headquartered in Serbia. As evidenced by the table below, the banking division and the leasing and real estate activity division generated a net loss in 2011, while the performance of the fund management division and the insurance division had a positive effect on the Group's results.

2011	Company	Number of employees	Net profit/(loss) (€000)	Total assets (€000)	ROAE after tax	ROAA after tax
Banking	Nova KBM	1,346	(83,975)	4,811,091	(19.63%)	(1.74%)
	PBS	234	2,484	826,030	5.55%	0.30%
	Adria Bank	29	(96)	229,771	(0.25%)	(0.04%)
	Credy banka	403	282	128,546	1.24%	0.24%
Insurance business	Zavarovalnica Maribor ¹	875	10,557	760,989	12.79%	1.39%
Fund management	KBM Infond	33	728	17,627	8.40%	6.74%
	Moja naložba ¹	14	410	135,038	6.32%	0.31%
Leasing	KBM Leasing	11	(6,691)	148,281	(271.26%)	(4.85%)
	Gorica Leasing	14	44	91,460	1.70%	0.05%
	KBM Leasing Hrvatska	8	(835)	47,504	–*	(1.90%)
Real estate activity	KBM Fineko	11	283	3,993	12.68%	5.41%
	KBM Invest	10	(1,193)	48,723	(26.14%)	(2.60%)
	KBM Projekt	3	70	11,747	–*	0.17%
Other activities	M-Pay	0	13	186	7.30%	7.26%

¹ Associated company.

* Not calculated due to negative average capital.

Within the banking division of the Group, a loss from continuing operations in 2011 was reported by Nova KBM and Adria Bank, while PBS and Credy banka delivered a net profit from continuing operations last year. The net loss from continuing operations generated by the banking division was mainly due to high impairment losses as a result of the deteriorating loan portfolios. For further details regarding the quality of the loan portfolio, see the Financial Report.

The economic downturn had a negative effect on the performance of the leasing companies. KBM Leasing made a net loss of €6,691,000 in 2011. At the outbreak of the crisis, the company had most of its investments tied to real estate property, mainly in the construction industry. As a result of a large inventory of seized equipment, the company experienced unexpected costs, the amount of which had a significantly negative impact on the results of the company. Similarly difficult market conditions in Croatia affected the operations of KBM Leasing Hrvatska, which reported a net loss of €835,000.

¹⁹ The data in this section refer to the stand-alone financial statements of the Group companies.

A decline in the demand for real estate, which led to weaker sales and price falls, was one of the consequences of the current economic conditions that affected the operations of the real estate division of the Group. Within this division, KBM Invest was hit most severely by the economic crisis and reported a net loss of €1,193,000 for 2011. KBM Projekt ended 2011 with a net profit of €70,000 as a result of selling plots of land.

{ *Poštna banka Slovenije d.d.* }

Year of establishment: 1991

Website: www.pbs.si

E-mail: info@pbs.si

YEAR ENDED:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	55	55	
Management Board:	President: Drago Pišek Member: Viktor Lenče		
Number of employees:	234	233	100
Net profit (€000):	2,484	5,147	48
Total equity (€000):	45,386	43,952	103
Total assets (€000):	826,030	818,496	101
Market share (%):	1.7	1.6	106
ROAE before tax (%):	6.99	15.05	46
ROAE after tax (%):	5.55	12.17	46
ROAA before tax (%):	0.38	0.78	49

Activity

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

2011 business analysis

Throughout 2011, PBS continued to perform well in spite of the economic downturn. It has not accomplished all of its goals, yet the results of its performance last year were better than those reported by the banking system as a whole.

At the end of 2011, the total assets of PBS amounted to €826,030,000, an increase of €7,534,000, or 1%, from the previous year. The largest nominal increase on the funding side of the business was recorded in financial liabilities to the central bank, which went up by €45,013,000, offset by a decrease of €36,920,000 in deposits and loans from banks and a decrease of €4,172,000 in debt securities. The assets side of the statement of financial position saw the largest growth in loans and advances, which went up by €24,037,000, of which €17,511,000 was related to loans and advances to banks, and €6,526,000 was related to loans and advances to customers. In nominal terms, the most significant decline was recorded in available-for-sale financial assets, which shrank by €11,905,000, and in cash and balances with the central bank, which decreased by €9,569,000.

PBS reported a net interest income of €24,948,000 for last year, up 1% on the previous year. Net fee and commission income totalled €8,713,000, down 4% on 2010, due to a decrease in the volume and value of payment transactions made in cash at post offices, and the January 2011 increase in fees charged by Pošta Slovenije d.o.o. for its services. Financial assets and liabilities held for trading generated a net loss of €663,000:

a net loss of €1,002,000 made on securities was partially offset by a net gain of €339,000 generated on foreign currency trading. Other operating net loss, including exchange rate differences and dividend income, totalled €644,000. Compared to the same period last year, this income item fell by €1,304,000, due to lower proceeds from bankruptcy estates, losses generated on the sale of real estate received as repayment for loans, and the new balance sheet tax that was imposed last year. Operating costs were €17,515,000, up 5% on 2010, mainly as a result of increased costs related to the replacement of a large number of bank cards, extensive maintenance work, maintenance and upgrade of IT systems, costs of training needed for the implementation of Nova KBM's IT strategy, and higher costs related to marketing activities and sales promotions.

The most negative effect on the 2011 results of PBS came from the deteriorating quality of its loan portfolio as a result of adverse economic and financial conditions in Slovenia and also internationally. Net impairment losses and provisions totalled €11,710,000, up 2% on the previous year.

For 2011, PBS reported a pre-tax profit of €3,129,000 from continuing operations. Net profit was €2,484,000, or 48% of the figure reported for the previous year, providing ROAE after tax of 5.55%.

Business policy

In 2012, PBS will focus on the implementation of its development strategy, on enhanced marketing activities in cooperation with Pošta Slovenije d.o.o., and on the accomplishment of the Group's strategic development objectives set for the banking division. In view of aggravated economic conditions, PBS does not project any increase in business volumes; nevertheless, it will continue to pursue safety- and stability-oriented operations while maintaining sufficient liquidity reserves, capital adequacy and profitability. According to the business plan adopted in December 2011, PBS projects for 2012 a 2% growth in customer loans and a 3% increase in customer deposits. Net profit is projected at €3,380,000, while ROAE after tax is projected at 7.06%.

{ *Adria Bank AG* }

Year of establishment: 1980
 Website: www.adriabank.at
 E-mail: headoffice@adriabank.at

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	50.54 ²⁰	50.54	
Management Board:	President: Gregor Kaiser Member: A. M. Burghardt		
Number of employees:	29	29	100
Net profit/(loss) (€000):	(96)	2,333	
Total equity (€000):	36,355	38,856	94
Total assets (€000):	229,771	231,654	99
Market share (%):	0.03	0.03	100
ROAE before tax (%):	(4.83)	11.30	
ROAE after tax (%):	(0.25)	5.98	
ROAA before tax (%):	(0.82)	1.91	

²⁰ The Group's share in voting rights of Adria Bank accounts for 50.54%, while its share in the paid-up capital of Adria Bank equals 46.65%.

Activity

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

2011 business analysis

For 2011, Adria Bank reported net interest income of €8,516,000. The interest margin, calculated on the average total assets, was 3.69%. Net fee and commission income reached €1,174,000. Net fees and commissions covered 27.75% of the bank's administration costs, including depreciation and amortisation.

Total administration costs increased in relation to the previous year. The main reason for this increase was price inflation in Austria (3.3% in 2011).

As a result of a slower than projected recovery of the economy, which caused the bank's loan portfolio to deteriorate further, Adria Bank had to recognise provisions and impairment losses of €7,102,000.

The bank's pre-tax loss from continuing operations in 2011 was €1,825,000. Despite the fact that the amount of deferred tax charged to the 2010 statement of income was too high and therefore realised in 2011, the bank generated a net loss of €96,000.

As of 31 December 2011, net loans and advances to banks totalled €41,904,000, an increase of €3,525,000 from the 2010 year-end. Loans and advances to customers totalled €151,945,000, down €1,358,000 on 2010.

Deposits from banks amounted to €181,193,000 at the end of 2011, up €341,000 on 2010.

Business policy

As in the past, Adria Bank will continue to focus its operations on the markets of Slovenia and Croatia. The bank is active also in other markets of SE Europe as well as in Russia. Over the following years, the bank will strive to increase the number of customers in the south Balkan region and to widen its operations in Austria.

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

The bank aims to increase the number of its customers and to further utilise the synergies of the Nova KBM Group in order to increase its assets and the volume of syndicated loans. To meet the funding needs of its customers, Adria Bank will continue acting as an arranger of syndicated loans and private financing in its key markets.

{ *Credy banka a.d.* }

Year of establishment: 1955
 Website: www.credybanka.com
 E-mail: office@credybanka.com

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	76.64 ²¹	72.38	
Executive Board:	President: Predrag Mihajlović Deputy President: Alojz Kovše		
Number of employees:	403	390	103
Net profit/(loss) (€000):	282	(8,106)	
Total equity (€000):	25,668	19,746	130
Total assets (€000):	128,546	101,681	126
Market share (%):	0.5	0.4	125
ROAE before tax (%):	1.21	(54.59)	
ROAE after tax (%):	1.24	(54.47)	
ROAA before tax (%):	0.23	(8.88)	

Activity

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

2011 business analysis

As of 31 December 2011, the total assets of Credy banka amounted to €128,546,000, an increase of 26.4%, or €26,865,000, from 2010. Total equity was €25,668,000, an increase of 30%, or €5,922,000, from 2010. Of the financial liabilities totalling €100,593,000, €5,047,000 related to subordinated liabilities, while customer deposits amounted to €83,411,000, up €20,809,000 on 2010.

Cash and cash equivalents totalled €18,045,000, an increase of €875,000 from 2010. The balance in the bank's giro account at the central bank increased by €261,000, partially offset by a decrease of €20,000 in obligatory reserves in foreign currency. Loans and advances totalled €89,936,000 at the end of 2011, up €22,619,000 on 2010. Loans and advances to banks registered an increase of 30.4%, or €10,214,000, while loans and advances to customers increased year-on-year by 36.8%, or €12,405,000.

For 2011, the bank reported a net operating profit of €282,000, compared to a net loss of €8,106,000 a year earlier.

The 2011 profit was mainly the result of a growth in income due to an increase in the volume of loans and the number of customers, a restrictive income policy, and lower costs owing to several projects not being completed last year, such as a change of the bank's name and the migration to a new IT system.

Net interest income amounted to €5,297,000, compared to €3,051,000 a year earlier. Net fee and commission income was €3,135,000, compared to €3,044,000 in 2010.

²¹ The shareholders' agreement entered into between the Bank and the Republic of Serbia includes a provision under which a 12.89% stake of the Republic of Serbia in Credy banka is subject to a call option available to the Bank and a put option available to the Republic of Serbia. Following the exercise of the option, which is disclosed in other liabilities and the price of which is set at €5,636,000, the shareholding of the Bank in Credy banka will increase to 89.53%, while the shareholding of the Republic of Serbia will fall to 0%.

Administration costs totalled €7,045,000 in 2011, a decrease of €5,026,000 from 2010 when they reached €12,071,000. Of the total administration costs, staff costs amounted to €3,971,000, down €4,386,000 on 2010, while other costs decreased by €640,000.

Net increase in impairment losses and provisions was €297,000, of which €158,000 was related to the impairment of loans and off-balance sheet items, while €139,000 was related to provisions for pending legal issues and employee benefits. In 2010, net increase in impairment losses and provisions totalled €1,942,000, of which €1,731,000 was related to the impairment of loans and off-balance sheet items, while €211,000 was related to provisions for pending legal issues and employee benefits.

As a result of using new impairment methodology, which was developed based on the methodology applied by Nova KBM, additional allowances for impairment had to be made by the bank. A new regulation concerning the classification of assets and off-balance sheet items, adopted by the National Bank of Serbia in December 2011, mitigated the effects of using this new methodology.

In 2011, Nova KBM invested additional capital of €5 million into Credi banka.

Business policy

Main business objectives of Credi banka for 2012 are as follows:

- a 10% increase in deposits
- a 13% increase in loans and advances to customers
- a €5 million increase in subordinated liabilities
- migration to a new IT system.

{ *KBM Infond, družba za upravljanje, d.o.o.* }

Year of establishment: 1993

Website: www.infond.si

E-mail: info@infond.si

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	72.73 ²²	72.73	
Management Board:	President: Matjaž Lorenčič Member: Samo Stonič		
Number of employees:	33	29	114
Net profit (€000):	728	1,052	69
Total equity (€000):	13,595	7,669	177
Total assets (€000):	17,627	9,637	183
Market share (%):	10.85	9.53	114
ROAE before tax (%):	10.50	15.07	70
ROAE after tax (%):	8.40	12.03	70
ROAA before tax (%):	8.43	12.04	70

Activity

At the end of 2011, the company managed two mutual funds, the Infond Umbrella Fund with nine sub-funds, and the Krekov Umbrella Fund with six sub-funds. The list of mutual funds managed by the company is as follows:

- Infond Global, a flexible portfolio fund
- Infond Dynamic, an equity mutual fund
- Infond Umbrella Fund with seven equity sub-funds, one bond sub-fund and one balanced sub-fund
- Krekov Umbrella Fund with four equity sub-funds, one bond sub-fund and one mixed sub-fund.

As of 31 December 2011, net asset value of all mutual funds managed by KBM Infond totalled €194,264,000. According to the available data, the total market capitalisation of all mutual funds managed by companies headquartered in Slovenia was €1,790,114,000 at the end of 2011, so the market share of KBM Infond accounted for 10.85%.

2011 business analysis

For 2011, the company reported a net profit of €728,000, down 31% on 2010. The 2011 pre-tax profit totalled €910,000.

The company's total equity as of 31 December 2011 amounted to €13,595,000, up 83% on the previous year, while its total assets reached €17,627,000, an increase of 77% from 2010.

Business policy

In 2012, the company plans to undertake the following activities:

- the takeover of management of Probanka upravljanje d.o.o. mutual funds
- merger of sub-funds with similar investment policies

²² The shareholding of the Group in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain percentage of its own shares, the Group's share in the capital and voting rights of KBM Infond equals 72.73%.

- merger of three umbrella funds into one umbrella fund
- the removal of the mutual fund, which the company acquired and the units of which are traded on the regulated market, from the regulated market of the Ljubljana Stock Exchange
- compliance of operations with the Investment Trusts and Management Companies Act (ZISDU-2), which came into effect on 2 November 2011, and with implementing regulations issued on the basis of this act
- introduction of new market products
- active communication with existing and potential investors
- addition of new funds to the range of Infond funds that are traded in Slovakia, and entry into the Czech market.

{ *KBM Fineko d.o.o.* }

Year of establishment: 1991

Website: www.nkbm.si/company/6635/KBM-Fineko-d-o-o

E-mail: info@kbm-fineko.si

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	100	100	
Manager:	Zdravka Kašan	Igor Šujica	
Number of employees:	11	11	100
Net profit (€000):	283	240	118
Total equity (€000):	2,350	2,067	114
Total assets (€000):	3,993	5,640	71
ROAE before tax (%):	16.26	14.84	110
ROAE after tax (%):	12.68	11.45	111
ROAA before tax (%):	6.94	6.63	105

Activity

KBM Fineko undertakes inter-related and integral services in the area of collection of claims under loans granted to individuals and SMEs, real estate activity (purchase and sale of real estate and management of real estate owned by Nova KBM), and service and advisory activities (capital investment management, financial and economic advice, and financial control over large investment projects financed by Nova KBM).

2011 business analysis

In spite of unfavourable and unpredictable operating conditions, the company reported good results for 2011. Income was higher than planned, but also income trends were more favourable than a year before. Total income amounted to €2,254,000, up 30% on the previous year. The most favourable results were achieved in the collections of claims, where a 50% increase in income was registered year-on-year. Total expenses were €1,891,000, an increase of 33% over the 2010 figure, as a result of impairment of claims and financial assets, and of increased interest expenses for a loan raised by the company for the payment of claims taken over for recovery and collateralised with real estate. In 2011, impairment of mortgages totalled €357,000 and impairment of financial assets totalled €334,000, meaning that the total impairment losses recognised by the

company amounted to €691,000, up 104% on the previous year. Interest expense was €112,000 last year. The company ended the financial year with a net profit of €283,000, an increase of 18% over the 2010 figure, providing ROAE after tax of 12.68%, ROAA after tax of 5.41%, and a 12.56% return on total income.

As of 31 December 2011, the total assets of the company amounted to €3,993,000, down 29% on 2010. Non-current assets totalled €585,000, an increase of 22% over the 2010 figure. The main reason for this increase was high deferred tax assets as a result of high impairment of claims and financial assets that were not recognised as tax allowable expenses. Current assets totalled €3,408,000, down 34% on 2010, mainly as a result of impairment of current financial assets and current operating receivables. Current assets accounted for 85.4% and non-current assets for 14.6% of the total assets.

Business policy

In spite of uncertain conditions, the company remains true to its guidelines and directions laid down in the adopted strategy. The strategy will be implemented through regular work and strategic projects. Most strategic projects are already being carried out and will continue and be further developed throughout 2012. The project concerning the optimisation of debt collection and realisation of collateral, which the company will continue to develop, has already delivered its first significant results. This confirms the validity of our decision to amend the collection policy, and of the measures and activities we have undertaken. Income growth and optimisation of expenses relating to debt collection represent a major challenge to be dealt with by the company in 2012. Taking into account that based on innovation proposals made in 2011 we have already implemented best practice in our business, it is realistic to believe that the challenges can be met effectively.

Total assets are projected to decrease further. The largest decline is projected for current operating receivables, which are recorded based on the agreement on assigning claims collateralised with real estate, because the first proceeds under writ of execution on real estate are expected to be received by the company. All proceeds will be used for the repayment of the loan the company raised for the payment of claims taken over for recovery.

{ *KBM Invest d.o.o.* }

Year of establishment: 1998
Website: www.kbminvest.si
E-mail: kbm-invest@nkbm.si

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	100	100	
Manager:	Srečko Judar	Mira Flisar	
Number of employees:	10	9	111
Net profit/(loss) (€000):	(1,193)	27	
Total equity (€000):	3,943	5,136	77
Total assets (€000):	48,723	43,589	112
ROAE before tax (%):	(32.48)	0.70	
ROAE after tax (%):	(26.14)	0.52	
ROAA before tax (%):	(3.23)	0.08	

Activity

Within adopted annual investment plans, KBM Invest undertakes investment engineering services and management of large investments of Nova KBM. The company is also engaged in the construction, maintenance and refurbishment of commercial buildings and business premises of the Bank and in the construction of real estate for the market and real estate brokerage services.

2011 business analysis

The results reported by the company for 2011 were below those of the previous year, mainly as a result of adverse economic conditions and the related decline in demand for real estate, which led to weaker sales and lower real estate prices. For 2011, the company reported a net loss of €1,193,000. The sales income was not sufficient to cover the costs of inventory of real estate built for the market.

The current economic situation has also raised some concern in the area of construction investments, causing the real estate market to become inactive. In accordance with the provisions of IFRSs, certain costs incurred by the company had to be transferred directly to expenses, which had a negative effect on the company's results.

For 2011, total income generated by the company amounted to €4,193,000, or 20% of the projection. Net sales amounted to €3,901,000 and were related to the sale of finished goods, as well as to investment engineering services carried out for Nova KBM.

Total expenses of €5,676,000 related to the projects of constructing real estate for the market. Financial expenses of €2,092,000, partially disclosed in operating costs and partially in financing expenses, related to interest on loans raised for the financing of projects and inventory.

The company's total assets as of 31 December 2011 were €48,723,000, up 11.8% on 2010, mainly due to the purchase of a real estate project called 'Studenški razgledi'.

Inventories accounted for 91.5% of the company's total assets.

Business policy

Over the coming years, the company will continue to carry out its activities in accordance with the adopted strategy, thus maintaining a leading position in the construction of real estate for the market in the region, and will undertake investment engineering services for Nova KBM. All planned activities are focused on a further increase in business volumes, on well thought-out governance and management of the company, on providing enhanced service, on financial efficiency, and on risk management.

For 2012, the company projects a total income of €25,620,000 and a loss of €598,000. By using a more aggressive marketing strategy and taking advantage of favourable financing provided by Nova KBM for purchases of real estate, the company will try to accelerate the selling of units in the 'Maistrov dvor' and 'Tara' residential buildings. The company also plans to sell a plot of land in Portorož. Part of the sales projection, in the amount of €10,300,000, relates to the projects which the company, in accordance with the agreement

reached with Nova KBM, intends to purchase from the bankruptcy estate of companies financed by Nova KBM as a mortgagee. The projected purchases from bankruptcy estates will be carried out principally with the purpose of facilitating the selling of inventory from bankrupt estates through KBM Invest. The volume of these transactions will depend on the efficiency with which the receivers work and, consequently, on the amount of property available for purchase in 2012.

{ *KBM Projekt d.o.o.* }

Year of establishment: 1992
Website: www.kbmprojekt.hr
E-mail: kbmprojekt@kbmprojekt.hr

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):			
- direct shareholding of Nova KBM	69.19	69.19	
- KBM Fineko	3.53	3.53	
- KBM Leasing	1.64	1.64	
- KBM Invest	1.64	1.64	
Manager:	Tomislav Blagus		
Number of employees:	3	4	75
Net profit/(loss) (€000):	70	(9,772)	
Total equity (€000):	(11,321)	(11,628)	97
Total assets (€000):	11,747	50,193	23
ROAE before tax (%)*:	—*	—*	
ROAE after tax (%)*:	—*	—*	
ROAA before tax (%):	0.17	(17.81)	

* Not calculated due to negative average capital.

Activity

KBM Projekt undertakes real estate operations, investment engineering, project financing and, since July 2009, factoring.

2011 business analysis

The principal objective of the company in 2010 was the rehabilitation of its financial position. Since this objective was not achieved in 2010, the company continued implementing measures concerning this objective throughout 2011. Principal measures adopted in this respect envisaged divestment of building sites owned by the company at prices that would ensure a positive business result, a reduction in the company's borrowings, and, consequently, the strengthening of the company's financial position.

To that effect, a mixed-use building site of 569,000 square metres, at four locations (Gornja Zdenčina, Donja Zdenčina, Samobor and Slavonski Brod), was purchased by Nova KBM. The purchase price was €39,934,000, which corresponded to a price level assessed by a licensed appraiser. The difference between the purchase price and the sales price, amounting to €7,292,000, was recognised as income of the company.

From the proceeds received, the company paid interest of €8,582,000 and the principal of a loan in the amount of €31,352,000. Following this sale, the company still owns plots of land in Gornja Zdenčina and Donja

Zdenčina measuring 218,000 square metres, which will also be sold to the Bank once legal requirements are met.

In the second half of 2011, the company faced difficulties with respect to the payment of receivables purchased under factoring arrangements. As a result, the company decided to reduce the volume of these operations to a minimum, i.e. to the level required for closing the transactions already in process.

In 2011, the company generated income of €7,934,000 and expenses of €7,864,000, which provided a net profit of €70,000.

Business policy

Owing to significant difficulties in its operations, high risk, and the company's failure to accomplish its objectives, Nova KBM, as the largest shareholder, decided to dissolve the company in 2012. The company will terminate its operations as soon as it repays all of its liabilities and when legal requirements for dissolving the company are met. The company considers these requirements will be fulfilled by the end of 2012.

{ *KBM Leasing d.o.o.* }

Year of establishment: 1989
Website: www.kbm-leasing.si
E-mail: leasing@nkbm.si

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	100	100	
Manager:	Igor Šujica	Boris Cekov	
Number of employees:	11	13	85
Net (loss) (€000):	(6,691)	(3,399)	
Total equity (€000):	270	3,960	7
Total assets (€000):	148,281	130,720	113
Market share (%):	3.49	1.76	198
ROAE before tax (%):	(338.52)	(75.04)	
ROAE after tax (%):	(271.26)	(60.05)	
ROAA before tax (%):	(6.05)	(3.31)	

Activity

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

2011 business analysis

Compared to 2010, the company increased the volume of newly concluded agreements from €29 million to €57 million, of which €35 million related to the Mercator shopping centre project, which has already been completed. Due to a high volume of seized equipment, the company incurred significant unexpected costs that adversely affected its operations. Year-on-year, the number of employees decreased by two, which also led to a reduction in staff costs. The average indebtedness in 2011 was higher than a year before, mainly as a result of financing the construction of the Mercator Shopping Centre.

Interest expense increased relative to 2010, due to an increase in both the reference and the real interest rate. Interest income decreased year-on-year as a result of the termination of agreements due to lessees not paying their obligations, and of taking over the possession of lease objects. Financial expenses for impairment and write-offs of bad loans decreased relative to 2010, but still accounted for almost 50% of expenses of the company. For 2011, the company reported a loss of €1,776,000 before impairment losses and provisions. The company's pre-tax loss after impairment losses and provisions totalled €8,350,000.

Business policy

For 2012, the company targets a pre-tax loss of €525,000. Operating costs are projected to remain flat at the 2011 level, while impairment of bad loans is projected at €626,000. The company plans to restructure its assets, so that 90% of its assets will be interest-bearing after 2012. Proceeds received from the sale of inventory will be earmarked for new investments. Total assets are projected to reach €147 million by the end of 2012.

{ *Gorica Leasing d.o.o.* }

Year of establishment: 1998
Website: www.gorica-leasing.si
E-mail: info@gorica-leasing.si

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	100	100	
Manager:	Marko Černe		
Number of employees:	14	16	87
Net profit/(loss) (€000):	44	(1,281)	
Total equity (€000):	2,815	2,771	102
Total assets (€000):	91,460	90,489	101
Market share (%):	0.80	0.91	88
ROAE before tax (%):	2.24	(46.75)	
ROAE after tax (%):	1.70	(37.55)	
ROAA before tax (%):	0.06	(1.76)	

Activity

Gorica Leasing offers finance leasing of moveable property (private and commercial vehicles, transport equipment, machines), finance leasing of technological equipment (computer, medical, communication), gaming equipment and office equipment, finance and operating leasing of real estate, and investment leasing in respect of efficient use of energy.

2011 business analysis

The company recorded growth throughout the year, with total income increasing by as much as 53% year-on-year. Total expenses climbed as well, by 14% relative to the previous year. The amount of impairment losses and write-offs of €2,005,000 is considered to be adequate, since impairment losses of €293,000 were reversed during the same period. Depreciation and amortisation decreased by 13% relative to 2010 because the company stopped taking out new operating leases.

The company's total assets increased by €971,000, or 1.01%, while the total assets per employee increased by

€672,000, or 10.08%. The discrepancy between operating income and operating expenses, which provided a profit of €2,044,000, had the most significant impact on the financial result of the company. The loss from financing (including impairment losses) totalled €1,986,000; the profit from financing without taking account of impairment losses was €19,000.

For 2011, the company delivered a pre-tax profit of €58,000 and a net profit of €44,000.

Business policy

In 2012, the company will sell a project involving the construction of a condominium of 24 twin houses in Brdo near Kranj, and will start selling apartments in a residential building at Smoletova street in Ljubljana. Further, it will begin activities for selling the student apartments at Partizanska cesta in Ljubljana, as well as activities for selling other commercially attractive investment property. As regards the construction projects (48 apartments in Tolmin and four twin houses in Vanganel), the company will, if these are not sold, once again check the possibility of continuing the project activities in order to minimise the loss.

The company will in 2012 focus even more on the financing of investment projects for the efficient use of energy, the repayment of which is based on operational subsidies provided by the state-controlled ECO fund. It will also try to obtain funding for that purpose from foreign banks.

{ *KBM Leasing Hrvatska d.o.o.* }

Year of establishment: 2006
Website: www.kbm-leasing.hr
E-mail: info@kbm-leasing.hr

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	94.38	90	
- direct shareholding of Nova KBM	5.62	10	
- KBM Leasing			
Management Board:	President: Danilo Sitar Member: Koraljka Kociančić		
Number of employees	8	8	100
Net (loss) (€000):	(835)	(2,087)	40
Total equity (€000):	490	(1,097)	
Total assets (€000):	47,504	42,954	111
ROAE before tax (%)*:	—*	—*	
ROAE after tax (%)*:	—*	—*	
ROAA before tax (%):	(1.90)	(4.87)	

* Not calculated due to negative average capital.

Activity

KBM Leasing Hrvatska offers finance and operating leasing of real estate and equipment in the territory of the Republic of Croatia.

2011 business analysis

At the end of 2011, the total assets of the company amounted to €47,504,000, up 10.6% on 2010. Total income was €4,708,000 last year, while total expenses reached €5,543,000.

For 2011, the company reported a net loss of €835,000.

The main reasons for the loss were the same as a year before: low business volumes due to the economic crisis and limited funding sources, compressed net interest margin, inventory of equipment seized under lease agreements, additionally recognised impairment losses, and accounting for exchange rate differences.

The active portfolio of the company amounted to €43,163,000, of which real estate accounted for 42.6%, equipment for 29.5%, personal vehicles for 5.9%, vessels for 1.3%, buses and cargo vehicles for 8.3%, inventory of equipment seized under lease agreements for 2.1%, claims under terminated agreements for 9.2%, and claims for which a charge has been filed accounted for 1.1%.

Finance leasing made up 96% and operating leasing 4% of the company's business.

Business policy

The company projects total assets of €54,960,000 at the end of 2012. Total income will be €4,301,000 and total expenses will be €4,210,000, providing a pre-tax profit of €91,000.

To accomplish these objectives, the company will conclude new business arrangements worth €14,800,000. Net indebtedness will increase by €9,800,000 and the repayment of principal of loans contracted in the past will amount to €5,088,000.

The number of employees will remain flat at 8.

{ M-Pay d.o.o. }

Year of establishment: 2004

Website: www.moneta.si

E-mail: dkorosec@nkbm.si

Year-ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	50	50	
Manager:	Dean Korošec		
Net profit (€000):	13	9	144
Total equity (€000):	185	172	108
Total assets (€000):	186	172	108
ROAE before tax (%):	8.98	7.16	125
ROAE after tax (%):	7.30	5.37	136
ROAA before tax (%):	8.94	7.14	125

Activity

M-PAY acts in accordance with the strategy of the owners as a coordinator of the development of the Moneta system. It provides advisory services to both owners and strategic partners pursuant to the agreement entered into, from which all its income is derived, as disclosed in the financial statements.

2011 business analysis

During 2011, the company provided some additional services and contributed significantly to the integration of some larger providers into the Moneta system.

Business policy

In 2012, the company will focus further on the coordination of technical aspects of its business to acquire new partners for the system.

{ Moja naložba, pokojninska družba, d.d. }

Year of establishment: 2000
Website: www.moja-nalozba.si
E-mail: info@moja-nalozba.si

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	45	45	
Management Board:	President: Lojze Grobelnik Member: Igor Pšunder		
Number of employees:	14	16	88
Net profit (€000):	410	816	50
Total equity (€000):	6,431	6,259	103
Total assets (€000):	135,038	125,485	108
Market share (%):	10	10	100
ROAE before tax (%):	6.32	13.95	45
ROAE after tax (%):	6.32	13.95	45
ROAA before tax (%):	0.31	0.72	43

Activity

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

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

2011 business analysis

In spite of the continuing economic downturn, the company delivered good performance in 2011. The number of policy holders increased marginally to 35,265 at the end of 2011, despite a possibility offered to policy holders to terminate their insurance after a 10-year insurance period and to withdraw their funds in a lump sum. Twenty-eight insurance holders who had met the criteria to terminate their insurance on a regular basis took out supplementary pension annuity insurance. The company pays supplementary annuities to these persons in accordance with their requests. In 2011, 37 new employers joined the pension scheme of the company, up 7%

on 2010, bringing the total number of employers that have joined the company since the start of its operations to 553.

The company's total assets increased year-on-year by 8%, mainly as a result of growth in assets under financial agreements, which include a long-term business fund for pension savings managed by the company. The total premium paid into the long-term business fund for pension savings remained roughly at the 2010 level, while the company started collecting premiums for the long-term business fund for annuity insurance in 2011. Operating income increased by 25% relative to the previous year, while operating expenses increased by 5% year-on-year. The financial result of the company was down 2% from the previous year. For 2011, the company reported a net profit of €410,000, compared to €816,000 reported for 2010, which means a decrease of 50%. Other expenses which affected the result amounted to €526,000 and were related to the creation of liabilities to the long-term business fund for pension savings as a result of not meeting the guaranteed return. The liabilities were settled in January 2012.

Business policy

The key competitive advantage of Moja naložba is providing an efficient balance between safety (sound shareholding structure, above-average guaranteed return) and the return of assets managed (active asset management, above-average return under any market conditions). The company will build the efficiency of its business and commercial activities on its long-term ranking among the most successful comparable providers of voluntary supplementary pension insurance in terms of return. The accomplishment of this objective will improve the reputation of the company and the confidence of customers in its operations, which will ensure the company attains a more favourable position in the area of selling voluntary supplementary pension insurance.

Taking into account the adverse market conditions in 2010 and 2011, the Management Board believes that using more aggressive marketing techniques aimed at retaining existing insurance holders and acquiring new ones is crucial for the company's success. Focusing on these activities will help the company retain its market share. Moreover, the company has the potential to achieve above average results by taking advantage of synergy effects arising from its shareholder structure and from its relationship with companies in the Nova KBM Group.

{ *Zavarovalnica Maribor d.d.* }

Year of establishment: 1991

Website: www.zav-mb.siE-mail: info@zav-mb.si

Year ended:	31.12.2011	31.12.2010	Index 11/10
Nova KBM's shareholding (%):	51.00%	49.96%	
Management Board:	President: Drago Cotar Members: Borut Celcer, Srečko Čarni, David Kastelic, Marko Planinšec	President: Drago Cotar Members: Srečko Čarni, David Kastelic, Marko Planinšec	
Number of employees:	875	874	100
Net profit (€000):	10,557	10,595	100
Total equity (€000):	87,540	77,867	112
Total assets (€000):	760,989	734,042	104
Market share (%):	12.6	12.4	102
ROAE before tax (%):	17.73	19.60	91
ROAE after tax (%):	12.79	14.60	88
ROAA before tax (%):	1.93	2.01	96

Activity

Zavarovalnica Maribor is a composite insurance company providing life and non-life insurance services. It offers products to businesses and citizens through 10 outlets in the territory of the Republic of Slovenia.

2011 business analysis

In 2011, the insurance company collected gross premiums worth €263,244,000. Gross indemnities of €140,022,000 were accounted for.

In the area of non-life insurance, gross premiums collected amounted to €187,839,000, a decrease of €451,000, or 0.2%, from 2010.

Gross indemnities of €102,530,000 for non-life insurance policies were accounted for, a decrease of €8,594,000, or 7.7%, from 2010.

As for the life insurance segment, gross premiums collected in 2011 amounted to €75,405,000, up €4,096,000, or 5.7%, on 2010. The current sales of life insurance policies is monitored through the annual premiums of newly taken out insurance policies, which last year amounted to €13,161,000, a decrease of €2,835,000, or 17.7%, from 2010.

In the area of life insurance, during 2011 the company paid out gross indemnities of €37,492,000, a decrease of €2,667,000, or 6.6%, from 2010.

Operating costs were €73,686,000, up €1,472,000, or 2.0%, on 2010. The proportion of operating costs in gross premium was 28.0% in 2011.

For 2011, the company reported a net profit of €10,557,000, of which €8,936,000 was generated in the non-life insurance segment and €1,621,000 was generated in the life insurance segment.

Business policy

For 2012, the company plans to collect gross premiums worth €267,825,000, which is 1.7% above the 2011 figure. In the area of sales, the focus will remain on customer segmentation and cross-selling.

In the area of non-life insurance, gross premiums collected will amount to €189,239,000, up 0.8% on 2011. The projected claims ratio stands at 63.3%. The total gross amount of claims paid out is projected at €119,730,000. Two so-called catastrophic events totalling on aggregate €10,000,000 are projected for 2012.

In the area of life insurance, gross premiums collected in 2012 will amount to €78,586,000, up 4.2% on 2011. The company plans to collect annual life insurance premiums totalling €13,270,000. Endowment life insurances, which are expected to increase by 20% in 2012, will continue to have a considerable impact on the active portfolio. The company plans to renew 30% of endowment life insurances in 2012. Claims paid out will amount to €37,839,000, up 0.9% on 2011.

Operating costs are projected at €72,457,000, which will make up 27.1% of gross premium.

The 2012 pre-tax profit is projected at €11,517,000, of which €4,376,000 will be generated in the non-life insurance segment and €7,141,000 will be generated in the life insurance segment. The company will attribute €4,100,000 of the profit to insurance holders.

To ensure more efficient and professional operation and better control of its activities, in 2012 the company will set up a new Loss Processing Department responsible for independent and unified processing of indemnities.

In consultation with re-insurance companies, the company will choose such re-insurance products that will best suit the needs of, and provide protection to, the insurance company.

Adequate security, liquidity and profitability of portfolios will remain the principal goals of the company in respect of its investment activities.

8.5 MARKETING STRATEGY AND MARKETING ACTIVITIES

Throughout 2011, the Nova KBM Group continued to position itself in the market as one of the leading financial groups in Slovenia. By offering a wide range of financial solutions, as well as by cross-selling of products, providing joint offerings and market activities, and organising joint market appearances, both the Bank and other companies in the Group achieved a relatively high level of customer satisfaction and utilised synergy effects within the Group.

CUSTOMERS AND COPING WITH THE VARIETY OF THEIR NEEDS AND WISHES
WERE AT THE CENTRE OF THE BANK'S AND THE GROUP'S ACTIVITIES.

The Nova KBM Group accomplished adopted business objectives by careful planning of marketing activities in all operating segments, which it prepared and coordinated within the Group Marketing and Corporate Communication Board. In so doing, strategic orientations as well as the business policy of the Group were taken into consideration, while at the same time, particular attention was devoted to the adaptation of marketing activities and market appearance to the crisis situation that continued throughout 2011. Customers and coping with the variety of their needs and wishes, which changed due to the crisis situation, have been put at the centre of the Group's activities. The Bank, as the controlling company of the Group, strengthened its advisory role in the area of retail banking, and even more in the corporate banking, thus coming closer to its customers and becoming their partner in reaching important financial decisions.

In 2011, the focus was put on tailoring of services meeting the needs of strategically important target customer groups, providing an entire spectrum of services of the Bank and the companies in the Group, improving the efficiency of existing marketing channels and introducing new ones, and constantly endeavouring to improve the quality of service. By careful planning and through well thought-out implementation of activities, the Bank and the companies in the Group aimed to enhance the satisfaction of existing customers and strengthen the cooperation with them. Every effort was also made for attracting new customers.

The Bank actively controlled its marketing activities by carrying out market research studies. The results of a Slovenia-wide study (Bančni monitor²³) showed that the level of both spontaneous recognition and spontaneous recall of the Bank's advertising had increased, and that the number of respondents who selected Nova KBM as their principal bank remained at the same level as last year. In terms of likeability, Nova KBM was ranked second among all banks. The Bank has also carried out a number of other market research studies, notably some that measured, among other parameters, the market position and customer satisfaction. Several surveys were also conducted among the employees.

In the autumn of 2011, it strengthened its recognition by launching a Slovenia-wide marketing and communication campaign called 'Pripravljeni na jutri' (*Ready for tomorrow*), for which a great variety of communication tools were used. Within the scope of this campaign, the Bank offered its customers, but also other people, the opportunity to check their financial readiness, and provided advice on how to improve it.

In order to improve its products and services, in 2011 the Bank continued to follow trends in the local and foreign markets. Its development activities were focused mainly on modern distribution channels. To follow global trends, the Bank has become more present in the so-called digital world. It has registered itself on social networks, upgraded its web-based services, and enhanced its web presence through innovative advertising, which has enabled it to set up new marketing channels, obtain additional databases, and increase sales to existing customers and acquire new ones. With the aim of establishing a closer relationship with customers, the Bank continued setting up the CRM system and organised different marketing activities and events for the customers.

²³ GfK, Bančni monitor 2011.

In the corporate banking segment, the Bank devoted special attention to advisory services and newly established companies, and started to acquire new customers using a well thought-out approach. To that effect, it cooperated actively with regional Chambers of Crafts and the Entrepreneur Centre. Further, it organised a number of different specialised events for medium- and small-sized companies as well as for sole proprietors.

In collaboration with the companies in the Group, the Bank extended its range of services in the following segments:

Business segment	New products and services or upgrade of existing ones
Savings and investments	• Mutual funds KBM Infond – Infond Frontier • Mutual funds KBM Infond – takeover of funds from Krekova družba d.o.o. • 'Moja renta' (<i>My annuity</i>) by Moja naložba
Loans	• Special package offerings for individual regions
Moneta	• Integration of new providers into the Moneta system • Website 'moneta.si'
Modern distribution channels	• Online banking service Bank@Net • E-accounts
Marketing channels	• Mini statements at ATMs • Corporate website • Website for young people 'Sveta vladar' (<i>Ruler of the world</i>) • Social networks Facebook, YouTube and Skype • Website 'pripravi.se' • Mobile phone facility 'Varčevalnik' (<i>Saver</i>) • Products of Nova KBM at post office counters – 'Kredit takoj' (<i>Instant credit</i>) • Products of PBS at the branches of Nova KBM
Corporate banking	• Entrepreneur Centre

A great deal of attention was devoted in 2011 to the strengthening of communication with young people and to attracting new customers in this segment. To that effect, the Bank undertook a number of marketing activities, of which two were particularly prominent: 'Znanje je sveta vladar' (*Knowledge rules the world*) and 'Več od lajfa' (*Get more from life*). The latter was the first 3D campaign to be carried out in Slovenia. Communication was supported by regular upgrades of the website 'svetavladar.si'. In communication with young people, alternative channels, mainly Facebook and YouTube, were used, in addition to standard ones. The Bank also organised a number of different events for young people.

The Bank regularly communicated with the media and investors, and increased its international recognition by communicating actively in the Polish market.

During 2011, the Bank enhanced its communication with its employees and introduced new forms of communication to that effect. One of these was the internal campaign 'Zaobljubljeni v dobro življenje' (*Lively*), through which it stimulated, on a monthly basis, positive values, socially responsible conduct, and connectedness of employees.

To ensure better information for all employees, enhance the internal flow of information, and to facilitate sales, the Bank started issuing a special Nova KBM Group circular.

THE BANK UPGRADED ITS ONLINE BANKING SERVICE, BANK@NET, AND PROVIDED ITS USERS WITH A NUMBER OF NEW PRODUCTS, OF WHICH E-INVOICES WAS ONE OF THE MOST INNOVATIVE.

In the segment of marketing channels, in 2011 the Bank focused mainly on the upgrading of modern marketing channels, especially Bank@Net, and offered several improvements and new products to the users of this service. To better acquaint users with its online banking service, it released a presentation video of both Bank@Net and the facility 'Moj denar' (*My money*).

As one of the first banks in Slovenia, Nova KBM joined a Slovenia-wide interbank system for the exchange of E-invoices. An E-invoice is issued in a standard electronic form and is equivalent to a paper invoice. It enables a simple payment over Bank@Net, anywhere and anytime. A payment order is created from an E-invoice in one click, which saves time for customers and reduces the chances of mistakes. Using E-invoices is also environmentally friendly as it reduces the consumption of paper and printing ink.

The Bank started offering basic services at its branches for the customers of PBS, thereby further building up the cooperation with PBS.

In support of its sales activities, during 2011 the Bank utilised an integrated marketing communication mix and made full use of all elements of this: sales promotions, direct mail, telephone marketing, service promotions, personal selling, advertising, and public relations. The Bank started with digital advertising on information displays in its new or refurbished branch offices. In addition, it addressed customers through alternative distribution channels, such as mobile phones, electronic mail, web-portals, and social networks. It also launched a facility for mobile phones, 'Varčevalnik' (*Saver*), with the special aims of including advice on its range of savings products, and improving the Bank's image on mobile phones.

In 2011, the Bank continued implementing activities in the area of CRM, thus enhancing customer satisfaction and improving the selling culture.

8.6 CORPORATE BANKING

The negative economic growth in the second half of 2011 and a slowdown in credit activity, which started in the fourth quarter of 2008 and continued throughout 2009, 2010 and 2011, were the main reasons for the macroeconomic downturn. In addition, we saw a deterioration in conditions in the international business environment as well as rating downgrades of a number of countries and banks, which reduced the possibilities for raising funds in the international financial markets.

Credit operations

At the end of 2011, loans and advances to corporate customers totalled €2,290 million, down 6% on 2010. Adverse economic conditions globally, but also the relatively high indebtedness of companies in Slovenia

(mainly non-financial companies and other financial organisations), and their rating downgrades resulted in companies being more reluctant to raise funding and in a reduction of credit activity.

In spite of difficult economic conditions and a lack of funding, in 2011 the Bank provided normal support to corporate customers in all business segments and approved current loans worth €873 million and non-current loans worth €372 million. Of the total loans approved in 2011, new current and non-current loans totalled €500 million. It also strengthened its advisory role in the area of corporate banking. The majority of current loans granted by the Bank were for the purchase of raw materials. Companies were in demand for short-term financing because they were faced with a requirement by their suppliers to comply with shorter payment terms, while, on the other hand, they were forced to extend the payment terms they provided to their buyers. Non-current loans were given mainly for investments and other long-term projects. A growth in the portfolio of non-current loans was also partially attributable to the loans that were approved for different investments in previous years, but were disbursed only in 2011 due to the nature of projects.

The Bank participated actively in the financing of projects aimed at generating energy from ecologically renewable sources (solar and biomass power plants). Loans approved to this segment increased by 42% relative to 2010.

Companies that were more competitive and oriented towards foreign markets started to recover from the crisis. To improve the quality of its loan portfolio under the current market conditions, the Bank undertook a number of measures, such as requiring additional collateral and reducing the exposure to companies that were considered to be at great risk.

For financing special-purpose projects, the Bank obtained long-term funds from the Slovene Export and Development Bank (SID Bank, Inc.) for the financing of export-oriented companies and projects aimed at reducing negative effects on the environment. For the financing of working capital and fixed assets, the Bank approved 511 credit lines totalling €298 million from this special-purpose funding. The majority of funds were granted to SMEs.

In cooperation with the Slovene Enterprise Fund, the Bank approved in total 55 loans worth €12.5 million for the development of small businesses.

The Bank also bid for guarantees provided under the Republic of Slovenia Guarantee Scheme. Due to strict conditions for participating in the bids, only one investment transaction was approved under the terms of this scheme.

During 2011, the Bank helped its customers overcome financial difficulties by providing bridge financing of current liabilities through purchasing receivables of buyers with a good rating. It also ensured security for its loans, focused on customer satisfaction, offered solutions for overcoming any challenges, and provided customers with new solutions.

Deposit operations

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

At the end of 2011, total deposits from corporate customers amounted to €1,022 million, up 2% on 2010. Deposits from non-financial companies totalled €262 million, a decrease of 15% from the end of 2010. One of the main reasons for a drop in deposits in this segment was the more competitive interest rates offered for deposits of various terms by new entrants to the market. Also, non-financial companies used their excess liquidity for their own needs and so reduced the volume of their funds placed with the Bank.

Deposits from the state increased by 14% to €537 million at the end of 2011.

Non-traditional banking products

In 2011, the Bank purchased receivables worth €30 million and made an income of €530,000 on these transactions. The volume of these transactions remained flat at the 2010 level. The Bank continues purchasing receivables only of A and B rated borrowers, and with a right of recourse.

Notwithstanding the fact that the financial crisis, which started in 2008 and deepened further during 2011, had a significant impact on its operations, the Bank continued providing a comprehensive range of products and services to its corporate customers, thus having a direct or indirect impact on solving problems that occur in day-to-day operations of the economy.

In addition, the Bank provided the service of local and cross-border payments, and improved the quality of overall service, in particular in documentary operations.

8.7 RETAIL BANKING

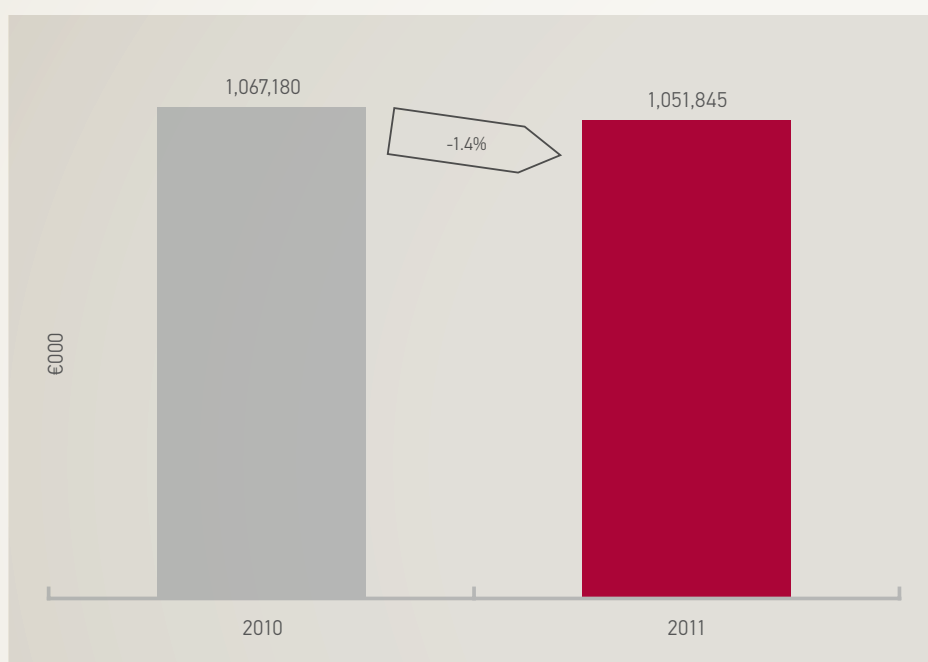
In 2011, the Bank continued pursuing its main strategic orientation of portfolio diversification, and focused even more on cooperation with households. In spite of a lack of funding during the difficult year 2011, the Bank continued providing support to all key segments, households and sole proprietors. To provide citizens with an even better service through its extensive branch network, the Bank continued refurbishing its branch offices. It developed its advisory role even more actively and enhanced it by launching a marketing campaign called 'Pripravljeni na jutri' (*Ready for tomorrow*). In doing business with sole proprietors, the segment in which the Bank maintains a high market share, it strengthened its partner role and responded to the requests of its customers. The Bank is focused on tailor-made solutions for customers. Its prime concern is customer satisfaction, and this is being accomplished through its personal approach and the wide range of Group products and services that are provided at one location.

At the end of 2011, Nova KBM had 14,000 sole proprietors and over 300,000 households who maintained a current account with the Bank. The Bank is present in all Slovene regions through its extensive branch

network. Taking into account the PBS branch network through post offices in addition to its own branch network, the Bank has the widest branch network in Slovenia. The Bank provides the following banking products to its customers at all post offices: cash and non-cash transactions; approval of loans; opening of personal or deposit accounts. By being able to use post offices for its retail banking services, it has enhanced its presence in locations where there are no Bank branch offices and has approached new customers, thus ensuring first-class banking services can be provided anywhere in Slovenia.

Credit operations

NOVA KBM'S LOANS TO HOUSEHOLDS (AS OF 31 DECEMBER)



Demand for loans in 2011 decreased compared to the previous year. Despite relatively favourable prices of real estate, the economic downturn and global uncertainty caused citizens to be more reluctant to take housing loans. For the similar reasons, sole proprietors decided not to raise investment loans. Notwithstanding difficult economic conditions, the Bank managed to maintain the level of given loans roughly at the 2010 level. Retail loans totalled €1,052 million at the end of 2011.

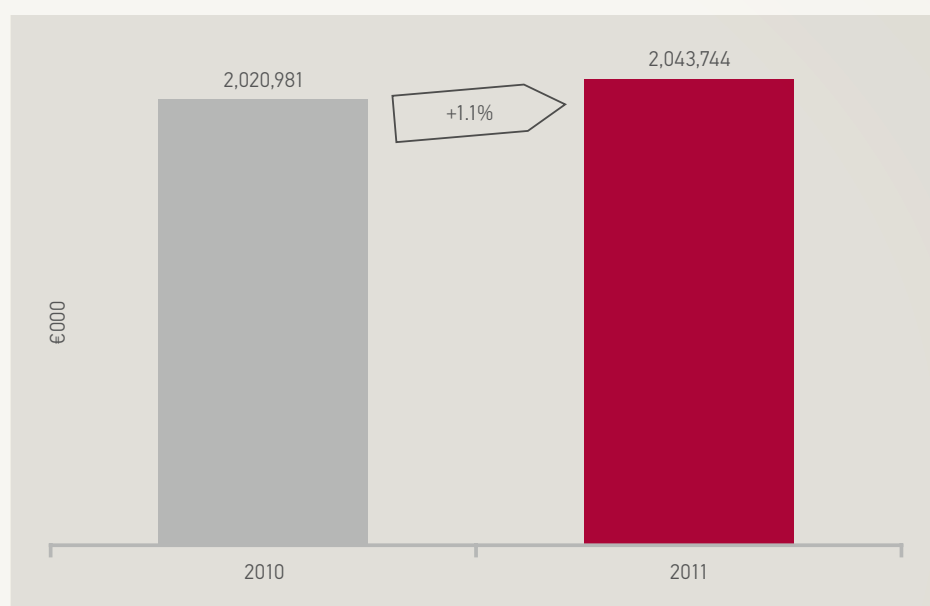
The Bank offers its retail customers the following types of loans: housing loans to be used for the purchase of real estate and the construction or refurbishing of housing; current and non-current consumer loans; car loans; student loans; bridging loans; and loans on the basis of the Karanta credit card. As a result of increased demand for the financing of environmentally-friendly investments, the Bank started offering ECO loans to be used, among other things, for the co-financing of energy saving appliances and devices, construction of energy saving and environmentally-friendly houses, and wind and solar power plants.

The total number of consumer loans at the end of 2011 was 61,400 totalling €240 million, with a maximum maturity of up to 8 years. The total number of outstanding housing loans was 23,000, with a maximum maturity of up to 25 years.

THE BANK'S MARKET SHARE REMAINS STABLE: ITS MARKET SHARE IN LOANS TO HOUSEHOLDS ACCOUNTS FOR 11.5%, WHILE ITS MARKET SHARE IN LOANS TO SOLE PROPRIETORS STANDS AT 16.3%.

Deposit operations

NOVA KBM'S DEPOSITS FROM HOUSEHOLDS (AS OF 31 DECEMBER)



With its extensive branch network, but mainly due to its long-term cooperation with customers based on mutual trust, the Bank has achieved an above-average market share in deposits. 2011 was another good year in this regard, and the Bank managed to maintain its high market share of 14.1% in deposits from households. Total sight deposits from households amounted to €779 million at the end of 2011. Non-current deposits totalled €746 million and current deposits totalled €518 million.

The total number of current and non-current deposits stood at 69,000. In addition, the Bank had 84,000 savings accounts with a notice period and 18,100 pension savings accounts. The Bank offers different types of savings products: different current deposits, non-current deposits with maturities of one, two, three or more years, savings books with different notice periods, pension savings, savings for young people, 'Za-To!' savings plan, housing savings accounts, and a combined deposit and investment account called 'Naložbeni duet' (*Investment duo*) which is a combination of a deposit and an investment into KBM Infond mutual funds. In addition to standard deposit products, the Bank also offers alternative types of savings, such as investment in securities and mutual funds, and investment life insurance products. These accounts may be opened at any branch office. By offering also non-banking products at its branch offices, the Bank utilises the synergy of the Group.

THE BANK'S MARKET SHARE IN NON-CURRENT DEPOSITS ACCOUNTS FOR 17.2%.

At the end of 2011, total deposits from households amounted to €2,044 million, up €22.7 million on 2010.

Marketing of other Group services

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

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

OVER 6,000 DIFFERENT ZAVAROVALNICA MARIBOR INSURANCE POLICIES WERE
TAKEN OUT AT BRANCH OFFICES OF NOVA KBM.

The Bank is constantly adding new products of Nova KBM Group companies to its list of offerings. In addition, it provides information on leasing services, and markets the products of the pension company Moja naložba.

8.8 MODERN DISTRIBUTION CHANNELS

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

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

The use of modern distribution channels is indirectly linked to the functioning of payment systems. As in previous years, in 2011 a number of changes were implemented in the area of payment systems:

- setting up of payment systems for SEPA internal direct debits (SEPA IDD Core and SEPA IDD B2B)
- closing down of payment schemes for bill payments and direct credits

- closing down of a pan-European payment system for credit payments (STEP2 XCT)
- setting up of the Moneta payment system.

All necessary adjustments arising from these changes have been made to the Bank's modern distribution channels.

The Bank's significant role in the implementation of the Moneta payment system must be pointed out. It ran this project and completed it successfully by obtaining a licence from the Bank of Slovenia to set up and to manage the Moneta payment system.

THE BANK HAS BECOME THE FIRST AND IS CURRENTLY THE ONLY COMMERCIAL BANK IN SLOVENIA WITH A FULL LICENCE TO MANAGE THE MONETA PAYMENT SYSTEM.

Branches

At the end of 2011, Nova KBM had 15 main branches and 74 branch offices. Certain banking services for households may also be provided at 528 locations of Pošta Slovenije and branch offices of PBS.

ATMs

The ATM services that Nova KBM provides to its customers include cash withdrawals, current account balance enquiries, mobile telephone top-up services, cash deposits and bill payments.

THE BANK STARTED PROVIDING MINI ACCOUNT STATEMENTS AT ATMs.

During 2011, the Bank replaced 14 worn out ATMs. The total number of Nova KBM's ATMs at the end of 2011 was 261, which gives a market share of slightly over 14%. All of the ATMs have been upgraded to comply with the EMV standard required by EuroCard, MasterCard™ and VISA™. Additionally, at the 2011 year-end, 67 ATMs were equipped to allow bill payments. The Bank's market share in bill payments, taking into account also payments through ATMs, is over 20%.

POS terminals

A POS terminal is a computer substitute for a cash register. As of 31 December 2011, Nova KBM had 3,542 static and mobile POS terminals in operation. Nova KBM's market share in POS terminals was 10.4% at the end of 2011. The Bank registered a 2.2% decrease in the number of transactions at POS terminals, from 5.2 million in 2010 to 5.1 million in 2011. A growth in the number of POS contracts (Activa, Maestro™, MasterCard™, VISA™ and Karanta™) has continued last year. As of 31 December 2011, Nova KBM had 20,082 POS contracts in place.

Payment cards

Nova KBM offers its retail and corporate customers more flexibility in carrying out their operations by issuing various payment cards, such as: debit cards, with payment amounts deducted directly from the holder's current account, charge cards which provide a one-month line of credit and must be repaid in full at one chosen date, and credit cards. Its debit cards are Maestro™ and VISA Business Electron™ branded cards. Charge cards include Activa™ and Karanta™, the Slovenia-based charge cards, as well as MasterCard™ and VISA™ branded cards. A credit card offered by Nova KBM to its customers is Karanta™.

In 2011, Nova KBM continued issuing an increasing number of payment cards. As of 31 December 2011, it had 401,048 active payment cards outstanding to retail and corporate customers, an increase of 0.57% over the 2010 year-end figure. Nova KBM's market share in Slovenia with respect to payment cards issued is slightly over 12%.

The total number of transactions with payment cards in 2011 increased as well and reached 13,830,538, an increase of 6.60% from 2010.

IN APRIL 2011, NOVA KBM BECAME A PRINCIPAL MEMBER OF
MASTERCARD™ AND VISA™.

Moneta

Moneta is a mobile payment system jointly developed by its owners and strategic partners, Telekom Slovenije d.d. and Nova KBM. Under a common brand name, the strategic partners provide a range of innovative acquiring and issuing payment services. Simobil, Debitel and PBS also participate in the Moneta system.

IN 2011, THE MONETA SYSTEM WAS GRANTED A LICENCE BY THE BANK OF
SLOVENIA AS A PAYMENT SYSTEM OPERATING UNDER THE PAYMENT SERVICES
AND SYSTEMS ACT.

At the same time, Nova KBM was granted a licence to manage this payment system. In 2011, the volume of payments made through Moneta once again registered high growth. Total payments were worth €18.46 million, up 38% on 2010. Since September 2011, it has been possible to make payments over Moneta in the Maribor-based Mercator shopping centre, the largest of its kind in Slovenia.

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

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

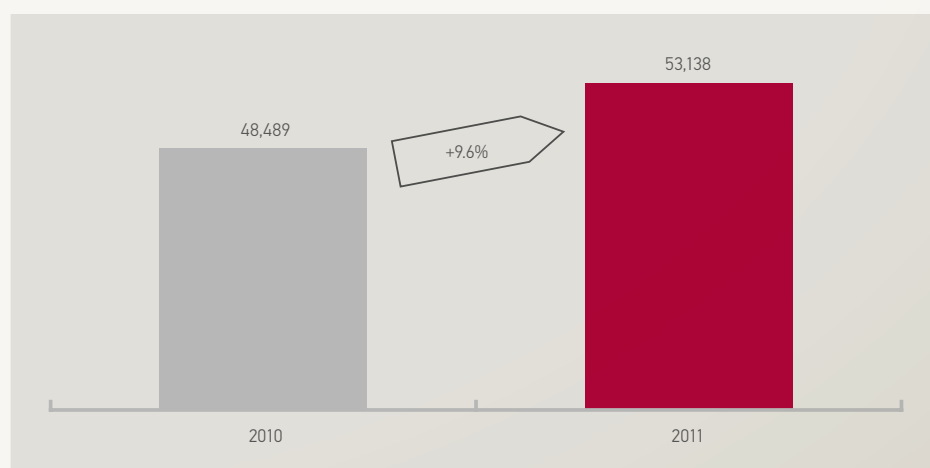
Bank@Net

Nova KBM carried out a number of functional upgrades of Bank@Net in 2011. Apart from adding new banking products to Bank@Net, a facility has been provided for the electronic exchange of documents (E-invoices) through the Bankart Collection Centre. The security of the system was upgraded, the aim of which was to improve user experience and to enable the Bank to acquire important information about abuse of its online banking service.

Retail customers may carry out a variety of transactions through Nova KBM's Bank@Net system, including: checking balances and transactions on current and savings accounts as well as on savings account with a notice period; billing payments (bill payments, payment orders) from personal accounts in Slovenia; making fund transfers between personal accounts held at the Bank and transfers to savings accounts; opening a savings account with a notice period, as well as making and cancelling notices of withdrawal from savings accounts; closing a savings account; ordering and cancelling cheques; ordering payment cards; ordering loan application forms; ordering and cancelling cash withdrawals. In 2011, further functionalities were added to Bank@Net, such as one-time passwords for login, stand-alone unlocking of users, control of the latest registrations, an electronic inbox for receiving E-invoices and notices (payments to abroad, SEPA direct debits, new services, marketing campaigns, etc), E-registration/E-logoff, etc. The bill payment form, as well as the domestic and international payment order forms, were replaced by the universal payment order form (UPN). Nova KBM also enabled the import of mass payments through Bank@Net, both in ZBSxml and SEPA ZBSxml standards.

All necessary upgrades have been made in Bank@Net to ensure it is fully compliant with the latest regulations applicable to SEPA.

NUMBER OF BANK@NET USERS (AS OF 31 DECEMBER)

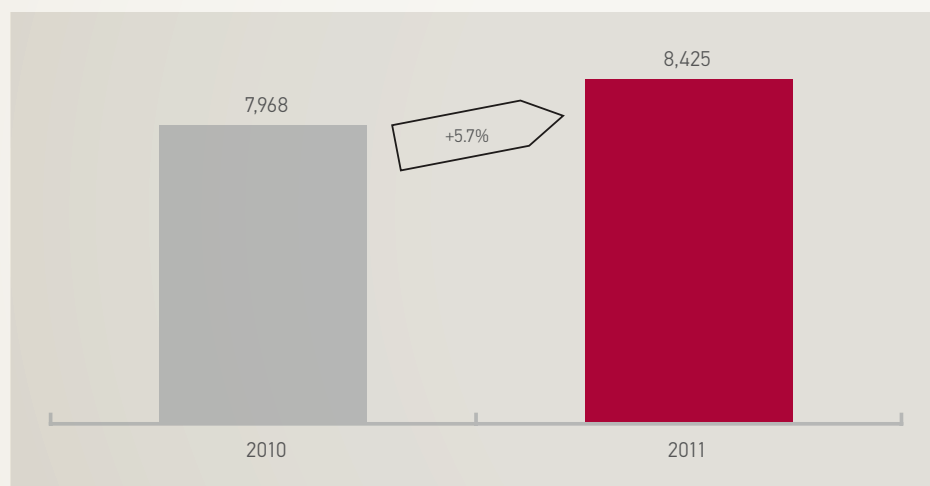


The number of retail customers using Bank@Net has been steadily increasing. At the end of 2011, there were 53,138 Bank@Net users, an increase of 9.59% from 2010. The total number of transactions made through Bank@Net in 2011 was 4,540,287, an increase of slightly over 154,000, or 3.52%, from 2010.

Poslovni Bank@Net

Poslovni Bank@Net, Nova KBM's online banking service for corporate customers, offers a variety of services including: checking account balances; account statements; preparation of payment orders and the execution of payments; review and printing of account statements; monitoring the receipt of payments from abroad, as well as the making of such payments; dispatch of orders for the placement of foreign currency deposits; digital signature; purchase and sale of foreign currency; transfer of funds to other accounts. In addition to reviewing and sending messages to customers, Poslovni Bank@Net also facilitates the transmission of statistical data for use by the Bank of Slovenia. Mobile telephone banking services, known as Poslovni Bank@Net, EPP Mobile, are also available to Nova KBM's corporate customers. EPP Mobile is a mobile version of Poslovni Bank@Net and designed to perform basic transactions between companies and Nova KBM using a mobile telephone. EPP Mobile displays euro account balances and account turnover, and enables the preparation of universal payment orders, execution of payments and records of payments already made.

NUMBER OF POSLOVNI BANK@NET USERS (AS OF 31 DECEMBER)



The number of Poslovni Bank@Net users at the end of 2011 was 8,425, up 5.74% on 2010. Compared to 2010, the number of domestic payment transactions sent over Poslovni Bank@Net decreased in 2011 by 4.1%, while the number of international payment transactions rose by 7.14%.

Telephone banking

The telephone banking service of Nova KBM, TeleBanka, is mainly focused on providing customers with different information, such as the account balance, exchange rates, interest rates, banking products and other general information related to the Bank's services. The payment transactions made through TeleBanka do not represent a considerable amount. An important task of TeleBanka is to act as a Western Union Money Transfer and Customer Support Centre.

The number of Western Union Money Transfer transactions executed through TeleBanka increased by 23.6% year-on-year, while the total amount of these transactions increased by 48.2% relative to 2010.

Night safes and collecting money at agreed upon places

Night safes are a type of distribution channel that is used by corporate customers and sole proprietors to carry out payment services. Night safes are available to users 24 hours a day, 365 days a year.

Collection of cash at agreed upon places was introduced by Nova KBM in 2007, following Slovenia's adoption of the euro currency when the need arose for customers to change coins.

These two distribution channels are meant for the depositing of daily proceeds to customer accounts in a quick, safe, and cost-efficient manner.

As of 31 December 2011, Nova KBM had in place 1,416 contracts with corporate customers and sole proprietors for the use of the above-mentioned distribution channels, and had 1,756 sales points available for the collection of cash (night safes and agreed-upon sales points). The total volume of daily proceeds accepted through these two channels in 2011 exceeded €13.6 million.

8.9 INTERNATIONAL OPERATIONS

During 2011, Nova KBM did not contract any loans in the international markets and reduced its dependence on foreign financial sources from 50% to 22.4% of the total funding.

For the financing of corporate customers, the Bank borrowed funds totalling €129 million from the Slovene Export and Development Bank, Inc. As a result of being downgraded by Fitch Ratings and Moody's Investors Service, the Bank repaid a part of the term loan facility it raised in 2010.

Due to the crisis in the Eurozone, the international rating agencies downgraded a number of European countries, including Slovenia, which consequently led to a rating downgrade of Slovene banks. Fitch Ratings downgraded Nova KBM twice in 2011, in May and then in September, while Moody's Investors Service downgraded the Bank in June and in December.

The ratings of Nova KBM as of 31 December 2011 were as follows:

Fitch Ratings: BBB/F3 (stable outlook)

Moody's Investors Service: Ba1/Non-Prime/D- (negative outlook)

8.10 TREASURY

The Bank managed its liquidity in 2011 in such a way as to ensure the settlement of all obligations that became due. By applying a conservative approach, the Bank created an adequate secondary liquidity reserve, consisting of ECB eligible securities that the Bank may use for securing claims in borrowings through the instruments of the European Central Bank, or for entering into repos in the interbank market. During 2011, the Bank fully complied with the regulations on minimum liquidity which require the banks to maintain the category one liquidity ratio (up to 30 days). The prescribed liquidity ratio is 1.0. The Bank also complied with the Bank of Slovenia regulations on obligatory deposits.

The Bank manages its liquidity at both the operational and structural level. At the operational level, the Bank manages its daily liquidity in the domestic and international interbank money markets, and by participating in auctions of the Ministry of Finance and the Eurosystem monetary policy operations. The Bank placed daily surpluses of liquidity in the interbank money market and in the margin deposit of the central bank. In 2011, the Bank participated in long-term refinancing auctions, and did not utilise main refinancing auctions for managing its liquidity.

In 2011, the European Central Bank twice cut the key interest rate by 25 basis points, in July and in December, from 1.50% to 1.00%. The main refinancing and long-term refinancing operations were carried out through a fixed-rate tender procedure with full allotment. The European Central Bank also continued its programme for the purchase of covered bank bonds.

Seeking to strengthen the liquidity position of banks in the Eurozone, the Governing Council of the European Central Bank adopted in December additional temporary non-standard measures. The aim of these measures was to facilitate access by the banking sector to liquidity and to ensure the functioning of the Eurozone money market. To that effect, the Governing Council of the European Central Bank decided: (i) to conduct two longer-term refinancing operations (LTROs) with a maturity of 36 months and the option of early repayment after one year; (ii) to increase collateral availability by reducing the rating threshold for certain asset-backed securities; (iii) to reduce the reserve ratio from 2% to 1%; (iv) to discontinue for the time being the fine-tuning operations carried out on the last day of each maintenance period.

The average daily amount of short-term funds placed in the interbank money market in 2011 was €96,120,000. The average daily amount of funds borrowed from banks in 2011 was €22,291,000.

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

Banking book portfolio of debt securities

The banking book securities are mainly used for the provision of an adequate liquidity reserve and for managing interest rate risk. The Bank created the portfolio of debt securities in accordance with the Policy of Managing Nova KBM's Banking Book Debt Securities Portfolio. As a result of its short-term liquidity surpluses, and with the aim of prematurely replacing securities that were scheduled to fall due in the first quarter of 2012, the Bank participated in December 2011 in a tender for 18-month treasury bills. The Bank is obliged to maintain an adequate level of secondary liquidity reserve, part of which takes the form of treasury bills issued by the Republic of Slovenia. The total amount of the banking book debt securities portfolio as of 31 December 2011 was €785,506,000, up 13.2% on 2010. Government securities and securities with a state guarantee accounted for 72.8% of the total banking book portfolio, followed by securities issued by prime banks, which accounted for 20.2% of the portfolio, and securities issued by other issuers with a 7.0% share of the portfolio.

Certificates of deposit

In line with its financial plan, in 2011 the Bank was issuing also certificates of deposit. The total amount of certificates of deposit issued by the Bank in 2011 was €17,500,000.

Interest rate policy

The interest rate policy of the Bank was carried out in accordance with the adopted guidelines and on the basis of its business policy and financial plan for 2011. The policy was adjusted by the Bank to reflect current local market conditions, conditions in the international financial markets, and developments in the economic environment.

Trading

For managing foreign exchange position, a total of 464 currency trading transactions were concluded by the Bank in 2011. The bulk of trading in foreign exchange markets was in the most important currencies such as the euro, US dollar, pound sterling and Swiss franc. The average daily position of short-term funds placed or borrowed in respect of currency trading in 2011 was €68,887,000. The Bank entered into a total of 18 reverse repo transactions in debt securities and 88 transactions in derivatives last year.

8.11 BROKERAGE SERVICES

A total of 7,133 transactions were concluded by the Bank last year in domestic and foreign markets. In terms of value, transactions concluded in foreign markets were on the increase.

On the Ljubljana Stock Exchange, Nova KBM concluded in total transactions worth €52,395,000, while the total amount of transactions concluded in 2011 in the international capital markets was €63,492,000.

The average daily value of trading portfolios of equity instruments was €706,000 in 2011. The return on average value of trading portfolios of equity instruments generated by the Bank in 2011 was 23.50%, which was 42.35% above the return reported for the EUROSTOXX 50 index.

A decline in securities trading levelled off in 2011, mainly due to increased activity in foreign markets. Investors are becoming more and more differentiated into active ones who profit from market movements, and passive ones who wait to see long-term, positive movements in capital markets.

8.12 HUMAN RESOURCE MANAGEMENT

The staff policy of Nova KBM is a reflection of development objectives and strategic orientations of the Bank as well as of current situation of the environment in which it operates. The Bank is aware that competent, committed and motivated employees are crucial for successful business performance. For that reason, it has aligned its staff policy with this premise.

In 2011, a total of 69 employees ended their employment at Nova KBM, mainly due to retirement, but also for operational reasons as a result of streamlining and automating working processes. 22 new staff were hired

by the Bank – mostly for a traineeship period, or to substitute for women on maternity leave. New staff were hired in those segments for which internal human resources were not available, but it was necessary to have new staff to ensure uninterrupted operations and for the implementation of development plans, and due to an increased volume of operations, mainly in the areas where specific competences or skills and experiences were required that were not available internally.

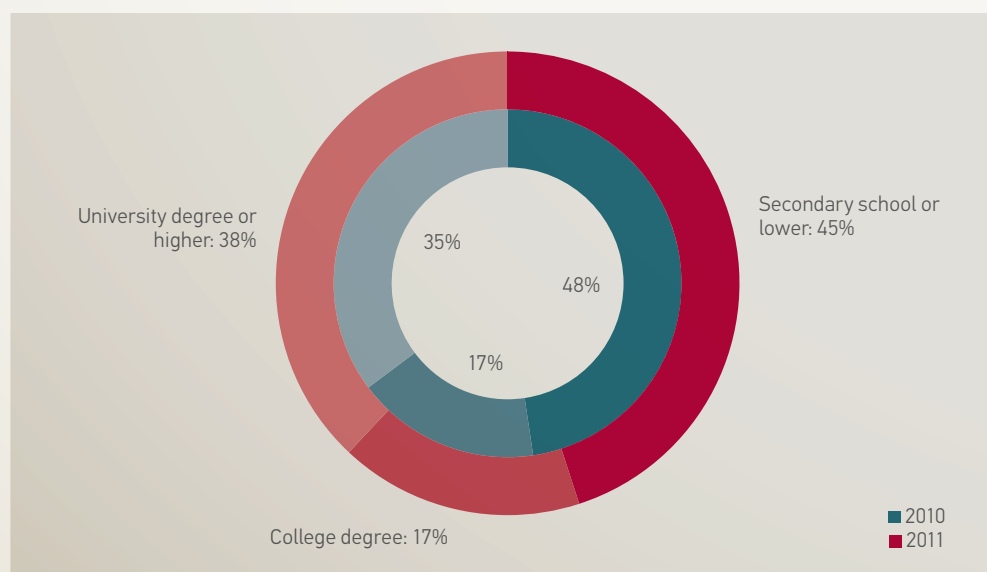
AS OF 31 DECEMBER 2011, NOVA KBM HAD 1,346 EMPLOYEES, A DECREASE OF 47 FROM THE 2010 YEAR-END HEADCOUNT.

In accordance with its strategic direction of being a socially responsible company, the Bank employs 48 disabled persons, which accounts for 3.6% of the total staff.

As far as is possible, the Bank ensures that all employees with a disability have an adequate working environment and working tools (e.g. ergonomic furniture, adequate monitors, illuminants, etc.), and organises training and education for all employees on managing stress in the workplace and on health care (e.g. education in respect of breast cancer detection). In addition, numerous preventive measures were carried out last year (breast and prostate examinations, flu vaccinations) with the aim of reducing absenteeism.

Through annual interviews, the Bank monitors the satisfaction of employees in the previous year. In 2011, this satisfaction remained at the same level as that established in the annual interviews in previous years, in spite of economic conditions that affected the operations of the Bank.

PROPORTION OF THE AVERAGE NUMBER OF NOVA KBM EMPLOYEES BY EDUCATIONAL LEVEL (AS OF 31 DECEMBER)



The average number of Bank employees during 2011 was 1,376.

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

The management of staff in Nova KBM focuses on their constant training and development, which contributes to the effectiveness of each individual and has a direct impact on the performance of the Bank, its competitive advantage, and eventually on its business results.

The Bank endeavours to provide training to as many employees as possible. To that effect, as much as 97% of the staff participated in training programmes in 2011. Of the total number of staff participating in training programmes, 25% are managers and senior managers. This is considered to be very important, since the purpose of training activities is to assist in the development and transfer of know-how that supports the strategy and business objectives of the Bank. Most employees participated in in-house training programmes which are adapted to the specific needs of target groups. Further, the Bank employees acquire new skills at the Group level, but also by participating in outside training and through formal education programmes. Apart from specific know-how, the Bank also builds its success on the management and marketing skills of its employees.

In 2011, the Bank earmarked €459,000, or on average €340 per employee, for education and training. Forty-six different internal training programmes adapted to the needs of the Bank were carried out more than 150 times, involving a total of almost 6,000 participants. On average, 22 employees were in training each day, meaning that each employee spent on average 22 hours in training.

Training courses conducted by internal experts received the average grade of 4.6 on a scale of 1 to 5, which is considered very high and is comparable with grades assigned to external trainers. Effects of training are monitored through the assessment of training programmes and applicability of training topics, but also at annual interviews where managers assess how well know-how and skills acquired have been transferred to the workplace, i.e. the effects of the training in which their employees have participated.

8.13 INTERNAL DEVELOPMENT OF THE BANK

8.13.1 QUALITY MANAGEMENT SYSTEM

The Bank is aware of the importance of quality management. This is not only demonstrated through the regular annual maintenance of the ISO 9001:2008 certificate for retail operations, but also by the fact that the Bank has set up its own quality management standards. Quality is an achievement of systematic and focused business activities that have raised the Bank's overall customer service to an even higher level.

Nova KBM has been maintaining the ISO 9001 certificate for its retail operations for 15 years.

On the basis of a systematic approach in respect of quality management, the Bank successfully complies with the requirements and guidelines of the ISO 9001 quality system through regular internal and external assessments.

During 2011, the Bank carried out an internal assessment in which more than one-third of its branch offices and other organisational units were involved. An external assessment was also made by the Slovene Institute for Quality and Metrology, the report of which was carefully examined by the Bank. The Bank is pleased to learn that it is being praised for its work by external assessors, but at the same time is well aware of opportunities for further improvement.

In accordance with the Rules of Quality, the management performed the annual review of the quality management system. Throughout the year, the Bank monitored its quality and efficiency in solving complaints. In addition, through a group appointed for continuous implementation of improvements, it upgraded operational procedures, services and other areas of its business.

Quality of service and customer satisfaction are two important concerns of the Bank. Therefore, it is constantly looking for new opportunities and possibilities to develop a good and attractive service.

8.13.2 INTERNAL DEVELOPMENT OF THE BANK

The strategy for developing the information technology support of the Bank

In 2010, Nova KBM adopted the strategy of using information technology support for the Bank for the period 2010 – 2013. In this strategy, the implementation of which continued throughout 2011, the Bank specified its vision, mission, and directives in respect of information technology support.

The strategy of information technology support includes the following:

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

'WE DO THE RIGHT THINGS RIGHT' IS THE GUIDING PRINCIPLE OF THE
ADOPTED IT STRATEGY.

Research and development of information technology support

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

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

In-house development enables the Bank to take a focused approach to the design of the entire infrastructure at different levels: from processes and business software to system infrastructure. This development is carried out

in such a way that the Bank prepares as many common solutions as possible, which are applicable to various segments.

In 2011, the Bank devoted its development activities mainly to the following tasks and projects:

a) Documenting business processes

The Bank continued with regular refreshing of its processes, which was performed through approvals given by key users and owners of processes. Further, it successfully upgraded the functionality of the application used for the review of instructions and forms through processes, thus improving the useful value of process models applied.

Dynamic business process management forms the basis of the Bank's information technology development.

A register of business processes is not only a basis for the optimisation and upgrade of processes, but facilitates the preparation of adequate application support and the reorganisation of individual units of the Bank. The Bank will use process models as a basis for determining standards for each task. Process models are at the same time fundamental in the preparation of business continuity plans, which are being regularly upgraded in accordance with internal rules.

b) New products and modern distribution channels

In 2011, the Bank continued expanding its banking services to post office counters. In addition to opening a current or deposit account, customers of Nova KBM may now also apply for consumer loans at post offices. Offering mini statements at ATMs is another service provided to customers of the Bank. Customers of PBS maintaining a current account with a debit card may carry out basic financial transactions in euros at branch offices of Nova KBM (withdrawal or deposit of funds, account balance checking).

The Bank started executing domestic SEPA direct debits, thus enabling its customers to pay liabilities to beneficiaries in Slovenia under the SEPA direct debit scheme. Through electronic channels (Bank@Net, Poslovni Bank@Net) corporate customers and sole proprietors may execute mass SEPA payments, which have replaced the direct credits used previously.

Nova KBM regularly upgrades all existing electronic channels (Bank@Net, Poslovni Bank@Net) to comply with regulatory requirements and to enable users of these channels to obtain more and better services. One of the most important services developed for electronic channels is the exchange of electronic documents. The first of these electronic documents was the so-called E-invoice.

c) Customer relationship management – CRM

Throughout 2011, the Bank regularly upgraded existing applications used in the area of customer relationship management.

The Bank automated sales processes by adding a range of new sales campaigns and opportunities, and optimised certain stages of sales processes by upgrading the central register of customers and revising the statements that are issued most frequently at branch offices.

Upgrades of the software used to facilitate sales are made on a regular basis.

d) SEPA

The Bank fully complied with the national scheme of implementing SEPA rules. Many resources were allocated to this project, the development of which was utilised by the Bank not only to implement new external rules, but also to improve procedures in the Bank's back-offices.

The Bank participates regularly and actively in the SEPA project within the Bank Association of Slovenia.

e) Analysing the functioning of computer infrastructure

The analysis of the functioning of computer infrastructure and investments in the upgrade of computer infrastructure forms the basis for improving the information system of the Bank.

Analyses and research were focused on enhanced security, reliability, integrity and throughput of individual sub-systems.

On the basis of production functioning analysis of computer infrastructure, the Bank carried out capacity extensions of computer equipment, the aim of which was to provide a stable, effective, and secure system information infrastructure. It also made the upgrades listed below:

- upgrade of communication network due to the introduction of IP (internet protocol) technology
- consolidation of printing infrastructure
- upgrade of the system for protection against internet threats.

The migration of ATM networks to the IP network provides significantly lower costs of communication, better control over the activities in the ATM network, and improved reliability and stability of operations. On 25 August 2011, the last of the Bank's 261 ATMs was migrated to the IP network. Nova KBM was the first among the banks in Slovenia to complete this two-year project.

As part of the process of upgrading and consolidating its printing infrastructure, the Bank continued installing multi-functional printing devices. A number of single- and multi-user devices are being replaced by a smaller number of more powerful devices with lower per-page printing costs.

During 2011, upgrades were made to the systems for protection against internet threats. The software for monitoring and filtering internet access and for the protection of e-mail was upgraded or replaced, as were the firewalls. By implementing additional redundancy at the secondary location, the Bank enhanced the reliability of these systems.

8.13.3 INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The total value of fixed assets, which comprise property, plant and equipment and intangible assets, at the end of 2011 was €91,852,000, or 1.9% of the Bank's total assets. Investments in fixed assets decreased by 0.9% year-on-year. The total value of property, plant and equipment was €64,753,000, down €929,000 on 2010. Intangible assets increased by €91,000 to €27,099,000 at the end of 2011.

Investments in information technology support

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

The Bank invested also in business software and other licensed software. Of the amount spent for business software (upgrades, changes in the Bank's application support), the largest proportion related to the upgrade of the NOBIS information system. In this area, the Bank continued to pursue the objectives adopted in the previous years, mainly in 2010, when the Bank purchased a licence from Unisys to use and modify its programming code. In 2011, it terminated its contractual relationship with Unisys with respect to the maintenance and upgrade of the NOBIS information system, while retaining the right to maintain and upgrade this system by itself, with the support provided by Infosistem which was already a sub-contractor of Unisys.

In 2011, the Bank continued replacing and upgrading ATMs and POS terminals according to the plan, but also as part of the implementation of PCI standards in the card operations segment. Investments were made in the replacement and upgrade of ATMs and POS terminals.

Investments in buildings

In spite of adverse economic conditions, in 2011 the Bank continued to refurbish its branch offices with the aim of following contemporary trends in the arrangement of bank premises, since it constantly has to adapt to the wishes and needs of its customers while complying with the highest business standards.

Five office premises or branch offices were refurbished last year. As a result of a delay in obtaining administrative documents, the withdrawal of an administrative permit for one location, and a search for locations for three branch offices, the Bank postponed the refurbishment of these branch offices until 2012 or a later date, which caused the investments in this segment to fall below those envisaged in the plan.

During 2011, the Bank refurbished branch offices in Spodnja Idrija, Kanal, Poljčane and Miren. A partial renovation was made of the Novi trg Branch Office in Ptuj. Furthermore, offices were refurbished on the first floor of its branch office in Slovenska Bistrica, where also the roof and the façade were partially renovated and windows replaced. The Bank started refurbishing the Rožna dolina Branch Office and new premises for the branch office in Celje, and commenced preparation work for the refurbishment of new premises for the branch offices in Novo Mesto and Lucija.

Investments in mechanographic and other equipment

The largest proportion of the amount spent for investments in mechanographic and other equipment related to renewal and purchase of new protection equipment. Purchases of other mechanographic equipment are being made in line with the plan, taking into account the actual need or the wear and tear of equipment.

9 PLANS FOR 2012

The planning of the business policy and financial plan of the Group and the Bank for the year 2012 was based on the strategy and starting-points that are supported mainly by the autumn forecasts of the IMAD²⁴, EUROSTAT and ECB. The Slovene economy showed some signs of gradual recovery in the first half of 2011, while in the second half of the year we saw negative macroeconomic trends emerging once again. At the end of 2011, when the planning for 2012 was carried out, a number of institutions involved in forecasting macroeconomic movements revised their economic growth predictions downwards. The Nova KBM Group remains true to its vision, yet the speed of implementing its strategic activities will depend upon the performance it delivers during the period of the crisis and economic recovery. Both the Group and the Bank will in accomplishing their 2012 business objectives focus particularly on the stability of their operations, while taking prevailing economic and financial market conditions into consideration. The Bank's Supervisory Board adopted the business plan of the Bank and was informed of the business plan of the Nova KBM Group at its regular meeting in January 2012.

The Nova KBM Group is made up of four operating divisions: banking; insurance business; fund management and pension savings; leasing and real estate activities. Within each division, there is a leading company that coordinates the activities of companies in a division, including their internationalisation (vertical coordination). The leading companies within the individual divisions are as follows: Nova KBM (banking); Zavarovalnica Maribor (insurance business); KBM Infond (fund management and pension savings); KBM Leasing (leasing); KBM Fineko (real estate activities).

THE FOLLOWING KEY GOALS, THE ACCOMPLISHMENT OF WHICH WILL DEPEND ON ECONOMIC CONDITIONS AND THE AVAILABILITY OF RESOURCES, WERE DETERMINED ON THE BASIS OF THE GROUP'S CURRENT STRATEGY FOR THE PERIOD FROM 2012 TO 2016

Strategic directions	Implementation strategy
Strengthening of its position as a leading financial institution in Slovenia and in the region	The goal of the Nova KBM Group is to become, within five years, at least the 5th largest provider of banking, insurance and fund management services in the area of SE Europe.
Banking	- Consolidation of its position in Slovenia (acquisitions and selective organic growth). - Further expansion into the markets of SE Europe (Serbia, Republic of Macedonia, etc). - Further streamlining of Nova KBM's operations (target: 1,200 employees by the end of 2013). - ROAE above 10% and the Tier I capital ratio above 9% by 2016.
Insurance business	- Zavarovalnica Maribor to retain its position as the second largest insurance company in Slovenia. - Growth through acquisitions and organically. - Utilisation of cross-selling potential and cost synergies within the Group.
Fund management	- To become the largest fund manager in Slovenia. - Growth through acquisitions and organically. - Utilisation of cross-selling potential within the Group.

²⁴ Institute of Macroeconomic Analysis and Development (IMAD).

Nova KBM Group

The **total assets** of the Nova KBM Group are projected to reach €5,768.3 million by the end of 2012, down 0.8% on 2011. Total deposits from the non-banking sector will amount to €3,771.6 million at the end of 2012, up 0.2% on 2011. Loans and advances to customers are projected to amount to €3,764.6 million, down 2.1% on 2011.

Interest income is forecast to be €271.4 million, while interest expense is projected to be €133.5 million, providing **net interest income** of €138.0 million, an increase of 1.8% relative to 2011. According to the projection, **net fee and commission income** will amount to €65.5 million. Administration costs, including depreciation and amortisation, are projected to be €123.9 million in 2012, which is slightly less than in 2011 (about 1%). **Net impairment losses and provisions** are expected to reach €89.3 million, a decrease of 49.1% relative to 2011.

The Group's 2012 pre-tax profit from continuing operations is projected at €8.0 million; the **net profit** is projected at €7.8 million, of which €4.8 million will be **attributable to owners of the parent**.

Nova KBM

The management forecasts that the **total assets** of Nova KBM will reach €4,683.5 million by the end of 2012, a decrease of 2.7% relative to the 2011 year-end. **Deposits and loans from customers** will amount to €3,043.1 million, down 0.8% on 2011. **Deposits and loans from banks** are projected at €557.6 million, a decrease of 56.6% relative to 2011. **Loans and advances to customers** are projected at €3,167.7 million, a decrease of 5.2% from the 2011 year-end.

Within the **portfolio of securities**, financial assets designated at fair value through profit or loss will make up €20.0 million, available-for-sale financial assets are projected to reach €446.3 million, while held-to-maturity financial assets are projected to amount to €400 million.

Interest income is forecast to be €210.6 million, while interest expense is expected to be €109.9 million, providing **net interest income** of €100.6 million (an increase of 1.3% relative to 2011). For 2012, the projected **interest margin**, calculated as the ratio between net interest income and the average total assets, is forecast at 2.12%.

According to the projection, **net fee and commission income** will amount to €47.8 million. The Bank is expected to cover slightly above 57% of its administration costs, including depreciation and amortisation, with net fees and commissions. Administration costs, including depreciation and amortisation, are expected to be €83.5 million in 2012, down 5.9% on 2011. The number of Bank staff is forecast to decrease to the target number of 1,300 employees by the end of 2012.

Net impairment losses and provisions are expected to reach approximately €72.0 million in 2012, a decrease of 54.5% relative to 2011.

For 2012, Nova KBM projects a **pre-tax profit from continuing operations** of €7.2 million, while the **net profit** is forecast at €9.0 million.

We have been a part of the society for 150 years and are trying hard to be responsible. Through our charitable activities we are raising the quality of living each day at a time and we are working to build a better tomorrow.

CORPORATE RESPONSIBILITY



{ Municipal Savings Bank on Slomškov square, around 1910 }

10 SOCIAL RESPONSIBILITY

10.1 MAIN ACTIVITIES IN THE AREA OF SOCIAL RESPONSIBILITY IN 2011

The principal mission of the Nova KBM Group is the provision of the most important financial services to its customers. This is where the Group focuses a great deal of its attention. Our society is becoming increasingly aware of the fact that modern and well-respected institutions conform with the principles of socially responsible conduct and that they focus not only on current performance, but also take into consideration their long-term effectiveness, sustainable development, and cohabitation with the social and natural environment.

Due to the important role and responsibility which the Nova KBM Group has in its business environment, it pays due consideration to social responsibility and sustainable development. To that effect, in May 2011 the Bank passed a decision to amend its strategy by introducing the **Social Responsibility and Sustainable Development Programme**.

Within the scope of its Social Responsibility and Sustainable Development Programme, in 2011 the Bank started implementing a number of projects: a project encouraging employees to cooperate with each other; a project to adapt the operations of the Bank to people with special needs; and a project to further develop the separate collection of waste. It also started carrying out an analysis with respect to two projects focused on its social environment: a project to set up a special fund for students without their own financial resources for study (for gifted students); and the upgrade of its website to adapt it to the needs of visually impaired persons.

10.2 PAST EXPERIENCE OF THE BANK AND THE GROUP

The operations of both the Group and the Bank have always taken account of social responsibility and sustainable development. To begin with, Nova KBM shares were admitted to the CEERIUS Index in 2009. In 2010, the Bank became a member of the Institute for the Development of Social Responsibility, and Zavarovalnica Maribor was one of the first institutions in Slovenia to be awarded the 'Family-friendly Company Certificate', followed by Nova KBM. In 2011, an assessment was made by the Bank on the basis of its previous experiences, the maturity attained, and the understanding of this area, that the concept of social responsibility and sustainable development should be systematically implemented, upgraded and managed.

10.3 BRIEF OVERVIEW OF THE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT PROGRAMME

The expected results of implementing the Social Responsibility and Sustainable Development Programme are as follows: increased quality of service and an even more enhanced reputation and recognition of the Group; a positive effect on customers' and business partners' confidence in the Group, leading to a greater use of financial services; an advantage to competitors due to having a clearer market position; increased engagement

and commitment of employees; avoidance of unnecessary costs; careful consideration of positive values; cooperation with the environment in which the Group operates; concern for the natural environment; and proper use of natural resources. Another benefit which the Group expects from the continuing implementation of this programme is to be better placed on the list of sustainable companies, and to be included in other sustainable indices which measure the level of social responsibility and sustainable development.

The Social Responsibility and Sustainable Development Programme is being run by the Bank using modern management principles and strategic measures. Upon the launch of the programme, an analysis was conducted of all key stakeholders: owners, customers, business partners, employees, regulators, media, public (together with the social, health and cultural environment), the natural environment, competitors, and others.

Owners

The Bank remained in 2011 the company with the largest number of shareholders of any Slovene company. As early as 2007, upon being admitted to the regulated market for securities, it demonstrated high communication standards and complied with the transparency reporting requirements, which was further confirmed by its admittance to the prime market of the Ljubljana Stock Exchange in 2009 and the parallel listing of Bank shares on the Warsaw Stock Exchange from 2011.

Investors are promptly, transparently and in a non-discriminatory fashion informed of all significant operating events through the web portal SEOnet of the Ljubljana Stock Exchange, the web portal of the Warsaw Stock Exchange, and on the Bank's website, but the telephone and a PO box are also used for communication purposes. In the period from January through December 2011, the Bank made more than 100 public announcements (in Slovene and English) through the SEOnet system, and promptly responded to the enquiries of shareholders, investors and other interested members of the public. Over 110 individual meetings, at which investors were informed of the Bank's operations, were conducted last year.

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

NOVA KBM SHARE IS INCLUDED IN THE CEERIUS (CEE RESPONSIBLE INVESTMENT UNIVERSE) SUSTAINABILITY INDEX OF THE VIENNA STOCK EXCHANGE.

To be included in the CEERIUS Index, the Bank has to regularly fill out questionnaires concerning its activity in the area of sustainable development, based on which the representatives of Reinhard Friesenbichler Business Consulting and the Vienna Stock Exchange assess the progress made on sustainable development and assign a weight to each company included in the index.

During 2011, representatives of the Bank and the Nova KBM Group participated at several investor events and in interactive presentations. The Bank joined the 'IR Club', members of which are investor relationship officers of the majority of Slovene companies listed in the prime market of the Ljubljana Stock Exchange.

Also in 2011, the Bank received the award for the greatest progress made in communication with investors in the previous year. This prize was awarded jointly by the Ljubljana Stock Exchange and the Central Securities Clearing Corporation. For executing the capital increase and the parallel listing of its shares on the Warsaw Stock Exchange since May 2011, the Bank also received the 'Smeli borzni koraki' (*Daring stock exchange steps*) prize from the Pan-Slovenian Shareholders' Association.

Natural environment

Separate collection of waste was introduced by the Bank in 2011. With the further development of this project, the Bank hopes to achieve more efficient, rational and economical procurement of goods.

In 2011, the Bank again implemented its policy that investments in equipment and premises should be made by placing the minimum possible burden on the environment. In refurbishing its premises, the Bank replaces old heating, air-conditioning and illumination equipment with the most energy-efficient and modern systems to reduce negative effects on the environment and people.

The Bank uses and purchases only such computer, mechanographic and other equipment that is most energy-efficient and that has minimum negative effects on the environment.

In collecting and carting off waste material the Bank fully complies with applicable legislation and regulations and delivers all ecologically harmful waste for disposal or recycling to organisations legally engaged in this activity.

Substantial savings were made in the use of office and expendable materials, thus causing less waste to be produced. To that effect, the Bank made available all instructions that the employees need for their work in the electronic form. Further, it provided its customers with a possibility to receive all information and statements only in the electronic form.

Customers

Customers and coping with the variety of their needs and wishes were at the centre of the Bank's activities also in 2011. To that end, it performed regular analyses of competition. It also analysed the behaviour and expectations of customers, since these have changed quite dramatically over the past years due to the crisis conditions. On the basis of the results, it adjusted its offering, and adapted its customer communication policy and other elements of marketing mix.

In 2011, it started implementing the project of adapting its operations to people with special needs, the aim of which was to improve the access to its products and services offered at its branches, and to provide uniform treatment of such customers by properly trained bankers.

It also started carrying out an analysis with respect to two projects focused on its social environment: a project to set up a special fund for students without their own financial resources for study (for gifted students); and the upgrade of its website to adapt it to the needs of visually impaired persons.

A great deal of attention was devoted to the quality of service and customer relationship – it carried out a mystery shopping study and assessed the satisfaction of customers with the service provided at its branches.

THE RESULTS OF THE STUDIES SHOWED A HIGH LEVEL OF SATISFACTION AMONG CUSTOMERS.

A further benefit of the results was the identification of segments that will require additional attention in the future. It participated in a Slovenia-wide study 'Bančni monitor' (*Banking monitor*), and carried out other studies focused on specific target customers, in particular young people to whom special attention was given in 2011. It also monitored the quality and timeliness of solving customer complaints.

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

a) Raising awareness of young people

In 2011, the Bank devoted a great deal of energy to making children and young people aware of the proper and prudent handling of money. Under the concept 'Evenings in the Bank', it organised several events, published a variety of educational articles, supported the activities of the Slovene Association of Friends of Youth, and redesigned the website 'Sveta vladar' (*Ruler of the world*) where young people can find useful information with respect to money handling.

b) Promoting financial readiness

IN SEPTEMBER 2011, THE BANK LAUNCHED A NEW COMMUNICATION CAMPAIGN UNDER THE SLOGAN 'PRIPRAVLJENI NA JUTRI' (*READY FOR TOMORROW*).

It carried out a nationwide study on financial readiness which showed that the Slovenes' readiness for the future stands at about 48%. The Bank took an active role in improving the financial condition of the general public, and has trained a group of financial advisers to provide personal advice to customers.

The Bank launched a new website (www.pripravi.se) where customers can find various tools, advice and information for improving their financial readiness. It also launched a new facility for mobile phones, 'Varčevalnik' (*Saver*), which allows users to control the funds they are saving for earmarked purposes.

c) Environmentally-friendly products – ECO loans

With special purpose ECO loans, Nova KBM provides its customers with an opportunity to pay attention to the protection of environment. ECO loans are granted at more favourable interest rates compared to standard commercial loans provided by the Bank.

d) Sponsorships and grants

The Bank supported over 300 individuals and organisations in the area of sports, culture and education. The Bank also supported numerous humanitarian initiatives and actions as a donor.

Together with other members of the Nova KBM Group, the Bank provided substantial support to the dr. Adolf Drošč Health Centre and co-financed the purchase of a mammograph. It provided financial support to Europa Donna (a Slovenian breast cancer association) and continued its cooperation with the Slovene Friends of Youth Association. As in previous years, a grant for organising a social event was provided to local communities in which the Bank opened new branch offices during 2011. As one of the main sponsors, it supported the Golden Fox Women Ski Competition, the Nova KBM Branik Volleyball Club, the NK Maribor Football Club, and many other sports clubs. The Bank also provided support to smaller sports events and to prospective athletes across Slovenia. The Bank remained also in 2011 one of the most important supporters of culture in Slovenia. It was a sponsor of the Lent Festival and the Ljubljana Festival, the Slovene National Theatre in Maribor, the Slovene National Theatre in Nova Gorica, and of some other institutions. Sponsorship was also given to the Nova KBM choir which the Bank has been supporting since its start.

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

e) Encouraging economic development

In line with its strategic policies, the Bank constantly encourages entrepreneurship and innovative thinking. For the eighth year running, the Bank has been cooperating with the Institute for Entrepreneurship Research, and conducted a number of workshops together with the Institute aimed at helping start-up companies raise financial sources, as well as workshops called IMP3rove, aimed at accelerating innovation. During the annual Business Days the Bank held a training programme on effective cash flow for about 250 representatives of small- and medium-sized companies. The activities of the Entrepreneur Centre, which provides financial and expert advice to entrepreneurs, have also been further enhanced with the support of the Bank. In cooperation with the Slovene Enterprise Fund, the Bank continued providing favourable funding to growing businesses. For customers with the highest credit rating the Bank organised a conference on the subject 'Can we be even better tomorrow than we are today?'. At the Entrepreneur School of the Institute for Entrepreneurship Research, it held a presentation for entrepreneurs. Furthermore, it carried out a workshop 'Start-up' and an entrepreneurial afternoon session within the PODIM conference. Representatives of the Bank also gave a presentation at the meeting of human resource managers and trainers. The Bank cooperated with the Chamber of Crafts in Maribor and Kranj, and organised evening sessions covering various topics (also non-banking) at the Bank premises.

f) Suppliers and outsourcers

In setting up its IT support, the Bank cooperates with several outsourcers. As a rule, the Bank endeavours to establish a long-term cooperative relationship with suppliers and outsourcers, which is based on trust, fairness,

correctness, loyalty, high responsiveness, and willingness of outsourcers to cooperate with Bank employees. This has helped the Bank gain the status of a successful and modern bank to which, apart from its employees, external suppliers and outsourcers have greatly contributed.

The Bank devotes a great deal of attention to the selection of outsourcers. The selection of outsourcers is carried out in accordance with internal regulations, taking into account, among other things, expertise, quality of service, loyalty, good references and, of course, the price-service ratio.

The selection of an outsourcer represents only the initial form of cooperation between the Bank and outsourcers. In addition to standard purchase agreement provisions, such as terms and conditions of delivery, prices, quality of products and services, as well as penalties for late delivery, the Bank aims as far as possible to develop collaboration between employees and outsourcers and to establish mutual responsibility for timely accomplishment of agreed services. Mutual respect and trust is built over the years and provides a good basis for better productivity and faster accomplishment of agreed-upon tasks. In this way, the efficiency of the Bank's development process and IT support management is being enhanced.

Public relations

Public communication is based on business strategy and is determined by the annual communication plan. Through appropriate communication, the Bank sets up and upgrades relations with its stakeholders, contributes to the implementation of business objectives, and strengthens its reputation.

Internal communication

In 2011, the Bank ensured that the employees were well informed of the issues relevant to the operations of the Bank. To that effect, about 160 e-circulars were received by the employees. With the aim of providing more relevant information, implementing new communication channels, and improving the flow of information, the Bank has intentionally decreased the number of e-circulars by 18% relative to the previous year. Three issues of the internal newspaper Med Nami were released, and the Bank regularly updated information on its web portal to facilitate the sales. A complete overhaul of the Bank's intranet is in progress, since this is becoming an important entry point and a convenient tool for performing day-to-day operations.

The Bank launched the internal campaign 'Zaobljubljeni v dobro življenje' (*Lively*), the long-term aim of which is the creation of a good working atmosphere. Twelve monthly actions were carried out in support of this campaign, with a total of 1,044 employees, or 90 per month on average, taking part.

Media relations

The Bank proactively communicates with journalists and responds quickly to their requests, since this is also part of the Bank's social responsibility. During 2011, the Bank held five press conferences, issued 44 press releases, responded to over 2,500 requests from journalists, and has, upon being admitted to the Warsaw Stock Exchange, organised a visit of Polish journalists to Slovenia and of Slovene journalists to Poland. As a result of active communication with Slovene and foreign (mainly Serbian and Polish) media, the Bank was mentioned in 2011 more than 6,300 times in the media (an increase of 15% relative to 2010).

Employees

In 2011, the Bank started carrying out the project of encouraging the participation of employees, the aim of which is to strengthen the cooperation between employees.

The Bank is an employer that is aware of the importance of the well-being of employees. To that effect, it offers its employees a level of rights and benefits above those stipulated by the law. It places great emphasis on providing good working environment and caring for the health of employees, and tries to maintain an appropriate balance between professional and family life. It ensures that workplaces are equipped with ergonomic furniture and equipment, and organises free mammograph examinations, prostate examinations, seasonal flu vaccinations, Christmas gifts for small children, and many training and education programmes, such as managing stress, laughter yoga, etc. The Bank also takes care of older employees. It provides them with support and access to all the necessary information for their smooth move into retirement, organises meetings at the Social Gerontology and Gerontogogics Association in Maribor, and offers a permanent place for their meetings, all with a desire to respond to the question: how is it possible to live a full life in retirement?

IN 2011, THE BANK WAS AWARDED THE BASIC FAMILY-FRIENDLY
COMPANY CERTIFICATE.

It has adopted some other measures to help employees balance their professional and family lives, thus also contributing to a good working atmosphere. Parents of children starting primary school get an additional day off on the first school day, parents of children enrolling in kindergarten are paid introductory hours to help their children make the transition to kindergarten successfully, and all employees are entitled to free psychological advice. The Bank also organises internal education programmes with respect to family-friendly conduct.

Annual interviews, which have been going on for a number of years, are used to evaluate the satisfaction of employees, and to set realistic and measurable objectives, the accomplishment of which is closely related to the satisfaction of employees. The interviews also provide information about the career wishes and plans of employees and about their desire to acquire additional skills. This information also serves as a basis for drawing up the annual training plan. Last but not least, feedback is received at interviews concerning the quality and significance of training carried out and of other measures undertaken in the previous year.

The Bank ensures that the employees acquire the latest and most topical skills to efficiently perform their work. This is also how the Bank demonstrates its overall approach to social responsibility. In 2011, 290 training activities with a total of 6,220 participants were carried out, meaning that, on average, each employee participated in almost five different training programmes.

Considering the current pension legislation and anticipated changes to it, the Bank takes care of its employees by paying premiums for collective voluntary supplementary pension insurance on behalf of its employees.

About 80% of all the employees are included in this insurance programme.

The Bank employs 48 disabled persons (3.6% of the total staff) and endeavours, irrespective of their disability, to provide them with adequate work – either by amending working tasks or by adjusting the working environment, and through adequately adapted training.

During 2011, the Bank employees took part in blood donor campaigns and separated collection of waste, helped animals in the animal shelter to survive the winter, and collected plastic stoppers in a campaign to raise money to help individuals with serious injuries.

We have always been and will continue to be a trustworthy bank.
And this is why our governance complies with the highest standards.
We strive for responsibility and quality, both in terms of our
operations as well as in terms of our relationships
with our customers.

REGULATORY PART



{ Scherbaum Manor, around 1910 }

11 CORPORATE GOVERNANCE STATEMENT

11.1 CORPORATE GOVERNANCE CODE

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

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

The Bank has set out the reasons for deviations from the provisions of the Code applied during 2011 in the section headed 'Corporate governance statement', which is an integral part of the Bank's 2011 Annual Report.

In setting up and developing a transparent, clear and successful governance and management system, during 2011 the Bank endeavoured, as far as feasibly possible, to comply with regulatory provisions and the highest standards of responsible and well thought-out governance of the Bank, as laid down in the Code, thus further increasing the confidence of domestic and foreign investors, employees, and the wider public in the governance of the Bank.

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

The Bank and its bodies endeavoured to fully observe the provisions of the Code that was in effect and used in 2011. However, in certain instances the Bank's operations deviated from individual provisions of the Code. In compliance with the Preamble of the Code (and the principle of 'comply or explain'), the Bank sets out below the reasons for such deviations. The reasons were mainly related to the specific circumstances under which the Bank operated due to changed conditions in the Bank and in its environment (market); to payment characteristics of the banking sector; to the specific ownership structure of the Bank; and to other circumstances which had an impact on the governance and management of the Bank.

As a result of being listed on the Warsaw Stock Exchange (WSE), Nova KBM also complies with the Code of Best Practice for WSE Listed Companies. In its Statement of Compliance with the Code of Best Practice for WSE Listed Companies, which is an integral part of the Bank's Corporate Governance Statement, Nova KBM

has provided justification and explanation for which recommendations of this code have not been complied with in 2011.

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

Corporate Governance Code for Public Limited Companies

Point 1

Code provision

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

Reason for deviation

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

Point 5.6

Code provision

When resolutions are proposed by the supervisory board, the shareholders' meeting elects each member of the supervisory board separately.

Reason for deviation

In accordance with the existing practice, the Shareholders' Meeting of Nova KBM has been electing members of the Supervisory Board jointly. In the future, however, a decision on appointing members of the Supervisory Board (individually or jointly) will be at the discretion of the Bank's shareholders.

Point 5.7

Code provision

If the shareholders' meeting is to decide on the management remuneration policy, it should adopt it at the proposal of the supervisory board and align it substantively with the current market situation and the situation

in the company. The management remuneration policy should substantively follow the provisions of the Code, and should define:

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

Reason for deviation

Remuneration of the Management Board was in 2011 adjusted to the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors. In awarding the annual performance fee to the Management Board members for their work during 2011, the Supervisory Board took into account the criteria and measures that complied with the criteria from this provision of the Code.

Point 12.1

Code provision

Aside from attendance fees, members of the supervisory board are also entitled to payment for performing their function, in the amount set by the shareholders' meeting. Members of the supervisory board receive strictly cash payments and their remuneration cannot be directly related to the company's performance as given in the company's statements.

Reason for deviation

In accordance with the resolution of the Shareholders' Meeting, Supervisory Board members were, until 22 July 2011, entitled only to attendance fees. In accordance with a decision passed by the Shareholders' Meeting on 22 July 2011, the total remuneration payable to members of the Supervisory Board consists of the following items: payment for holding the office; attendance fees; reimbursement of costs incurred as a result of holding the office; and payment of participation fees and costs related to participation fees. The amount of remuneration provided to members of the Supervisory Board has been adjusted to the Criteria for Remuneration to the Members of Supervisory Bodies of Companies with State Capital Investments and the Recommendations for Determining Attendance Fees and Remuneration Paid to Supervisory Board Members, which were adopted by the Capital Assets Management Agency of the Republic of Slovenia in 2011.

In 2011, the Supervisory Board members did not share in profits nor were they remunerated with share options or other comparable financial instruments.

Point 13.1

Code provision

Aside from an audit committee, the supervisory board also sets up a remuneration committee and nomination committee. Depending on the size of a supervisory board and the complexity of the work, the tasks of the

remuneration committee and the nomination committee, as laid down in Appendix B of the Code, may be undertaken by the same committee. Committees are set up as soon as possible after the constitutive meeting of the supervisory board and early enough to be able to diligently undertake their tasks.

Reason for deviation

The Supervisory Board Personnel Committee carried out its work until 13 September 2011, when the Supervisory Board, in accordance with the amended Banking Act (ZBan-1) and the Resolution on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, passed a decision to appoint a single Remuneration and Nomination Committee. The Personnel Committee was dissolved on the day the Remuneration and Nomination Committee was formed.

Point 22.7

Code provision

The company discloses the gross and net remuneration of each member of the management board and of the supervisory board. Such a disclosure is clear and comprehensible to an average investor, and includes aside from statutorily-imposed content: an explanation how the choice of performance criteria contributes to the company's long-term interests; an explanation of the methods applied to determine whether the performance criteria have been met; precise information on the deferment periods with regard to variable components of remuneration; information on the policy regarding termination payments, including the criteria conditioning termination payments and the amounts of termination payments; information with regard to vesting periods for share-based remuneration; information on the policy regarding the retention of shares after vesting; information on the composition of peer groups in companies that have been studied with respect to their remuneration policies in the course of setting up a remuneration policy in the company concerned.

Reason for deviation

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

Once the remuneration policy is adopted by the Shareholders' Meeting or the Supervisory Board, the disclosure of remuneration will also include information on the remuneration policy and will follow the recommendations of the Code.

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

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

Nova KBM deviates from the following rules and recommendations:

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

Nova KBM already maintains on its website information for investors that conforms to the Slovene market standards. Nova KBM has neither the intention to enable on-line broadcasts of its Shareholders' Meetings over the internet, nor the intention to record Shareholders' Meetings or publish the recordings on its website.

- **Rules IV. 6 with respect to the date of setting the right to dividend and the date of dividend payment.**

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

- **Rules IV. 10 with respect to a company's duty to broadcast on-line its Shareholders' Meetings and to enable its shareholders to exercise their right to vote at Shareholders' Meetings using electronic communication means.**

In the foreseeable future, Nova KBM has neither the intention to enable on-line broadcasts of Shareholders' Meetings, nor the intention to enable its shareholders to exercise their right to vote at Shareholders' Meetings using electronic communication means.

- **Rules II. 1.7 with respect to the publication on a company's website of shareholders' questions on issues on the agenda of a Shareholders' Meeting.**

Nova KBM will not publish shareholders' questions on its website because, according to Slovene legislation, shareholders do not have the right to submit questions concerning the agenda of a Shareholders' Meeting.

- **Rules IV. 2 with respect to the amendment of the rules of Shareholders' Meetings.**

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

- **Rules IV. 7 with respect to a conditional dividend payment.**

Conditional dividend payments are not allowed under Slovene legislation.

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

Point 72

Code provision

The supervisory board has authorisation to appoint and dismiss members and the president of the management board at its own discretion pursuant to the interests of the company. Supervisory boards of companies with state capital investments which under the Companies Act fulfil the criteria of a large company should appoint the audit committee and, where appropriate, other committees. The audit committee should have powers compliant with the Companies Act and the Corporate Governance Code. If a personnel committee is appointed, it should support the supervisory board in the appointment, remuneration and recall of members of management boards. At least one member of the personnel committee should be an external expert.

In the appointment of members of the management board, members of the supervisory board carry full personal responsibility for the professionalism and prudence of the decision, whereby members are not and

must not be linked to the instructions of anybody, not even the Capital Assets Management Agency of the Republic of Slovenia, which applies also to limited liability companies with a capital investment in which a supervisory board has been set up.

Reason for deviation

The Supervisory Board Personnel Committee carried out its work until 13 September 2011, when the Supervisory Board, in accordance with the amended Banking Act (ZBan-1) and the Resolution on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, passed a decision to appoint a single Remuneration and Nomination Committee. The Personnel Committee was dissolved on the day the Remuneration and Nomination Committee was formed. Both the previous Personnel Committee and the present Remuneration and Nomination Committee have appointed one external expert as a member.

Point 88

Code provision

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

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

Reason for deviation

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

Once the remuneration policy is adopted by the Shareholders' Meeting or the Supervisory Board, the remuneration of Management Board members will be adjusted to the remuneration policy.

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

Guidelines for Reporting of Companies with State Capital Investments

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

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

Recommendation: Attendance fees and remuneration of Supervisory Board members

Reason for deviation

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

Recommendation: Pay for annual leave for 2011

Reason for deviation

Pay for annual leave provided by Nova KBM in 2011 was in accordance with the provisions laid down in the Collective Agreement for Banks and Savings Banks in Slovenia.

Recommendation: Risk management, internal control and internal auditing

Risk management, internal control

Reason for deviation

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

Internal auditing

Reason for deviation

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

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

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

Reason for deviation

The Bank deviates from this recommendation because it has set up a governance system that complies with the principle of equitable treatment of all shareholders. This means that the Management Board fully observes the principle referred to above also in exercising the right of shareholders to information. Equitable treatment of shareholders in this regard prohibits the Bank from putting certain shareholders in a privileged position that

would occur if quarterly reports were submitted to the Capital Assets Management Agency of the Republic of Slovenia as the representative of the largest, but not the only, shareholder of the Bank.

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

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

Reason for deviation

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

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

Reason for deviation

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

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

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

Recommendation: Optimisation of labour costs in 2011 and 2012

Reason for deviation

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

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

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

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

Reason for deviation

The Bank fully complies with this recommendation.

Recommendation: Audits

Reason for deviation

The Bank fully complies with this recommendation.

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

Reason for deviation

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

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

Recommendation: Company Code of Ethics*Reason for deviation*

The Bank adopted the Code of Ethics of Nova KBM Employees on 21 July 2009. Since this Code applies only to the Bank employees, the Management Board has not informed the Supervisory Board of its content.

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

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

Risk management is an important part of the management and governance system. It relates to the systematic identification, measurement, and assessment of risks arising from operations of the Group and its environment. Procedures of risk management, the objectives for risk management, as well as duties and responsibilities for managing risks are set out in respective risk management policies. A general rule applies that each company in the Group is responsible for identifying and managing all risks to which it is exposed in its operations. Assessing and managing risks has an important impact on setting up the business and strategic plan of the Bank and the Group, and on the decision-making process in commercial transactions, individual agreements, investments and other activities.

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

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

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

The system of internal controls and the risk management system are examined each year by external auditors appointed for the audit of the Bank's annual report. The purpose of external audit of financial statements is not to express an opinion on the effectiveness of the system of internal controls.

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

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

As of 31 December 2011, the Bank had three direct holders of shares with a qualified ownership stake (over 5%): the Republic of Slovenia, which held 10,822,794 shares, or a 27.66% equity stake; Pošta Slovenije d.o.o., which held 2,599,192 shares, or a 6.64% equity stake; and GEN d.o.o., which held 2,500,000 shares, or a 6.39% equity stake.

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

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

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

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

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

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

Management Board

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

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

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

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

Supervisory Board

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

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

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

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

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

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

11.4 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 Board
- amendments to the Articles of Association
- measures for increasing or decreasing share capital
- dissolution of the Bank and status changes
- appointment of the auditor
- other matters, if so provided by the Articles of Association or the law.

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

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

Call of the Shareholders' Meeting

The Shareholders' Meeting is called by the Management Board.

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

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

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

Call of the Shareholders' Meeting on request of a minority

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

Participation in the Shareholders' Meeting

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

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

Amendment of the agenda and proposals of shareholders

Shareholders who jointly hold at least one-twentieth of the Bank's share capital may, after the publication of the notice of the Shareholders' Meeting, in accordance with the law, request in writing that additional items

be put on the agenda. Shareholders may send their request for additional agenda items to the Bank via e-mail to the address specified by the Bank in each notice of the Shareholders' Meeting, in scanned format as an attachment, or by fax.

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

Chairing the Shareholders' Meeting

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

Adoption of resolutions

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

Shareholders' right to vote

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

Exercising the right to vote by proxy

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

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

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

The power of attorney remains deposited with the Bank.

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

Information on the functioning of the Shareholders' Meeting is presented also in the section 'Governing bodies of the Bank' in the Business Part of the 2011 Annual Report of the Nova KBM Group and Nova KBM.

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

Management Board

The Supervisory Board appointed on 23 December 2009 for a five-year period Matjaž Kovačič as the President of the Management Board. His term of office started on 22 May 2010. On 24 March 2010, the Supervisory Board re-elected Manja Skernišak for a five-year period as a member of the Management Board, with her term of office starting on 22 May 2010. The Supervisory Board appointed on 21 October 2009 Andrej Plos as a third member of Nova KBM's Management Board. His term of office started on 1 December 2009, after he was granted the licence by the Bank of Slovenia for holding the office of a Management Board member. Considering these changes, the Management Board of Nova KBM has had the following three members since 1 December 2009: Matjaž Kovačič, President of the Management Board, Manja Skernišak, Member of the Management Board, and Andrej Plos, Member of the Management Board.

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

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

Also on 7 December 2011, the Supervisory Board of Nova KBM elected Andrej Plos as the President of Nova KBM's Management Board, with a term of office from 1 January 2012 to 1 December 2014.

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

Duties of the Management Board

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

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

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

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

Decision-making by the Management Board

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

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

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

Representation of the Bank

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

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

Supervisory Board

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

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

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

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

The composition of the Supervisory Board until 22 July 2011 was as follows: Danilo Toplek, Chairman, Franc Škufca, Deputy Chairman, and members Andrej Svetina, Dušan Jovanovič, Anton Guzej, Ivan Vizjak, Janez Košak, Alenka Bratušek and Aleš Krisper.

On 22 July 2011, the Shareholders' Meeting recalled the following three Supervisory Board members: Danilo Toplek, Alenka Bratušek and Ivan Vizjak, and appointed instead Vida Lebar, Ivan Simič and Darjan Petrič (all three for a full term of office).

Conditions for the Supervisory Board membership

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

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

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

Competences and duties of the Supervisory Board

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

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

Members of the Supervisory Board are required to:

- supervise the adequacy of procedures and the efficiency of the work of the internal audit
- discuss the findings of the Bank of Slovenia, the tax inspection and other supervisory bodies during the process of supervision of the Bank
- check annual and other financial reports of the Bank and draw up a written opinion on their conclusions for the Shareholders' Meeting

- explain to the Shareholders' Meeting their opinion about the annual report of the Internal Audit Centre and their opinion about the annual report of the Management Board
- act in line with the highest ethical standards of governance by taking prevention of conflicts of interest into consideration.

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

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

The Supervisory Board is required to:

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

The Supervisory Board adopts the annual report.

Decision-making by the Supervisory Board

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

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

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

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

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

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

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

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

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

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

External members of committees and working bodies shall receive, in addition to reimbursement of costs for performing the office, an attendance fee for the attendance and time spent at the meeting, the amount of which shall be determined by the Supervisory Board.

Information about the activities of the Bank's Supervisory Board is set out also in the section headed 'Report of the Supervisory Board' in the Business Report of the 2011 Annual Report of the Nova KBM Group and Nova KBM.

Supervisory Board committees

The following committees carried out their work during 2011 in accordance with the Companies Act (ZGD-1) and the Banking Act (ZBan-1): the Audit Committee, the Personnel Committee, the Remuneration and Nomination Committee, and the Appointment Board. The Personnel Committee carried out its work until 13 September 2011, when the Supervisory Board, in accordance with the amended Banking Act (ZBan-1) and the Resolution on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, passed a decision to appoint a single Remuneration and Nomination Committee. The Personnel Committee was dissolved on the day the Remuneration and Nomination Committee was formed.

Supervisory Board Audit Committee

In 2011, the Audit Committee consisted of the following members: Andrej Svetina and Janez Košak, as independent members of Nova KBM's Supervisory Board, and Franc Koletnik, professor at the Faculty of Economic and Business in Maribor, and Kosta Bizjak, as external experts.

The Audit Committee supports the Supervisory Board in overseeing the management of the Bank and the Group companies, in particular with regard to legitimacy of operations, the risk management system, internal audit and the internal control system, and undertakes duties laid down in the Articles of Association, documents of the Audit Committee and Supervisory Board resolutions.

The Audit Committee carries out its activities in accordance with the law, the Bank's Articles of Association, and the Charter which regulates the purpose and the composition of the Audit Committee, methods and conditions of its work as well as competences and responsibilities of its members. The area and the method of work of the Audit Committee, its decision-making process and all other issues deemed important for its work are regulated by the Rules of Procedure of the Audit Committee.

As a rule, the Audit Committee members adopt decisions at meetings. A quorum is constituted if at least one half of the Audit Committee members are present at the meeting, one of whom shall be President or Deputy President.

The Audit Committee adopts its decisions with a simple majority of votes cast by the members present at the vote. Each member has one vote. In case of an equal number of votes, the President of the Audit Committee has the casting vote.

Until 22 July 2011, members of Audit Committee had been entitled to a participation fee, the amount of which was determined by the Shareholders' Meeting. In addition, members of the Audit Committee were entitled to the reimbursement of costs for performing the office. On 22 July 2011, the Shareholders' Meeting passed a resolution according to which members of the Supervisory Board who are simultaneously also members of the Audit Committee shall receive, apart from an attendance fee for their attendance and time spent at the meeting, a basic remuneration for holding their office. External members of the Audit Committee are entitled to an attendance fee, the amount of which is determined by the Shareholders' Meeting. They are also entitled to the reimbursement of costs for performing the office, the amount of which is determined by the Shareholders' Meeting as well. External members are entitled to the reimbursement of costs in the same amount as Supervisory Board members.

The Audit Committee regularly reports to the Supervisory Board about its work at the meetings of the Supervisory Board.

Information about the activities of the Supervisory Board Audit Committee is set out also in the section headed 'Report of the Supervisory Board' in the Business Report of the 2011 Annual Report of the Nova KBM Group and Nova KBM.

Supervisory Board Personnel Committee

In accordance with the recommendations of the Corporate Governance Code for Public Limited Companies, the Supervisory Board formed on 31 August 2010 the Supervisory Board Personnel Committee.

In 2011, the Personnel Committee consisted of the following members: Dušan Jovanovič, President of the Personnel Committee and a Supervisory Board member, Franc Škufca and Danilo Toplek, members of the Personnel Committee and members of the Supervisory Board, and Marko Vresk, as an external member.

The Personnel Committee was responsible primarily for providing support to the Supervisory Board in formulating proposals in respect of the salary policy, reimbursement of costs and other benefits of Management Board members, and in helping the Supervisory Board to assess, on a regular basis, the structure, performance and composition of the Management Board, and to assess the performance of Management Board members. It also prepared justified proposals for the recall of individual Management Board members, if reasons for a recall arose, and it helped the Supervisory Board prepare proposals in respect of criteria and candidates for membership on the Management Board. Finally, it helped the Supervisory Board prepare the company's remuneration policy.

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

The Personnel Committee carried out its work until 13 September 2011, when the Supervisory Board, in accordance with the amended Banking Act (ZBan-1) and the Resolution on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, passed a decision to appoint a single Remuneration and Nomination Committee. The Personnel Committee was dissolved on the day the Remuneration and Nomination Committee was formed.

Provisions with respect to remuneration of, and reimbursement of costs incurred by, members of the Audit Committee, in effect until 22 July 2011 and after this date until the Personnel Committee was resolved, shall be, *mutatis mutandis*, applied also to the Personnel Committee.

Information about the activities of the Supervisory Board Personnel Committee is set out also in the section headed 'Report of the Supervisory Board' in the Business Report of the 2011 Annual Report of the Nova KBM Group and Nova KBM.

Remuneration and Nomination Committee

Since 13 September 2011, the composition of the Remuneration and Nomination Committee has been as follows: Dušan Jovanovič, President of the Remuneration and Nomination Committee and a Supervisory Board member, Franc Škufca, member of the Supervisory Board, Ivan Simič, member of the Supervisory Board who was instead of Danilo Toplek appointed to the Remuneration and Nomination Committee by the Supervisory Board, and Marko Vresk, as an external member.

Ivan Simič resigned as a member of Nova KBM's Supervisory Board on 27 January 2012, by which his function as a member of the Remuneration and Nomination Committee also ended.

The Remuneration and Nomination Committee is primarily responsible for providing support to the Supervisory Board in selecting candidates for the Supervisory and Management Board of the Bank, in helping the Supervisory Board controlling and assessing the work of members of the Supervisory and Management Board, and for providing support in formulating proposals in respect of the salary policy, reimbursement of costs and other benefits of Management Board members. Further, it helps the Supervisory Board prepare the company's remuneration policy and proposals with respect to the improvement of the Bank's governance policy. Support and help to the Supervisory Board is provided by the Remuneration and Nomination Committee also in all other issues and tasks laid down in the Rules of Procedure of the Supervisory Board Remuneration and Nomination Committee.

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

Provisions with respect to remuneration of, and reimbursement of costs incurred by, members of the Audit Committee shall be from 13 September 2011, *mutatis mutandis*, applied also to the Remuneration and Nomination Committee.

Supervisory Board Appointment Board

In 2011, the Appointment Board consisted of four representatives of the Bank's largest shareholders (Republic of Slovenia, Kapitalska družba d.d., Slovenska odškodninska družba d.d. and Pom-Invest d.d.), a representative of the Staff Accreditation Council, and members of the Supervisory Board. In 2011, the Appointment Board

had the following members: Dušan Jovanovič, President of the Appointment Board and a Supervisory Board member, Andreja Kert (University of Ljubljana), Borut Jamnik (Kapitalska družba d.d.), Tomaž Kuntarič (Slovenska odškodninska družba d.d.), Ivan Vizjak (Supervisory Board member and a representative of Pom-Invest d.d.) and Borut Bratina (Staff Accreditation Council). On 2 June 2011, the Supervisory Board appointed Jože Glazer as a new member of the Appointment Board to replace Borut Bratina, who had resigned from his position.

Duties of the Appointment Board are as follows:

- selecting candidates for the Supervisory Board and proposing to the Supervisory Board the names of candidates to be nominated at the Shareholders' Meeting
- controlling the composition of the Supervisory Board in the light of best practice recommendations and adopted codes, and the reporting thereof to the Supervisory Board
- supporting the Supervisory Board in the preparation of the Supervisory Board's remuneration system, and in submitting the remuneration system proposals to the Shareholders' Meeting for decision.

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

Provisions with respect to remuneration of, and reimbursement of costs incurred by, members of the Audit Committee shall be, mutatis mutandis, applied also to the Appointment Board.

The Appointment Board held one meeting during 2011. At the meeting held on 18 April 2011, it discussed the Corporate Governance Code for Companies with State Capital Investments, in particular the provisions concerning the composition of the Appointment Board. It also reviewed the self-assessment report drafted by the Nomination Committee.

This Corporate Governance Statement is an integral part of the Bank's 2011 Annual Report and will be available in the Ljubljana Stock Exchange electronic information dissemination system, SEOnet, and published on the Bank's website.

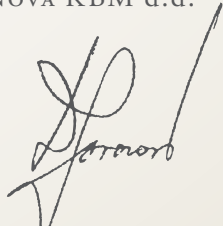
Maribor, 29 February 2012

MANAGEMENT BOARD
OF NOVA KBM d.d.


MANJA SKERNIŠAK
Member


ANDREJ PLOS
President

SUPERVISORY BOARD
OF NOVA KBM d.d.


DUŠAN JOVANOVIČ
Chairman

12 STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

(pursuant to Article 110 of the Financial Instruments Market Act)

By signing this statement, members of the Management Board of Nova KBM, i.e. **Andrej Plos, President, and Manja Skernišak, Member, confirm** to the best of their knowledge, that:

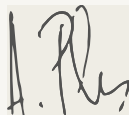
- the financial statements have been drawn up in accordance with the appropriate accounting framework of reporting and that they provide a true and fair view of the assets, liabilities, the financial position and the profit and loss of the Bank and other companies included in the consolidation as a whole,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

Maribor, 3 April 2012

MANAGEMENT BOARD OF NOVA KBM d.d.



MANJA SKERNIŠAK
Member



ANDREJ PLOS
President

13 TYPE OF SERVICES FOR WHICH NOVA KBM HAS THE AUTHORISATION OF THE BANK OF SLOVENIA

Nova KBM has the authorisation to perform banking services pursuant to Article 7 of the Banking Act (Official Gazette of the Republic of Slovenia, No. 99/10 – official consolidated text (No. 52/11 – amendment), No. 9/11 – the Act Amending Payment Services and Systems Act, Nos. 35/11, 59/11, 85/11); hereafter: ZBan-1. Banking services are the acceptance of deposits from the public and the granting of loans for its own account.

The Bank also has the authorisation to perform mutually recognised and additional financial services.

Pursuant to Article 10 of ZBan-1, the Bank may perform the following mutually recognised financial services:

- acceptance of deposits
- granting of loans, including:
 - consumer loans
 - mortgage loans
 - factoring (with our without recourse)
 - financing of commercial transactions, including forfeiting
- payment services
- issuance and management of other payment instruments (i.e. travellers' cheques and bankers' drafts) in the part in which this service is not included in service of point 4 of this Article
- issuance of guarantees and other commitments
- trading for own account and for account of customers in:
 - money market instruments
 - foreign exchange, including currency exchange transactions
 - financial futures and options
 - exchange and interest-rate instruments
 - transferable securities
- participation in the issuance of securities and services related to such issues
- advice and services related to mergers and the purchase of undertakings
- portfolio management and advice
- safekeeping of securities and other services related to safekeeping of securities
- renting of safe deposit boxes
- investment services and operations and ancillary investment services from the first paragraph of Article 10 of the Financial Instruments Market Act.

The Bank may perform the following additional financial services in accordance with Article 11 of ZBan-1:

- insurance brokerage in accordance with the law governing the insurance business
- administration of payment systems
- marketing of investment funds and the sale of investment coupons or shares in investment funds.

Furthermore, within additional financial services provided in accordance with point 6 of the first paragraph of Article 11 of ZBan-1, the Bank may be engaged in the brokerage of voluntary supplementary pension insurance.

14 BANK'S BRANCH NETWORK

SLOVENIA-EAST DIVISION

MARIBOR BRANCH

Tyrševa ulica 2
2505 MARIBOR
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Telefax: +386 2 252 64 08

{ DEPARTMENT FOR SMALL BUSINESSES }

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{ MARIBOR BRANCH OFFICE }

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{ TABOR BRANCH OFFICE }

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{ ROGOZNICA BRANCH OFFICE }

Špindlerjeva ulica 3
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Ul. 25. maja 13
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**{ DEPARTMENT FOR
CORPORATE CUSTOMERS AND
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We are with you, wherever you are - at every step of the way. And our numbers speak for themselves. 150 years of the Nova KBM Group.

Every day, we have more customers whose trust we've earned throughout all these years. We're also adding new branches, where we are more accessible to our customers.

FINANCIAL REPORT OF THE NOVA KBM GROUP



{ Mestna Hranilnica Branch Office, Maribor }

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AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP



This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Nova KBM d.d.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Nova KBM Group, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act and Slovenian Banking Act related to the preparation of the financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nova KBM Group, as of December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act and Slovenian Banking Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited consolidated financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited consolidated financial statements.

Ljubljana, April 4, 2012


Janez Uranič
Director
Certified Auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana


Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

FINANCIAL STATEMENTS OF THE NOVA KBM GROUP

1 CONSOLIDATED STATEMENT OF INCOME – NOVA KBM GROUP

€000

ITEM DESCRIPTION	Notes	Year ended 31.12.2011	Year ended 31.12.2010
Interest income and similar income	7	262,805	254,226
Interest expense and similar expense	7	(127,212)	(106,924)
Net interest income	7	135,593	147,302
Dividend income	8	2,956	1,731
Fee and commission income	9	98,432	104,059
Fee and commission expense	9	(42,004)	(40,977)
Net fee and commission income	9	56,428	63,082
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	10	(615)	1,386
Net gains/(losses) on financial assets and liabilities held for trading	11	3,682	(12,448)
Net (losses) on financial assets (and liabilities) designated at fair value through profit or loss	12	(7,216)	(1,428)
Net exchange rate differences	13	484	15,148
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale		563	(110)
Other operating net income	14	248	9,286
Administration costs	15	(108,455)	(113,418)
Depreciation and amortisation	16	(16,644)	(15,252)
Provisions	17	(16,939)	(3,225)
Impairment losses	18	(158,452)	(79,997)
Share of profits of associates and joint ventures accounted for using the equity method	19	5,515	5,661
Net gains from non-current assets held for sale and liabilities associated therewith		287	283
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		(102,565)	18,001
Income tax expense related to profit/(loss) from continuing operations	20	21,443	(6,588)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS		(81,122)	11,413
NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR		(81,122)	11,413
a) Attributable to owners of the parent		(82,440)	10,780
b) Attributable to non-controlling interest		1,318	633
Basic earnings/(loss) per share (€)	21	(2.38)	0.41
Diluted earnings/(loss) per share (€)		(2.38)	0.41

The notes are an integral part of these financial statements.

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – NOVA KBM GROUP

€000

ITEM DESCRIPTION	Year ended 31.12.2011	Year ended 31.12.2010
NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX	(81,122)	11,413
OTHER COMPREHENSIVE INCOME AFTER TAX	(19,647)	(3,123)
Foreign currency translation differences arising from consolidation	901	(1,098)
Translation gains/(losses) taken to equity	901	(1,098)
Available-for-sale financial assets	(22,455)	(2,257)
Valuation (losses) taken to equity	(31,215)	(2,874)
Transferred to profit or loss	8,760	617
Share of other recognised comprehensive income of associates and joint ventures accounted for using the equity method	(3,257)	(26)
Income tax relating to components of other comprehensive income	5,164	258
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	(100,769)	8,290
a) Attributable to owners of the parent	(101,253)	7,818
b) Attributable to non-controlling interest	484	472

The notes are an integral part of these financial statements.

3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION – NOVA KBM GROUP

€000

ITEM DESCRIPTION	Notes	31.12.2011	31.12.2010
Cash and balances with the central bank	22	147,373	140,398
Financial assets held for trading	23	8,741	3,148
Financial assets designated at fair value through profit or loss	24	38,475	16,705
Available-for-sale financial assets	25	699,603	878,006
Loans and advances		4,021,505	4,281,287
- loans and advances to banks	26	177,420	246,360
- loans and advances to customers	27	3,844,085	4,034,927
Held-to-maturity financial assets	28	449,605	180,220
Non-current assets and disposal groups classified as held for sale and discontinued operations	35	6,405	1,371
Property, plant and equipment	29	94,376	92,699
Investment property	30	54,544	44,966
Intangible assets	31	33,451	32,481
Investments in associates and joint ventures accounted for using the equity method	32	47,539	41,719
Tax assets	33	37,157	14,279
- current tax assets	33	2,283	3,739
- deferred tax assets	33	34,874	10,540
Other assets	34	177,423	139,378
TOTAL ASSETS		5,816,197	5,866,657
Financial liabilities due to the central bank	36	415,478	130,149
Financial liabilities held for trading	37	2,486	6,112
Financial liabilities measured at amortised cost	38	4,857,565	5,215,538
- deposits from banks	38	154,660	168,546
- deposits from customers	38	3,764,808	3,712,304
- loans from banks	38	701,045	1,076,829
- loans from customers	38	156	348
- debt securities	38	48,973	65,472
- subordinated liabilities	38	187,923	192,039
Financial liabilities associated to transferred assets	39	8,022	0
Provisions	40	38,252	22,620
Tax liabilities	33	3,126	6,023
- current tax liabilities	33	269	217
- deferred tax liabilities	33	2,857	5,806
Other liabilities	41	55,705	47,226
TOTAL LIABILITIES		5,380,634	5,427,668
Share capital	42	40,815	27,210
Share premium	43	165,775	78,314
Revaluation reserves	44	(25,096)	(5,542)
Translation reserves		(127)	(868)
Reserves from profit	45	300,726	297,010
Treasury shares		(1,412)	(1,412)
Retained earnings/(loss) (including net profit/(loss) for the financial year)	46	(86,628)	2,188
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		394,053	396,900
Non-controlling interest		41,510	42,089
TOTAL SHAREHOLDERS' EQUITY		435,563	438,989
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,816,197	5,866,657

The notes are an integral part of these financial statements.

4 CONSOLIDATED STATEMENT OF CASH FLOWS – NOVA KBM GROUP

€000

Designation	ITEM DESCRIPTION	Year ended 31.12.2011	Year ended 31.12.2010
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Total profit or (loss) before tax	(102,565)	18,001
	Depreciation and amortisation	16,644	15,252
	Impairment/(reversal of impairment) of held-to-maturity financial assets	(26)	32
	Impairment of tangible assets, investment property and intangible assets	2,862	94
	Share of (profit)/loss of associates and joint ventures accounted for using the equity method	(5,515)	(5,661)
	Net (gains) from exchange rate differences	(484)	(15,148)
	Net (gains) from held-to-maturity financial assets	(527)	(14)
	Net (gains)/losses from the sale of tangible assets and investment properties	(942)	109
	Other (gains) from investing activities	(8,682)	0
	Other losses from financing activities	11,351	11,045
	Net unrealised (gains) from non-current assets held for sale and discontinued operations and liabilities associated therewith	(287)	(283)
	Net unrealised (losses) in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)	(22,455)	(2,257)
	Other adjustments to total profit or loss before tax	16,930	(2,421)
	Cash flow from operating activities before changes in operating assets and liabilities	(93,696)	18,749
b)	Decrease in operating assets (excluding cash equivalents)	292,261	55,006
	Net (increase)/decrease in financial assets held for trading	(5,586)	15,588
	Net decrease in financial assets designated at fair value through profit or loss	10,323	8,017
	Net decrease in available-for-sale financial assets	206,995	168,355
	Net (increase)/decrease in loans and advances	108,156	(121,027)
	Net decrease in non-current assets held for sale	521	2,993
	Net (increase) in other assets	(28,148)	(18,920)
c)	(Decrease) in operating liabilities	(63,881)	(13,846)
	Net increase/(decrease) in financial liabilities to the central bank	285,329	(60,270)
	Net increase/(decrease) in financial liabilities held for trading	(3,626)	4,670
	Net increase/(decrease) in deposits and loans measured at amortised cost	(339,274)	72,475
	Net (decrease) in debt securities in issue measured at amortised cost	(16,499)	(24,965)
	Net increase/(decrease) in other liabilities	10,189	(5,756)
d)	Cash flow from operating activities (a+b+c)	134,684	59,909
e)	Income taxes (paid)/refunded	4,748	(5,824)
f)	Net cash flow from operating activities (d+e)	139,432	54,085

€000

Designation	ITEM DESCRIPTION	Year ended 31.12.2011	Year ended 31.12.2010
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	Receipts from investing activities	43,295	56,395
	Receipts from the sale of tangible assets and investment properties	11,257	2,259
	Receipts from the disposal of subsidiaries, associates and joint ventures	212	0
	Receipts from non-current assets or liabilities held for sale	382	402
	Receipts from the sale of held-to-maturity financial assets	26,998	18,737
	Cash assets acquired through business combination	0	34,997
	Other receipts from investing activities	4,446	0
b)	Cash payments on investing activities	(345,845)	(92,194)
	(Cash payments to acquire tangible assets and investment properties)	(41,792)	(26,437)
	(Cash payments to acquire intangible assets)	(9,646)	(9,296)
	(Cash payments for the investments in subsidiaries, excluding cash received)	0	(9,416)
	(Cash payments for the investments in associates)	(7,344)	0
	(Cash payments to acquire held-to-maturity financial assets)	(287,063)	(47,045)
c)	Net cash flow from investing activities (a+b)	(302,550)	(35,799)
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	Cash proceeds from financing activities	104,328	0
	Cash proceeds from issuing shares and other equity instruments	104,328	0
b)	Cash payments on financing activities	(23,041)	(13,669)
	(Dividends paid)	(4,309)	(2,333)
	(Repayments of subordinated liabilities)	(15,470)	(11,244)
	(Other payments related to financing activities)	(3,262)	(92)
c)	Net cash flow from financing activities (a+b)	81,287	(13,669)
D.	Effects of change in exchange rates on cash and cash equivalents	2,873	258
E.	Net increase in cash and cash equivalents (Af+Bc+Cc)	(81,831)	4,617
F.	Opening balance of cash and cash equivalents	324,734	319,859
G.	Closing balance of cash and cash equivalents (D+E+F)	245,776	324,734

Reconciliation of cash and cash equivalents with the statement of financial position items is presented in Note 22.1.

Cash Flows from Interest and Dividends

€000

	Year ended 31.12.2011	Year ended 31.12.2010
Interest paid	(123,124)	(103,071)
Interest received	208,234	218,450
Dividends paid	(4,309)	(2,333)
Dividends received	2,956	1,731

The notes are an integral part of these financial statements.

5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011 – NOVA KBM GROUP

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Translation reserves	Reserves from profit	Retained earnings (including net profit / (loss) for the financial year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Non-controlling interest	Total share-holders' equity
OPENING BALANCE FOR THE REPORTING PERIOD	27,210	78,314	(5,542)	(868)	297,010	2,188	(1,412)	396,900	42,089	438,989
Total comprehensive income for the financial year after tax	0	0	(19,555)	742	0	(82,440)	0	(101,253)	484	(100,769)
New share capital subscribed (paid)	13,605	90,723	0	0	0	0	0	104,328	0	104,328
Capital increase in Credi banka	0	0	0	0	0	(162)	0	(162)	162	0
Payment of dividends	0	0	0	0	0	(3,119)	0	(3,119)	(1,209)	(4,328)
Transfer of net profit to reserves from profit	0	0	0	0	3,716	(3,716)	0	0	0	0
Other	0	(3,262)	1	(1)	0	621	0	(2,641)	(16)	(2,657)
CLOSING BALANCE FOR THE REPORTING PERIOD	40,815	165,775	(25,096)	(127)	300,726	(86,628)	(1,412)	394,053	41,510	435,563

The amount in the line 'Other', column 'Share premium', relates to direct costs associated with the capital raising.

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 – NOVA KBM GROUP

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Translation reserves	Reserves from profit	Retained earnings (including net profit for the financial year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Non-controlling interest	Total share-holders' equity
OPENING BALANCE FOR THE REPORTING PERIOD	27,210	78,314	(3,484)	26	281,138	9,161	0	392,365	38,909	431,274
Total comprehensive income for the financial year after tax	0	0	(2,067)	(895)	0	10,780	0	7,818	472	8,290
Takeover of Credy banka	0	0	0	0	0	0	0	0	3,140	3,140
Capital increase in Credy banka	0	0	0	0	0	(410)	0	(410)	410	0
Net purchase/sale of treasury shares	0	0	0	0	0	0	(1,412)	(1,412)	0	(1,412)
Appropriation of (accounting for) dividends	0	0	0	0	0	0	0	0	(2,330)	(2,330)
Transfer of net profit to reserves from profit	0	0	0	0	15,901	(15,901)	0	0	0	0
Other	0	0	9	1	(29)	(1,442)	0	(1,461)	1,488	27
CLOSING BALANCE FOR THE REPORTING PERIOD	27,210	78,314	(5,542)	(868)	297,010	2,188	(1,412)	396,900	42,089	438,989

The notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF THE NOVA KBM GROUP

1 GENERAL INFORMATION

Nova KBM d.d. is the parent company of the Nova KBM Group (hereafter also referred to as the 'Group') which, as of 31 December 2011, comprised the parent company and 11 subsidiary companies.

Nova KBM d.d. (hereafter also referred to as the 'Bank') is a commercial bank with tradition, focusing on providing standard products and services to retail and corporate customers. The Bank's registered office is at Ulica Vita Kraigherja 4, 2505 Maribor, Republic of Slovenia.

The share capital of the Bank as of 31 December 2011 totalled €40,814,313.08 and was split into 39,122,968 ordinary no-par value shares. The Bank's shareholder structure at the 2011 year-end was as follows: the Republic of Slovenia held 27.7% of shares; Pošta Slovenije d.o.o. – 6.6%; Gen d.o.o. – 6.4%; Kapitalska družba d.d. – 4.8%; Slovenska odškodninska družba d.d. – 3.2%; ELES d.o.o. – 2.4%; the total shareholding of the state was 51.1%, the same as at the 2010 year-end, of which 35.7% was a direct and 15.4% an indirect shareholding of the state in the Bank; households held 16.4% (down 6.6 percentage points from the beginning of the year); other financial organisations held 6.5% (down 4.3 percentage points from the beginning of the year); foreign investors held 22.0% (up 12.9 percentage points from the beginning of the year); non-financial companies held 2.5% (down 1.2 percentage points from the beginning of the year); and banks held 1.5% (down 0.8 percentage points from the beginning of the year).

The Bank is obliged to prepare consolidated financial statements.

1.1 DEFINITION OF THE GROUP

The Group is composed of the parent bank and the subsidiary companies.

Name of the company	Position in the Group	Group's voting rights in the company (%)
Nova Kreditna banka Maribor d.d.	parent bank	
Poštna banka Slovenije d.d.	subsidiary bank	55.00
Adria Bank AG	subsidiary bank	50.54 ¹
Credy banka a.d.	subsidiary bank	76.64 ²
KBM Fineko d.o.o.	subsidiary company	100.00
KBM Infond d.o.o.	subsidiary company	72.73 ³
KBM Leasing d.o.o.	subsidiary company	100.00
KBM Invest d.o.o.	subsidiary company	100.00
Gorica Leasing d.o.o.	subsidiary company	100.00
M-PAY d.o.o.	subsidiary company	50.00
KBM Projekt d.o.o.	subsidiary company	76.00
KBM Leasing Hrvatska d.o.o.	subsidiary company	100.00

¹ The Group's share in voting rights and share capital of Adria Bank accounts for 50.54%, while its share in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.

² The shareholders' agreement entered into between the Bank and the Republic of Serbia includes a provision under which a 12.89% stake of the Republic of Serbia in Credy banka is subject to a call option available to the Bank and a put option available to the Republic of Serbia. Following the exercise of the option, which is disclosed in other liabilities and the price of which is set at €5,636,000, the shareholding of the Bank in Credy banka will increase to 89.53%, while the shareholding of the Republic of Serbia will fall to 0%.

³ The Group's share in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain percentage of its own shares, the Group's share in the capital and voting rights of KBM Infond equals 72.73%.

Moja naložba and Zavarovalnica Maribor are associated companies in which the Bank has a 45% and a 51% shareholding, respectively.

In July 2011, Nova KBM injected additional capital of €5,000,000 into Credi banka, thereby increasing its shareholding from 72.38% to 76.64%.

In the raising of capital by Zavarovalnica Maribor, and pursuant to Nova KBM's takeover bid for all shares of Zavarovalnica Maribor, Nova KBM subscribed for new shares of Zavarovalnica Maribor totalling €7,344,000 and thus increased its shareholding from 49.96% to 51.29%. New shares were issued in July 2011 and the takeover bid by Nova KBM expired in August 2011. The shareholding of Nova KBM in Zavarovalnica Maribor decreased to 51.00% by the end of 2011.

Zavarovalnica Maribor is not yet regarded as a subsidiary because not all the requirements have been met to exercise control over the insurance company.

In November 2011, Nova KBM made a subsequent contribution of €6,850,000 into the capital reserves of KBM Infond. This had no effect on the shareholding in the company.

In November 2011, Nova KBM injected additional capital of €3,000,000 into KBM Leasing and €1,997,000 into KBM Leasing Hrvatska.

In November 2011, KBM Fineko acquired a 100% shareholding in the company Istra Plan d.o.o. Due to the fact that the company Istra Plan d.o.o. is not considered a business entity, the acquisition has not been treated as a business combination but as a takeover of assets and liabilities of Istra Plan d.o.o. Assets of Istra Plan d.o.o. totalling €5,197,000 have been recognised in the consolidated financial statements of the Nova KBM Group.

2 BASIS FOR THE PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the period ended 31 December 2011 were authorised for issue on 3 April 2012 by the Management Board of Nova KBM.

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereafter 'IFRSs') as endorsed by the European Union.

2.2 BASIS OF VALUATION

The consolidated financial statements are prepared under the historical cost convention, except for the following items for which the fair value has been applied:

- financial assets designated at fair value through profit or loss
- available-for-sale financial assets
- derivatives
- investment property.

The fair value assessment methods are set out below.

2.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in accordance with IFRSs requires the use of certain accounting estimates and judgements, which may affect the value of reported assets and liabilities and of potential assets and liabilities as of the reporting date, and income and expense for the period then ended.

The most important judgments relate to the classification of financial instruments, in particular to the distribution between the held-to-maturity portfolio and the portfolio held for trading. The classification of financial instruments is carried out in line with the Group's policy prior to the initial recognition of a financial instrument.

Estimates are used for: impairment of loans to customers; impairment of available-for-sale financial assets; fair value of financial assets and liabilities; provisions for off-balance sheet risks; depreciation of property, plant and equipment and amortisation of intangible assets; potential tax items; provisions for liabilities to employees; provisions for pending legal issues.

2.4 PRESENTATION AND FUNCTIONAL CURRENCY

Items included in the consolidated financial statements are presented in euro, which is the functional and presentation currency of the Group.

All amounts in the consolidated financial statements and in the notes to the consolidated financial statements are expressed in thousands of euros except where stated otherwise. Due to rounding off of amounts, there may be slight discrepancies in totals.

2.5 SEASONAL IMPACT

The operations of the Group are not influenced by seasonal effects.

3 SIGNIFICANT ACCOUNTING POLICIES

Adopted accounting policies have been consistently applied in both reporting periods presented in these consolidated financial statements.

3.1 CONSOLIDATION

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary,
- derecognises the carrying amount of any non-controlling interest,
- derecognises the cumulative translation differences, recorded in equity,
- recognises the fair value of the consideration received,
- recognises the fair value of any investment retained,
- recognises any surplus or deficit in profit or loss,
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired was recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 has not been restated.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as non-controlling interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Subsidiaries

Subsidiary entities are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into consideration. Financial statements of subsidiary entities are included in the consolidated financial statements from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. Business combinations achieved in stages are accounted for as separate steps. Any additional acquired share of interest does not affect previously recognised goodwill.

When necessary, accounting policies for subsidiary entities have been changed to ensure consistency with the policies adopted by the Group. The reporting dates are unified across the whole Group. All subsidiary entities are fully consolidated.

In the statement of financial position, non-controlling interest is reported as a separate item within equity. Shares of non-controlling interest are eliminated from all equity items in proportion to the share of non-controlling interest in the share capital.

Associated entities

Associated entities are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting rights of another entity.

Associated entities are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date the significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the

carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses and dividends arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from intra-group transactions and recognised in assets are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Exchange rate differences are recognised in the statement of income.

Assets and liabilities items which are denominated in foreign currency are translated and disclosed in the consolidated financial statements by applying the European Central Bank's reference exchange rates as valid on the reporting date. The effects of translating foreign currency into the euro are recognised in the statement of income as net gain/loss from exchange differences.

Translation differences on non-monetary items, such as equity instruments designated at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available for sale, are included in other comprehensive income.

Financial statements of Group companies that have functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the rate of exchange prevailing at the reporting date
- profit or loss is translated at the average exchange rates for the period.

Translation differences are recognised in a separate component of consolidated capital adjustment, and are recognised in the statement of income only after the investment is disposed of.

3.3 CASH EQUIVALENTS

Cash equivalents are current, highly liquid investments that can be quickly converted to a known amount of cash and for which the risk of changes in value is negligible.

The Group includes the following items among cash equivalents:

- cash and balances in settlement and current accounts
- loans to banks with an original maturity of up to three months
- investments in available-for-sale debt securities with an original maturity of up to three months.

3.4 FINANCIAL ASSETS

3.4.1 CLASSIFICATION OF FINANCIAL ASSETS

Upon initial recognition, the Group classifies financial assets with regard to the purpose of the acquisition, the period held, and the type of the financial asset into one of the following categories:

- **Financial assets designated at fair value through profit or loss** are classified into financial instruments held for trading and other financial instruments designated at fair value through profit or loss. **Financial assets held for trading** are those instruments in which the Group intends to actively trade and earn profit from short-term price differences. Equity instruments, debt securities and derivatives, except those held for hedging purposes, are classified into this category. Financial assets are upon initial recognition designated at fair value through profit or loss when doing so provides more relevant information of measurement or recognition.
- **Held-to-maturity financial assets** are assets with fixed or determinable payments and a fixed maturity, for which the Group attests the purpose and capacity to hold them until maturity.
- **Available-for-sale financial assets** are assets which the Group did not acquire for the purpose of trading but intends to hold them for an undetermined period of time, and which can be sold for the reason of liquidity requirements, changes in interest rates, exchange rates or the prices of financial instruments.
- **Loans and advances** are financial assets with fixed or determinable payments which are not traded on an active market.

The Group uses financial instruments for the purpose of economic hedging of another financial instrument. In its accounting, the Group does not apply rules of hedge accounting, as the effects of measurement of both the underlying and the hedge financial instrument are shown simultaneously in the statement of income.

The Group does not hold instruments for which hedge accounting would be required.

3.4.2 RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS

Buying and selling of financial assets, except loans and advances, is recognised on the trading date (day when the contract is concluded). Loans and advances are recognised on the settlement date.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition (the Group transferred all rights and risks under the financial asset). Should the Group transfer the financial asset, but retain practically all risks and rights, derecognition of the asset is not carried out.

If a financial asset is derecognised in full, the difference between the carrying value of the asset and the sum of any compensations received (including the value of new asset received, reduced by the newly assumed liability) and accrued gains or losses, which are recognised directly in equity, is recognised in the statement of income.

3.4.3 MEASUREMENT OF FINANCIAL ASSETS

Financial assets, except financial assets carried at fair value through profit or loss, are initially measured at fair value plus any transaction costs.

Financial assets carried at fair value through profit or loss are initially measured at fair value, and the transaction costs are expensed in the statement of income on the purchase date.

After they are initially recognised, financial assets held for trading and available-for-sale financial assets are measured at fair value. Fair value of financial assets is based on current bid prices as valid on the reporting date or, if such are not available, closing prices. For financial instruments which are not quoted, the Group establishes the fair value by applying valuation techniques, such as considering prices of comparative transactions and the method of discounted future cash flows.

Derivatives, including foreign currency forward transactions, interest rate swaps, currency options and forward transactions in securities, are used by the Group for trading and hedging purposes and are measured at their fair value. The fair value of derivatives equals unrealised gains or losses on the valuation of derivatives at market prices or at contractual forward prices.

Available-for-sale equity instruments for which the fair value cannot be reliably established are measured at cost (acquisition cost increased by transaction costs and reduced by the impairment loss).

Loans and advances are measured at amortised cost by applying the effective interest rate method.

Loans and advances are disclosed in the amount of outstanding principal, increased by outstanding interest and fees and decreased by appropriate allowance for impairment.

Held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated as the initially recognised amount of the receivable, decreased by repayments of principal, increased or decreased by the accumulated difference between the initial amount and the amount due for payment, and decreased by appropriate allowance for impairment.

3.4.4 GAINS AND LOSSES

Gains and losses arising from the change in fair value of financial assets measured at fair value through profit or loss are recognised in the statement of income in the period in which they are incurred.

Gains and losses arising from the change in fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for losses due to impairment and foreign exchange gains and losses, until the financial asset is derecognised at which time the effect previously included in equity is recognised in the statement of income. Interest on available-for-sale debt securities, calculated by applying the effective interest rate method, is recognised directly in the statement of income.

'Day one' profit

Where the transaction price of an instrument in a non-active market is different to the fair value from other observable market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value in the statement of income as the 'day one' profit. In cases where the data used for valuations are not 'fully marketable', the difference between the transaction price and the price based on the valuation technique is recognised in the statement of income only after the market becomes relevant, or if the instrument is disposed of.

3.4.5 RECLASSIFICATION OF FINANCIAL ASSETS

During 2011, the Group did not reclassify any of its financial assets into another category.

3.4.6 IMPAIRMENT OF FINANCIAL ASSETS***Available-for-sale financial assets***

At each reporting period the Group assesses whether there is objective evidence that available-for-sale financial assets are impaired. A significant or prolonged decline in the fair value of a financial asset below its acquisition cost is considered when determining whether the assets are impaired. The decision regarding what is to be considered as a significant or prolonged decline in the fair value is based on estimates. In making such estimates, the Group, in addition to other variables, takes into account the price volatility of securities.

In case of impairment of available-for-sale debt instruments, the cumulative loss recognised within other comprehensive income is transferred into the statement of income. The loss so recognised may be reversed.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurred after the impairment loss was recognised, the impairment loss is reversed through the statement of income.

In case of impairment of available-for-sale equity instruments, the loss due to impairment of the instrument is recognised in the statement of income. Reversal of impairment of an equity instrument is not carried out through the statement of income, but is, in case of a subsequent increase in fair value, disclosed directly within other comprehensive income.

Held-to-maturity financial assets

At each reporting period the Group assesses whether there is objective evidence that held-to-maturity financial assets are impaired.

The amount of impairment loss is measured as the difference between the instrument's carrying value and the present value of future cash flows discounted by the original effective interest rate. The amount of loss is recognised in the statement of income.

Loans and advances

The Group classifies each customer into the adequate credit rating category using its internal methodology. The classification of customers is based on their financial standing and performance, their ability to provide cash flow needed for the repayment of debts, their settlement of liabilities, the industry sector risk, and on subjective criteria.

The Group continuously, or at least quarterly, assesses whether impartial evidence exists, or events have occurred since recognition of an asset, and whether these events have an impact on the future cash flows of a financial asset or a group of financial assets which can be reliably assessed.

On the basis of risks associated with a customer and the transaction concluded, the adequate impairment of financial assets is made in accordance with IFRSs and the internal methodology. Individually significant financial assets are assessed individually. If in an individual assessment the impairment of a financial asset is established, such asset shall be impaired individually, otherwise it shall be classified into the adequate debtor or financial asset risk category and impaired collectively. Individually insignificant financial assets are assessed for impairment collectively as well.

For individually assessed financial assets, the amount of impairment loss is calculated as the difference between the asset's carrying value and the present value of future cash flows discounted at the contractual interest rate. If the Group possesses prime or adequate collateral, it also takes into account expected cash flows from the realisation of any such collateral.

For collectively assessed financial assets, the Group uses a model that is based on the probability of transition of a customer from a credit rating category to default customers and on the available information of the amount of loss for each group of default customers. The probability of transition of customers and the amount of loss are calculated for each individual loan cluster on the basis of former actual transitions and losses.

The adequacy of collective impairment rates is controlled on an annual basis. Collective impairment rates are calculated separately for the portfolio of loans to individual customers and the portfolio of loans to corporate customers.

The carrying value of the asset which is impaired is decreased directly, or through the allowance account. Impairment losses are recognised in the statement of income.

If the amount of impairment decreases in the following period, the previously recognised impairment loss is reversed. The amount of reversed loss is recognised in the statement of income.

If a customer is located in a higher-risk country, the sovereign risk also has to be taken into consideration when assessing losses due to impairment.

Whenever possible, the Group strives to restructure loans rather than liquidate collateral. The restructuring of a loan can be made by extending the term of the loan or negotiating new terms and conditions for the loan. Once new terms and conditions are agreed upon, the loan is no longer classified as being due; however,

a customer's rating cannot be upgraded only on the basis of a loan restructuring. If a loan is restructured, the Group constantly controls the borrower's compliance with the terms of the restructured loan and monitors the probability of future repayments. Such loans remain subject to collective or individual impairment calculated using the original effective interest rate of the loan.

3.5 OFFSETTING

Financial assets and liabilities are offset in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.6 SALE AND REPURCHASE AGREEMENTS

Securities purchased under agreements to resell (repos) are retained in the financial statements as loans and advances to banks or customers, as appropriate. According to the agreements on temporarily purchasing an instrument, the Group does not enter into any risk and does not enjoy any benefits from the instrument. The contractual relation is classified as a collateralised loan, and instruments which are defined in the repo contract are pledged as security. The difference between the purchase and the sale price is treated as interest income and is accrued over the life of the repo agreements using the effective interest rate method.

3.7 LEASES

Assets leased to customers under lease agreements, which transfer substantially all the risks and rewards of ownership of an item of property, plant and equipment, with or without ultimate legal title, are classified as finance leases. Depending on the lease agreement, the asset leased may be bought or returned to the lessor. As a rule, such a lease agreement cannot be unilaterally terminated. For depreciating leased assets, the same accounting policy is applied as for the Group's own assets.

A lease which is not a finance lease is an operating lease.

The Group is the lessee

Payments made under operating leases are included in the statement of income on a straight-line basis over the period of the lease.

An asset obtained on the basis of a finance lease is included within property, plant and equipment. Its acquisition cost equals the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. Lease payments are recognised as interest expense. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The Group is the lessor

Assets leased under operating lease agreements are included within investment property or property, plant and equipment. Lease income is recognised in the statement of income on a straight-line basis over the period of the lease.

When assets are held subject to a finance lease, the present value of future lease payments is recognised as a receivable under the finance lease. Income from the finance lease, which is disclosed as interest income, is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor.

3.8 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are assets which the Group uses for conducting its business. They are recorded at historical cost less accumulated depreciation and any impairment loss. Transaction costs directly attributable to the acquisition of an asset are included in the initial cost recognition.

Subsequent costs are included in the asset carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income in the financial period in which they are incurred.

The Group starts to depreciate items of property, plant and equipment when these assets are available for use. Depreciation of assets is provided individually on a straight-line basis over their estimated useful lives.

The following depreciation rates are applied:

• buildings	1.1% and 5%
• computer equipment	20% to 50%
• motor vehicles	12.5% to 20%
• other equipment	5% to 25%

Land is recognised separately from buildings and, as it generally has an unlimited beneficial life, is not depreciated.

For co-divided ownership of commercial space, the value of the associated land is included in the Group's acquisition cost of that part of the building.

Items of property, plant and equipment are assessed due to possible impairment each time when there are indicators that, due to events or changes in the circumstances, the carrying value of an asset may not be recovered. If the estimated recoverable value of an asset is lower than its carrying amount, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in the statement of income. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

An asset is derecognised upon disposal or if the future economic benefits are no longer expected from its use.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of an item of property, plant and equipment, and are recognised net in the statement of income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

In 2011, the Group did not capitalise the borrowing costs.

3.9 INVESTMENT PROPERTY

Items of investment property are tangible assets that the Group does not use directly in its operations; they are held with the intention of renting them out commercially.

Upon recognition, they are measured at acquisition cost, and later the Group measures items of investment property by applying the fair value model.

A licensed real estate appraiser verifies the fair value of items of investment property at the end of each financial year.

Gains or losses arising from changes in fair value are included in the Group's statement of income in the period to which they relate.

3.10 INTANGIBLE ASSETS

The Group possesses only intangible assets with a determinable period of useful life.

Initial recognition of an acquisition cost includes costs which are directly linked to the acquisition of an asset and are necessary for the asset to be put into use. The Group depreciates intangible assets on a straight-line basis over their estimated useful lives. The following amortisation rates are applied:

- other investments 10%
- licences 10% to 20%

The Group stops amortising intangible assets when they are defined as non-current assets for sale, or when they are derecognised as the Group no longer expects any further economic benefits.

Intangible assets are tested for impairment when there are indicators that the carrying value may not be recovered. If the assessed recoverable amount of an asset is lower than its carrying value, the carrying value should be reduced to the recoverable amount and the reduction recognised as an impairment loss in the statement of income. The recoverable amount is the higher of the fair value less costs of sale and the value in use.

Goodwill

Goodwill arises when the acquisition cost of an investment in a subsidiary or jointly controlled company exceeds the company's fair value. Goodwill is tested for impairment on an annual basis. If the recoverable amount is lower than the carrying value, the impairment is recognised.

3.11 INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated sales price achieved in the ordinary course of business net of estimated costs of completion and costs of sale. Inventories are not revalued as a result of the increase in value.

Finished goods and work-in-progress (real estate for sale) are initially measured at direct production costs which are related directly to individual projects and indirect production costs.

Upon initial recognition, the Group measures items of real estate received for the settlement of receivables on the basis of an appraiser's record, which is obtained at the payment of the receivable. The Group holds the real estate so acquired with the intention to sell it.

Acquisition cost of inventories seized under lease agreements consists of the debt of the lessee (overdue and unpaid and undue principal, overdue and unpaid interest and other costs which can be charged to the lessee).

3.12 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of book and fair value, reduced by the costs of sale. These assets are not depreciated.

3.13 FINANCIAL LIABILITIES

Financial liabilities include liabilities due to the central bank, financial liabilities held for trading and financial liabilities measured at amortised cost.

Financial liabilities held for trading include liabilities arising from the valuation of forward sale of securities, and are measured at fair value.

Financial liabilities measured at amortised cost are deposits and loans from banks and customers, debt instruments issued and other financing liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After they are initially recognised, the liabilities are measured at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income by applying the effective interest rate method.

A financial liability is derecognised only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying value of a financial liability that is cancelled, or transferred to another party, and the compensation paid is recognised in the statement of income.

3.14 PROVISIONS

The Group recognises non-current provisions for liabilities and expenses due to present obligations (legal or indirect) arising from past events for which it is possible that an outflow of resources embodying economic benefits will be required to settle the obligations and a reasonable estimate of the obligation can be made. The Group establishes provisions for long-term employee benefits and similar liabilities, for off-balance sheet liabilities, for pending legal issues, and other provisions.

The Group recognises provisions for pensions and similar liabilities that reflect the present value of liabilities for termination benefits and loyalty bonuses. When calculating the present value, a discount interest rate is used that is equal to the market rate of return on corporate bonds of an issuer with a high credit rating, issued in a currency that is the same as the currency of the employer's liabilities; the discount rate used for 2011 was 5.10% (2010: 4.90%). The Group recognises provisions for every employee in such a manner that termination benefits at retirement provided for by the employment contract are taken into account, as well as the costs of expected loyalty bonuses for the total years of service at the company until retirement, while taking into consideration, among other factors, employee turnover in the range of 0.4% to 1.7% (2010: 0.4% to 1.8%) and the projected increase in salaries in the range of 1.6% to 3.0% (2010: 2.2% to 4.0%). A certified actuary performs the calculation of liabilities for the Group.

The Group recognises provisions for off-balance sheet liabilities on the basis of risk classification of the customer and the transaction concluded, considering similar criteria as for the impairment of loans.

Provisions for pending legal issues represent reliably assessed amount of liability on the reporting date. Provisions are estimated on the basis of known facts of the legal proceeding, previous experiences with similar proceedings, and opinions of legal experts.

3.15 SHAREHOLDERS' EQUITY

Share capital of the Bank is split into ordinary registered no-par value shares.

Acquired treasury shares are deducted from equity.

Dividends on shares are recognised as a financial liability for the period in which the Shareholders' Meeting approves the dividend payment.

3.16 COMMITMENTS AND CONTINGENCIES

The Group undertakes transactions in financial instruments that carry off-balance sheet risk, such as financial and service guarantees, letters of credit and credit lines.

Financial guarantees

Off-balance sheet commitments under guarantees represent irrevocable obligations that the Group will make payments in the event a customer cannot fulfil its obligations vis-à-vis third parties.

Fees received are amortised to the statement of income using the straight-line method.

Risks associated with off-balance sheet financial commitments and contingent liabilities are assessed similarly as for loans. Any increase in liability as a result of estimated expenses required for the settlement of contractual obligations is included in the item 'Provisions'.

3.17 INTEREST INCOME AND EXPENSE

Income is recognised when a probability of future economic benefits exists, and such benefits can be reliably measured.

Interest income and expense are recognised in accrued amounts at a level, with maturities, and in the manner set out in the decision on interest rates, or based on an agreement between the Group and its customer.

All interest income and expense from operations with financial assets are recognised in the statement of income by applying 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 granted 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, issued securities, loans received and other expenses on financial liabilities are included in interest expense.

3.18 DIVIDEND INCOME

Dividends or participating interests received from equity investments in companies are included in the dividend income. The Group recognises dividend income in the statement of income upon obtaining the right to dividend.

3.19 FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income includes fees and commissions for services rendered by the Group. Fee and commission expense includes amounts paid for the services of others.

Fee and commission income and expense are recognised in the statement of income when the service is performed.

3.20 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Realised gains and losses on available-for-sale financial assets, loans measured at amortised cost and held-to-maturity financial assets are recognised in the statement of income upon selling the asset, at maturity, or upon other derecognition of the financial asset.

3.21 NET GAINS AND LOSSES ON FINANCIAL ASSETS HELD FOR TRADING

Net gains and losses from trading include realised and unrealised gains and losses on financial assets held for trading, valuation of derivatives and net gains from buying and selling foreign currency.

3.22 OTHER NET OPERATING INCOME OR LOSS

Other net operating income or loss includes realised gains and losses from non-banking activities (income from leases, selling of inventory, expenses for memberships and contributions, other expenses).

3.23 IMPAIRMENT

The Group includes the following categories in the item 'Impairment losses': impairment of financial assets not measured at fair value through profit or loss; impairment of items of property, plant and equipment; impairment of intangible assets; and impairment of items of investment property.

3.24 TAXES

Income tax is disclosed in the amount calculated by the Group companies on the basis of the applicable local legislation. Deferred tax is calculated for all temporary differences between the value of assets and liabilities for tax purposes and their carrying value. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

The most significant temporary differences arise from the valuation of financial instruments, and from provisions.

Deferred tax is recognised for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which temporary differences can be charged.

Deferred tax relating to the valuation of available-for-sale financial instruments and measured at fair value is disclosed directly within other comprehensive income.

3.25 REPORTING BY SEGMENTS

A segment is recognisable as an integral part of the Group engaged in marketing of products or services (operating segment) and is subject to risks and returns different from those in other segments. Reporting by segments for management purposes is the same as presented in the financial statements.

With the aim of effectively managing its operations, the Group is organised into five operating segments based on products and services provided. These segments are:

Banking	Banking and financial services provided in accordance with the Banking Act: Acceptance of deposits, granting of loans, factoring and financing commercial transactions, payment transaction services, issuance and management of payment instruments, issuance of guarantees and other commitments.
Fund management	Management of financial funds.
Leasing	Finance and operating leasing of moveable property, equipment and real estate.
Real estate activity	Real estate operations, investment engineering and project financing.
Other	Coordination of the Moneta system development.

The management controls the results of operating segments to make proper investment decisions and to assess the performance of segments. Segment performance is assessed based on operating profit or loss which, in certain respects, is different to operating results disclosed in the consolidated financial statements.

The Group does not gather information by geographical regions because more than 90% of its operations are carried out in the domestic market.

3.26 STANDARDS AND INTERPRETATIONS

The accounting policies used to prepare the financial statements are consistent with those of the previous financial year, except for new and amended standards and interpretations as of 1 January 2011, as presented below.

IFRS 1 – First-time Adoption of IFRSs: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (amended)

This amendment exempts first-time adopters of IFRSs from providing the additional disclosures introduced by IFRS 7. The adoption of this amendment has no effect on the Group's financial statements.

IAS 24 – Related Party Disclosures (amended)

The amendments to IAS 24 define in more detail and simplify the definition of a related party. Furthermore, the amended standard reduces the scope of disclosures of transactions of a government owned entity with the government and other government owned entities. The amendments are applicable for periods beginning on or after 1 January 2011 and require retrospective application. The Group has amended its accounting policy accordingly.

IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues (amended)

This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendments are applicable for periods beginning on or after 1 February 2010 and require retrospective application. The adoption of this amendment has no effect on the Group's financial statements.

IFRIC 14 – Prepayments of a Minimum Funding Requirement (amended)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The adoption of this amendment has no effect on the Group's financial statements.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this amendment has no effect on the Group's financial statements.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These amendments became effective for periods beginning on 1 July 2010 or 1 January 2011.

IFRS 1 – First-time Adoption of IFRSs

This improvement clarifies the treatment of accounting policy changes in the year of adoption after publishing an interim financial report in accordance with IAS 34 – *Interim Financial Reporting*, allows first-time adopters to use an event-driven fair value as deemed cost and expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The adoption of this amendment has no effect on the Group's financial statements.

IFRS 3 – Business Combinations

The measurement options for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments are effective for periods beginning on or after 1 July 2010. The Group has amended its accounting policy accordingly.

The second amendment refers to a clarification that contingent considerations arising from business combination prior to the adoption of IFRS 3R (as revised in 2008) are accounted for in accordance with IFRS 3 (2005). The Group has amended its accounting policy accordingly.

The final amendment refers to unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination. The adoption of this amendment has no effect on the Group's financial statements.

IFRS 7 – Financial Instruments: Disclosures

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information to context. The amendments are effective for periods beginning on or after 1 January 2011. The Group has amended its accounting policy accordingly.

IAS 1 – Presentation of Financial Statements

The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The amendment applies for periods beginning on or after 1 January 2011. The Group has amended its accounting policy accordingly.

IAS 27 – Consolidated and Separate Financial Statements

The improvement states that the transitional requirements of IAS 27 (as revised in 2008) should be applied to consequentially amended standards. The improvements are effective for periods beginning on or after 1 July 2010. The Group has amended its accounting policy accordingly.

IAS 34 – Interim Financial Statements

The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The Group has amended its accounting policy accordingly.

IFRIC 13 – *Customer Loyalty Programmes*

In determining the fair value of award credits an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme. The amendment is effective for periods beginning on or after 1 January 2011. The adoption of this amendment has no effect on the Group's financial statements.

Standards and interpretations issued but not yet effective and not early adopted

The Group has not early adopted any standard or interpretation issued but not yet effective.

The following new and amended standards will be applied in future periods as required by IFRSs and the European Union:

IFRS 7 – *Financial Instruments: Disclosures – Transfer of Financial Assets*

The amendments are effective for periods beginning on or after 1 July 2011 and were issued to improve the disclosure requirements relating to the transfer of financial assets. Amendments require disclosures for transfers of financial assets that are derecognised in their entirety as well as those that are not. The amendment requires retrospective application. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

In compliance with the requirements of IFRSs and subject to the endorsement by the European Union, the Group will have to apply in future periods the following amended and revised standards and interpretations:

IFRS 1 – *First-time Adoption of IFRSs: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The amendment provides guidance on how an entity can resume presenting IFRSs financial statements when its functional currency ceases to be subject to severe hyperinflation. A further amendment is the removal of the legacy of fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The amendments are effective for periods beginning on or after 1 July 2011.

IFRS 7 – *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (amended)*

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied.

IFRS 9 – *Financial Instruments*

The standard replaces IAS 39 and is applicable for periods beginning on or after 1 January 2015. The first part of the standard introduces new requirements for classifying and measuring financial assets.

IFRS 10 – Consolidated Financial Statements

This standard replaces the part of IAS 27 – *Consolidated and Separate Financial Statements* which refers to consolidated financial statements. The standard is applicable for periods beginning on or after 1 January 2013. IFRS 10 establishes a single control model that applies to all entities. This will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. The standard also changes the definition of control.

IFRS 11 – Joint Arrangements

This standard replaces IAS 31 – *Interest in Joint Ventures* and SIC 13 *Jointly-controlled entities – non-monetary contributions by venturers*. The new standard addresses only two forms of joint arrangements (joint operations and joint ventures), where there is joint control. IFRS 11 uses the principle of control in IFRS 10. In addition, IFRS 11 removes the option to account for jointly-controlled entities using proportionate consolidation, leaving only the option to use the equity method. The standard is effective for periods beginning on or after 1 January 2013.

IFRS 12 – Disclosure of Interests in Other Entities

This standard is effective for periods beginning on or after 1 January 2013 and includes disclosure requirements that were previously in IAS 27 – *Consolidated and Separate Financial Statements* related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 – *Investments in Associates* and IAS 31 – *Interest in Joint Ventures*. A number of new disclosures are also required, especially regarding judgments made to determine whether an entity controls another entity.

IFRS 13 – Fair Value Measurement

The new standard is applicable for periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRSs.

IAS 1 – Presentation of Financial Statements: Presentation of Items in Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be present separately from items which will never be reclassified. The amendments are effective for periods beginning on or after 1 July 2012.

IAS 12 – Deferred Tax (amended)

The amendment is effective for annual periods beginning on or after 1 January 2012. This amendment concerns the determination of deferred tax on investment property measured at fair value and also incorporates SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* into IAS 12 for non-depreciable assets measured using the revaluation model in IAS 16. The aim of this amendment is to include a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and b) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

IAS 19 – *Employee Benefits (amended)*

In June 2011, the IASB issued numerous amendments to IAS 19. The key amendment refers to the removal of the corridor mechanism for recognising changes in the value of defined benefit plans. This means all changes in the value of defined benefit plans will be recognised as they occur depending on the type of change either in profit or loss or in other comprehensive income. The amendments are effective for periods beginning on or after 1 January 2013.

IAS 27 – *Separate Financial Statements (revised)*

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The standard is effective for periods beginning on or after 1 January 2013.

IAS 28 – *Investments in Associates and Joint Ventures (revised)*

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This revised standard is effective for periods beginning on or after 1 January 2013.

IAS 32 – *Financial Instruments: Presentation (amended) – Offsetting Financial Assets and Financial Liabilities*

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of ‘currently has a legally enforceable right to set-off’ and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 – *Offsetting Financial Assets and Financial Liabilities* amendments.

IFRIC 20 – *Stripping Costs in the Production Phase of a Surface Mine*

The interpretation applies to waste removal (stripping) costs incurred in surface mining activities, during the production phase of the mine. It represents a change from the current life of mine average strip ratio approach used by many mining and metals entities reporting under IFRS. The Interpretation is effective for annual periods beginning on or after 1 January 2013.

The Group is reviewing the impact of standards and interpretations which are not yet mandatory and have not yet been endorsed by the European Union and, for the time being, has not assessed the impact of new pronouncements on its financial statements. The Group will apply new standards and interpretations in accordance with their requirements, if endorsed by the European Union.

4 EXPOSURE TO VARIOUS RISKS

The Group revises the document Strategy of Nova KBM on an annual basis. The Strategy is the key document in the preparation of annual business plans.

The Bank's Management Board delegates risk oversight and management to the senior management (policy holders). The policy holders, together with officers responsible for particular policies, determine the method of measuring individual risks. The responsible officers are specialised in defining, measuring and controlling individual risks. The organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the rules of procedure, each risk management policy has to be approved by the committee in charge of overseeing risk management policies and, in addition, agreed by the President of the Management Board or his deputy. The Group companies may use their own approach in managing individual risks, taking into consideration the importance of risk and the regulatory framework.

4.1 CREDIT RISK

Credit risk is the risk of loss resulting from the failure of a debtor to discharge its liabilities. The Group is exposed to credit risk through its loan and securities portfolios, under guarantees, and through other on- and off-balance sheet items.

The management of credit risk is carried out at the customer level, by individual Group members, as well as at the Group level. The Bank controls credit risk to which the Group companies are exposed through its representatives on supervisory boards and credit committees of subsidiary companies.

The Group manages credit risk in several ways, such as by:

- identifying the risk of a specific debtor and recognising impairment of financial assets and provisions for off-balance sheet liabilities in compliance with International Financial Reporting Standards
- creating capital to ensure sufficient capital coverage of credit risks
- defining internal exposure limits by individual debtors, groups of associated companies, industry sectors or market segments
- properly securing financial assets.

4.1.1 BAD AND DOUBTFUL LOANS

The Group defines as non-performing loans (NPLs) such loans for which it reasonably believes that the debtor will not settle all of its liabilities within the contractual period. In a narrower sense, loans to D and E rated customers are treated as NPLs, while in a broader sense loans to C rated customers are also included in NPLs.

The following customers are classified in the D and E rating category:

- customers that have been over 180 days late in paying their liabilities to any of the Group companies
- customers that are in receivership
- customers that are under bankruptcy proceeding
- customers for whom the Group has information which indicates that they may be incapable of paying their liabilities to any of the Group companies.

The Group defines as doubtful loans such loans that are classified in the C rating category. The following customers are classified in this category:

- customers that have been over 90 days late in paying a significant amount due to any of the Group companies
- customers for whom substantial likelihood exists that their future cash flows will not set off their liabilities to any of the Group companies
- customers for whom the Group has negative information on their performance
- customers who have disclosed insufficient or negative capital in their financial statements.

4.1.2 INTEREST RATES AND LOAN APPROVAL FEES

Interest rates are determined in accordance with adopted credit policies of Group companies. Interest rates depend on the basic interest rate, the purpose of a loan, the borrower's track record of cooperation with Group companies, the borrower's rating, the maturity of a loan, and the type of collateral provided.

Loan approval fees are determined in accordance with applicable decisions adopted by the management board of individual Group companies and in accordance with their respective credit policies.

4.1.3 EXPOSURE LIMITS

With respect to limiting its exposure, the Group takes into account all applicable regulatory limitations. In compliance with Slovene banking laws and regulations, exposure to a single customer or to a group of related customers shall not exceed 25% of the Group's equity.

4.1.4 COLLATERAL POLICY

As a rule, loans are not granted without providing at least one type of collateral.

Uncollateralised loans are exception and are approved only to risk-free customers. Loans granted to all other customers are collateralised by at least one type of collateral. The type of collateral required depends on:

- type of a customer (including its legal status)
- customer's credit rating
- type and maturity of a loan
- customer's repayment capabilities
- customer's relationship with the Group and with other customers
- customer's track record of cooperation with Group companies.

Banks in the Group determine eligibility criteria for collateral to be provided in their policies. With respect to the adequacy of collateral provided for reducing credit risk, the following classification was adopted:

- prime collateral
- adequate collateral
- pledge of moveable property or real estate
- other types of collateral.

Leasing companies in the Group are legal owners of assets leased under lease agreements.

Non-banking Group companies define the type of collateral to be provided in their risk management policies.

4.1.5 COUNTERPARTY CREDIT RISK

As of 31 December 2011, the share of performing loans (credit rating A and B) accounted for 70.09% of the total loans, compared to 76.34% at the 2010 year-end.

The following table sets forth, for the periods indicated, the structure of the loan portfolio by credit rating category:

	31.12.2011	31.12.2010
Credit rating category	% of portfolio	% of portfolio
A	45.15	48.91
B	24.94	27.43
C	14.84	11.60
D	3.28	5.39
E	11.79	6.67

4.1.6 ANALYSIS OF EXPOSURE TO CREDIT RISK

	Loans to customers		Loans to banks	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Net disbursed loans	3,844,085	4,034,927	177,420	246,360
Individual impairment				
Gross amount	1,060,635	772,661	37,926	38,218
Impairment	(341,592)	(201,237)	(3,429)	(3,865)
Net amount	719,043	571,424	34,497	34,353
Collective impairment				
Credit rating A	1,669,190	1,737,518	0	0
Credit rating B	1,050,560	1,215,869	0	0
Credit rating C	337,034	362,694	0	0
Credit rating D	25,815	30,390	0	0
Credit rating E	42,677	44,286	0	0
Gross amount	3,125,276	3,390,757	0	0
Impairment	(101,729)	(126,511)	0	0
Net amount	3,023,547	3,264,246	0	0
Net non-impaired loans	101,495	199,257	142,923	212,007
Total net loans	3,844,085	4,034,927	177,420	246,360

The total amount of disbursed loans decreased in 2011 by 6.07% to €4,021,505,000 as of 31 December 2011.

Loans of €1,098,561,000 were individually impaired and impairment losses of €345,021,000 were recognised for this portion of the portfolio. Loans in the amount of €3,125,276,000 were collectively impaired and impairment losses of €101,729,000 were recognised for this portion of the portfolio.

The following table shows net exposure by credit rating and impairment method, without taking account of collateral provided:

Analysis of net exposure without taking account of collateral

	31.12.2011	31.12.2010
Individual impairment	896,463	818,574
Collective impairment		
Credit rating A	1,678,454	1,791,979
Credit rating B	1,106,457	1,313,084
Credit rating C	313,524	336,727
Credit rating D	14,952	18,978
Credit rating E	11,655	1,945
Total net exposure	4,021,505	4,281,287

Credit risk by market segments

The following tables set forth, for the periods indicated, the volume of loans and total impairment losses by market segments:

Analysis of loans by market segments

	31.12.2011	31.12.2010
Large corporate customers	1,167,705	1,179,321
Micro enterprises and SMEs	1,455,727	1,395,115
Sole proprietors	169,565	171,632
Households	1,072,085	1,076,349
Other	603,173	790,483
Domestic banks	66,298	136,476
State	17,499	25,296
Non-profit household service providers	6,028	6,218
Foreign banks	114,551	113,755
Other foreign customers	375,382	404,341
Customers not classified by market segment	23,415	104,397
Total gross loans	4,468,255	4,612,900

Analysis of total loan impairment losses by market segments

	31.12.2011	31.12.2010
Large corporate customers	139,027	84,805
Micro enterprises and SMEs	192,936	110,631
Sole proprietors	15,259	15,180
Households	27,693	33,129
Other	71,835	87,868
Domestic banks	4	2
State	264	115
Non-profit household service providers	160	200
Foreign banks	3,425	3,861
Other foreign customers	63,502	45,403
Customers not classified by market segment	4,480	38,287
Total loan impairment losses	446,750	331,613

OVERDUE AND UNPAID CLAIMS

The following tables set forth, for the periods indicated, the total balance of overdue and unpaid claims of the Group:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	31.12.2011 Total
Banks	2	0	0	3,065	3,067
State	311	0	0	3	314
Legal entities	28,730	9,501	19,425	549,624	607,280
Households	6,509	951	707	37,226	45,393
Total	35,552	10,452	20,132	589,918	656,054

Past due but not impaired claims

	Up to 30 days	From 31 to 60 days	Over 90 days	31.12.2011 Total
	4,582	1,880	31,364	37,826

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	31.12.2010 Total
Banks	1	0	0	3,487	3,488
State	2	0	0	0	2
Legal entities	29,005	10,664	13,102	347,995	400,766
Households	3,861	1,052	870	27,148	32,931
Total	32,869	11,716	13,972	378,630	437,187

Past due but not impaired claims

	Up to 30 days	From 31 to 60 days	Over 90 days	31.12.2010 Total
	3,397	2,907	20,538	26,842

OUTSTANDING LOAN RECOVERY

Banks in the Group have special departments in charge of bad and doubtful loan recovery. These departments are responsible for controlling and resolving outstanding and bad loans in accordance with legal and regulatory requirements and internal instructions and documents.

The Loan Recovery Department of the Bank is responsible for monitoring and resolving outstanding and bad loans in accordance with legal and regulatory requirements and internal documents and provisions. The latter determine the method of transferring bad loans to the Loan Recovery Department for recovery. Outstanding or bad loans are initially handled at the commercial departments' level, with coordination and assistance by the Loan Recovery Department, as needed. When outstanding loans are transferred to the Loan Recovery Department, the Department evaluates all available information, particularly collateral coverage of outstanding loans, and assesses the expected level of loss. The Loan Recovery Department also evaluates the underlying reasons for default to prevent future loans from becoming bad loans.

Following the transfer of a loan, the Loan Recovery Department contacts the borrower to find out the options for restructuring the loan, by extending the term of the loan in order to restore the borrower's ability to resume repayments of liabilities to the Bank. The Bank also tries to obtain additional collateral. If the loan is restructured, the Loan Recovery Department monitors the borrower's compliance with the terms of the restructured loan.

If a loan cannot be restructured, the Loan Recovery Department triggers appropriate measures in order to reach an agreement with the debtor for an out-of-court settlement.

Sometimes additional measures can be taken to recover some or all of the given funds, such as selling receivables to third parties.

Bad loans are written off after the Loan Recovery Department has taken all the necessary and sufficient measures provided by law and internal regulations to recover the loan. Possible subsequent recoveries of loans are charged against the statement of income.

Collection of bad loans in the non-banking Group companies is governed by respective risk management policies. The Group companies treat as doubtful claims such claims that are in arrears over 90 days. Leasing companies have set up special units for dealing with doubtful investments.

Bad loans are written off after the Loan Recovery Department has taken all necessary and sufficient measures provided by law and internal regulations to recover the loan. Write-offs must be approved according to internal regulations at different levels: executive directors, the Management Board and the Supervisory Board, based on the size of write-off.

NPLs of the total loan portfolio

	31.12.2011	31. 12.2010
Gross NPLs (D, E)*	673,289	556,484
Impairment losses for NPLs (D, E)	313,546	219,084
Net NPLs (D, E)	359,743	337,400
Total gross loan portfolio	4,468,255	4,612,900
Total net loan portfolio	4,021,505	4,281,287
Gross NPLs/Total gross loan portfolio (%)	15.07	12.06
Net NPLs/Total net loan portfolio (%)	8.95	7.88

* Gross NPLs (D, E) include collectively impaired loans, which are classified in credit rating categories D and E and for which prime collateral has not been provided, and individually impaired loans, the basic credit rating of which is D or E.

Analysis of loans and the percentage of NPLs by industry sectors

The following table sets forth, for the periods indicated, the total gross loans and NPLs by industry sector of debtors, and the percentage of NPLs within each industry sector:

	31.12.2011			31.12.2010		
	Total loans	NPLs	Share of NPLs	Total loans	NPLs	Share of NPLs
Households, natural persons	1,094,298	35,142	3.21%	1,104,259	26,043	2.36%
Agriculture and hunting, forestry, fishing	30,620	3,713	12.13%	26,005	2,865	11.02%
Mining	5,762	3,601	62.50%	5,126	1,728	33.71%
Manufacturing industry	895,378	180,844	20.20%	890,903	156,592	17.58%
Electricity, gas and steam supply	93,789	0	0.00%	71,503	0	0.00%
Water supply, waste and sewage management, rehabilitation of the environment	14,284	926	6.48%	11,921	483	4.05%
Construction	501,126	184,056	36.73%	507,507	144,121	28.40%
Trade, maintenance and repair of motor vehicles	510,873	65,906	12.90%	564,482	111,002	19.66%
Transportation and storage	91,767	13,826	15.07%	93,405	4,236	4.54%
Accommodation and food service activities	155,786	24,413	15.67%	141,682	13,052	9.21%
Information and communication activities	67,243	33,577	49.93%	65,384	4,957	7.58%
Financial intermediation	505,203	50,644	10.02%	607,017	21,256	3.50%
Real estate activities	133,427	26,470	19.84%	126,787	22,252	17.55%
Professional, scientific and technical activities	194,109	39,919	20.57%	195,631	37,546	19.19%
Other various business activities	20,338	4,878	23.98%	22,540	4,258	18.89%
Public administration and defence services, compulsory social security activities	24,217	234	0.97%	35,394	0	0.00%
Education	8,138	275	3.38%	5,442	308	5.66%
Health and welfare security	30,926	70	0.23%	29,359	67	0.23%
Arts, entertainment and recreation	77,259	3,723	4.82%	85,256	3,440	4.03%
Other activities	13,712	1,072	7.82%	23,297	2,278	9.78%
Total gross loans	4,468,255	673,289	15.07%	4,612,900	556,484	12.06%

Analysis of collateral – total amount of collateral for given loans

	31.12.2011	31.12.2010
1. Collateral for individually impaired loans	1,051,387	802,829
- moveable and immoveable property	717,928	536,101
- debt securities	0	2,910
- equity instruments	59,328	120,011
- other	274,131	143,807
2. Collateral for collectively impaired loans	5,077,960	4,913,853
- moveable and immoveable property	3,272,566	3,256,695
- debt securities	1,274	10,502
- equity instruments	174,005	244,219
- other	1,630,115	1,402,437
3. Collateral for non-impaired loans	134,751	201,567
- moveable and immoveable property	9,464	23,447
- debt securities	2,657	19,357
- equity instruments	0	12
- other	122,630	158,751
4. Total	6,264,098	5,918,249

As of 31 December 2011, the total amount of collateral in the form of moveable and immoveable property was €3,999,958,000, of which 81.82% related to collectively impaired loans, 17.95% to individually impaired loans and 0.23% to non-impaired loans.

Collateral of €3,931,000 was in the form of debt securities, of which €1,274,000 related to collectively impaired loans and €2,657,000 to non-impaired loans.

Collateral in the form of equities amounted to €233,333,000, of which 74.57% related to collectively impaired loans and 25.43% to individually impaired loans.

Analysis of exposure by market segments and regions

	Loans to customers		Loans to banks	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
CARRYING (NET) AMOUNT	3,844,085	4,034,927	177,420	246,360
By market segment	3,844,085	4,034,927	177,420	246,360
- non-financial companies	2,183,182	2,291,954	0	0
- other monetary financial organisations	0	0	66,294	136,467
- other financial intermediaries, except insurance companies and pension funds	109,105	131,295	0	0
- auxiliary financial service providers	15,107	18,792	0	0
- insurance companies and pension funds	2,986	2,985	0	0
- central government	8,214	12,673	0	0
- local government	9,039	12,496	0	0
- social security funds	9	12	0	0
- households	1,198,695	1,208,849	0	0
- non-profit household service providers	5,868	6,009	0	0
- foreign persons	311,880	349,862	111,126	109,893
By region	3,844,085	4,034,927	177,420	246,360
- Slovenia	3,532,205	3,685,065	66,294	136,467
- European Monetary Union	14,401	12,534	50,757	38,066
- other European Union	1,597	2,008	5,481	2,781
- republics of the former Yugoslavia	287,340	326,117	41,212	33,886
- other	8,542	9,203	13,676	35,160

As of 31 December 2011, net loans to banks totalled €177,420,000 and net loans to customers totalled €3,844,085,000. Of the latter figure, the largest proportion related to non-financial companies (56.79%), followed by households (31.18%).

Loans to customers headquartered in the Republic of Slovenia accounted for 91.89% of the total loans to customers. Of the non-banking loans granted to foreign persons, the largest proportion, i.e. 7.47% of the total loans to customers, related to customers in the republics of the former Yugoslavia.

Of the total loans given to banks, 37.37% related to loans to domestic banks. With 28.61%, loans given to banks in the European Monetary Union accounted for the largest proportion of the total exposure to foreign banks.

4.2 LIQUIDITY RISK

Liquidity risk arises from maturity mismatches between assets and liabilities. The Group companies monitor daily liquidity in accordance with regulatory requirements and methodologies, taking into account their activities and the volume of operations. In its liquidity projections, the Bank takes into account liquidity needs of Group companies. The Group uses a harmonised method for monitoring structural liquidity.

In the period from 1 January to 31 December 2011, the Group managed liquidity risk in accordance with its Policy of Managing Liquidity Risk in the Nova KBM Group which sets out the methods and responsibilities for managing assets and liabilities to provide for sufficient cash inflows within a certain period of time. The Policy sets out the measures for assessing, measuring, managing and controlling liquidity risk. It 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 of managing liquidity risk has been formulated.

The Group companies have prepared business continuity plans for managing liquidity risk that set out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position. The Group carries out, on a monthly basis, liquidity stress scenarios in compliance with the Methodology for Implementing Stress Scenarios of Liquidity Risk in the Nova KBM Group. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on the Group's liquidity position, and for preparing measures to mitigate the liquidity risk.

Net liquid assets

The Group uses an internal methodology for determining net liquid assets, which represent the difference between the portion of assets that can be converted to liquid funds within a short period of time and the unstable portion of liabilities. The unstable portion of liabilities is the portion of the Group's liabilities that may become due in the same short period of time. According to the internal regulation, at least a positive amount of net liquid assets must be maintained for the Group's operational and regulatory liquidity.

Liquidity gap

The liquidity gap, which is regularly controlled and thoroughly analysed by individual time buckets, is a measure of the level of maturity matching of assets and liabilities. The Group cannot avoid the liquidity gap, but can manage it effectively. A positive gap represents the surplus of funds that can be invested profitably. On the other hand, a negative gap is a sign of a shortage of funds that need to be provided for.

Analysis of liquidity risk as of 31 December 2011

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	147,373	147,332	0	0	0	41
Financial assets held for trading	8,741	8,741	0	0	0	0
Financial assets designated at fair value through profit or loss	38,475	0	27,161	11,314	0	0
Available-for-sale financial assets	699,603	699,603	0	0	0	0
Loans and advances	4,021,505	840,296	231,016	926,402	1,287,563	736,228
Held-to-maturity financial assets	449,605	3,975	10,599	39,408	360,226	35,397
Other assets*	450,895	104,639	18,812	27,947	99,612	199,885
Total assets	5,816,197	1,804,586	287,588	1,005,071	1,747,401	971,551
Liabilities						
Financial liabilities due to the central bank	415,478	0	70,382	0	345,096	0
Financial liabilities held for trading	2,486	2,486	0	0	0	0
Financial liabilities measured at amortised cost	4,857,565	1,901,922	585,705	1,151,987	1,050,202	167,749
Financial liabilities associated to transferred assets	8,022	8,022	0	0	0	0
Other liabilities*	532,646	57,491	8,109	14,053	17,243	435,750
Total liabilities	5,816,197	1,969,921	664,196	1,166,040	1,412,541	603,499
Assets-liabilities mismatch	0	(165,335)	(376,608)	(160,969)	334,860	368,052
Guarantees	349,962	28,534	37,416	119,246	110,947	53,819

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with maturity of less than five years.

Non-derivative balance sheet liabilities as of 31 December 2011

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Liabilities						
Financial liabilities due to the central bank	425,685	306	70,877	2,228	352,274	0
Financial liabilities held for trading	2,486	2,486	0	0	0	0
Financial liabilities measured at amortised cost	5,137,798	1,908,346	598,487	1,218,951	1,211,353	200,661
Financial liabilities associated to transferred assets	8,022	8,022	0	0	0	0
Other liabilities	532,646	57,491	8,109	14,053	17,243	435,750
Total liabilities	6,106,637	1,976,651	677,473	1,235,232	1,580,870	636,411
Guarantees	349,962	28,534	37,416	119,246	110,947	53,819

The table above shows non-discounted contractual balance sheet liabilities. A significant portion of the Group's liabilities falls within a one-month period, referring to sight deposits. The Group monitors the stability of sight deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in sight deposits.

Derivatives as of 31 December 2011

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	108,437	12,635	23,081	72,721	0	0
inflow	108,758	12,766	24,083	71,909	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	120	0	0	120	0	0
inflow	107	0	0	107	0	0
TOTAL OUTFLOW	108,557	12,635	23,081	72,841	0	0
TOTAL INFLOW	108,865	12,766	24,083	72,016	0	0

The table above presents non-discounted cash flows on derivatives. Amounts are translated into the euro at the ECB exchange rate effective as of 31 December 2011. The table takes into account the method of settlement, which is in most cases done on a gross amount basis.

Analysis of liquidity risk as of 31 December 2010

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	140,398	140,358	0	0	0	40
Financial assets held for trading	3,148	3,148	0	0	0	0
Financial assets designated at fair value through profit or loss	16,705	543	3,579	9,454	3,129	0
Available-for-sale financial assets	878,006	869,242	0	0	8,721	43
Loans and advances	4,281,287	882,381	339,212	957,922	1,362,859	738,913
Held-to-maturity financial assets	180,220	410	1,146	21,152	127,051	30,461
Other assets*	366,893	85,150	1,710	34,520	81,730	163,783
Total assets	5,866,657	1,981,232	345,647	1,023,048	1,583,490	933,240
Liabilities						
Financial liabilities due to the central bank	130,149	50,090	80,059	0	0	0
Financial liabilities held for trading	6,112	6,112	0	0	0	0
Financial liabilities measured at amortised cost	5,215,538	1,866,512	611,806	1,275,893	1,244,907	216,420
Other liabilities*	514,858	34,159	4,107	22,507	19,186	434,899
Total liabilities	5,866,657	1,956,873	695,972	1,298,400	1,264,093	651,319
Assets-liabilities mismatch	0	24,359	(350,325)	(275,325)	319,397	281,921
Guarantees	408,259	46,917	29,716	154,226	118,996	58,404

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with maturity of less than five years.

Non-derivative balance sheet liabilities as of 31 December 2010

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Liabilities						
Financial liabilities due to the central bank	130,149	50,090	80,059	0	0	0
Financial liabilities held for trading	6,112	6,112	0	0	0	0
Financial liabilities measured at amortised cost	5,432,602	1,876,683	623,958	1,335,359	1,368,032	228,570
Other liabilities	514,858	34,159	4,107	22,507	19,186	434,899
Total liabilities	6,083,721	1,967,044	708,124	1,357,866	1,387,218	663,469
Guarantees	408,259	46,917	29,716	154,226	118,996	58,404

The table above shows non-discounted contractual balance sheet liabilities. A significant portion of the Group's liabilities falls within a one-month period, referring to the sight deposits. The Group monitors the stability of sight deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in sight deposits.

Derivatives as of 31 December 2010

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	101,368	20,423	27,091	53,854	0	0
inflow	95,986	19,362	25,925	50,699	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	175	0	0	175	0	0
inflow	238	0	0	238	0	0
TOTAL OUTFLOW	101,543	20,423	27,091	54,029	0	0
TOTAL INFLOW	96,224	19,362	25,925	50,937	0	0

The table above presents non-discounted cash flows on derivatives. Amounts are translated into the euro at the ECB exchange rate effective as of 31 December 2010. The table takes into account the method of settlement, which is in most cases done on a gross amount basis.

4.3 MARKET RISKS

The Group monitors market risks of trading book and markets risks of banking book separately. The method of monitoring and reporting as well as of limiting exposure to market risks is set out in respective risk management policies. The Group companies monitor market risks in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

4.3.1 POSITION RISK

Position risk is a risk of loss arising due to a change in the price of financial instrument that the Group holds in its portfolio for the purpose of trading on its proprietary account.

The trading limit methodology is based on the value-at-risk (VaR) measure and is compliant with Basel requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The basis for establishing trading limits is the capital requirement set out in the financial plan. The Group measures the market value of all trading items on a daily basis. The volume of transactions by specific type of financial instruments is defined in detail by the methodology for establishing limits.

The Group monitors VaR of trading portfolios on a daily basis.

The value-at-risk of the Group's aggregate trading portfolios for the year 2011 demonstrates with a 99% probability that, by holding the unchanged position in securities, a portfolio loss over the 10 consecutive working days would not exceed €339,000.

10-day VaR in 2011

Maximum	Minimum	Average
€339,000	€111,000	€174,000

10-day VaR in 2010

Maximum	Minimum	Average
€3,271,000	€147,000	€1,143,000

4.3.2 INTEREST RATE RISK

Interest rate risk is the risk of loss arising due to changes in interest rates or the structure of interest rates for maturity mismatches of interest-bearing assets and liabilities with regard to interest rate repricing and the method of charging interest.

Interest rate risk management of trading book items is included in the methodology for establishing trading limits. Interest rate risk management of non-trading book items is carried out using an interest rate matching methodology.

The Group monitors interest-bearing statement of financial position items and off-balance sheet items with regard to maturity of variable interest rate items, separated by the key currencies and reference interest rates in which it operates.

The Group calculates, on a quarterly basis, the results of the standardised stress test for interest rate risk as the impact of a parallel shift in interest rate curve on its equity and net interest income in a period of one year.

The impact of the results of the standardised stress test on the Group's equity, as of 31 December 2011:

Currency	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
EUR	(43)	(614)	(1,177)	(31,628)	(12,616)	(46,078)
USD	0	0	0	0	0	0
RSD	(4)	0	0	0	0	(4)
Total	(47)	(614)	(1,177)	(31,628)	(12,616)	(46,082)

The impact of the results of the standardised stress test on the Group's equity, as of 31 December 2010:

Currency	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
EUR	(23)	(1,125)	(871)	(17,918)	(20,166)	(40,103)
USD	0	0	0	0	0	0
RSD	(40)	0	0	0	0	(40)
Total	(63)	(1,125)	(871)	(17,918)	(20,166)	(40,143)

The tables above show the decline in the fair value of the debt securities portfolio in case of a parallel rise of the interest rate curve by 200 basis points. A change in fair value is reflected in equity.

The impact of the results of the standardised stress test on the Group's net interest income, as of 31 December 2011:

Currency	+ 200 basis points	- 200 basis points
EUR	9,836	(5,580)
CHF	(653)	23
USD	(132)	24
HRK	44	(44)
RSD	237	(238)
Other	83	(83)
Total	9,415	(5,898)

The impact of the results of the standardised stress test on the Group's net interest income, as of 31 December 2010:

Currency	+ 200 basis points	- 200 basis points
EUR	9,690	(5,835)
CHF	(282)	(23)
USD	(340)	43
HRK	83	(80)
RSD	34	(35)
Other	217	(218)
Total	9,402	(6,148)

The tables above show the impact of a shift of the interest rate curve on the Group's net interest income in a period of one year.

In addition to the standardised stress test analysis, the Group calculates its exposure to interest rate changes as the change of the net current value of the difference between assets and liabilities subject to variable interest rate in a given period and the expected interest rate changes in the next three months. The expected interest rate changes are calculated as the difference between current and term interest rates, separated for each currency and maturity handled. An analysis of interest rate risk at the Group level is made on a quarterly basis. The Group companies monitor interest rate risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The analysis treats net positions in individual interest rate repricing periods as fixed-coupon debt securities. A longer interest rate repricing period has a bigger impact on net current value of assets and liabilities. The interest rate risk analysis made for the Group showed, for the 2011 year-end, a probable negative effect on the net present value of all interest-sensitive items in the total amount of €1,811,000, compared to €872,000 a year earlier. The main advantage of this analysis when compared to the standardised interest rate stress test lies in anticipation of probable interest rate changes in the observed period. The Group is exposed mainly to interest rates for EUR, USD, CHF, HRK and RSD.

The impact of interest rate changes on profit or loss is measured for a one-year period. For calculating the change in interest income, the current interest rate is used for the period until the change of interest rate, after which date and until the end of a one-year period the changed interest rate is used. The average interest rate repricing period by individual time buckets is used for the calculation of interest. At the 2011 year-end, the anticipated interest rate change in a three-month period would result in the annual increase in interest income by €3,493,000, compared to the increase of €1,737,000 a year earlier.

A more detailed breakdown of the Group's statement of financial position by interest rate maturities as of 31 December 2011 and 2010 is disclosed in the table Analysis of interest rate risk which shows the distribution of items with regard to the interest rate repricing periods. Exposure to changes in interest rates is managed through reconciliation of the method of charging interest on assets and liabilities, and by considering the characteristics of individual items.

Analysis of interest rate risk as of 31 December 2011

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	147,373	73,996	73,377	73,336	0	0	0	41
Financial assets held for trading	8,741	8,741	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	38,475	35,356	3,119	0	0	3,119	0	0
Available-for-sale financial assets	699,603	96,540	603,063	85,396	209,089	11,152	227,609	69,817
Loans and advances	4,021,505	41,848	3,979,657	1,799,664	964,530	1,066,157	116,239	33,067
Held-to-maturity financial assets	449,605	2,059	447,546	6,848	9,108	34,180	362,801	34,609
Other assets	177,423	176,600	823	697	0	19	107	0
Total assets	5,542,725	435,140	5,107,585	1,965,941	1,182,727	1,114,627	706,756	137,534
Liabilities								
Financial liabilities due to the central bank	415,478	12	415,466	0	70,383	0	345,083	0
Financial liabilities held for trading	2,486	1,694	792	792	0	0	0	0
Financial liabilities measured at amortised cost	4,857,565	18,707	4,838,858	2,070,926	714,839	1,472,195	578,227	2,671
Financial liabilities associated to transferred assets	8,022	0	8,022	8,022	0	0	0	0
Other liabilities	55,705	53,630	2,075	2,075	0	0	0	0
Total liabilities	5,339,256	74,043	5,265,213	2,081,815	785,222	1,472,195	923,310	2,671
Assets-liabilities mismatch	203,469	361,097	(157,628)	(115,874)	397,505	(357,568)	(216,554)	134,863

The table above shows the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

Analysis of interest rate risk as of 31 December 2010

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	140,398	68,105	72,293	72,253	0	0	0	40
Financial assets held for trading	3,148	3,148	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	16,705	13,490	3,215	0	0	86	3,129	0
Available-for-sale financial assets	878,006	91,238	786,768	45,113	240,499	89,494	243,014	168,648
Loans and advances	4,281,287	37,667	4,243,620	1,297,860	498,019	2,242,000	166,919	38,822
Held-to-maturity financial assets	180,220	1,700	178,520	15,959	225	4,825	127,051	30,460
Other assets	139,378	139,081	297	157	0	34	106	0
Total assets	5,639,142	354,429	5,284,713	1,431,342	738,743	2,336,439	540,219	237,970
Liabilities								
Financial liabilities due to the central bank	130,149	0	130,149	50,090	80,059	0	0	0
Financial liabilities held for trading	6,112	5,842	270	270	0	0	0	0
Financial liabilities measured at amortised cost	5,215,538	16,576	5,198,962	1,966,620	999,927	1,498,098	731,908	2,409
Other liabilities	47,226	47,062	164	164	0	0	0	0
Total liabilities	5,399,025	69,480	5,329,545	2,017,144	1,079,986	1,498,098	731,908	2,409
Assets-liabilities mismatch	240,117	284,949	(44,832)	(585,802)	(341,243)	838,341	(191,689)	235,561

The table above shows the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

Actual interest rates (%)

	31.12.2011	31.12.2010
ASSETS		
Customers	5.44	5.07
- non-financial companies	5.64	5.24
- state	4.64	4.77
- other financial organisations	4.98	4.81
- non-profit household service providers	5.55	5.16
- households	5.18	4.76
Banks	3.29	1.91
Securities	3.69	3.24
Total assets	4.99	4.60
LIABILITIES		
Customers	2.28	2.06
- non-financial companies	1.61	1.90
- state	3.85	3.72
- other financial organisations	3.89	3.61
- non-profit household service providers	1.02	0.84
- households	1.91	1.66
Banks	1.92	1.31
Securities	4.16	4.10
Subordinated liabilities	6.22	6.01
Total liabilities	2.36	2.07

4.3.3 CURRENCY RISK

Currency risk represents a potential loss arising from an open foreign currency position and the volatility of foreign exchange rates. The Group controls currency risk exposure by maintaining neutral position in individual foreign currencies.

The Group controls exposure to currency risk by maintaining target positions in individual currencies. The Group companies monitor currency risk in compliance with regulatory requirements and methodologies, taking into account their activities and the volume of operations.

The Group regularly monitors the exposure of statement of financial position and off-balance sheet items to currency risk by individual currencies. The Group is exposed to currency risk against USD, CHF and HRK.

A more detailed breakdown of the open foreign currency position as of 31 December 2011 and 2010 is presented in the tables below.

Analysis of currency risk as of 31 December 2011

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	135,146	867	2,021	1,028	8,311	147,373
Financial assets held for trading	8,564	0	0	0	177	8,741
Financial assets designated at fair value through profit or loss	38,182	0	0	0	293	38,475
Available-for-sale financial assets	698,473	0	0	1,059	71	699,603
Loans and advances	3,741,895	48,434	130,774	47,810	52,592	4,021,505
Held-to-maturity financial assets	445,760	0	0	0	3,845	449,605
Other assets	429,752	64	0	8,197	12,882	450,895
Total assets	5,497,772	49,365	132,795	58,094	78,171	5,816,197
Liabilities						
Financial liabilities due to the central bank	415,478	0	0	0	0	415,478
Financial liabilities held for trading	2,486	0	0	0	0	2,486
Financial liabilities measured at amortised cost	4,730,819	50,355	25,488	325	50,578	4,857,565
Financial liabilities associated to transferred assets	8,022	0	0	0	0	8,022
Other liabilities	552,133	4	61	(18,039)	(1,513)	532,646
Total liabilities	5,708,938	50,359	25,549	(17,714)	49,065	5,816,197
Assets-liabilities mismatch	(211,166)	(994)	107,246	75,808	29,106	0
Derivatives	107,006	0	(106,449)	0	(236)	321
Assets-liabilities mismatch (including derivatives)	(104,160)	(994)	797	75,808	28,870	321

The table above presents only the statement of financial position items in which the Group has a position also in currencies other than euro.

Analysis of currency risk as of 31 December 2010

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	130,899	789	884	778	7,048	140,398
Financial assets held for trading	2,950	0	0	0	198	3,148
Financial assets designated at fair value through profit or loss	16,052	76	24	0	553	16,705
Available-for-sale financial assets	874,315	1,061	386	1,111	1,133	878,006
Loans and advances	3,998,304	47,717	146,104	46,327	42,835	4,281,287
Held-to-maturity financial assets	179,552	0	0	0	668	180,220
Other assets	298,867	2,107	5	53,244	12,670	366,893
Total assets	5,500,939	51,750	147,403	101,460	65,105	5,866,657
Liabilities						
Financial liabilities due to the central bank	130,149	0	0	0	0	130,149
Financial liabilities held for trading	6,112	0	0	0	0	6,112
Financial liabilities measured at amortised cost	5,073,714	48,826	52,717	1,407	38,874	5,215,538
Other liabilities	526,328	2,360	65	(11,103)	(2,792)	514,858
Total liabilities	5,736,303	51,186	52,782	(9,696)	36,082	5,866,657
Assets-liabilities mismatch	(235,364)	564	94,621	111,156	29,023	0
Derivatives	90,360	0	(95,285)	0	(457)	(5,382)
Assets-liabilities mismatch (including derivatives)	(145,004)	564	(664)	111,156	28,566	(5,382)

The table above presents only the statement of financial position items in which the Group has a position also in currencies other than euro.

Foreign currency sensitivity analysis

	Exchange rate change against EUR	Impact on profit or loss	Exchange rate change against EUR	Impact on profit or loss
Currency	2011	2011	2010	2010
USD	+12%	(119)	+12%	68
CHF	+17%	18,232	+9%	8,516
HRK	+2%	1,516	+2%	2,223
Other currencies	+10%	2,911	+10%	2,902

The impact of exchange rate changes on equity is negligible and is therefore not disclosed in the table.

4.4 GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES AS OF 31 DECEMBER 2011

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	147,373	127,222	20,151	2,106	18,045	0
Financial assets held for trading	8,741	7,391	1,350	590	177	583
Financial assets designated at fair value through profit or loss	38,475	35,063	3,412	3,119	293	0
Available-for-sale financial assets	699,603	470,026	229,577	169,196	4,553	55,828
Loans and advances	4,021,505	3,600,405	421,100	71,198	325,518	24,384
Held-to-maturity financial assets	449,605	422,177	27,428	23,584	3,844	0
Other assets	450,895	426,844	24,051	2,387	21,632	32
Total assets	5,816,197	5,089,128	727,069	272,180	374,062	80,827
Liabilities						
Financial liabilities due to the central bank	415,478	415,478	0	0	0	0
Financial liabilities held for trading	2,486	617	1,869	1,309	0	560
Financial liabilities measured at amortised cost	4,857,565	4,359,100	498,465	348,908	143,399	6,158
Financial liabilities associated to transferred assets	8,022	0	8,022	8,022	0	0
Other liabilities	532,646	536,457	(3,811)	5,874	(9,782)	97
Total liabilities	5,816,197	5,311,652	504,545	364,113	133,617	6,815
Assets-liabilities mismatch	0	(222,524)	222,524	(91,933)	240,445	74,012

Available-for-sale financial assets of foreign issuers

Country of the issuer	31.12.2011	31.12.2010
Australia	0	14,936
Austria	35,771	33,698
Belgium	5,262	13
Denmark	9,714	9,752
France	38,422	38,475
Croatia	1,059	1,111
Italy	11,673	18,944
Luxembourg	858	858
Germany	16,240	16,329
The Netherlands	1,636	1,693
Portugal	5,594	7,359
Slovakia	2,092	2,094
Serbia	3,494	3,667
Spain	20,969	28,248
Great Britain	229,577	21,187
United States of America	55,828	75,567
Total	229,577	273,931

Geographical analysis of assets and liabilities as of 31 December 2010

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	140,398	118,489	21,909	4,738	17,171	0
Financial assets held for trading	3,148	2,868	280	82	198	0
Financial assets designated at fair value through profit or loss	16,705	12,947	3,758	3,215	543	0
Available-for-sale financial assets	878,006	604,075	273,931	178,650	4,777	90,504
Loans and advances	4,281,287	3,807,750	473,537	66,688	360,692	46,157
Held-to-maturity financial assets	180,220	174,382	5,838	5,170	668	0
Other assets	366,893	294,437	72,456	1,786	66,544	4,126
Total assets	5,866,657	5,014,948	851,709	260,329	450,593	140,787
Liabilities						
Financial liabilities due to the central bank	130,149	130,149	0	0	0	0
Financial liabilities held for trading	6,112	122	5,990	4,100	0	1,890
Financial liabilities measured at amortised cost	5,215,538	4,381,082	834,456	688,013	134,961	11,482
Other liabilities	514,858	499,717	15,141	9,270	2,069	3,802
Total liabilities	5,866,657	5,011,070	855,587	701,383	137,030	17,174
Assets-liabilities mismatch	0	3,878	(3,878)	(441,054)	313,563	123,613

4.5 OPERATIONAL RISK

The Group has adopted the Operational Risk Management Policy based on recommendations of the Basel standards. The Group companies report on the operational risk loss events on a regular basis.

All organisational units of the Group are responsible for addressing and assessing operational risk – each unit for the cost centres that are headed by the manager of the respective unit. The main aim of this is to ensure the functioning of the established system of internal controls.

The following employees are responsible for managing operational risk by individual segments:

- operational risk analyst is the administrator of the operational risk loss events data base, who prepares monthly, quarterly, half-yearly and annual reports for the Bank's management, guides the self-assessment of operational risk by individual organisational units and business processes and calculates the capital requirement for operational risk
- head of the information system security is responsible for all the activities set out in the Information Protection Policy of the Nova KBM Group
- business continuity manager acts as a coordinator of business continuity administrator
- professional adviser for information technology operational risk is responsible for special projects
- two advisers for the security are in charge of physical and technical protection.

In 2011, the Group monitored operational risk and calculated capital requirements for operational risk in accordance with the basic indicator approach. Within the internal process of assessing required capital, the risk profile of the entire Group for 2011 was elaborated in November 2011, which also includes the assessment of operational risk and internal controls.

The majority of loss events in 2011 related to (according to the Basel standards) 'Internal Fraud' (38%), followed by 'Execution, delivery and process management' (37%) and 'Damages to physical assets' (14%). By providing for a systematic collection of operational risk loss events, the Group successfully accomplished its

short-term objective of operational risk management. In 2011, the Group endeavoured to accomplish its mid-term objective of operational risk, which was to ensure a comprehensive, impartial and standardised control over operational risk. The Group's long-term objective in operational risk management remains unchanged: setting up a risk management culture and limiting the scope and volume of losses down to an acceptable level.

4.6 CAPITAL RISK

Capital risk arises from inadequate size of capital, inadequate structure of capital with regard to the volume and method of conducting business, or from difficulties in acquiring new capital. The Group has set up appropriate procedures and mechanisms to ensure adequate structure and size of its capital.

The Group manages its capital by:

- controlling current and projected capital requirements for credit, market and operational risks
- regularly controlling available capital and adopting measures to raise additional capital in the form of subordinated instruments if needs arise
- controlling movements in its capital adequacy ratio.

For the purpose of capital risk management, the Group monitors current and anticipated capital needs and capital requirements as well as the movements in the capital adequacy ratio, in accordance with the legislation and internal methodology.

The capital adequacy ratio requirement is set at 8%. In the period from 1 January to 31 December 2011, the Group fully complied with this regulatory requirement.

Both the Bank and the Group calculate capital requirements for credit risk using the standardised approach. As a reference export agency for the category 'exposure to central governments and central banks', the Group nominated SID Bank Inc., Ljubljana. As a reference external rating agency for the category 'exposure to institutions, including exposure to institutions with a short-term rating', the Group nominated the rating agency Moody's.

The Group calculates capital requirements for market risks in accordance with the applicable regulations and does not use internal models for the time being. The capital requirement for operational risk is calculated according to the basic indicator approach.

For assessing adequate internal capital of the Group, the same methodology is used as for the Bank.

With the aim of restoring confidence in the banking sector, the European Council adopted in October 2011 a decision requiring banks to achieve the Core Tier 1 capital ratio of 9% by 30 June 2012. The Group's Tier I ratio as of 31 December 2011 was 8.06%.

To that effect, the Group will carry out measures to reduce its risk-adjusted assets or capital requirements. This will be achieved by disposing of assets that are not deemed necessary for the operations of the Group. In addition, when granting new loans, the Group will pursue the strategy of achieving broader portfolio diversification.

Composition of capital and capital requirements

	31.12.2011	31.12.2010
Original own funds		
Paid-up share capital	40,815	27,210
(-) Treasury shares	(700)	(2,473)
Share premium	165,775	78,314
Reserves and retained earnings or loss	297,250	288,420
(-) Interim result used in the calculation (unaudited) – loss	(86,327)	0
Revaluation excesses (PP) – prudential filters	(4,604)	(13,031)
Non-controlling interest	41,509	42,088
Hybrid instruments as a component of original own funds	26,030	26,030
(-) Intangible long-term assets	(33,451)	(32,481)
(-) Other country specific deductions	(2)	(2)
Total	446,295	414,075
Additional own funds I		
Hybrid instruments and preferential cumulative shares	158,346	158,346
Subordinated debt I	1,000	1,000
Other	7,056	8,827
Total	166,402	168,173
(-) Deductions from original own funds and additional own funds I		
(-) Deductions from original own funds	(24,670)	(21,759)
(-) Deductions from additional own funds I	(24,670)	(21,759)
Total	(49,340)	(43,518)
Total equity (for solvency purposes)	563,357	538,730
Capital requirements		
Capital requirements for credit risk	360,039	362,677
Central governments and central banks	4,255	3,628
Regional governments and local authorities	346	511
Administrative bodies	455	254
Institutions	18,348	23,136
Corporates	164,822	186,761
Retail banking	78,905	93,085
Secured by real estate property	3,989	0
Past due items	14,017	23,241
Items belonging to regulatory high-risk categories	36,277	13,544
Collective investment undertakings	2,634	3,023
Other items	35,991	15,494
Total capital requirements for market risks	3,408	4,174
Debt securities	670	520
Equity instruments	1,150	1,999
Foreign currencies	1,588	1,655
Capital requirement for operational risk	29,413	28,778
Total	392,860	395,629
Capital adequacy ratio (total equity)	11.47%	10.89%
Capital adequacy ratio (original own funds)	8.59%	7.93%
Common equity capital ratio (Core Tier I ratio)	8.06%	7.41%

4.7 PREVENTION OF MONEY LAUNDERING

The policy for detection and prevention of money laundering and the financing of terrorism is an integral part of the Group's strategic policy. The Group's policy for detection and prevention of money laundering and the financing of terrorism is based on the Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT) and on guidelines published by the Bank of Slovenia. Compliance with the Group's policy for detection and prevention of money laundering and the financing of terrorism is controlled on a consolidated basis.

During 2011, a great emphasis was put on a further development of the Group's system aimed at minimising the possibility of abusing the Group for money laundering and terrorism financing, and on the upgrade of preventive and control measures applied in this respect.

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

The Group's guiding principle in conducting its business is a good knowledge of customers and of the legal activity customers are engaged in.

The Group reports daily to the Office for Money Laundering Prevention on all cash transactions exceeding €30,000 and on all payments exceeding this amount which are, on the request of a customer, made to the accounts of legal entities or individuals residing in countries that do not comply with the standards applicable to the prevention of money laundering and terrorism financing. The Group reports to the Office for Money Laundering Prevention also on all transaction and/or persons with the suspicion of money laundering or terrorism financing. In order to easily identify potentially suspicious transactions, the Group has set up a system for account monitoring for both legal and private entities.

Following the guidelines of the Bank of Slovenia, the Group uses its own methodology for assessing risk of each group or type of customer, business relationship, product or transaction to identify possible money laundering and terrorism financing. Such segmentation of customers is used to decide on the scope of customer verification to be carried out, i.e. a regular or an in-depth verification.

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

To identify clients with whom conducting business is prohibited due to restrictive measures, a consolidated list of the EU Banking Association is used. If any individual or legal entity from the list attempts to conduct business with the Group, they are restricted from doing so and the relevant information is forwarded to the Ministry of Foreign Affairs of the Republic of Slovenia and the Office for Money Laundering Prevention.

The Group encourages employees to attend training on the prevention of money laundering and financing of terrorism activities. These training sessions are mainly carried out internally for all employees, who are, directly or indirectly, engaged in client operations. The up-to-date internal manual for the prevention of money laundering and terrorism financing in the Group, together with ZPPDFT and related executive regulations, are available to all employees on the Group's intranet website.

5 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	31.12.2011		31.12.2010	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and balances with the central bank	147,373	147,373	140,398	140,398
Financial assets held for trading	8,741	8,741	3,148	3,148
Financial assets designated at fair value through profit or loss	38,475	38,475	16,705	16,705
Available-for-sale financial assets	699,603	699,603	878,006	878,006
Loans and advances to banks	177,420	177,642	246,360	246,360
Loans and advances to customers	3,844,085	3,850,593	4,034,927	4,041,759
Held-to-maturity financial assets	449,605	444,982	180,220	183,801
Other assets	177,423	177,423	139,378	139,378
Financial liabilities				
Financial liabilities due to the central bank	415,478	415,480	130,149	130,149
Financial liabilities held for trading	2,486	2,486	6,112	6,112
Deposits from banks	154,660	154,622	168,546	168,561
Deposits from customers	3,764,808	3,781,226	3,712,304	3,724,714
Loans from banks	701,045	701,045	1,076,829	1,076,829
Loans from customers	156	156	348	332
Debt securities	48,973	49,005	65,472	65,933
Subordinated liabilities	187,923	190,298	192,039	200,382
Other liabilities	55,705	55,705	47,226	47,226

The Group determines fair values according to the following hierarchy: market value; valuation based on market interest rates; acquisition cost. The table above sets forth fair values of individual balance sheet items. Fair value of items measured at amortised or acquisition cost is established on the basis of a model that uses market interest rates. Fair value is calculated for items with a fixed interest rate and residual maturity of over one year. As for other items, the Group deems that there is no material difference between the book and fair value.

Fair value is established on the basis of discounted cash flows for each item by using the market interest rates prevailing at the reporting date.

Analysis of fair value hierarchy

	31.12.2011				31.12.2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Derivatives	8,442	0	8,442	0	2,705	0	2,705	0
Financial assets held for trading	299	299	0	0	443	443	0	0
- debt securities	0	0	0	0	0	0	0	0
- equity instruments	299	299	0	0	443	443	0	0
Available-for-sale financial assets	678,173	611,034	67,139	0	869,427	810,539	58,888	0
- debt securities	610,422	543,283	67,139	0	793,794	734,906	58,888	0
- equity instruments	67,751	67,751	0	0	75,633	75,633	0	0
Financial assets designated at fair value through profit or loss	38,475	25,076	13,399	0	16,705	3,760	12,945	0
- debt securities	3,122	3,122	0	0	3,217	3,217	0	0
- equity instruments	35,353	21,954	13,399	0	13,488	543	12,945	0
Financial liabilities								
Derivatives	2,486	0	2,486	0	6,112	0	6,112	0

Level 1 includes financial assets whose fair value is determined on the basis of prices quoted in active markets.

Level 2 includes financial assets whose fair value is established on the basis of valuation models which take into account variables derived from public market data (such as market interest rates).

Level 3 includes financial assets whose fair value is established on the basis of valuation models which take into account subjective variables that are not publicly available.

Financial assets designated at fair value through profit or loss - equity financial instruments form a part of a forward sale and are valued in connection with forward contracts.

Analysis of transitions between Level 1 and Level 2

	Transition from Level 1 to Level 2 in 2011	Transition from Level 2 to Level 1 in 2011	Transition from Level 1 to Level 2 in 2010	Transition from Level 2 to Level 1 in 2010
Financial assets held for trading	0	0	0	0
Available-for-sale financial assets	20,020	11,579	13,787	174,933
- debt securities	20,020	11,579	13,787	174,933
- equity instruments	0	0	0	0
Financial assets designated at fair value through profit or loss	0	0	0	0

The Group starts measuring financial assets according to the valuation model which takes into account available market prices once it establishes that the market is not active. Debt securities with a determinable cash flow and without an available market price are valued at the end of each month using the discounted cash flow model. The interest rate used for discounting is the sum of the interest rate of a risk-free instrument of comparable maturity and a margin for credit risk. The transition from Level 2 to Level 1 is a result of re-availability of a financial asset's market price. The price of a financial asset is considered to be available if the published market price is a result of an actual turnover in the period of less than one month.

6 ANALYSIS BY OPERATING SEGMENTS AS OF 31 DECEMBER 2011

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Intra-segment relationship	Relationship to third parties
A. Net income/expense	192,644	3,756	3,196	(1,781)	21	197,836	5,713	192,123
Interest and similar income	268,070	10,900	34	959	5	279,968	17,163	262,805
Interest and similar expense	(130,049)	(10,428)	(84)	(3,813)	0	(144,374)	(17,162)	(127,212)
Net interest income	138,021	472	(50)	(2,854)	5	135,594	1	135,593
Dividend income	8,820	0	1	8	0	8,829	5,873	2,956
Fee and commission income	95,698	211	3,758	65	0	99,732	1,300	98,432
Fee and commission expense	(42,254)	(157)	(573)	(129)	0	(43,113)	(1,109)	(42,004)
Net fee and commission income	53,444	54	3,185	(64)	0	56,619	191	56,428
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	(738)	0	110	13	0	(615)	0	(615)
Net gains/(losses) on financial assets and liabilities held for trading	2,725	0	0	0	0	2,725	(957)	3,682
Net gains/(losses) on financial assets (and liabilities) designated at fair value through profit or loss	(7,135)	0	(81)	0	0	(7,216)	0	(7,216)
Net exchange rate differences	1,677	(91)	0	(1,102)	0	484	0	484
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	(388)	968	0	(16)	0	564	1	563
Other operating net income/(loss)	(3,782)	2,353	31	2,234	16	852	604	248
B. Other items by segments	(295,083)	(12,883)	(2,285)	(6,562)	(4)	(316,817)	(22,129)	(294,688)
Administration costs	(102,676)	(2,461)	(2,135)	(1,975)	(3)	(109,250)	(795)	(108,455)
Depreciation and amortisation	(15,400)	(1,070)	(140)	(52)	(1)	(16,663)	(19)	(16,644)
Provisions	(17,196)	29	(10)	(9)	0	(17,186)	(247)	(16,939)
Impairment losses	(160,098)	(9,381)	0	(4,526)	0	(174,005)	(15,553)	(158,452)
Share of profit/(loss) from investments in associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	(5,515)	5,515
Net gains from non-current assets held for sale and liabilities associated therewith	287	0	0	0	0	287	0	287
C. Profit/(loss)								
Profit/(loss) from continuing operations	(102,439)	(9,127)	911	(8,343)	17	(118,981)	(16,416)	(102,565)
Income tax related to profit/(loss) from continuing operations	21,132	1,645	(182)	209	(3)	22,801	1,358	21,443
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(81,307)	(7,482)	729	(8,134)	14	(96,180)	(15,058)	(81,122)
D. Segment assets and liabilities								
Total assets	5,995,443	287,245	17,627	64,463	186	6,364,964	548,767	5,816,197
- non-current assets held for sale and discontinued operations	451	5,954	0	0	0	6,405	0	6,405
- investments in associates and joint ventures accounted for using the equity method	101,967	33	0	0	0	102,000	54,461	47,539
Liabilities (excluding equity) by segments	5,514,297	283,671	4,031	76,783	2	5,878,784	498,150	5,380,634
Total equity	481,146	3,574	13,596	(12,320)	184	486,180	50,617	435,563
Increase in property, plant and equipment and intangible assets	14,816	8,022	2,819	115	0	25,772	0	25,772

The column 'Intra-segment relationship' includes the following items: inter-Group income and expense; investments in subsidiaries and equity of subsidiaries; effects of valuation of associates using the equity method; dividend income from companies in the Group; additional impairment/reversal of impairment as a result of using a harmonised customer classification methodology across the Group; income or loss from the valuation of treasury shares; impairment of investments in the equity of subsidiaries; other consolidation entries.

ANALYSIS BY OPERATING SEGMENTS AS OF 31 DECEMBER 2010

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Intra-segment relationship	Relationship to third parties
A. Net income/expense	216,169	5,616	3,484	494	20	225,783	1,834	223,949
Interest and similar income	255,505	13,164	8	965	4	269,646	15,420	254,226
Interest and similar expense	(108,509)	(9,868)	(99)	(2,951)	0	(121,427)	(14,503)	(106,924)
Net interest income	146,996	3,296	(91)	(1,986)	4	148,219	917	147,302
Dividend income	5,517	0	1	6	0	5,524	3,793	1,731
Fee and commission income	101,819	301	3,938	125	0	106,183	2,124	104,059
Fee and commission expense	(46,002)	(222)	(419)	(150)	0	(46,793)	(5,816)	(40,977)
Net fee and commission income	55,817	79	3,519	(25)	0	59,390	(3,692)	63,082
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	1,396	0	12	(22)	0	1,386	0	1,386
Net gains/(losses) on financial assets and liabilities held for trading	(12,750)	0	0	2	0	(12,748)	(300)	(12,448)
Net gains/(losses) on financial assets (and liabilities) designated at fair value through profit or loss	(1,442)	0	14	0	0	(1,428)	0	(1,428)
Net exchange rate differences	16,426	(170)	0	(734)	0	15,522	374	15,148
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	(54)	(51)	2	2	0	(101)	9	(110)
Other operating net income	4,263	2,462	27	3,251	16	10,019	733	9,286
B. Other items by segments	(202,212)	(8,455)	(2,116)	(5,139)	(9)	(217,931)	(11,983)	(205,948)
Administration costs	(109,519)	(2,496)	(2,021)	(2,415)	(8)	(116,459)	(3,041)	(113,418)
Depreciation and amortisation	(14,074)	(1,165)	(81)	(59)	(1)	(15,380)	(128)	(15,252)
Provisions	(3,739)	(9)	(5)	(6)	0	(3,759)	(534)	(3,225)
Impairment losses	(75,212)	(4,785)	(9)	(2,659)	0	(82,665)	(2,668)	(79,997)
Share of profit/(loss) from investments in associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	(5,661)	5,661
Net gains from non-current assets held for sale and liabilities associated therewith	332	0	0	0	0	332	49	283
C. Profit/(loss)								
Profit/(loss) from continuing operations	13,957	(2,839)	1,368	(4,645)	11	7,852	(10,149)	18,001
Income tax related to profit/(loss) from continuing operations	(5,269)	425	(275)	(80)	(3)	(5,202)	1,386	(6,588)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	8,688	(2,414)	1,093	(4,725)	8	2,650	(8,763)	11,413
D. Segment assets and liabilities								
Total assets	5,962,821	268,500	9,637	104,147	172	6,345,277	478,620	5,866,657
- non-current assets held for sale and discontinued operations	574	797	0	0	0	1,371	0	1,371
- investments in associates and joint ventures accounted for using the equity method	94,352	263	0	0	0	94,615	52,896	41,719
Liabilities (excluding equity) by segments	5,485,066	258,528	1,929	103,846	1	5,849,370	421,702	5,427,668
Total equity	477,755	9,972	7,708	301	171	495,907	56,918	438,989
Increase in property, plant and equipment and intangible assets	20,699	932	28	5	2	21,666	0	21,666

The column 'Intra-segment relationship' includes the following items: inter-Group income and expense; investments in subsidiaries and equity of subsidiaries; effects of valuation of associates using the equity method; dividend income from companies in the Group; additional impairment/reversal of impairment as a result of using a harmonised customer classification methodology across the Group; income or loss from the valuation of treasury shares; impairment of investments in the equity of subsidiaries; other consolidation entries.

NOTES TO THE STATEMENT OF INCOME ITEMS

7 INTEREST INCOME AND EXPENSE

7.1 ANALYSIS OF INTEREST BY TYPE

	2011		2010	
	Income	Expense	Income	Expense
Regular interest	244,055	127,158	239,088	106,889
Default interest	17,832	0	14,192	0
Other similar income/expense	918	54	946	35
Total	262,805	127,212	254,226	106,924
Net interest income	135,593		147,302	

7.2 ANALYSIS OF INTEREST BY MARKET SEGMENTS

	2011		2010	
	Income	Expense	Income	Expense
Non-financial companies	131,706	4,674	131,925	5,160
State	20,063	23,529	19,945	18,977
Banks	18,808	39,123	13,351	32,224
Other financial organisations	7,133	10,783	8,431	9,144
Households	66,955	46,045	61,540	38,993
Foreign persons	17,781	2,802	18,669	2,190
Non-profit household service providers	359	256	365	236
Total	262,805	127,212	254,226	106,924
Net interest income	135,593		147,302	

7.3 ANALYSIS OF INTEREST INCOME AND EXPENSE BY TYPE OF ASSETS AND LIABILITIES

	2011		2010	
	Current	Non-current	Current	Non-current
Interest income				
Balances with the central bank	957	0	780	0
Financial assets held for trading	0	0	140	0
Financial assets designated at fair value through profit or loss	1	120	6	120
Available-for-sale financial assets	18,353	4,979	5,377	19,517
Loans and advances (including finance leases)	81,072	147,843	84,786	136,352
Held-to-maturity financial assets	199	8,483	203	6,125
Other claims	798	0	820	0
Total by maturity	101,380	161,425	92,112	162,114
Total	262,805		254,226	
Interest expense				
Financial liabilities due to the central bank	1,656	442	701	1,240
Financial liabilities held for trading	0	39	0	22
Financial liabilities measured at amortised cost	32,534	92,525	27,930	77,019
Other financial liabilities (including finance leases)	16	0	12	0
Total by maturity	34,206	93,006	28,643	78,281
Total	127,212		106,924	
Net interest income	135,593		147,302	

7.4 NET INTEREST INCOME

	2011	2010
Total interest income and similar income	262,805	254,226
Total interest expense and similar expense	127,212	106,924
Net interest income	135,593	147,302
Average interest rate on assets (%)	4.99	4.60
Average interest rate on liabilities (%)	2.36	2.07

8 DIVIDEND INCOME

	2011	2010
Financial assets held for trading	37	20
- shares and participating interests in banks	2	0
- shares and participating interests in other issuers	35	20
Financial assets designated at fair value through profit or loss	703	241
- shares and participating interests in banks	29	196
- shares and participating interests in other issuers	674	45
Available-for-sale financial assets	2,216	1,470
- shares and participating interests in banks	574	1
- shares and participating interests in other issuers	1,642	1,469
Total	2,956	1,731

The largest proportion of the 2011 dividend income from available-for-sale financial assets comes from Mercator d.d. shares (€1,578,000).

9 FEE AND COMMISSION INCOME AND EXPENSE

9.1 ANALYSIS OF FEES AND COMMISSIONS BY TYPE

	2011	2010
Fee and commission income	98,432	104,059
Fees from guarantees	4,370	4,949
Domestic payment transactions	51,962	51,907
International payment transactions	3,968	3,577
Brokerage and agency services	230	225
Currency exchange	0	3
Transactions in securities for customers	387	403
Credit operations	12,045	14,708
Transactions under current accounts	7,263	9,353
Card operations	11,455	11,576
Electronic banking	1,140	1,113
Safekeeping of objects and valuables	82	73
Other services	5,530	6,172
Fee and commission expense	42,004	40,977
Domestic banking services	5,197	5,328
Banking services abroad	6,866	1,641
Brokerage and agency services	343	397
Stock exchange transactions and other transactions in securities	564	408
Payment transactions	27,575	30,764
Other services	1,459	2,439
Net fee and commission income	56,428	63,082

9.2 ANALYSIS OF FEES AND COMMISSIONS BY MARKET SEGMENTS

	2011	2010
Fee and commission income	98,432	104,059
Non-financial companies	56,346	61,161
State	1,180	1,255
Banks	3,429	2,691
Other financial organisations	5,477	5,340
Households	28,100	28,999
Foreign persons	3,103	3,808
Non-profit household service providers	797	805
Fee and commission expense	42,004	40,977
Net fee and commission income	56,428	63,082

9.3 FEE AND COMMISSION INCOME AND EXPENSE RELATING TO FIDUCIARY ACTIVITIES

	2011	2010
Income from fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	4,167	4,444
Receipt, transmission and execution of orders	458	578
Management of financial instruments	3,664	3,817
Administration of book-entry securities accounts of customers	45	48
Expenses for fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	265	281
Fees and commissions in connection with the Central Securities Clearing Corporation and similar organisations	222	244
Fees and commissions in connection with the stock exchange and similar organisations	43	37

10 REALISED GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011			2010		
	Realised gains	Realised losses	Net realised gains/(losses)	Realised gains	Realised losses	Net realised gains/(losses)
Available-for-sale financial assets	600	909	(309)	3,197	2,155	1,042
Loans and advances	1,910	2,735	(825)	1,162	824	338
Held-to-maturity financial assets (Note 28.1)	696	169	527	18	4	14
Other financial assets and liabilities measured at amortised cost	79	87	(8)	41	49	(8)
Total	3,285	3,900	(615)	4,418	3,032	1,386

11 NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2011			2010		
	Gains	Losses	Net gains/(losses)	Gains	Losses	Net gains/(losses)
Trading in equity instruments	720	669	51	1,455	835	620
Trading in debt securities	0	0	0	241	99	142
Trading in foreign exchange (purchase/sale)	3,124	1,893	1,231	2,708	1,425	1,283
Trading in derivatives	15,741	13,340	2,401	4,490	18,983	(14,493)
- futures/forwards	15,691	13,102	2,589	4,490	18,603	(14,113)
- swaps	50	238	(188)	0	380	(380)
Trading in financial liabilities	0	1	(1)	0	0	0
Total	19,585	15,903	3,682	8,894	21,342	(12,448)

The Group uses derivatives (futures/forwards) for economic hedging of exposure to currency risk. Their effects are associated with the effects of exchange rate differences (Note 13).

12 NET LOSSES ON FINANCIAL ASSETS (AND LIABILITIES) DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011			2010		
	Gains	Losses	Net (losses)	Gains	Losses	Net (losses)
Financial assets designated at fair value through profit or loss	2,752	9,968	(7,216)	889	2,317	(1,428)
Total	2,752	9,968	(7,216)	889	2,317	(1,428)

13 NET EXCHANGE RATE DIFFERENCES

	2011	2010
Foreign exchange gains	58,536	70,001
Foreign exchange losses	58,052	54,853
Net foreign exchange gain	484	15,148

14 OTHER NET OPERATING INCOME

	2011	2010
Income		
Income from non-banking services	1,377	1,218
Income from investment property given under operating leases	1,168	873
Other operating income	9,437	14,387
Total	11,982	16,478
Expense		
Taxes	3,920	89
Contributions	554	438
Other charges	285	267
Membership fees and similar fees	270	289
Expense for investment property given under operating leases	61	0
Other operating expenses	6,644	6,109
Total	11,734	7,192
Other net operating income	248	9,286

The largest proportion of the 2011 other operating income, in the amount of €3,832,000, and other operating expenses, in the amount of €3,690,000, relates to the sale of real estate property by KBM Invest.

The remaining amount of other operating income is mainly made up of the income from collection of written-off loans, in the amount of €1,161,000, the income from the sale of energy, in the amount of €1,160,000, the income from renting property, in the amount of €1,040,000, and the amount of €524,000 relating to the transfer to income of deposit accounts which were closed due to not being active.

15 ADMINISTRATION COSTS

	2011	2010
Staff costs		
Gross salaries	45,548	47,372
Social security contribution	4,420	4,501
Pension insurance contribution	3,959	4,139
Other contributions from gross salaries	761	849
Transportation allowance	1,246	1,257
Meal allowance	1,448	1,472
Employee bonuses	43	44
Termination benefits and early retirement payments	641	4,377
Supplementary pension insurance premiums	1,665	1,579
Pay for annual leave	2,999	3,080
Solidarity help and jubilee benefits	26	34
Other staff costs under employment contracts	633	475
Total	63,389	69,179
General and administrative expenses		
Cost of material	2,263	2,310
Cost of energy	1,501	1,202
Cost of specialised text books	173	310
Other costs of material	384	353
Cost of renting business premises	3,706	3,839
Postal costs	2,888	3,192
Transport costs	2,153	2,084
Information system costs	5,428	5,172
Cost of other services	6,264	6,024
Business travel expenses	471	620
Maintenance costs of fixed assets	7,137	6,713
Advertising costs	5,732	5,280
Entertainment costs	383	494
Consulting, auditing, accounting and other services	3,907	4,306
School fees, scholarships and other training costs	760	795
Cost of insurance	1,052	921
Other administrative costs	864	624
Total	45,066	44,239
Total administration costs	108,455	113,418

The largest proportion of the cost of other services in 2011 relates to the refurbishing of business premises and the tidying of their surrounding area as well as the costs of public utility services (€1,216,000), the costs relating to the security (€1,033,000), and the costs of electronic archiving (€548,000).

The largest proportion of the cost of other services in 2010 relates to the refurbishing of business premises and the tidying of their surrounding area as well as the costs of public utility services (€740,000), the costs relating to the security (€898,000), and the costs of electronic archiving (€600,000). Termination benefits of €3,712,000 were paid in 2010 to redundant employees of Credi banka.

Remuneration of auditors

	2011	2010
Audit of the annual report	369	288
Other audit services	337	103
Other non-audit services	0	2
Total	706	393

16 DEPRECIATION AND AMORTISATION

	2011	2010
Depreciation of property, plant and equipment (Note 29)	9,274	8,977
Amortisation of intangible assets (Note 31)	7,370	6,275
Total	16,644	15,252

17 PROVISIONS

	2011	2010
Provisions for pensions and similar benefits (Note 40)	588	1,493
Provisions for off-balance sheet liabilities (Note 40)	14,958	1,327
Provisions for pending legal issues (Note 40)	1,697	350
Other provisions (Note 40)	(304)	55
Total	16,939	3,225

18 IMPAIRMENT LOSSES

	2011	2010
Financial assets not measured at fair value through profit or loss	153,898	75,584
Other assets	4,554	4,413
Total impairment losses	158,452	79,997

18.1 IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
Financial assets measured at cost (Note 25.2)	22,903	0
Available-for-sale financial assets (Note 25.2)	10,064	2,608
Loans and advances measured at amortised cost	120,957	72,944
- loans and advances to banks (Note 26.1)	(12)	(1,039)
- loans and advances to customers (Note 27.1)	120,969	73,983
Held-to-maturity financial assets measured at amortised cost	(26)	32
Total impairment of financial assets not measured at fair value through profit or loss	153,898	75,584

18.2 IMPAIRMENT OF OTHER ASSETS

	2011	2010
Property, plant and equipment	282	33
Investment property	(9)	61
Intangible assets	2,589	0
- intangible assets – goodwill (Note 31)	2,589	0
Other assets (Note 34.1)	1,692	4,319
Total impairment of other assets	4,554	4,413

19 SHARE OF PROFIT OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

	2011	2010
Zavarovalnica Maribor d.d.	5,330	5,294
Moja naložba d.d.	185	367
Total	5,515	5,661

20 INCOME TAX EXPENSE RELATED TO PROFIT/LOSS FROM CONTINUING OPERATIONS

	2011	2010
Income tax expense related to profit/loss from continuing operations	1,575	3,264
Deferred tax from continuing operations (Note 34.3)	(23,018)	3,324
Total	(21,443)	6,588

20.1 RECONCILIATION OF EFFECTIVE TAX RATE

	2011	2010
Profit/(loss) before tax in accordance with IFRSs	(102,565)	18,001
Income tax calculated by applying the official tax rate (20%)	(20,513)	3,600
Increased tax base – 5% of the dividend income	88	56
Tax relief in the current year	(71)	(63)
Non-allowable tax expenses	2,082	1,031
Income that reduces the tax base	(1,766)	(1,310)
Increase of expenses (not recognised in previous years)	0	(105)
Income adjustment to the level of taxable income (increase)	3	1,000
Non-recognised tax losses	(1,109)	2,237
Effect of reduced tax rate	(157)	142
Total income tax	(21,443)	6,588
Effective tax rate (%)	/	36.60

The effective tax rate for the period from 1 January to 31 December 2011 has not been calculated because the majority of Group companies have not accounted for the income tax liability. The amount of €21,443,000 represents net income from deferred taxes.

21 BASIC EARNINGS/LOSS PER SHARE

	2011	2010
Net profit/(loss) for the financial year (€000)	(82,440)	10,780
Weighted average number of ordinary no-par value shares	34,692,605	26,081,979
Basic earnings/(loss) per share (€)	(2.38)	0.41

Diluted earnings/loss per share equals basic earnings/loss per share.

Basic earnings per share is calculated by dividing net profit or loss for the financial year by the weighted average number of ordinary no-par value shares.

The total number of outstanding shares of the Bank as of 31 December 2010 was 26,081,979. Following the May 2011 capital raising, the total number of outstanding shares increased to 39,122,968. The increase in the number of shares took effect on 5 May 2011, i.e. on the day on which the decision of the court with respect to the registration of share capital was received by the Bank. The weighted average number of ordinary shares of the Bank in 2011 was 34,692,605.

NOTES TO THE STATEMENT OF FINANCIAL POSITION ITEMS

22 CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2011	31.12.2010
Cash in hand	64,196	58,274
Obligatory deposits with the central bank	60,998	60,043
Other deposits with the central bank	22,179	22,081
Total	147,373	140,398

Obligatory deposit funds are available for day-to-day operations and are therefore considered as cash equivalent.

22.1 CASH AND CASH EQUIVALENTS

	31.12.2011	31.12.2010
Cash and balances with the central bank	147,373	140,398
Loans and advances to banks	98,403	184,336
Total	245,776	324,734

23 FINANCIAL ASSETS HELD FOR TRADING

	31.12.2011	31.12.2010
Derivatives	8,442	2,705
Equity instruments	299	443
- of banks	73	169
- of other issuers	226	274
Total	8,741	3,148
Quoted	299	443
Unquoted	8,442	2,705
Total	8,741	3,148

No assets of this portfolio are pledged as collateral.

Financial assets held for trading do not have the characteristics of a subordinated debt.

23.1 MOVEMENT IN FINANCIAL ASSETS HELD FOR TRADING

	2011	2010
1 January	3,148	17,308
Increase during the year	23,446	32,801
- assets acquired through business combination	0	3,062
- acquisition	17,215	27,741
- exchange rate differences	7	1
- change in fair value (recovery)	5,737	699
- other (deferred interest, realised gains)	487	1,298
Decrease during the year	17,853	46,961
- disposal (sale and redemption)	17,478	46,042
- change in fair value (impairment)	45	(139)
- exchange rate differences	0	223
- other (deferred interest, realised losses)	330	835
31 December	8,741	3,148

24 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2011	31.12.2010
Equity instruments	35,353	13,488
Debt securities	3,122	3,217
Total	38,475	16,705
Quoted	25,072	4,197
Unquoted	13,403	12,508
Total	38,475	16,705

Assets of this portfolio pledged as collateral amount to €3,118,000. Assets are pledged with the Bank of Slovenia for the purpose of the guarantee scheme.

Financial assets designated at fair value through profit or loss include bonds and equities for which the Group has entered into forward sale contracts.

The effects of valuation of financial assets designated at fair value through profit or loss and the effects of valuation of forward contracts are recorded through profit or loss.

Financial assets designated at fair value through profit or loss do not have the characteristics of a subordinated debt.

24.1 MOVEMENT IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
1 January	16,705	24,736
Increase during the year	35,461	20,741
- acquisition	32,395	19,878
- change in fair value (recovery)	2,697	14
- deferred interest	120	120
- exchange rate differences	82	40
- other	167	689
Decrease during the year	13,691	28,772
- disposal (sale and redemption)	3,401	26,553
- change in fair value (impairment)	10,121	2,045
- interest received	120	120
- exchange rate differences	47	54
- other	2	0
31 December	38,475	16,705

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

25.1 ANALYSIS BY TYPE AND MARKET SEGMENTS

	31.12.2011	31.12.2010
Available-for-sale equity instruments designated at fair value	67,752	75,633
- equity investments in banks	23	44
- equity investments in other financial organisations	37,516	42,738
- equity investments in non-financial organisations	30,212	32,851
- equity investments in other foreign entities	1	0
Available-for-sale equity instruments measured at cost	21,429	8,159
- equity investments in banks	11,218	0
- equity investments in other financial organisations	5	5
- equity investments in non-financial organisations	9,139	7,035
- equity investments in other foreign entities	1,067	1,119
Available-for-sale debt securities	610,422	794,214
- issued by the state and the central bank	332,862	373,296
- issued by banks	244,585	386,871
- issued by other issuers	32,975	34,047
Total	699,603	878,006

Assets of this portfolio pledged as collateral amount to €476,826,000. Assets are pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors.

The following four instruments qualify as a subordinated debt: NLB FLOAT 49, in the amount of €2,788,000, bonds ZVM2, in the amount of €1,813,000, BCE 11, in the amount of €2,852,000, and ABVIP FLOAT 12/29/49, in the amount of €1,636,000, which in aggregate accounts for 1.30% of the total portfolio.

25.2 MOVEMENT IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2011	75,633	8,159	794,214	878,006
Recognition of new financial assets	0	36,140	27,888	64,028
Interest	0	0	(1,164)	(1,164)
Net exchange rate differences	4	(22)	132	114
Net revaluation through equity	1,542	0	(23,997)	(22,455)
Net impairment through profit or loss (Note 18.1)	(9,036)	(22,903)	(1,028)	(32,967)
Derecognition of financial assets	(495)	(2)	(184,624)	(185,121)
Net gains/(losses) on sale	104	57	(999)	(838)
31 December 2011	67,752	21,429	610,422	699,603

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2010	57,680	8,221	980,265	1,046,166
Assets acquired through business combination	134	0	0	134
Recognition of new financial assets	26,772	229	16,650	43,651
Interest	0	0	(3,243)	(3,243)
Net exchange rate differences	(10)	(12)	85	63
Net revaluation through equity	(4,255)	0	1,998	(2,257)
Net impairment through profit or loss (Note 18.1)	(1,021)	(253)	(1,334)	(2,608)
Derecognition of financial assets	(3,672)	(25)	(200,916)	(204,613)
Other	5	(1)	709	713
31 December 2010	75,633	8,159	794,214	878,006

26 LOANS AND ADVANCES TO BANKS

	31.12.2011	31.12.2010
Sight deposits	10,560	38,390
Impairment of sight deposits	(146)	(144)
Current loans	121,504	168,605
Impairment of current loans	(2,867)	(3,101)
Non-current loans	48,785	43,230
Impairment of non-current loans	(416)	(620)
Total – net amount	177,420	246,360
Impairment	3,429	3,865
Total – gross amount	180,849	250,225

26.1 MOVEMENT IN IMPAIRMENT OF LOANS AND ADVANCES TO BANKS

	2011	2010
1 January	3,865	2,364
Assets acquired through business combination	0	2,943
Net impairment of principal (Note 18.1)	(12)	(1,039)
- additional impairment	4,804	4,282
- reversal of impairment	(4,816)	(5,321)
Additional impairment/reversal of impairment of interest	(1)	(3)
Write-offs of loans and advances to banks	(527)	(244)
Exchange rate differences	104	(156)
31 December	3,429	3,865

Additional impairment/reversal of impairment of interest and fees on loans and advances to banks is reflected in the statement of income (Note 7: 'Interest income and expense' and Note 9: 'Fee and commission income and expense').

27 LOANS AND ADVANCES TO CUSTOMERS

	31.12.2011	31.12.2010
Current loans	1,008,822	1,075,442
Impairment of current loans	(138,840)	(110,179)
Non-current loans	3,262,359	3,280,266
Impairment of non-current loans	(296,214)	(213,990)
Claims under guarantees	16,225	6,967
Impairment of claims under guarantees	(8,267)	(3,579)
Total – net amount	3,844,085	4,034,927
Impairment	443,321	327,748
Total – gross amount	4,287,406	4,362,675

27.1 MOVEMENT IN IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

	2011	2010
1 January	327,748	275,523
Adjustment of opening balance	0	143
Assets acquired through business combination	0	9,443
Net impairment of principal (Note 18.1)	120,969	73,983
- additional impairment of principal	275,711	239,097
- reversal of impairment of principal	(154,742)	(165,114)
Additional impairment/reversal of impairment of interest	9,181	6,451
Additional impairment/reversal of impairment of fees	106	207
Write-offs of loans and advances to customers	(13,549)	(37,467)
Exchange rate differences	170	(535)
Other	(1,304)	0
31 December	443,321	327,748

Additional impairment/reversal of impairment of interest and fees on loans and advances to customers is reflected in the statement of income (Note 7: 'Interest income and expense' and Note 9: 'Fee and commission income and expense').

28 HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2011	31.12.2010
Held-to-maturity debt securities		
- non-current securities issued by the state and the central bank	352,738	92,516
- non-current securities issued by banks and savings banks	84,382	76,581
- current securities issued by other issuers	3,844	667
- non-current securities issued by other issuers	8,641	10,456
Total	449,605	180,220
Quoted	445,760	179,552
Unquoted	3,845	668
Total	449,605	180,220

Assets of this portfolio pledged as collateral amount to €419,574,000. Assets in the amount of €410,462,000 are pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme, while assets totalling €9,112,000 are pledged as collateral for a repo transaction entered into with ING Bank NV, Amsterdam.

Debt securities NLB26 totalling €3,092,000, or 0.69% of the total portfolio, qualify as a subordinated debt.

28.1 MOVEMENT IN HELD-TO-MATURITY FINANCIAL ASSETS

	2011	2010
1 January	180,220	145,797
Increase during the year	296,466	53,783
- assets acquired through business combination	0	389
- acquisition	287,063	46,822
- exchange rate differences	25	0
- gains (Note 10)	696	18
- other (deferred interest)	8,682	6,554
Decrease during the year	27,081	19,360
- redemption	18,870	13,239
- losses (Note 10)	169	4
- impairment	(27)	18
- exchange rate differences	0	28
- other (interest received)	8,069	6,071
31 December	449,605	180,220

29 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2011	112,641	34,655	38,118	2,437	187,851
Transfer between types of assets	1,280	1,648	1,077	(4,132)	(127)
Additions	52	549	2,422	11,663	14,686
Disposals	(98)	(2,167)	(3,164)	(3,177)	(8,606)
Exchange rate differences	639	47	(36)	6	656
31 December 2011	114,514	34,732	38,417	6,797	194,460
Accumulated depreciation					
1 January 2011	39,938	29,592	25,622	0	95,152
Transfer between types of assets	8	82	(90)	0	0
Additions	0	2	5	0	7
Depreciation (Note 16)	3,233	2,717	3,324	0	9,274
Disposals	(85)	(2,148)	(2,399)	0	(4,632)
Revaluation	0	6	11	0	17
Exchange rate differences	241	37	(12)	0	266
31 December 2011	43,335	30,288	26,461	0	100,084
Carrying amount as of 1 January 2011	72,703	5,063	12,496	2,437	92,699
Carrying amount as of 31 December 2011	71,179	4,444	11,956	6,797	94,376

No items of property, plant and equipment are pledged.

The acquisition cost of completely depreciated items of property, plant and equipment that are still used by the Group totals €38,077,000.

The Group's obligation to suppliers of items of property, plant and equipment as of 31 December 2011 was €757,000.

The majority of the amount, €1,060,000, stated in the item 'Land and buildings', column 'Transfer between types of assets', relates to the investments in Bank premises.

An increase of €5,983,000 and a decrease of €3,128,000 in property, plant and equipment in progress relate to the construction and sale of premises by Gorica Leasing.

	Land and buildings	Computer equipment	Other equipment	Finance lease	PPE in progress	Total
Cost						
1 January 2010	83,766	33,011	37,057	70	2,758	156,662
Assets acquired through business combination	18,393	1,509	838	0	72	20,812
Transfer between types of assets	(1,050)	(144)	584	(25)	(75)	(710)
Additions	13,169	2,647	4,032	0	0	19,848
Disposals	(233)	(2,016)	(4,284)	(45)	(309)	(6,887)
Exchange rate differences	(1,404)	(352)	(109)	0	(9)	(1,874)
31 December 2010	112,641	34,655	38,118	0	2,437	187,851
Accumulated depreciation						
1 January 2010	31,334	28,086	23,958	27	0	83,405
Assets acquired through business combination	6,984	1,101	630	0	0	8,715
Transfer between types of assets	(589)	(36)	258	(15)	0	(382)
Additions	0	6	1,501	0	0	1,507
Depreciation (Note 16)	2,856	2,671	3,449	1	0	8,977
Disposals	(106)	(1,966)	(4,075)	(13)	0	(6,160)
Exchange rate differences	(541)	(270)	(99)	0	0	(910)
31 December 2010	39,938	29,592	25,622	0	0	95,152
Carrying amount as of 1 January 2010	52,432	4,925	13,099	43	2,758	73,257
Carrying amount as of 31 December 2010	72,703	5,063	12,496	0	2,437	92,699

30 INVESTMENT PROPERTY

	2011	2010
1 January	44,966	27,790
Assets acquired through business combination	0	6
Transfer between types of assets	(11,005)	0
Additions	26,827	17,280
Disposals	6,253	48
Change in fair value	9	(62)
31 December	54,544	44,966

The Group has in place 89 agreements for renting out investment properties. The aggregate annual rent amounts to €1,347,000 (VAT included).

Fair value of investment property has been assessed by a certified appraiser on the basis of market data.

The 2011 increase of €22,341,000 in investment property relates mainly to the construction of the Mercator shopping centre financed by KBM Leasing. A lease agreement for this facility has already been made.

The 2011 decrease in investment property relates mainly to the sale of premises Livade Izola, by Gorica Leasing, in the amount of €5,344,000.

Direct operating expenses related to investment property amounted in 2011 to €35,000, compared to €48,000 in 2010.

There are no sales restrictions on the items of investment property.

31 INTANGIBLE ASSETS

	Computer software	Intangible assets in preparation	Goodwill	Other intangible assets	Total
Cost					
1 January 2011	62,799	808	2,589	481	66,677
Transfer between types of assets	6,856	(6,438)	0	(418)	0
Additions	1,149	7,176	0	2,761	11,086
Disposals	(91)	0	0	0	(91)
Revaluation	0	0	(2,589)	0	(2,589)
Exchange rate differences	18	0	0	0	18
31 December 2011	70,731	1,546	0	2,824	75,101
Accumulated amortisation					
1 January 2011	33,817	0	0	379	34,196
Transfer between types of assets	361	0	0	(361)	0
Additions	160	0	0	0	160
Amortisation (Note 16)	7,305	0	0	65	7,370
Disposals	(90)	0	0	0	(90)
Exchange rate differences	14	0	0	0	14
31 December 2011	41,567	0	0	83	41,650
Carrying amount as of 1 January 2011	28,982	808	0	102	32,481
Carrying amount as of 31 December 2011	29,164	1,546	0	2,741	33,451

	Computer software	Intangible assets in preparation	Goodwill	Other intangible assets	Total
Cost					
1 January 2010	54,086	829	0	532	55,447
Assets acquired through business combination	77	0	0	450	527
Transfer between types of assets	(25)	0	0	12	(13)
Additions	8,668	0	2,589	0	11,257
Disposals	(1)	(21)	0	(480)	(502)
Exchange rate differences	(6)	0	0	(33)	(39)
31 December 2010	62,799	808	2,589	481	66,677
Accumulated amortisation					
1 January 2010	27,498	0	0	236	27,734
Assets acquired through business combination	77	0	0	390	467
Transfer between types of assets	(14)	0	0	16	2
Amortisation (Note 16)	6,270	0	0	5	6,275
Disposals	(8)	0	0	(240)	(248)
Exchange rate differences	(6)	0	0	(28)	(34)
31 December 2010	33,817	0	0	379	34,196
Carrying amount as of 1 January 2010	26,588	829	0	296	27,713
Carrying amount as of 31 December 2010	28,982	808	2,589	102	32,481

The Group's obligation to suppliers of intangible assets as of 31 December 2011 was €725,000.

The Group may freely dispose of its intangible assets and no such assets are pledged.

In 2011 and 2010, the Group did not capitalise development costs.

Goodwill in the amount of €2,589,000, which was recognised in 2010 upon the integration of Credi banka into the Group, was fully impaired in 2011.

32 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31.12.2011	31.12.2010
Equity investments in other companies in the Group	47,539	41,719
- associated financial organisations	47,539	41,719
Total	47,539	41,719

32.1 MOVEMENT IN INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2011	2010
1 January	41,719	36,081
Increase during the year	10,478	5,638
- acquisition	7,344	0
- realised gains	57	0
- other	3,077	5,638
Decrease during the year	4,658	0
- sale and release	212	0
- dividends received	4,446	0
31 December	47,539	41,719

Other increase in investments in associates relates to the corresponding share of profits and to the revaluation surplus of associates.

32.2 INFORMATION ON COMPANIES IN WHICH THE GROUP HOLDS AT LEAST A 20% SHAREHOLDING

Name and registered address of the company	Total assets of the company as of 31.12.2011	Total liabilities of the company as of 31.12.2011	Total equity of the company as of 31.12.2011	Proportional share of total equity	2011 technical income and investment income of the company	2011 net profit of the company	Acquisition cost	Bank's shareholding (%)	Bank's voting rights (%)	Investment value as of 31.12.2011
Moja naložba, pokojninska družba, d.d., Maribor	135,038	128,607	6,431	2,894	2,818	410	2,237	45.00	45.00	2,894
Zavarovalnica Maribor d.d., Maribor	760,989	673,449	87,540	44,645	245,704	10,557	29,681	51.00	51.00	44,645
Total				47,539			31,918			47,539

33 TAX ASSETS AND LIABILITIES

33.1 TAX ASSETS

	31.12.2011	31.12.2010
Current tax assets	2,283	3,739
Deferred tax assets	34,874	10,540
Total	37,157	14,279

33.2 TAX LIABILITIES

	31.12.2011	31.12.2010
Current tax liabilities	269	217
Deferred tax liabilities	2,857	5,806
Total	3,126	6,023

33.3 DEFERRED TAXES

	31.12.2011	31.12.2010
Deferred tax assets		
- other provisions for pending legal issues	245	233
- other provisions for settled deposits	0	50
- other provisions for employees	947	1,007
- available-for-sale financial assets	15,409	5,691
- tax loss	12,970	927
- temporary differences in respect of loan impairments	4,537	2,489
- other	766	143
Total deferred tax assets	34,874	10,540
Deferred tax liabilities		
- available-for-sale financial assets	601	1,759
- temporary differences in respect of loan impairments	2,107	4,002
- other	149	45
Total deferred tax liabilities	2,857	5,806
Included in the statement of income		
- other provisions for pending legal issues	12	(455)
- other provisions for settled deposits	(50)	(1)
- other provisions for employees	(60)	(53)
- available-for-sale financial assets	6,341	(2,076)
- tax loss	12,043	722
- temporary differences in respect of loan impairments	4,192	(845)
- other	540	(616)
Total included in the statement of income (Note 20)	23,018	(3,324)
Included in equity		
- available-for-sale financial assets (Note 44)	6,029	1,651
Total included in equity	6,029	1,651

34 OTHER ASSETS

	31.12.2011	31.12.2010
Cheques	112	158
Inventories	146,671	104,221
Assets obtained for the settlement of receivables	5,227	5,383
Claims for fees and commissions	2,086	4,866
Claims for advance payments	4,344	754
Account receivables	2,343	1,524
Claims from arbitrage transactions	0	4,544
Deferred costs and accrued revenues	1,258	2,676
Other claims	15,382	15,252
Total – net amount	177,423	139,378
Impairment	12,571	10,876
Total – gross amount	189,994	150,254

The largest proportion of inventories in 2011, in the amount of €98,023,000, relates to the stock of real estate property intended for sale, followed by the equipment seized under lease agreements and intended for sale or lease, in the amount of €47,532,000.

The largest proportion of inventories in 2010, in the amount of €82,956,000, relates to the stock of real estate property intended for sale, followed by the equipment seized under lease agreements and intended for sale or lease, in the amount of €19,976,000.

As of 31 December 2011, the book value of inventories recognised at net realisable amount totalled €7,933,000, compared to €3,613,000 as of 31 December 2010.

Impairment of inventories as of 31 December 2011 and 2010 totalling €9,545,000 and €8,759,000, respectively, relates mainly to the plots of land intended for sale, the value of which was impaired as a result of a drop in market prices.

No inventories of the Group are pledged.

The largest proportion of deferred costs and accrued revenues in 2011 and 2010 relates to prepaid expenditures and accrued interest.

The largest proportion of other claims in 2011, in the amount of €9,455,000, relates to claims in respect of settlement of payment transactions and card operations.

The largest proportion of other claims in 2010, in the amount of €6,632,000, relates to claims in respect of settlement of payment transactions and card operations, followed by a claim against the Tax Administration of the Republic of Slovenia for the payment of interest, in the amount of €4,676,000.

34.1 MOVEMENT IN IMPAIRMENT OF OTHER ASSETS

	2011	2010
1 January	10,876	3,702
Adjustment of opening balance	336	3,643
Assets acquired through business combination	0	157
Net impairment of principal (Note 18.2)	1,692	4,319
- additional impairment of principal	3,117	5,682
- reversal of impairment of principal	(1,425)	(1,363)
Additional impairment/reversal of impairment of interest	11	12
Additional impairment/reversal of impairment of fees	188	77
Write-offs of other assets	(359)	(945)
Exchange rate differences	(173)	(89)
31 December	12,571	10,876

Additional impairment/reversal of impairment of interest and fees on other assets is reflected in the statement of income (Note 7: 'Interest income and expense' and Note 9: 'Fee and commission income and expense').

35 NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

	31.12.2011	31.12.2010
Property, plant and equipment held for sale	1,268	1,371
Investment property held for sale	5,137	0
Total	6,405	1,371

36 FINANCIAL LIABILITIES DUE TO THE CENTRAL BANK

	31.12.2011	31.12.2010
Loans from the central bank	415,478	130,149
- current loans	70,382	130,149
- non-current loans	345,096	0
Total	415,478	130,149

The expected maturity of these liabilities is disclosed in section '4.2 Liquidity risk'.

37 FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2011	31.12.2010
Derivatives	2,486	6,112
- valuation, forward contracts	1,681	5,779
- valuation, swap contracts	805	333
Total	2,486	6,112

38 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31.12.2011	31.12.2010
Deposits (Note 38.1)	3,919,468	3,880,850
Loans (Note 38.2)	701,201	1,077,177
Debt securities (Note 38.4)	48,973	65,472
Subordinated liabilities (Note 38.5)	187,923	192,039
Total	4,857,565	5,215,538

38.1 DEPOSITS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2011	31.12.2010
Deposits from banks	154,660	168,546
Sight deposits	9,857	3,344
Current deposits	135,543	164,825
Non-current deposits	9,260	377
Deposits from customers	3,764,808	3,712,304
Sight deposits	1,337,721	1,284,495
Current deposits	926,640	1,083,923
Non-current deposits	1,500,447	1,343,886
Total	3,919,468	3,880,850

38.2 LOANS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2011	31.12.2010
Loans from banks	701,045	1,076,829
Current loans	16,636	17,233
Non-current loans	684,409	1,059,596
Loans from customers	156	348
Non-current loans	156	348
Total	701,201	1,077,177

38.3 DEPOSITS AND LOANS BY MARKET SEGMENTS

	31.12.2011	31.12.2010
Deposits	3,919,468	3,880,850
Banks	154,660	168,546
Non-financial companies	282,789	340,002
State	570,217	500,798
Other financial organisations	186,171	209,583
Foreign persons	123,033	96,130
Non-profit household service providers	32,489	29,059
Households	2,570,109	2,536,732
Loans	701,201	1,077,177
Banks	701,045	1,076,828
Non-financial companies	153	344
State	1	5
Foreign persons	2	0
Total	4,620,669	4,958,027

38.4 DEBT SECURITIES BY TYPE AND MATURITY

	31.12.2011	31.12.2010
Debt securities		
Non-current securities	48,973	65,472
- certificates of deposit	32,248	19,457
- bond issued	16,725	46,015
Total	48,973	65,472

38.5 SUBORDINATED LIABILITIES

ISIN code	Currency	Date of maturity	Interest rate	31.12.2011	31.12.2010
Subordinated debt					
ISIN: SI0022102279	EUR	30. 09. 2011	4.70%	0	4,219
Adria Bank AG	EUR	perpetual; call option on each 28.12.	variable	1,296	1,294
Hybrid instruments as a component of additional own funds					
Pošta Slovenije d.o.o.; contributions 1 to 4	EUR	perpetual	6M EURIBOR + 2.70%	6,713	6,697
Pošta Slovenije d.o.o.; 5 th contribution	EUR	perpetual	6M EURIBOR + 3.50%	1,981	1,976
ISIN: XS0270427163	EUR	perpetual; call option after 05.10.2016	3M EURIBOR + 1.60%	50,386	50,311
ISIN: XS0325446903	EUR	perpetual; call option after 12.10.2012	7.02%	101,599	101,599
Hybrid instruments as a component of original own funds					
ISIN: SI0022103046	EUR	perpetual; call option after 29.12.2014	8.70%	25,948	25,943
Total				187,923	192,039

Subordinated liabilities are included in the calculation of capital adequacy. Hybrid instruments as a component of original own funds are included in total original own funds, while hybrid instruments as a component of additional own funds form a part of total additional own funds. Capital risk is disclosed in Note 4.6.

39 FINANCIAL LIABILITIES ASSOCIATED TO TRANSFERRED ASSETS

	31.12.2011	31.12.2010
Financial liabilities to banks	8,022	0
- current financial liabilities	8,022	0
Total	8,022	0

Current financial liabilities of the Group as of 31 December 2011 relate to repo transactions.

40 PROVISIONS

	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Provisions for pending legal issues	Other provisions	Total
1 January 2011	8,092	11,479	2,003	1,046	22,620
Net provisions made during the year (Note 17)	588	14,958	1,697	(304)	16,939
- provisions made during the year	948	36,167	1,760	5	38,880
- provisions reversed during the year	(360)	(21,209)	(63)	(309)	(21,941)
Provisions used during the year	(956)	0	(153)	(234)	(1,343)
Exchange rate differences	13	19	4	0	36
31 December 2011	7,737	26,456	3,551	508	38,252

Provisions for pensions and similar benefits to employees are recognised on the basis of an actuarial calculation; assumptions used in the calculation are disclosed in Note 3.14.

Other provisions relate mainly to the provisions of €508,000 for undrawn loans under the National Housing Savings Scheme.

	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Provisions for pending legal issues	Other provisions	Total
1 January 2010	7,432	9,117	4,940	1,785	23,274
Assets acquired through business combination	414	1,107	126	0	1,647
Net provisions made during the year (Note 17)	1,493	1,327	350	55	3,225
- provisions made during the year	1,721	26,700	898	62	29,381
- provisions reversed during the year	(228)	(25,373)	(548)	(7)	(26,156)
Provisions used during the year	(1,212)	(36)	(3,401)	(794)	(5,443)
Exchange rate differences	(35)	(36)	(12)	0	(83)
31 December 2010	8,092	11,479	2,003	1,046	22,620

Provisions for pensions and similar benefits to employees are recognised on the basis of an actuarial calculation; assumptions used in the calculation are disclosed in Note 3.14.

Provisions used during the year for pending legal issues, in the amount of €3,250,000, relate to the out-of-court settlement of claims in respect of denationalisation of the Mestna Hranilnica business premises.

Other provisions relate mainly to the provisions for undrawn loans under the National Housing Savings Scheme (€658,000) and to the provisions for settled deposits of citizens (€251,000).

41 OTHER LIABILITIES

	31.12.2011	31.12.2010
Liabilities for fees and commissions	92	82
Liabilities for prepayments received	3,064	695
Liabilities for gross salaries of employees	3,655	3,733
Liabilities to suppliers	9,458	9,663
Liabilities related to card operations	7,780	5,586
Liabilities under arbitrage transactions	0	4,544
Liabilities related to transactions with ATMs	1,472	1,743
Liabilities to the Ministry of Finance	1	256
Accrued expenses and deferred revenues	9,085	6,512
Surplus of liabilities under authorised transactions for customers	118	53
Other liabilities	20,980	14,359
Total other liabilities	55,705	47,226

42 SHARE CAPITAL

	31.12.2011	31.12.2010
Ordinary shares	40,815	27,210
- subscribed by non-financial companies	7,305	995
- subscribed by the state	14,562	13,909
- subscribed by banks	615	611
- subscribed by other financial organisations	2,663	2,939
- subscribed by households	6,693	6,264
- subscribed by foreign persons	8,977	2,492

In May 2011, the Bank raised additional capital. Share capital of the Bank increased by €13,605,000 to €40,815,000 at the end of 2011.

The Bank's share capital as of 31 December 2011 was split into 39,122,968 shares, compared to 26,081,979 shares a year earlier. The accounting value of each ordinary no-par value share, calculated as the ratio between the share capital and the total number of shares, is €1.04.

The shares issued by the Bank are ordinary no-par value shares. All shares are of the same class, entail a voting right, are freely transferable, and have been issued in a book-entry form. Holders of shares have the following rights: participation in the management of the Bank; participation in profits (dividend); and pro-rata distribution of residual assets in case of bankruptcy or liquidation of the Bank, as laid down by the law. All shares have been fully paid for.

On 31 December 2011, the Bank had 98,354 shareholders (2010: 100,295), of which 1,018 were legal entities, 97,204 were individuals and 132 were foreign investors. The number of shareholders of the Bank decreased by 1,941 year-on-year.

In 2010, Poštna banka Slovenije acquired 136,000 shares of the Bank, totalling €1,412,000. At the Group level, these shares are treated as treasury shares and are disclosed as such in the financial statements for the 2011 and 2010 year-end. The proportion of treasury shares as a percentage of the total shares issued by the Bank was 0.35% at the end of 2011, compared to 0.52% a year earlier. The Group did not sell treasury shares in 2011 and 2010.

43 SHARE PREMIUM

	31.12.2011	31.12.2010
Paid-in capital surplus	143,467	56,006
Share premium arising from the general capital revaluation	22,308	22,308
Total	165,775	78,314

Following the May 2011 capital increase, the Bank's share premium increased by €90,723,000. Direct costs of capital raising totalled €3,262,000 and were charged against share premium. The total amount of share premium as of 31 December 2011 was €165,775,000.

Share premium cannot be paid out to shareholders.

44 REVALUATION RESERVES

	31.12.2011	31.12.2010
Revaluation reserves in respect of available-for-sale financial assets	(25,096)	(5,542)
- revaluation	(31,125)	(7,193)
- deferred taxes (Note 33.3)	6,029	1,651
Total	(25,096)	(5,542)

44.1 MOVEMENT IN REVALUATION RESERVES

	2011	2010
1 January	(5,542)	(3,484)
Net change in valuation of available-for-sale financial assets	(23,931)	(2,294)
- losses recognised in revaluation reserves	(32,321)	(2,604)
- losses transferred from revaluation reserves to profit or loss	8,390	310
Exchange rate differences	(1)	0
Net change in deferred taxes	4,378	236
31 December	(25,096)	(5,542)

45 RESERVES FROM PROFIT

	31.12.2011	31.12.2010
Reserves from profit		
- regulatory reserves	19,169	17,863
- reserves for treasury shares	1,412	1,412
- statutory reserves	174,184	174,184
- other reserves from profit	105,961	103,551
Total	300,726	297,010

Reserves from profit are established in compliance with the Companies Act and provisions of individual Group companies' Articles of Association.

45.1 MOVEMENT IN RESERVES FROM PROFIT

	2011	2010
1 January	297,010	281,138
- increase in regulatory reserves	1,306	2,905
- increase in statutory reserves	0	5,009
- increase in reserves for treasury shares	0	1,412
- increase in other reserves	2,410	6,546
31 December	300,726	297,010

The increase of €3,716,000 in reserves from profit relates to the transfer of net profit to reserves, in the amount of €2,300,000, and the transfer of retained earnings to reserves, in the amount of €1,416,000.

46 RETAINED EARNINGS/LOSS (INCLUDING NET PROFIT/LOSS FOR THE FINANCIAL YEAR)

	31.12.2011	31.12.2010
Retained earnings/(loss) from previous years	(1,888)	1,675
Net profit/(loss) for the financial year	(84,740)	513
Total	(86,628)	2,188

In 2011, the Group generated a net loss of €81,122,000. A loss of €82,440,000 is attributable to owners of the parent, whereas a profit of €1,318,000 is attributable to non-controlling interest.

In 2010, the Group generated a net profit of €11,413,000, of which €10,780,000 was attributable to owners of the parent and €633,000 was attributable to non-controlling interest.

Movements in retained earnings are disclosed in the statement of changes in equity.

OTHER NOTES

47 COMMITMENTS AND CONTINGENT LIABILITIES BY TYPE

	Current	Non-current	Total
31 December 2011			
Financial guarantees	68,650	56,166	124,816
Service guarantees	116,547	108,600	225,147
Total guarantees	185,197	164,766	349,963
Uncollateralised letters of credit	25	0	25
Approved and undrawn loans	131,742	22,104	153,846
Approved and undrawn overdrafts	196,816	108	196,924
Approved credit lines	8,361	0	8,361
Other	9,120	0	9,120
Total commitments and contingent liabilities	346,039	22,212	368,251
Derivatives	157,024	13,873	170,897
Total	688,285	200,851	889,136

	Current	Non-current	Total
31 December 2010			
Financial guarantees	42,826	98,983	141,809
Service guarantees	88,261	178,189	266,450
Total guarantees	131,087	277,172	408,259
Uncollateralised letters of credit	527	0	527
Approved and undrawn loans	138,791	69,155	207,946
Approved and undrawn overdrafts	204,260	0	204,260
Other	5,949	2	5,951
Total commitments and contingent liabilities	349,000	69,157	418,157
Derivatives	114,253	18,971	133,224
Total	594,867	365,300	960,167

As of 31 December 2011, legal claims against the Group totalled €16,676,000, compared to €14,178,000 a year earlier. Based on legal opinions in respect of these claims, in 2011 the Group created provisions of €3,551,000, compared to €2,003,000 in 2010.

Liabilities under rental agreements

	Annual amount in 2012	2 to 5 years (2013 – 2016)	Over 5 years
Business premises, ATMs	1,729	6,077	9,555
Parking places	45	159	267
Software	24	94	233
Information channels	1,024	4,085	10,244
Other equipment	50	205	268
Total	2,872	10,620	20,567

Agreements for renting business premises, ATMs and information channels account for the largest share of liabilities under rental agreements.

The Group has not entered into any irrevocable rental agreements.

Claims under rental agreements

	Annual amount in 2012	2 to 5 years (2013 – 2016)	Over 5 years
Business premises and apartments	4,765	17,813	43,037
Parking places	74	294	724
Other equipment	65	154	194
Total	4,904	18,261	43,955

The most important rental agreements have been concluded for renting out business premises and apartments.

48 DERIVATIVES

Type of risk	Type of derivative	Carrying amount in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	0	805	3,000
Equity instrument price risk	Futures contracts in securities	7,252	608	45,587
Equity instrument price risk	Options	0	0	13,873
Currency risk	Currency forwards	1,190	1,073	108,437
31 December 2011		8,442	2,486	170,897

Type of risk	Type of derivative	Carrying amount in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	0	332	3,000
Equity instrument price risk	Futures contracts in securities	2,639	123	15,704
Equity instrument price risk	Options	0	0	13,152
Currency risk	Currency forwards	66	5,657	101,368
31 December 2010		2,705	6,112	133,224

48.1 DERIVATIVES BY TYPE

	Current	Non-current	Total
Forward contracts	108,437	0	108,437
- trading	108,437	0	108,437
Futures contracts	45,587	0	45,587
- trading	45,587	0	45,587
Swaps	3,000	0	3,000
- trading	3,000	0	3,000
Options	0	13,873	13,873
- trading	0	13,873	13,873
Total as of 31 December 2011	157,024	13,873	170,897

	Current	Non-current	Total
Forward contracts	101,368	0	101,368
- trading	101,368	0	101,368
Futures contracts	12,885	2,819	15,704
- trading	12,885	2,819	15,704
Swaps	0	3,000	3,000
- trading	0	3,000	3,000
Options	0	13,152	13,152
- trading	0	13,152	13,152
Total as of 31 December 2010	114,253	18,971	133,224

49 AUTHORISED TRANSACTIONS

	31.12.2011	31.12.2010
Non-financial companies	35	68
State	12,067	15,632
Banks and other financial organisations	14,947	12,874
Households	26	41
Non-profit household service providers	1,321	1,214
Foreign persons	78	69
Liabilities from transactions in securities	215	919
Total	28,689	30,817

50 FIDUCIARY ACTIVITIES

	31.12.2011	31.12.2010
ASSETS	1,151	882
Claims of settlement and transactions accounts for customer assets	480	271
- from financial instruments	344	35
- against the Central Securities Clearing Corporation or the Bank's clearing account for sold financial instruments	23	25
- against other settlement systems and institutions for sold financial instruments (buyers)	113	211
Customers' cash	671	611
- in the settlement account for customer assets	571	548
- in banks' transaction accounts	100	63
LIABILITIES	1,151	882
Liabilities of settlement and transactions accounts for customer assets	1,151	882
- to customers from cash and financial instruments	805	742
- to the Central Securities Clearing Corporation or the Bank's clearing account for purchased financial instruments	256	35
- to other settlement systems and institutions for purchased financial instruments (suppliers)	2	0
- to the Bank or the Bank's settlement account for commissions, fees, etc.	88	105
OFF-BALANCE SHEET ITEMS	258	35
Customers' financial instruments, itemised by service	258	35
- receipt, transmission and execution of orders	258	35

51 RELATED PARTY TRANSACTIONS

51.1 STATEMENT OF FINANCIAL POSITION AND OFF-BALANCE SHEET ITEMS

	31.12.2011 Associates
Loans and advances to customers	3,011
Debt securities not held for trading	1,814
Deposits and loans from customers	35,358
Off-balance sheet items	1,766
	31.12.2010 Associates
Loans and advances to customers	3,011
Debt securities not held for trading	1,814
Deposits and loans from customers	38,859
Off-balance sheet items	1,296

	Key management personnel	31.12.2011 Other related persons
Loans and advances to customers	531	50,071
Shares and participating interests	0	31,073
Other assets	2	42
Deposits and loans from customers	776	3,801
Other liabilities	0	134
Off-balance sheet items	104	1,889
	Key management personnel	31.12.2010 Other related persons
Loans and advances to customers	576	66,404
Deposits and loans from customers	789	4,255
Off-balance sheet items	252	17,858

Key management personnel include the Management Board, executive directors and the Supervisory Board of the Bank.

Other related persons of the Group include:

- immediate family of the key management personnel
- entities, the owners or key management personnel of which are members of key management personnel of the Group or of their immediate family
- the key management personnel of subsidiaries (management board and executive directors)
- immediate family of the key management personnel of subsidiaries
- entities, the owners or key management personnel of which are members of key management personnel of subsidiaries or of their immediate family.

Transactions with related persons are conducted on an arm's length basis.

51.2 STATEMENT OF INCOME

	2011 Associates
Net interest income	(1,234)
Net fee and commission income	233
Cost of services	(745)
Individual impairment	0
Write-offs	0
Total	(1,746)
	2010 Associates
Net interest income	(1,147)
Net fee and commission income	334
Cost of services	(669)
Individual impairment	0
Write-offs	0
Total	(1,482)

	2011 Key management personnel	2011 Other related persons
Net interest income	(3)	2,817
Dividend income	0	1,593
Net fee and commission income	1	(49)
Cost of services	(122)	(1,809)
Individual impairment	0	(229)
Write-offs	0	0
Total	(124)	2,323
	2010 Key management personnel	2010 Other related persons
Net interest income	(9)	3,715
Dividend income	0	1,420
Net fee and commission income	1	704
Cost of services	(70)	(84)
Individual impairment	0	(4,285)
Write-offs	0	0
Total	(78)	1,470

51.3 LOANS AND GUARANTEES GIVEN

	Management Board members		Supervisory Board members		Other Group employees on individual contract	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Loans	60	67	47	18	3,448	3,847
Average interest rate on loans (%)	4.34	3.66	4.30	6.65	4.39	3.80
Repayments	9	12	4	202	649	800

52 EXPOSURE TO THE BANK OF SLOVENIA, REPUBLIC OF SLOVENIA AND STATE-OWNED INSTITUTIONS

Exposure to:	31.12.2011	31.12.2010
Bank of Slovenia	68,152	64,410
- settlement account	49,031	45,410
- other	19,121	19,000
Republic of Slovenia	799,042	670,207
- bonds	468,739	460,852
- other securities	179,652	0
- loans	2,272	8,122
- investments guaranteed by the Republic of Slovenia, by type	130,981	179,747
- other	8,315	12,063
State-owned institutions	659,805	547,432
- loans	292,116	197,582
- securities	191,668	248,524
- commitments and contingent liabilities	78,410	81,208
- other	97,611	20,118
Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	1,526,999	1,282,049
Share in total assets (%)	26.25	21.85
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	9,083	9,423
Total assets	5,816,197	5,866,657

53 MOVEMENT IN OVERDUE AND UNPAID CLAIMS

Type of claim	01.01.2011	%	Net increase/ decrease	Write-offs	Exchange rate differences	31.12.2011	%
Available-for-sale financial assets	82	0.01	0	0	0	82	0.01
Loans and advances to banks	3,488	1.39	(4)	(527)	109	3,066	1.70
Loans and advances to customers	433,699	9.94	235,425	(16,312)	176	652,988	15.23
Other assets	2,239	1.49	2,521	(210)	0	4,550	2.39
Total	439,508	7.79	237,942	(17,049)	285	660,686	12.20

Type of claim	01.01.2010	%	Net increase/ decrease	Write-offs	Exchange rate differences	31.12.2010	%
Available-for-sale financial assets	349	0.03	(267)	0	0	82	0.01
Loans and advances to banks	778	0.36	2,956	(246)	0	3,488	1.39
Loans and advances to customers	276,247	6.71	193,722	(36,243)	(27)	433,699	9.94
Other assets	1,572	1.21	1,758	(1,091)	0	2,239	1.54
Total	278,946	5.06	198,169	(37,580)	(27)	439,508	7.79

54 REMUNERATION

	31.12.2011	31.12.2010
Management Board	479	510
Matjaž Kovačič	214	183
Manja Skernišak	132	174
Andrej Plos	133	153
Supervisory Board members	147	69
Members of Supervisory Board committees	52	38
Other Group employees on individual contract	8,400	7,307
Total	9,078	7,924

Remuneration paid to Management Board members comprises: salary, pay for annual leave, awards, bonuses and supplementary pension insurance premium.

Remuneration paid to members of the Supervisory Board, the Audit Committee, the Remuneration and Nomination Committee, the Remuneration Committee, the Nomination Committee, the Personnel Committee and the Appointment Board comprises: attendance fees, reimbursement of costs and seminar participation fees.

Remuneration paid to other employees on individual contract comprises: salary, pay for annual leave, termination benefits, bonuses and supplementary pension insurance premium.

The total amount paid during 2011 to Matjaž Kovačič, President of the Management Board, in the form of attendance fees, reimbursement of costs and awards for acting on Supervisory Boards of Nova KBM Group companies was €45,000. Manja Skernišak, Member of the Management Board, was paid €20,000 and Andrej Plos, Member of the Management Board, was paid €22,000.

54.1 ANALYSIS OF REMUNERATION PAID TO MANAGEMENT BOARD MEMBERS, EXECUTIVE DIRECTORS, SUPERVISORY BOARD MEMBERS AND MEMBERS OF SUPERVISORY BOARD COMMITTEES

Remuneration of the Management Board in 2011

	Salary		Pay for annual leave		Awards	
	Gross	Net	Gross	Net	Gross	Net
Matjaž Kovačič	129,156.15	63,296.56	1,582.25	878.43	0.00	0.00
Manja Skernišak	122,698.78	60,035.85	1,582.25	880.15	0.00	0.00
Andrej Plos	122,697.86	59,337.05	1,582.25	880.33	0.00	0.00
Total	374,552.79	182,669.46	4,746.75	2,638.91	0.00	0.00

Remuneration of the Management Board in 2010

	Salary		Pay for annual leave		Awards	
	Gross	Net	Gross	Net	Gross	Net
Matjaž Kovačič	153,379.89	73,472.00	1,559.94	878.43	19,168.77	8,810.15
Manja Skernišak	145,557.25	70,020.07	1,559.94	880.15	18,452.58	8,480.98
Andrej Plos	142,619.21	68,015.60	1,559.94	881.33	0.00	0.00
Total	441,556.35	211,507.67	4,679.82	2,639.91	37,621.35	17,291.13

Remuneration of Executive Directors in 2011

	Salary		Pay for annual leave		Awards	
	Gross	Net	Gross	Net	Gross	Net
Total	671,918.84	318,224.65	11,075.75	6,405.66	0.00	0.00

Remuneration of Executive Directors in 2010

	Salary		Pay for annual leave		Awards	
	Gross	Net	Gross	Net	Gross	Net
Total	756,584.81	356,544.09	12,479.52	7,230.39	0.00	0.00

€

Bonuses	Supplementary pension insurance premium	Other emolument		Total	
Gross	Gross	Gross	Net	Gross	Net
4,312.05	2,683.32	75,940.78	34,903.15	213,674.55	99,078.14
4,853.81	2,683.32	0.00	0.00	131,818.16	60,916.00
6,146.20	2,683.32	0.00	0.00	133,109.63	60,217.38
15,312.06	8,049.96	75,940.78	34,903.15	478,602.34	220,211.52

€

Bonuses	Supplementary pension insurance premium	Other emolument		Total	
Gross	Gross	Gross	Net	Gross	Net
5,912.27	2,646.24	0.00	0.00	182,667.11	83,160.58
5,646.92	2,646.24	0.00	0.00	173,862.93	79,381.20
6,857.40	2,646.24	0.00	0.00	153,682.79	68,896.93
18,416.59	7,938.72	0.00	0.00	510,212.83	231,438.71

€

Bonuses	Supplementary pension insurance premium	Other emolument		Total	
Gross	Gross	Gross	Net	Gross	Net
42,315.05	7,140.00	54,879.60	27,418.82	787,329.24	352,049.13

€

Bonuses	Supplementary pension insurance premium	Other emolument		Total	
Gross	Gross	Gross	Net	Gross	Net
49,386.55	8,160.00	0.00	0.00	826,610.88	363,774.48

Remuneration of the Supervisory Board in 2011

€

Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Danilo Toplek	5,094.27	172.26	433.55	5,700.08
Franc Škufca	12,324.05	2,568.59	1,353.29	16,245.93
Andrej Svetina	9,891.16	1,173.47	418.06	11,482.69
Anton Guzej	10,867.39	1,033.84	1,353.29	13,254.52
Ivan Vizjak	3,506.26	0.00	851.61	4,357.87
Aleš Krisper	10,179.90	948.22	851.61	11,979.73
Alenka Bratušek	3,506.26	1,087.05	433.55	5,026.86
Janez Košak	11,059.91	1,573.24	418.06	13,051.21
Dušan Jovanovič	14,025.49	119.35	1,060.64	15,205.48
Ivan Simič	7,416.15	551.21	0.00	7,967.36
Darjan Petrič	8,516.13	1,632.05	0.00	10,148.18
Vida Lebar	7,636.13	754.49	501.68	8,892.30
Total remuneration received from the parent bank	104,023.10	11,613.77	7,675.34	123,312.21
Dušan Jovanovič	23,214.24	0.00	0.00	23,214.24
Total remuneration received from subsidiaries	23,214.24	0.00	0.00	23,214.24
Total	127,237.34	11,613.77	7,675.34	146,526.45

Remuneration of the Supervisory Board in 2010

€

Name and surname	Attendance fees	Reimbursement of costs	Seminar participation fees	Total
Andrej Svetina	4,743.77	1,221.07	0.00	6,452.22
Anton Guzej	4,537.51	468.03	0.00	5,005.54
Franc Škufca	6,228.76	1,755.43	0.00	7,984.19
Ivan Vizjak	4,908.76	14.14	0.00	4,922.90
Janez Košak	5,362.52	1,422.05	0.00	6,784.57
Danilo Toplek	6,434.86	237.96	0.00	6,672.82
Dušan Jovanovič	5,321.26	0.00	0.00	5,321.26
Alenka Bratušek	4,125.00	1,092.92	0.00	5,217.92
Aleš Krisper	2,846.26	639.87	0.00	3,486.13
Total remuneration received from the parent bank	44,508.70	6,851.47	0.00	52,613.28
Dušan Jovanovič	14,930.97	950.89	0.00	15,881.86
Total remuneration received from subsidiaries	14,930.97	950.89	0.00	15,881.86
Total	59,439.67	7,802.36	0.00	68,495.14

Remuneration of the Audit Committee in 2011

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Andrej Svetina	5,913.58	1,190.81	7,104.39
Kosta Bizjak	6,044.70	1,114.94	7,159.64
Franc Koletnik	5,673.45	0.00	5,673.45
Janez Košak	4,026.53	1,214.64	5,241.17
Total	21,658.26	3,520.39	25,178.65

Remuneration of the Audit Committee in 2010

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Andrej Svetina	5,913.58	1,190.81	7,104.39
Kosta Bizjak	6,044.70	1,114.94	7,159.64
Franc Koletnik	5,673.45	0.00	5,673.45
Janez Košak	4,026.53	1,214.64	5,241.17
Total	21,658.26	3,520.39	25,178.65

Remuneration of the Remuneration and Nomination Committee in 2011

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Dušan Jovanovič	7,098.85	0.00	7,098.85
Danilo Toplek	1,856.26	112.88	1,969.14
Franc Škufca	4,989.03	956.11	5,945.14
Marko Vresk	6,635.94	566.84	7,202.78
Ivan Simič	1,530.02	358.05	1,888.07
Total	22,110.10	1,993.88	24,103.98

Remuneration of the Remuneration Committee in 2010

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Marko Vresk	948.75	120.77	1,069.52
Anton Guzej	1,715.96	204.39	1,920.35
Ivan Vizjak	1,320.00	0.00	1,320.00
Total	3,984.71	325.16	4,309.87

Remuneration of the Nomination Committee in 2010

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Marko Vresk	742.50	207.74	950.24
Franc Škufca	1,113.75	411.24	1,524.99
Dušan Jovanovič	1,447.86	0.00	1,447.86
Danilo Toplek	742.50	59.95	802.45
Total	4,046.61	678.93	4,725.54

Remuneration of the Appointment Board in 2011

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Dušan Jovanovič	482.62	130.84	613.46
Franc Škufca	371.25	0.00	371.25
Andreja Kert	371.25	0.00	371.25
Borut Bratina	371.25	130.84	502.09
Ivan Vizjak	371.25	130.84	502.09
Total	1,967.62	392.52	2,360.14

Remuneration of the Appointment Board in 2010

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Andreja Kert	742.50	0.00	742.50
Borut Bratina	1,113.75	362.32	1,476.07
Dušan Jovanovič	1,447.86	362.32	1,810.18
Ivan Vizjak	1,113.75	362.32	1,476.07
Total	4,417.86	1,086.96	5,504.82

Remuneration of the Personnel Committee in 2010

€

Name and surname	Attendance fees	Reimbursement of costs	Total
Marko Vresk	1,113.75	323.48	1,437.23
Franc Škufca	1,113.75	393.81	1,507.56
Dušan Jovanovič	1,447.86	0.00	1,447.86
Danilo Toplek	371.25	23.23	394.48
Total	4,046.61	740.52	4,787.13

55 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 1 February 2012, the rating agency Fitch Ratings affirmed the long-term and short-term ratings of Nova KBM at 'BBB' and 'F3', respectively. At the same time the outlook was changed from 'stable' to 'negative'. Thus, the Bank is currently rated by Fitch Ratings as follows: BBB/F3 (negative outlook).

On 20 February 2012, the Bank prepaid the remaining portion of a syndicated term loan facility in the amount of €94.5 million.

On 9 March 2012, the Supervisory Board of Nova KBM appointed Aleš Hauc as the President of the Bank's Management Board. Aleš Hauc will start his five-year term of office after being granted a licence by the Bank of Slovenia.

FINANCIAL REPORT OF
NOVA KBM d.d.

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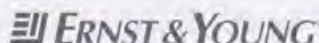
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AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF NOVA KBM d.d.



This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Nova KBM d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of Nova KBM d.d., which comprise the statement of financial position as at December 31, 2011, and the statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 European Union and with the requirements of the Slovenian Companies Act and Slovenian Banking Act related to the preparation of the financial statements, 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nova KBM d.d., as of December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act and Slovenian Banking Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited financial statements.

Ljubljana, April 4, 2012


Janez Uranič
Director
Certified Auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

 **ERNST & YOUNG**
Revizija, poslovna
svetovanje d.o.o., Ljubljana

FINANCIAL STATEMENTS OF NOVA KBM d.d.

1 STATEMENT OF INCOME – NOVA KBM d.d.

€000

ITEM DESCRIPTION	Notes	Year ended 31.12.2011	Year ended 31.12.2010
Interest income and similar income	6	207,085	202,070
Interest expense and similar expense	6	(107,828)	(91,965)
Net interest income	6	99,257	110,105
Dividend income	7	8,800	5,500
Fee and commission income	8	49,944	52,768
Fee and commission expense	8	(9,520)	(5,925)
Net fee and commission income	8	40,424	46,843
Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	9	(739)	1,395
Net gains/(losses) on financial assets and liabilities held for trading	10	3,188	(12,810)
Net (losses) on financial assets (and liabilities) designated at fair value through profit or loss	11	(7,135)	(1,442)
Net exchange rate differences	12	2,202	16,148
Net (losses) on derecognition of assets excluding non-current assets held for sale		(413)	(53)
Other operating net income/(loss)	13	(2,963)	3,861
Administration costs	14	(75,580)	(78,203)
Depreciation and amortisation	15	(13,162)	(12,128)
Provisions	16	(15,931)	(2,336)
Impairment losses	17	(142,253)	(65,847)
Net gains from non-current assets held for sale and liabilities associated therewith		287	332
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		(104,018)	11,365
Income tax expense related to profit/(loss) from continuing operations	18	20,043	(1,993)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS		(83,975)	9,372
NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR		(83,975)	9,372
Basic earnings/(loss) per share (€)	19	(2.42)	0.36
Diluted earnings/(loss) per share (€)		(2.42)	0.36

The notes are an integral part of these financial statements.

2 STATEMENT OF COMPREHENSIVE INCOME – NOVA KBM d.d.

€000

ITEM DESCRIPTION	Year ended 31.12.2011	Year ended 31.12.2010
NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX	(83,975)	9,372
OTHER COMPREHENSIVE INCOME AFTER TAX	(15,477)	(2,001)
Available-for-sale financial assets	(19,347)	(2,501)
Valuation (losses) taken to equity	(27,868)	(3,463)
Transferred to profit or loss	8,521	962
Income tax relating to components of other comprehensive income	3,870	500
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	(99,452)	7,371

The notes are an integral part of these financial statements.

3 STATEMENT OF FINANCIAL POSITION – NOVA KBM d.d.

€000

ITEM DESCRIPTION	Notes	31.12.2011	31.12.2010
Cash and balances with the central bank	20	97,023	78,724
Financial assets held for trading	21	8,442	2,784
Financial assets designated at fair value through profit or loss	22	37,942	16,266
Available-for-sale financial assets	23	523,932	685,918
Loans and advances		3,524,541	3,719,578
- loans and advances to banks	24	182,418	213,712
- loans and advances to customers	25	3,342,123	3,505,866
Held-to-maturity financial assets	26	339,819	78,894
Non-current assets and disposal groups classified as held for sale and discontinued operations	33	450	575
Property, plant and equipment	27	64,753	65,682
Investment property	28	1,900	1,777
Intangible assets	29	27,099	27,008
Investments in subsidiaries, associates and joint ventures	30	101,967	94,352
Tax assets	31	30,248	9,962
- current tax assets		3	3,072
- deferred tax assets		30,245	6,890
Other assets	32	52,975	24,991
TOTAL ASSETS		4,811,091	4,806,511
Financial liabilities due to the central bank	34	370,465	130,149
Financial liabilities held for trading	35	1,693	5,842
Financial liabilities measured at amortised cost	36	3,997,295	4,252,256
- deposits from banks	36	121,381	66,200
- deposits from customers	36	3,065,998	3,024,563
- loans from banks	36	603,842	938,787
- loans from customers	36	154	349
- debt securities	36	27,885	44,404
- subordinated liabilities	36	178,035	177,953
Financial liabilities associated to transferred assets	37	8,022	0
Provisions	38	31,268	15,660
Tax liabilities	31	554	1,113
- current tax liabilities		0	2
- deferred tax liabilities		554	1,111
Other liabilities	39	28,058	26,235
TOTAL LIABILITIES		4,437,355	4,431,255
Share capital	40	40,815	27,210
Share premium	41	165,775	78,314
Revaluation reserves	42	(24,181)	(8,704)
Reserves from profit	43	275,044	275,044
Retained earnings/(loss) (including net profit/(loss) for the financial year)	44	(83,717)	3,392
TOTAL SHAREHOLDERS' EQUITY		373,736	375,256
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,811,091	4,806,511

The notes are an integral part of these financial statements.

4 STATEMENT OF CASH FLOWS – NOVA KBM d.d.

€000

Designation	ITEM DESCRIPTION	Year ended 31.12.2011	Year ended 31.12.2010
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Total profit or (loss) before tax	(104,018)	11,365
	Depreciation and amortisation	13,162	12,128
	Impairment of tangible assets, investment property and intangible assets	(123)	0
	Impairment of capital investments in subsidiaries, associates and joint ventures	16,421	0
	Net (gains) from exchange rate differences	(2,202)	(16,148)
	Net (gains) from held-to-maturity financial assets	(527)	(14)
	Net losses from the sale of tangible assets and investment properties	34	53
	Other (gains) from investing activities	(10,132)	(1,612)
	Other losses from financing activities	10,811	10,472
	Net unrealised (gains) from non-current assets held for sale and discontinued operations and liabilities associated therewith	(287)	(332)
	Net unrealised (losses) in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)	(19,347)	(2,501)
	Other adjustments to total profit or loss before tax	15,931	(148)
	Cash flow from operating activities before changes in operating assets and liabilities	(80,277)	13,263
b)	Decrease in operating assets (excluding cash equivalents)	278,251	27,623
	Net (increase)/decrease in financial assets held for trading	(5,658)	13,971
	Net decrease in financial assets designated at fair value through profit or loss	10,417	8,456
	Net decrease in available-for-sale financial assets	190,500	147,574
	Net (increase)/decrease in loans and advances	70,558	(130,159)
	Net decrease in non-current assets held for sale	540	452
	Net (increase)/decrease in other assets	11,894	(12,671)
c)	(Decrease) in operating liabilities	(18,094)	(5,657)
	Net increase/(decrease) in financial liabilities to the central bank	240,316	(20,157)
	Net increase/(decrease) in financial liabilities held for trading	(4,149)	4,679
	Net increase/(decrease) in deposits and loans measured at amortised cost	(242,292)	38,509
	Net (decrease) in debt securities in issue measured at amortised cost	(16,519)	(25,140)
	Net increase/(decrease) in other liabilities	4,550	(3,548)
d)	Cash flow from operating activities (a+b+c)	179,880	35,229
e)	Income taxes refunded	7,518	1,443
f)	Net cash flow from operating activities (d+e)	187,398	36,672

€000

Designation	ITEM DESCRIPTION	Year ended 31.12.2011	Year ended 31.12.2010
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	Receipts from investing activities	10,413	3,740
	Receipts from the sale of tangible assets and investment properties	198	60
	Receipts from the disposal of subsidiaries, associates and joint ventures	212	0
	Receipts from non-current assets or liabilities held for sale	415	402
	Receipts from the sale of held-to-maturity financial assets	3,726	1,666
	Other receipts from investing activities	5,862	1,612
b)	Cash payments on investing activities	(295,520)	(69,437)
	(Cash payments to acquire tangible assets and investment properties)	(5,947)	(6,986)
	(Cash payments to acquire intangible assets)	(5,527)	(8,033)
	(Cash payments for the investments in subsidiaries, associates and joint ventures)	(24,191)	(19,416)
	(Cash payments to acquire held-to-maturity financial assets)	(259,855)	(35,002)
c)	Net cash flow from investing activities (a+b)	(285,107)	(65,697)
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	Cash proceeds from financing activities	104,328	0
	Cash proceeds from issuing shares and other equity instruments	104,328	0
b)	Cash payments on financing activities	(17,102)	(10,495)
	(Dividends paid)	(3,111)	(3)
	(Repayments of subordinated liabilities)	(10,729)	(10,492)
	(Other payments related to financing activities)	(3,262)	0
c)	Net cash flow from financing activities (a+b)	87,226	(10,495)
D.	Effects of change in exchange rates on cash and cash equivalents	1,416	3,209
E.	Net increase in cash and cash equivalents (Af+Bc+Cc)	(10,483)	(39,520)
F.	Opening balance of cash and cash equivalents	210,000	246,311
G.	Closing balance of cash and cash equivalents (D+E+F)	200,933	210,000

Reconciliation of cash and cash equivalents with the statement of financial position items is presented in Note 20.1.

Cash Flows from Interest, Dividends and Participation in Profits

€000

	Year ended 31.12.2011	Year ended 31.12.2010
Interest paid	(102,254)	(90,274)
Interest received	156,359	181,419
Dividends paid	(3,111)	(3)
Dividends and participation in profits received	8,800	3,318

The notes are an integral part of these financial statements.

5 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011 – NOVA KBM d.d.

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained earnings (including net profit / (loss) for the financial year)	Total shareholders' equity
OPENING BALANCE FOR THE REPORTING PERIOD	27,210	78,314	(8,704)	275,044	3,392	375,256
Total comprehensive income for the financial year after tax	0	0	(15,477)	0	(83,975)	(99,452)
New share capital subscribed (paid)	13,605	90,723	0	0	0	104,328
Appropriation of (accounting for) dividends	0	0	0	0	(3,130)	(3,130)
Other	0	(3,262)	0	0	(4)	(3,266)
CLOSING BALANCE FOR THE REPORTING PERIOD	40,815	165,775	(24,181)	275,044	(83,717)	373,736
RETAINED LOSS FOR THE FINANCIAL YEAR					(83,717)	(83,717)

The amount in the line 'Other', column 'Share premium', relates to direct costs associated with the capital raising.

The amount in the line 'Other', column 'Retained earnings (including net profit/(loss) for the financial year)', arises from the rounding to thousands of euros.

The notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 – NOVA KBM d.d.

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained earnings (including net profit for the financial year)	Total shareholders' equity
OPENING BALANCE FOR THE REPORTING PERIOD	27,210	78,314	(6,703)	266,180	2,885	367,886
Total comprehensive income for the financial year after tax	0	0	(2,001)	0	9,372	7,371
Transfer of net profit to reserves from profit	0	0	0	8,864	(8,864)	0
Other	0	0	0	0	(1)	(1)
CLOSING BALANCE FOR THE REPORTING PERIOD	27,210	78,314	(8,704)	275,044	3,392	375,256
PROFIT AVAILABLE FOR DISTRIBUTION					3,392	3,392

The amount in the line 'Other', column 'Retained earnings (including net profit for the financial year)', arises from the rounding to thousands of euros.

The notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF NOVA KBM d.d.

1 GENERAL INFORMATION

Nova KBM d.d. is the parent company of the Nova KBM Group (hereafter also referred to as the 'Group') which, as of 31 December 2011, comprised the parent company and 11 subsidiary companies.

Nova KBM d.d. (hereafter also referred to as the 'Bank') is a commercial bank with tradition, focusing on providing standard products and services to retail and corporate customers. The Bank's registered office is at Ulica Vita Kraigherja 4, 2505 Maribor, Republic of Slovenia.

The share capital of the Bank as of 31 December 2011 totalled €40,814,313.08 and was split into 39,122,968 ordinary no-par value shares. The Bank's shareholder structure at the 2011 year-end was as follows: the Republic of Slovenia held 27.7% of shares; Pošta Slovenije d.o.o. – 6.6%; Gen d.o.o. – 6.4%; Kapitalska družba d.d. – 4.8%; Slovenska odškodninska družba d.d. – 3.2%; ELES d.o.o. – 2.4%; the total shareholding of the state was 51.1%, the same as at the 2010 year-end, of which 35.7% was a direct and 15.4% an indirect shareholding of the state in the Bank; households held 16.4% (down 6.6 percentage points from the beginning of the year); other financial organisations held 6.5% (down 4.3 percentage points from the beginning of the year); foreign investors held 22.0% (up 12.9 percentage points from the beginning of the year); non-financial companies held 2.5% (down 1.2 percentage points from the beginning of the year); and banks held 1.5% (down 0.8 percentage points from the beginning of the year).

The Bank is obliged to prepare consolidated financial statements.

2 BASIS FOR THE PRESENTATION OF FINANCIAL STATEMENTS

The financial statements of the Bank for the period ended 31 December 2011 were authorised for issue on 30 March 2012 by the Management Board of Nova KBM.

2.1 STATEMENT OF COMPLIANCE

The financial statements are prepared in accordance with International Financial Reporting Standards (hereafter 'IFRSs') as endorsed by the European Union.

2.2 BASIS OF VALUATION

The financial statements are prepared under the historical cost convention, except for the following items for which fair value has been applied:

- financial assets designated at fair value through profit or loss
- available-for-sale financial assets

- derivatives
- investment property.

The fair value assessment methods are set out below.

2.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRSs requires the use of certain accounting estimates and judgements, which may affect the value of reported assets and liabilities and of potential assets and liabilities as of the reporting date, and income and expense for the period then ended.

The most important judgments relate to the classification of financial instruments, in particular to the distribution between the held-to-maturity portfolio and the portfolio held for trading. The classification of financial instruments is carried out in line with the Bank's policy prior to the initial recognition of a financial instrument.

Estimates are used for: impairment of loans to customers; impairment of available-for-sale financial assets; fair value of financial assets and liabilities; provisions for off-balance sheet risks; depreciation of property, plant and equipment and amortisation of intangible assets; potential tax items; provisions for liabilities to employees; provisions for pending legal issues.

2.4 PRESENTATION AND FUNCTIONAL CURRENCY

Items included in the financial statements are presented in euro, which is the functional and presentation currency of the Bank.

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros except where stated otherwise. Due to rounding off of amounts, there may be slight discrepancies in totals.

3 SIGNIFICANT ACCOUNTING POLICIES

Adopted accounting policies have been consistently applied in both reporting periods presented in these financial statements.

3.1 FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Exchange rate differences are recognised in the statement of income.

Assets and liabilities items denominated in foreign currency are translated and disclosed in the financial statements by applying the European Central Bank's reference exchange rates as valid on the reporting date.

The effects of translating foreign currency into the euro are recognised in the statement of income as net gain/loss from exchange rate differences.

Translation differences on non-monetary items, such as equity instruments designated at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available for sale, are included in other comprehensive income.

3.2 CASH EQUIVALENTS

Cash equivalents are current, highly liquid investments that can be quickly converted to a known amount of cash and for which the risk of changes in value is negligible.

The Bank includes the following items among cash equivalents:

- cash and balances in settlement and current accounts
- loans to banks with an original maturity of up to three months
- investments in available-for-sale debt securities with an original maturity of up to three months.

3.3 FINANCIAL ASSETS

3.3.1 CLASSIFICATION OF FINANCIAL ASSETS

Upon initial recognition, the Bank classifies financial assets with regard to the purpose of the acquisition, the period held, and the type of the financial asset into one of the following categories:

- **Financial assets designated at fair value through profit or loss** are classified into financial instruments held for trading and other financial instruments designated at fair value through profit or loss. **Financial assets held for trading** are those instruments in which the Bank intends to actively trade and earn profit from short-term price differences. Equity instruments, debt securities and derivatives, except those held for hedging purposes, are classified into this category. Financial assets are upon initial recognition designated at fair value through profit or loss when doing so provides more relevant information of measurement or recognition.
- **Held-to-maturity financial assets are assets** with fixed or determinable payments and a fixed maturity, for which the Bank attests the purpose and capacity to hold them until maturity.
- **Available-for-sale financial assets** are assets which the Bank did not acquire for the purpose of trading but intends to hold them for an undetermined period of time, and which can be sold for the reason of liquidity requirements, changes in interest rates, exchange rates or the prices of financial instruments.
- **Loans and advances** are financial assets with fixed or determinable payments which are not traded on an active market.

The Bank uses financial instruments for the purpose of economic hedging of another financial instrument. In its accounting, the Bank does not apply rules of hedge accounting, as the effects of measurement of both the underlying and the hedge financial instrument are shown simultaneously in the statement of income.

The Bank does not hold instruments for which hedge accounting would be required.

3.3.2 RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS

Buying and selling of financial assets, except loans and advances, is recognised on the trading date (day when the contract is concluded). Loans and advances are recognised on the settlement date.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition (the Bank transferred all rights and risks under the financial asset). Should the Bank transfer the financial asset, but retain practically all risks and rights, derecognition of the asset is not carried out.

If a financial asset is derecognised in full, the difference between the carrying value of the asset and the sum of any compensations received (including the value of new asset received, reduced by the newly assumed liability) and accrued gains or losses, which are recognised directly in equity, is recognised in the statement of income.

3.3.3 MEASUREMENT OF FINANCIAL ASSETS

Financial assets, except financial assets carried at fair value through profit or loss, are initially measured at fair value plus any transaction costs.

Financial assets carried at fair value through profit or loss are initially measured at fair value, and the transaction costs are expensed in the statement of income on the purchase date.

After they are initially recognised, financial assets held for trading and available-for-sale financial assets are measured at fair value. Fair value of financial assets is based on current bid prices as valid on the reporting date or, if such are not available, closing prices. For financial instruments which are not quoted, the Bank establishes the fair value by applying valuation techniques, such as considering prices of comparative transactions and the method of discounted future cash flows.

Derivatives, including foreign currency forward transactions, interest rate swaps, currency options and forward transactions in securities, are used by the Bank for trading and hedging purposes and are measured at their fair value. The fair value of derivatives equals unrealised gains or losses on the valuation of derivatives at market prices or at contractual forward prices.

Available-for-sale equity instruments for which the fair value cannot be reliably established are measured at cost (acquisition cost increased by transaction costs and reduced by the impairment loss).

Loans and advances are measured at amortised cost by applying the effective interest rate method.

Loans and advances are disclosed in the amount of outstanding principal, increased by outstanding interest and fees and decreased by appropriate allowance for impairment.

Held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated as the initially recognised amount of the receivable, decreased by repayments of principal, increased or decreased by the accumulated difference between the initial amount and the amount due for payment, and decreased by appropriate allowance for impairment.

3.3.4 GAINS AND LOSSES

Gains and losses arising from the change in fair value of financial assets measured at fair value through profit or loss are recognised in the statement of income in the period in which they are incurred.

Gains and losses arising from the change in fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for losses due to impairment and foreign exchange gains and losses, until the financial asset is derecognised at which time the effect previously included in equity is recognised in the statement of income. Interest on available-for-sale debt securities, calculated by applying the effective interest rate method, is recognised directly in the statement of income.

‘Day one’ profit

Where the transaction price of an instrument in a non-active market is different to the fair value from other observable market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value in the statement of income as the ‘day one’ profit. In cases where the data used for valuations are not ‘fully marketable’, the difference between the transaction price and the price based on the valuation technique is recognised in the statement of income only after the market becomes relevant, or if the instrument is disposed of.

3.3.5 RECLASSIFICATION OF FINANCIAL ASSETS

During 2011, the Bank did not reclassify any of its financial assets into another category.

3.3.6 IMPAIRMENT OF FINANCIAL ASSETS

Available-for-sale financial assets

At each reporting period the Bank assesses whether there is objective evidence that available-for-sale financial assets are impaired. A significant or prolonged decline in the fair value of a financial asset below its acquisition cost is considered when determining whether the assets are impaired. The decision regarding what is to be considered as a significant or prolonged decline in the fair value is based on estimates. In making such estimates, the Bank, in addition to other variables, takes into account the price volatility of securities.

In case of impairment of available-for-sale debt instruments, the cumulative loss recognised within other comprehensive income is transferred into the statement of income. The loss so recognised may be reversed.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurred after the impairment loss was recognised, the impairment loss is reversed through the statement of income.

In case of impairment of available-for-sale equity instruments, the loss due to impairment of the instrument is recognised in the statement of income. Reversal of impairment of an equity instrument is not carried out through the statement of income, but is, in case of a subsequent increase in fair value, disclosed directly within other comprehensive income.

Held-to-maturity financial assets

At each reporting period the Bank assesses whether there is objective evidence that held-to-maturity financial assets are impaired.

The amount of impairment loss is measured as the difference between the instrument's carrying value and the present value of future cash flows discounted by the original effective interest rate. The amount of loss is recognised in the statement of income.

Loans and advances

The Bank classifies each customer into the adequate credit rating category using its internal methodology. The classification of customers is based on their financial standing and performance, their ability to provide cash flow needed for the repayment of debts, their settlement of liabilities, the industry sector risk, and on subjective criteria.

The Bank continuously, or at least quarterly, assesses whether impartial evidence exists, or events have occurred since recognition of an asset, and whether these events have an impact on the future cash flows of a financial asset or a group of financial assets which can be reliably assessed.

On the basis of risks associated with a customer and the transaction concluded, the adequate impairment of financial assets is made in accordance with IFRSs and the internal methodology. Individually significant financial assets are assessed individually. If in an individual assessment the impairment of a financial asset is established, such asset shall be impaired individually, otherwise it shall be classified into the adequate debtor or financial asset risk category and impaired collectively. Individually insignificant financial assets are assessed for impairment collectively as well.

For individually assessed financial assets, the amount of impairment loss is calculated as the difference between the asset's carrying value and the present value of future cash flows discounted at the contractual interest rate. If the Bank possesses prime or adequate collateral, it also takes into account expected cash flows from the realisation of any such collateral.

For collectively assessed financial assets, the Bank uses a model that is based on the probability of transition of a customer from a credit rating category to default customers and on the available information of the amount of loss for each group of default customers. The probability of transition of customers and the amount of loss are calculated for each individual loan cluster on the basis of former actual transitions and losses.

The adequacy of collective impairment rates is controlled on an annual basis. Collective impairment rates are calculated separately for the portfolio of loans to individual customers and the portfolio of loans to corporate customers.

The carrying value of the asset which is impaired is decreased directly, or through the allowance account. Impairment losses are recognised in the statement of income.

If the amount of impairment decreases in the following period, the previously recognised impairment loss is reversed. The amount of reversed loss is recognised in the statement of income.

If a customer is located in a higher-risk country, the sovereign risk also has to be taken into consideration when assessing losses due to impairment.

Whenever possible, the Bank strives to restructure loans rather than liquidate collateral. The restructuring of a loan can be made by extending the term of the loan or negotiating new terms and conditions for the loan. Once new terms and conditions are agreed upon, the loan is no longer classified as being due; however, a customer's rating cannot be upgraded only on the basis of a loan restructuring. If a loan is restructured, the Bank constantly controls the borrower's compliance with the terms of the restructured loan and monitors the probability of future repayments. Such loans remain subject to collective or individual impairment calculated using the original effective interest rate of the loan.

3.4 OFFSETTING

Financial assets and liabilities are offset in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.5 INVESTMENTS IN EQUITY OF SUBSIDIARIES AND ASSOCIATES

Investments in equity of subsidiaries and associates are measured at acquisition cost, as reduced by any impairment losses.

3.6 SALE AND REPURCHASE AGREEMENTS

Securities purchased under agreements to resell (repos) are retained in the financial statements as loans and advances to banks or customers, as appropriate. According to the agreements on temporarily purchasing an

instrument, the Bank does not enter into any risk and does not enjoy any benefits from the instrument. The contractual relation is classified as a collateralised loan, and instruments which are defined in the repo contract are pledged as security. The difference between the purchase and the sale price is treated as interest income and is accrued over the life of the repo agreements using the effective interest rate method.

3.7 LEASES

Assets leased to customers under lease agreements, which transfer substantially all the risks and rewards of ownership of an item of property, plant and equipment, with or without ultimate legal title, are classified as finance leases. Depending on the lease agreement, the asset leased may be bought or returned to the lessor. As a rule, such a lease agreement cannot be unilaterally terminated. For depreciating leased assets, the same accounting policy is applied as for the Bank's own assets.

A lease which is not a finance lease is an operating lease.

The Bank is the lessee

Payments made under operating leases are included in the statement of income on a straight-line basis over the period of the lease.

An asset obtained on the basis of a finance lease is included within property, plant and equipment. Its acquisition cost equals the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. Lease payments are recognised as interest expense. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The Bank is the lessor

Assets leased under operating lease agreements are included within investment property or property, plant and equipment. Lease income is recognised in the statement of income on a straight-line basis over the period of the lease.

When assets are held subject to a finance lease, the present value of future lease payments is recognised as a receivable under the finance lease. Income from the finance lease, which is disclosed as interest income, is recognised over the entire period of the lease and reflects a constant periodic rate of return of the lessor.

3.8 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are assets which the Bank uses for conducting its business. They are recorded at historical cost less accumulated depreciation and any impairment loss. Transaction costs directly attributable to the acquisition of an asset are included in the initial cost recognition.

Subsequent costs are included in the asset carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income in the financial period in which they are incurred.

The Bank starts to depreciate items of property, plant and equipment when these assets are available for use. Depreciation of assets is provided individually on a straight-line basis over their estimated useful lives.

The following depreciation rates are applied:

- buildings 1.3% and 3%
- computer equipment 25%
- motor vehicles 12.5% to 20%
- other equipment 6.7% to 25%

Land is recognised separately from buildings and, as it generally has an unlimited beneficial life, is not depreciated.

For co-divided ownership of commercial space, the value of the associated land is included in the Bank's acquisition cost of that part of the building.

Items of property, plant and equipment are assessed due to possible impairment each time when there are indicators that, due to events or changes in the circumstances, the carrying value of an asset may not be recovered. If the estimated recoverable value of an asset is lower than its carrying amount, the latter should be written down to the recoverable amount, and the loss due to impairment has to be recognised in the statement of income. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

An asset is derecognised upon disposal or if the future economic benefits are no longer expected from its use.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of an item of property, plant and equipment, and are recognised net in the statement of income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

3.9 INVESTMENT PROPERTY

Items of investment property are tangible assets that the Bank does not use directly in its operations; they are held with the intention of renting them out commercially.

Upon recognition, they are measured at acquisition cost, and later the Bank measures items of investment property by applying the fair value model.

A licensed real estate appraiser verifies the fair value of items of investment property at the end of each financial year.

Gains or losses arising from changes in fair value are included in the Bank's statement of income in the period to which they relate.

3.10 INTANGIBLE ASSETS

The Bank possesses only intangible assets with a determinable period of useful life.

Initial recognition of an acquisition cost includes costs which are directly linked to the acquisition of an asset and are necessary for the asset to be put into use. The Bank depreciates intangible assets on a straight-line basis over their estimated useful lives. The following amortisation rates are applied:

- other investments 10%
- licences 10% to 20%

The Bank stops amortising intangible assets when they are defined as non-current assets for sale, or when they are derecognised as the Bank no longer expects any further economic benefits.

Intangible assets are tested for impairment when there are indicators that the carrying value may not be recovered. If the assessed recoverable amount of an asset is lower than its carrying value, the carrying value should be reduced to the recoverable amount and the reduction recognised as an impairment loss in the statement of income. The recoverable amount is the higher of the fair value less costs of sale and the value in use.

3.11 INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated sales price achieved in the ordinary course of business net of estimated costs of completion and costs of sale. Inventories are not revalued as a result of the increase in value.

Upon initial recognition, the Bank measures items of real estate obtained as a result of settlement of receivables on the basis of an appraiser's records, which is obtained at the payment of the receivable. The Bank holds the items of real estate so acquired with the intention of selling them.

3.12 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly

probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of book and fair value, reduced by the costs of sale. These assets are not depreciated.

3.13 FINANCIAL LIABILITIES

Financial liabilities include liabilities due to the central bank, financial liabilities held for trading and financial liabilities measured at amortised cost.

Financial liabilities held for trading include liabilities arising from the valuation of forward sale of securities, and are measured at fair value.

Financial liabilities measured at amortised cost are deposits and loans from banks and customers, debt instruments issued and other financing liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After they are initially recognised, the liabilities are measured at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income by applying the effective interest rate method.

A financial liability is derecognised only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying value of a financial liability that is cancelled, or transferred to another party, and the compensation paid is recognised in the statement of income.

3.14 PROVISIONS

The Bank recognises non-current provisions for liabilities and expenses due to present obligations (legal or indirect) arising from past events for which it is possible that an outflow of resources embodying economic benefits will be required to settle the obligations and a reasonable estimate of the obligation can be made. The Bank establishes provisions for long-term employee benefits and similar liabilities, for off-balance sheet liabilities, for pending legal issues, and other provisions.

The Bank recognises provisions for pensions and similar liabilities that reflect the present value of liabilities for termination benefits and loyalty bonuses. When calculating the present value, a discount interest rate is used that is equal to the market rate of return on corporate bonds of an issuer with a high credit rating, issued in a currency that is the same as the currency of the employer's liabilities; the discount rate used for 2011 was 5.10% (2010: 4.90%). The Bank recognises provisions for every employee in such a manner that termination benefits

at retirement provided for by the employment contract are taken into account, as well as the costs of expected loyalty bonuses for the total years of service at the company until retirement, while taking into consideration, among other factors, employee turnover in the range of 0.4% to 1.7% (2010: 0.4% to 1.8%) and the projected increase in salaries in the range of 1.6% to 3.0% (2010: 2.2% to 4.0%). A certified actuary performs the calculation of liabilities for the Bank.

The Bank recognises provisions for off-balance sheet liabilities on the basis of risk classification of the customer and the transaction concluded, considering similar criteria as for the impairment of loans.

Provisions for pending legal issues represent reliably assessed amount of liability on the reporting date. Provisions are estimated on the basis of known facts of the legal proceeding, previous experiences with similar proceedings, and opinions of legal experts.

3.15 SHAREHOLDERS' EQUITY

Share capital of the Bank is split into ordinary registered no-par value shares.

Acquired treasury shares are deducted from equity.

In accordance with its Articles of Association, the Bank establishes regulatory reserves until the aggregate amount of regulatory reserves and paid-in capital surplus (share premium) equals four times the amount of share capital.

Statutory reserves are established up to the amount which equals eight times the amount of the Bank's share capital.

Dividends on shares are recognised as a financial liability for the period in which the Shareholders' Meeting approves the dividend payment.

3.16 COMMITMENTS AND CONTINGENCIES

The Bank undertakes transactions in financial instruments that carry off-balance sheet risk, such as financial and service guarantees, letters of credit and credit lines.

Financial guarantees

Off-balance sheet commitments under guarantees represent irrevocable obligations that the Bank will make payments in the event a customer cannot fulfil its obligations vis-à-vis third parties.

Fees received are amortised to the statement of income using the straight-line method.

Risks associated with off-balance sheet financial commitments and contingent liabilities are assessed similarly as for loans. Any increase in liability as a result of estimated expenses required for the settlement of contractual obligations is included in the item 'Provisions'.

3.17 INTEREST INCOME AND EXPENSE

Income is recognised when a probability of future economic benefits exists, and such benefits can be reliably measured.

Interest income and expense are recognised in accrued amounts at a level, with maturities, and in the manner set out in the Bank's decision on interest rates, or based on an agreement between the Bank and its customer.

All interest income and expense from operations with financial assets are recognised in the statement of income by applying 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 granted to households. These fees are transferred to income in line with the loan repayment period.

All interest on deposits, issued securities, loans received and other expenses on financial liabilities are included in interest expense.

3.18 DIVIDEND INCOME

Dividends or participating interests received from equity investments in companies are included in the dividend income. The Bank recognises dividend income in the statement of income upon obtaining the right to dividend.

3.19 FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income includes fees and commissions for services rendered by the Bank. Fee and commission expense includes amounts paid for the services of others.

Fee and commission income and expense are recognised in the statement of income when the service is performed.

3.20 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Realised gains and losses on available-for-sale financial assets, loans measured at amortised cost and held-to-maturity financial assets are recognised in the statement of income upon selling the asset, at maturity, or upon other derecognition of the financial asset.

3.21 NET GAINS AND LOSSES ON FINANCIAL ASSETS HELD FOR TRADING

Net gains and losses from trading include realised and unrealised gains and losses on financial assets held for trading, valuation of derivatives and net gains from buying and selling foreign currency.

3.22 OTHER NET OPERATING INCOME OR LOSS

Other net operating income or loss includes realised gains and losses from non-banking activities (income from leases, selling of inventory, expenses for memberships and contributions, other expenses).

3.23 IMPAIRMENT

The Bank includes the following categories in the item 'Impairment losses': impairment of financial assets not measured at fair value through profit or loss; impairment of items of property, plant and equipment; impairment of intangible assets; and impairment of items of investment property.

3.24 TAXES

In accordance with the applicable legislation, the income tax rate is set at 20% of the tax base (the Bank's tax base for 2011 was negative).

Deferred tax is calculated for all temporary differences between the value of assets and liabilities for tax purposes and their carrying value. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability settled.

The most significant temporary differences arise from the valuation of financial instruments, and from provisions.

Deferred tax is recognised for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which temporary differences can be charged.

Deferred tax relating to the valuation of available-for-sale financial instruments and measured at fair value is disclosed directly within other comprehensive income.

3.25 REPORTING BY SEGMENTS

A segment is recognisable as an integral part of the Bank engaged in marketing of products or services (operating segment) and is subject to risks and returns different from those in other segments. Reporting by segments for management purposes is the same as presented in the financial statements.

The Bank conducts its business as a single operating segment, since the risks and returns across different activities do not vary significantly. The Bank's reporting by segments is disclosed in the Financial Report of the Nova KBM Group.

3.26 STANDARDS AND INTERPRETATIONS

The accounting policies used to prepare the financial statements are consistent with those of the previous financial year, except for new and amended standards and interpretations as of 1 January 2011, as presented below.

IFRS 1 – First-time Adoption of IFRSs: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (amended)

This amendment exempts first-time adopters of IFRSs from providing the additional disclosures introduced by IFRS 7 on 5 March 2009. The adoption of this amendment has no effect on the Bank's financial statements.

IAS 24 – Related Party Disclosures (amended)

The amendments to IAS 24 define in more detail and simplify the definition of a related party. Furthermore, the amended standard reduces the scope of disclosures of transactions of a government owned entity with the government and other government owned entities. The amendments are applicable for periods beginning on or after 1 January 2011 and require retrospective application. The Bank has amended its accounting policy accordingly.

IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues (amended)

This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendments are applicable for periods beginning on or after 1 February 2010 and require retrospective application. The adoption of this amendment has no effect on the Bank's financial statements.

IFRIC 14 – Prepayments of a Minimum Funding Requirement (amended)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The adoption of this amendment has no effect on the Bank's financial statements.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this amendment has no effect on the Bank's financial statements.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These amendments became effective for periods beginning on 1 July 2010 or 1 January 2011.

IFRS 1 – *First-time Adoption of IFRSs*

This improvement clarifies the treatment of accounting policy changes in the year of adoption after publishing an interim financial report in accordance with IAS 34 – *Interim Financial Reporting*, allows first-time adopters to use an event-driven fair value as deemed cost and expands the scope of ‘deemed cost’ for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The adoption of this amendment has no effect on the Bank’s financial statements.

IFRS 3 – *Business Combinations*

The measurement options for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity’s net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments’ proportionate share of the acquiree’s identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments are effective for periods beginning on or after 1 July 2010. The Bank has amended its accounting policy accordingly.

The second amendment refers to a clarification that contingent considerations arising from business combination prior to the adoption of IFRS 3R (as revised in 2008) are accounted for in accordance with IFRS 3 (2005). The Bank has amended its accounting policy accordingly.

The final amendment refers to unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination. The adoption of this amendment has no effect on the Bank’s financial statements.

IFRS 7 – *Financial Instruments: Disclosures*

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information to context. The amendments are effective for periods beginning on or after 1 January 2011. The Bank has amended its accounting policy accordingly.

IAS 1 – *Presentation of Financial Statements*

The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The amendment applies for periods beginning on or after 1 January 2011. The Bank has amended its accounting policy accordingly.

IAS 27 – *Consolidated and Separate Financial Statements*

The improvement states that the transitional requirements of IAS 27 (as revised in 2008) should be applied to consequentially amended standards. The improvements are effective for periods beginning on or after 1 July 2010. The Bank has amended its accounting policy accordingly.

IAS 34 – Interim Financial Statements

The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The Bank has amended its accounting policy accordingly.

IFRIC 13 – Customer Loyalty Programmes

In determining the fair value of award credits an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme. The amendment is effective for periods beginning on or after 1 January 2011. The adoption of this amendment has no effect on the Bank's financial statements.

Standards and interpretations issued but not yet effective and not early adopted

The Bank has not early adopted any standard or interpretation issued but not yet effective.

The following new and amended standards will be applied in future periods as required by IFRSs and the European Union:

IFRS 7 – Financial Instruments: Disclosures – Transfer of Financial Assets

The amendments are effective for periods beginning on or after 1 July 2011 and were issued to improve the disclosure requirements relating to the transfer of financial assets. Amendments require disclosures for transfers of financial assets that are derecognised in their entirety as well as those that are not. The amendment requires retrospective application. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

In compliance with the requirements of IFRSs and subject to the endorsement by the European Union, the Bank will have to apply in future periods the following amended and revised standards and interpretations:

IFRS 1 – First-time Adoption of IFRSs: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendment provides guidance on how an entity can resume presenting IFRSs financial statements when its functional currency ceases to be subject to severe hyperinflation. A further amendment is the removal of the legacy of fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The amendments are effective for periods beginning on or after 1 July 2011.

IFRS 7 – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (amended)

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied.

IFRS 9 – *Financial Instruments*

The standard replaces IAS 39 and is applicable for periods beginning on or after 1 January 2015. The first part of the standard introduces new requirements for classifying and measuring financial assets.

IFRS 10 – *Consolidated Financial Statements*

This standard replaces the part of IAS 27 – *Consolidated and Separate Financial Statements* which refers to consolidated financial statements. The standard is applicable for periods beginning on or after 1 January 2013. IFRS 10 establishes a single control model that applies to all entities. This will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. The standard also changes the definition of control.

IFRS 11 – *Joint Arrangements*

This standard replaces IAS 31 – *Interest in Joint Ventures* and SIC 13 *Jointly-controlled entities – non-monetary contributions by venturers*. The new standard addresses only two forms of joint arrangements (joint operations and joint ventures), where there is joint control. IFRS 11 uses the principle of control in IFRS 10. In addition, IFRS 11 removes the option to account for jointly-controlled entities using proportionate consolidation, leaving only the option to use the equity method. The standard is effective for periods beginning on or after 1 January 2013.

IFRS 12 – *Disclosure of Interests in Other Entities*

This standard is effective for periods beginning on or after 1 January 2013 and includes disclosure requirements that were previously in IAS 27 – *Consolidated and Separate Financial Statements* related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 – *Investments in Associates* and IAS 31 – *Interest in Joint Ventures*. A number of new disclosures are also required, especially regarding judgments made to determine whether an entity controls another entity.

IFRS 13 – *Fair Value Measurement*

The new standard is applicable for periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRSs.

IAS 1 – *Presentation of Financial Statements: Presentation of Items in Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be present separately from items which will never be reclassified. The amendments are effective for periods beginning on or after 1 July 2012.

IAS 12 – *Deferred Tax (amended)*

The amendment is effective for annual periods beginning on or after 1 January 2012. This amendment concerns the determination of deferred tax on investment property measured at fair value and also incorporates SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* into IAS 12 for non-depreciable assets measured using the revaluation model in IAS 16. The aim of this amendment is to include a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and b) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

IAS 19 – *Employee Benefits (amended)*

In June 2011, the IASB issued numerous amendments to IAS 19. The key amendment refers to the removal of the corridor mechanism for recognising changes in the value of defined benefit plans. This means all changes in the value of defined benefit plans will be recognised as they occur depending on the type of change either in profit or loss or in other comprehensive income. The amendments are effective for periods beginning on or after 1 January 2013.

IAS 27 – *Separate Financial Statements (revised)*

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The standard is effective for periods beginning on or after 1 January 2013.

IAS 28 – *Investments in Associates and Joint Ventures (revised)*

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This revised standard is effective for periods beginning on or after 1 January 2013.

IAS 32 – *Financial Instruments: Presentation (amended) – Offsetting Financial Assets and Financial Liabilities*

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of 'currently has a legally enforceable right to set-off' and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 – *Offsetting Financial Assets and Financial Liabilities* amendments.

IFRIC 20 – *Stripping Costs in the Production Phase of a Surface Mine*

The interpretation applies to waste removal (stripping) costs incurred in surface mining activities, during the production phase of the mine. It represents a change from the current life of mine average strip ratio approach used by many mining and metals entities reporting under IFRS. The Interpretation is effective for annual periods beginning on or after 1 January 2013.

The Bank is reviewing the impact of standards and interpretations which are not yet mandatory and have not yet been endorsed by the European Union and, for the time being, has not assessed the impact of new pronouncements on its financial statements. The Bank will apply new standards and interpretations in accordance with their requirements, if endorsed by the European Union.

4 EXPOSURE TO VARIOUS RISKS

The Bank revises the document Strategy of Nova KBM on an annual basis. The Strategy is the key document in the preparation of annual business plans.

The Bank's Management Board delegates risk oversight and management to the senior management (policy holders). The policy holders, together with officers responsible for particular policies, determine the method of measuring individual risks. The responsible officers are specialised in defining, measuring and controlling individual risks. The organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the rules of procedure, each risk management policy has to be approved by the committee in charge of overseeing risk management policies and, in addition, agreed by the President of the Management Board or his deputy.

Risk management is conducted in accordance with established and approved risk management policies. The system of limits and the limits themselves are proposed by organisational units that are specialised in managing individual risks and are organisationally independent of the units accepting risks, whereas the approval lies with decision-making bodies or the Management Board. Organisational units specialised in managing individual risks report periodically on risk exposure and possible violation of limits.

4.1 CREDIT RISK

Credit risk is the risk of loss resulting from the failure of a Bank's debtor to discharge its liabilities. The Bank is exposed to credit risk through its loan portfolio.

The Bank manages credit risk by: continuous monitoring and analysing debtors' performance and their settlement of obligations; monitoring approved loans; monitoring the adequacy of collateral; measuring the

loan portfolio with respect to the market segments, regions, industry sectors, and size of debtors. In addition to individual treatment of each debtor, the Bank analyses the impact of each approved loan on the Bank's total loan portfolio, i.e. on the concentration or diversification of the portfolio. For that purpose, the Bank devotes special attention to the size of exposure to individual categories of credit risk, and to the concentration of loans by individual industry sectors, regions and market segments. The Management Board of the Bank is informed of the portfolio measurement reports on a monthly basis.

The Bank manages credit risk in several ways, such as by:

- identifying the risk of a specific debtor and recognising impairment of financial assets and provisions for off-balance sheet liabilities in compliance with International Financial Reporting Standards
- creating capital to ensure sufficient capital coverage of credit risks
- defining internal exposure limits by individual debtors, groups of associated companies, industry sectors or market segments
- properly securing financial assets.

4.1.1 BAD AND DOUBTFUL LOANS

The Bank defines as non-performing loans (NPLs) such loans for which it reasonably believes that the debtor will not settle all of its liabilities within the contractual period. In a narrower sense, loans to D and E rated customers are treated as NPLs, while in a broader sense loans to C rated customers are also included in NPLs.

The Bank classifies within NPLs exposures to D and E rated customers. According to the internal methodology for assessing the creditworthiness of corporate customers, banks, sole proprietors and non-profit organisations, the following customers are classified in these rating categories:

- customers that have been over 180 days late in paying their liabilities
- customers that are in receivership or for whom a receivership has been approved
- customers that are under bankruptcy proceeding
- customers for whom the Bank has information which indicates that they may be incapable of paying their liabilities.

The Loan Recovery Department and the Legal Office are responsible for managing the portfolio of D and E rated customers.

The Bank defines as doubtful loans such loans that are classified in the C rating category. The following customers are classified in this category:

- customers that have been over 90 days late in paying a significant amount due
- customers for whom substantial likelihood exists that their future cash flows will not set off their liabilities
- customers for whom Nova KBM has negative information on their performance
- customers who have disclosed insufficient or negative capital in their financial statements.

C rated customers are dealt with in the Bank's commercial departments.

4.1.2 INTEREST RATES AND LOAN APPROVAL FEES

Interest rates are determined in accordance with the applicable Interest Rate Schedule approved by the Management Board on a monthly basis.

Interest rates depend on the maturity and purpose of a loan, the borrower's rating, type of collateral provided for the loan, and the borrower's track record of cooperation with the Bank or companies of the Nova KBM Group.

Fees related to the approval of a loan are set in the applicable Tariff which is approved by the Management Board. Fees are determined upon considering market analysis, calculation of cost prices, and business cooperation with a customer.

4.1.3 EXPOSURE LIMITS

With respect to limiting its exposure, the Bank takes into account all applicable regulatory limitations. In compliance with Slovene banking laws and regulations, exposure to a single customer or to a group of related customers shall not exceed 25% of the Bank's equity.

According to Slovene banking laws and regulations, the approval of the Supervisory Board is required in cases where the exposure to a single customer or to a group of related customers exceeds 10%, 15% and 20% of the Bank's equity. The Supervisory Board's consent is also required for loans approved to customers that have a special relationship with the Bank.

4.1.4 COLLATERAL POLICY

As a rule, loans are not granted without providing at least one type of collateral.

Uncollateralised loans are exception and are approved only to risk-free customers. Risk-free customers are determined in the Bank's internal documents. Such risk-free customers are, for example, the Republic of Slovenia, the Bank of Slovenia, and banks in the Republic of Slovenia with the authorisation of the Bank of Slovenia for conducting banking operations.

Loans granted to all other customers are collateralised 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 Bank and with other customers
- customer's track record of cooperation with the Bank.

For corporate loans, the basic collateral to be provided is a clean bill of exchange together with a bill of exchange statement outlining the conditions for completing the bill of exchange.

If so required by the Bank, individual or several loans shall be additionally collateralised by providing one or several other types of collateral. As a rule, additional collateral is required for non-current loans (loans with maturity of over one year).

With regard to the adequacy of collateral provided for reducing credit risk, the following classification has been adopted:

- prime collateral
- adequate collateral
- pledge of moveable property or real estate
- other types of collateral.

4.1.5 COUNTERPARTY CREDIT RISK

As of 31 December 2011, the share of performing loans (credit rating A and B) accounted for 72.59% of the total loans, compared to 77.49% at the 2010 year-end.

The following table sets forth, for the periods indicated, the structure of the loan portfolio by credit rating category:

	31.12.2011	31.12.2010
Credit rating category	% of portfolio	% of portfolio
A	50.86	53.97
B	21.73	23.52
C	14.54	12.50
D	3.03	5.05
E	9.84	4.96

4.1.6 ANALYSIS OF EXPOSURE TO CREDIT RISK

	Loans to customers		Loans to banks	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Net disbursed loans	3,342,123	3,505,866	182,418	213,712
Individual impairment				
Gross amount	642,503	540,255	81,171	80,425
Impairment	(258,504)	(153,307)	(394)	(1,229)
Net amount	383,999	386,948	80,777	79,196
Collective impairment				
Credit rating A	1,629,361	1,659,903	0	0
Credit rating B	860,813	980,152	0	0
Credit rating C	398,347	331,949	0	0
Credit rating D	17,660	16,188	0	0
Credit rating E	27,300	25,204	0	0
Gross amount	2,933,481	3,013,396	0	0
Impairment	(76,569)	(88,476)	0	0
Net amount	2,856,912	2,924,920	0	0
Net non-impaired loans	101,212	193,998	101,641	134,516
Total net loans	3,342,123	3,505,866	182,418	213,712

The total amount of disbursed loans decreased in 2011 by 5.24% to €3,524,541,000 as of 31 December 2011.

Loans of €723,674,000 were individually impaired and impairment losses of €258,898,000 were recognised for this portion of the portfolio. Loans in the amount of €2,933,481,000 were collectively impaired and impairment losses of €76,569,000 were recognised for this portion of the portfolio. Loans in the aggregate amount of €202,853,000 were not impaired as of 31 December 2011, of which €101,193,000 was collateralised by providing prime collateral.

As of 31 December 2011, net non-impaired loans given to banks and to customers totalled €101,641,000 and €101,212,000, respectively.

The following table shows net exposure by credit rating and impairment method, without taking account of collateral provided:

Analysis of net exposure without taking account of collateral

	31.12.2011	31.12.2010
Individual impairment	566,417	600,660
Collective impairment		
Credit rating A	1,651,065	1,727,653
Credit rating B	917,050	1,073,741
Credit rating C	371,159	308,248
Credit rating D	10,561	9,045
Credit rating E	8,289	231
Total net exposure	3,524,541	3,719,578

Credit risk by market segments

The following tables set forth, for the periods indicated, the volume of loans and total impairment losses by market segments:

Analysis of loans by market segments

	31.12.2011	31.12.2010
Large corporate customers	993,996	995,736
Micro enterprises and SMEs	1,312,577	1,244,634
Sole proprietors	132,213	139,731
Households	950,533	965,861
Other	470,689	616,628
Domestic banks	54,108	86,155
State	21,014	17,040
Non-profit household service providers	4,979	4,925
Foreign banks	128,704	128,786
Other foreign customers	246,746	305,398
Customers not classified by market segment	15,138	74,324
Total gross loans	3,860,008	3,962,590

Analysis of total loan impairment losses by market segments

	31.12.2011	31.12.2010
Large corporate customers	112,484	70,432
Micro enterprises and SMEs	142,801	84,058
Sole proprietors	9,731	10,396
Households	21,017	27,854
Other	49,434	50,272
Domestic banks	2	1
State	690	72
Non-profit household service providers	133	164
Foreign banks	392	1,228
Other foreign customers	46,661	26,242
Customers not classified by market segment	1,556	22,565
Total loan impairment losses	335,467	243,012

Overdue and unpaid claims

The following tables set forth, for the periods indicated, the total balance of overdue and unpaid claims of the Bank:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	31.12.2011 Total
Banks	2	0	0	2	4
State	306	0	0	3	309
Legal entities	1,893	5,587	14,726	401,845	424,051
Households	3,153	531	348	25,191	29,223
Total	5,354	6,118	15,074	427,041	453,587

Past due but not impaired claims

	Up to 30 days	From 31 to 60 days	Over 90 days	31.12.2011 Total
	307	27	1,121	1,455

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	31.12.2010 Total
Banks	1	0	0	2	3
State	2	0	0	0	2
Legal entities	15,456	4,806	8,712	257,753	286,727
Households	2,870	624	267	16,198	19,959
Total	18,329	5,430	8,979	273,953	306,691

Past due but not impaired claims

	Up to 30 days	From 31 to 60 days	Over 90 days	31.12.2010 Total
	1	2	10	13

Outstanding loan recovery

The Loan Recovery Department is responsible for monitoring and resolving outstanding and bad loans in accordance with legal and regulatory requirements and internal documents. The latter determine the method of transferring bad loans to the Loan Recovery Department for recovery. If a debtor is in default on a materially significant amount for more than 90 days, the Bank declares such customer as a delinquent customer and undertakes all the necessary steps for the collection of debt, or restructures the loan if this might mitigate the loss incurred by the Bank.

Where an obligation is overdue for more than 180 days, or if the debtor declares one of the insolvency procedures, the collection of a debt is transferred to the Loan Recovery Department or Legal Office. As long as the overdue period does not exceed 180 days, the collection of debts is managed within the commercial departments with the professional support provided by the Loan Recovery Department.

When outstanding loans are transferred to the Loan Recovery Department, the Department evaluates all available information, particularly collateral coverage of outstanding loans, on the basis of which it assesses the expected loss. The Loan Recovery Department also evaluates the underlying reasons for default to prevent future loans from becoming bad loans.

Together with the debtor, the Loan Recovery Department tries to find out the options for restructuring the loan in order to restore the borrower's ability to resume repayments of liabilities to the Bank (extension of maturity date, possible grace period on the principal, change of interest rate). In such cases, the Bank also tries to obtain additional collateral. If the loan is restructured, the Loan Recovery Department monitors the borrower's compliance with the terms of the restructured loan.

If a loan cannot be restructured, or if another solution acceptable to the Bank cannot be agreed upon, the Loan Recovery Department lodges a request for carrying out appropriate court procedures under which the Bank and the debtor try to reach an in-court or out-of-court settlement (e.g. through mediation). The Loan Recovery Department might try to reach an agreement with a debtor together with other companies in the Nova KBM Group, or through bank syndicates. Sometimes additional measures can be taken to recover some or all of the given funds, such as selling Bank's rights to third parties.

In carrying out its work, the Loan Recovery Department obeys internal rules and applicable legislation and, as needed, collaborates with legal and other experts.

Bad loans are written off after the Loan Recovery Department has taken all the necessary and sufficient measures provided by law and internal regulations to recover the loan.

NPLs of the total loan portfolio

	31.12.2011	31.12.2010
Gross NPLs (D, E)*	496,917	396,774
Impairment losses for NPLs (D, E)	219,930	147,519
Net NPLs (D, E)	276,987	249,255
Total gross loan portfolio	3,860,008	3,962,590
Total net loan portfolio	3,524,541	3,719,578
Gross NPLs/Total gross loan portfolio (%)	12.87	10.01
Net NPLs/Total net loan portfolio (%)	7.86	6.70

* Gross NPLs (D, E) include collectively impaired loans, which are classified in credit rating categories D and E and for which prime collateral has not been provided, and individually impaired loans, the basic credit rating of which is D or E.

As of 31 December 2011, the Bank's exposure to C rated customers whose exposures have been restructured amounted to €158,311,000.

Loans are restructured because of financial difficulties of borrowers. The Bank may, in order to reduce potential loss, restructure a loan by modifying the terms of the original loan or by approving a new loan for the purpose of repaying the existing one.

Analysis of loans and the percentage of NPLs by industry sectors

The following table sets forth, for the periods indicated, the total gross loans and NPLs by industry sector of debtors, and the percentage of NPLs within each industry sector:

Industry sector	31.12.2011			31.12.2010		
	Total loans	NPLs	Share of NPLs	Total loans	NPLs	Share of NPLs
Households, natural persons	969,381	29,272	3.02%	980,403	21,213	2.16%
Agriculture and hunting, forestry, fishing	23,524	416	1.77%	19,789	473	2.39%
Mining	2,811	1,803	64.14%	2,360	0	0.00%
Manufacturing industry	707,488	136,828	19.34%	711,459	112,408	15.80%
Electricity, gas and steam supply	78,868	0	0.00%	62,071	0	0.00%
Water supply, waste and sewage management, rehabilitation of the environment	8,619	106	1.23%	8,790	200	2.28%
Construction	374,350	143,178	38.25%	352,095	94,536	26.85%
Trade, maintenance and repair of motor vehicles	375,583	40,087	10.67%	467,023	92,041	19.71%
Transportation and storage	78,557	9,019	11.48%	80,645	3,015	3.74%
Accommodation and food service activities	131,866	17,638	13.38%	118,455	11,650	9.83%
Information and communication activities	51,218	31,734	61.96%	60,577	4,538	7.49%
Financial intermediation	642,667	44,465	6.92%	687,057	16,529	2.41%
Real estate activities	154,331	22,638	14.67%	142,712	20,528	14.38%
Professional, scientific and technical activities	131,804	13,769	10.45%	129,882	13,936	10.73%
Other various business activities	12,046	3,188	26.47%	13,252	3,501	26.42%
Public administration and defence services, compulsory social security activities	15,385	28	0.18%	23,496	0	0.00%
Education	7,673	211	2.75%	5,004	228	4.56%
Health and welfare security	25,256	60	0.24%	23,639	67	0.28%
Arts, entertainment and recreation	62,470	1,984	3.18%	67,239	1,504	2.24%
Other activities	6,111	493	8.07%	6,642	407	6.12%
Total gross loans	3,860,008	496,917	12.87%	3,962,590	396,774	10.01%

Analysis of collateral – total amount of collateral for given loans

	31.12.2011	31.12.2010
1. Collateral for individually impaired loans	782,559	615,625
- moveable and immoveable property	523,517	401,810
- equity instruments	48,412	104,469
- other	210,630	109,346
2. Collateral for collectively impaired loans	4,723,001	4,491,930
- moveable and immoveable property	2,980,806	2,852,419
- debt securities	1,240	1,621
- equity instruments	150,376	239,692
- other	1,590,579	1,398,198
3. Collateral for non-impaired loans	128,480	190,294
- moveable and immoveable property	9,464	18,349
- debt securities	2,657	19,357
- equity instruments	0	12
- other	116,359	152,576
4. Total	5,634,040	5,297,849

As of 31 December 2011, the total amount of collateral in the form of moveable and immoveable property was €3,513,787,000, of which 84.83% related to collectively impaired loans and 14.90% to individually impaired loans. Collateral of €3,897,000 was in the form of debt securities, of which €1,240,000 related to collectively impaired loans and €2,657,000 to non-impaired loans. Collateral in the form of equities amounted to €198,788,000, of which 75.65% related to collectively impaired loans and 24.35% to individually impaired loans.

Valuation of real estate

A special agreement regulating mutual relationship in the valuation of property (immoveable and movable) of Bank customers has been executed between the Bank and several appraisers. The agreement sets out in detail the conditions which an appraiser or appraisal must meet, such as scrupulous performance of duties that must be in compliance with regulations, International Valuation Standards and the code of ethics of the relevant appraisers association.

In addition to the standards hierarchy, the appraiser shall, for the needs of the Bank, determine or verify the following:

- market value of real estate
- time (period) needed for the sale and any restrictions on the sale
- functionality of real estate
- validity of a building and/or operating permit.

To ensure that appraisals are made in compliance with International Valuation Standards, each individual appraisal is checked by commercial departments from the point of view of formal records included in the appraisal and the appraisal methods applied (the cost method, the sales comparison method, the income capitalisation method, the highest and best use of land), the market value of real estate, and other internally prescribed parameters for appraisal.

Analysis of exposure by market segments and regions

	Loans to customers		Loans to banks	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
CARRYING (NET) AMOUNT	3,342,123	3,505,866	182,418	213,712
By market segment	3,342,123	3,505,866	182,418	213,712
- non-financial companies	1,793,290	1,862,270	0	0
- other monetary financial organisations	0	3	54,103	86,154
- other financial intermediaries, except insurance companies and pension funds	259,889	260,605	0	0
- auxiliary financial service providers	11,664	14,756	0	0
- insurance companies and pension funds	4	4	0	0
- central government	5,937	8,394	0	0
- local government	5,059	8,562	0	0
- social security funds	9	12	0	0
- households	1,051,994	1,067,342	0	0
- non-profit household service providers	4,846	4,762	0	0
- foreign persons	209,431	279,156	128,315	127,558
By region	3,342,123	3,505,866	182,418	213,712
- Slovenia	3,132,692	3,226,710	54,103	86,154
- European Monetary Union	4,631	2,189	108,488	87,598
- other European Union	147	79	435	1,896
- republics of the former Yugoslavia	204,324	274,951	16,814	11,166
- other	329	1,937	2,578	26,898

As of 31 December 2011, net loans to banks totalled €182,418,000 and net loans to customers totalled €3,342,123,000. Of the latter figure, the largest proportion related to non-financial companies (53.66%), followed by households (31.48%).

Loans to customers headquartered in the Republic of Slovenia accounted for 93.73% of the total loans to customers. Of the non-banking loans granted to foreign persons, the largest proportion, i.e. 6.11% of the total loans to customers, related to customers in the republics of the former Yugoslavia.

Loans to banks with their registered office in the European Monetary Union represented 59.47% of the total loans to banks, of which 89.45% was net exposure to Austrian banks. With 2.23%, net exposure to Italian costumers accounted for the largest proportion of the total exposure to foreign customers.

4.2 LIQUIDITY RISK

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

In the period from 1 January to 31 December 2011, the Bank managed liquidity risk in accordance with its Policy of Managing Liquidity Risk in the Nova KBM Group which sets out the methods and responsibilities for managing assets and liabilities to provide for sufficient cash inflows within a certain period of time. The Policy sets out the measures for assessing, measuring, managing and controlling liquidity risk. It 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 of managing liquidity risk has been formulated.

The document Business Continuity Plan for Managing Liquidity Risk in Nova KBM sets out appropriate measures for early detection of crisis situations as well as adequate steps for restoring a normal liquidity position of the Bank. The Bank carries out, on a monthly basis, liquidity stress scenarios in compliance with the Methodology for Implementing Stress Scenarios of Liquidity Risk in the Nova KBM Group. The results of stress tests are used for the purpose of assessing negative effects of potentially critical events on the Bank's liquidity position, and for preparing measures to mitigate the liquidity risk.

Net liquid assets

The Bank uses an internal methodology for determining net liquid assets, which represent the difference between the portion of assets that can be converted to liquid funds within a short period of time and the unstable portion of liabilities. The unstable portion of liabilities is the portion of the Bank's liabilities that may become due in the same short period of time. According to the internal regulation, at least a positive amount of net liquid assets must be maintained for the Bank's operational and regulatory liquidity.

Liquidity gap

The liquidity gap, which is regularly controlled and thoroughly analysed by individual time buckets, is a measure of the level of maturity matching of assets and liabilities. The Bank cannot avoid the liquidity gap, but can manage it effectively. A positive gap represents the surplus of funds that can be invested profitably. On the other hand, a negative gap is a sign of a shortage of funds that need to be provided for.

Liquidity ratios and obligatory deposits

In the period from 1 January to 31 December 2011, the Bank complied with the Bank of Slovenia regulations on minimum liquidity. As of 31 December 2011, the Bank's liquidity ratio was 1.401, compared to 1.147 a year earlier. During 2011, the Bank also complied with the Bank of Slovenia regulations on obligatory deposits.

Stability of deposits

Since 22 July 2011, the Bank has been using its own econometric model for calculating the proportion of stable sight deposits. This model is based on regression analysis which is used to examine the movements in sight deposits over time. For using the model, the dependent variable and independent variables must be determined, and the results derived from the model provide a basis for analysing the predictive strength, and for carrying out retroactive testing. The assessment of the proportion of stable sight deposits over 22 working days is carried out on a daily basis. For the period from 1 January to 31 December 2011, the results of this model gave higher level of stable sight deposits than taken into account in the calculation of liquidity ratios according to the regulations. In 2011, the average stability of sight deposits was 83.75%, with the stability of household deposits being as high as 94.14%.

Analysis of liquidity risk as of 31 December 2011

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	97,023	97,023	0	0	0	0
Financial assets held for trading	8,442	8,442	0	0	0	0
Financial assets designated at fair value through profit or loss	37,942	0	27,161	10,781	0	0
Available-for-sale financial assets	523,932	523,932	0	0	0	0
Loans and advances	3,524,541	750,053	168,426	859,447	1,138,321	608,294
Held-to-maturity financial assets	339,819	605	1,054	30,249	275,535	32,376
Other assets*	279,392	18,593	14,012	3	54,268	192,516
Total assets	4,811,091	1,398,648	210,653	900,480	1,468,124	833,186
Liabilities						
Financial liabilities due to the central bank	370,465	0	70,382	0	300,083	0
Financial liabilities held for trading	1,693	1,693	0	0	0	0
Financial liabilities measured at amortised cost	3,997,295	1,342,651	477,273	1,015,434	1,013,346	148,591
Financial liabilities associated to transferred assets	8,022	8,022	0	0	0	0
Other liabilities*	433,616	24,250	6,407	9,732	15,066	378,161
Total liabilities	4,811,091	1,376,616	554,062	1,025,166	1,328,495	526,752
Assets-liabilities mismatch	0	22,032	(343,409)	(124,686)	139,629	306,434
Guarantees	309,437	23,553	40,189	99,808	95,863	50,024

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with maturity of less than five years.

Non-derivative balance sheet liabilities as of 31 December 2011

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Liabilities						
Financial liabilities due to the central bank	380,672	306	70,877	2,228	307,261	0
Financial liabilities held for trading	1,693	1,693	0	0	0	0
Financial liabilities measured at amortised cost	4,222,735	1,348,139	486,292	1,071,077	1,131,834	185,393
Financial liabilities associated to transferred assets	8,022	8,022	0	0	0	0
Other liabilities	433,616	24,250	6,407	9,732	15,066	378,161
Total liabilities	5,046,738	1,382,410	563,576	1,083,037	1,454,161	563,554
Guarantees	309,437	23,553	40,189	99,808	95,863	50,024

The table above shows non-discounted contractual balance sheet liabilities. A significant portion of the Bank's liabilities falls within a one-month period, referring to sight deposits. The Bank monitors the stability of sight deposits on a daily basis and has a secondary liquidity source available in case of an unexpected drop in sight deposits.

Derivatives as of 31 December 2011

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	108,437	12,635	23,081	72,721	0	0
inflow	108,758	12,766	24,083	71,909	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	120	0	0	120	0	0
inflow	107	0	0	107	0	0
TOTAL OUTFLOW	108,557	12,635	23,081	72,841	0	0
TOTAL INFLOW	108,865	12,766	24,083	72,016	0	0

The table above presents non-discounted cash flows on derivatives. Amounts are translated into the euro at the ECB exchange rate effective as of 31 December 2011. The table takes into account the method of settlement, which is in most cases done on a gross amount basis.

Analysis of liquidity risk as of 31 December 2010

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	78,724	78,724	0	0	0	0
Financial assets held for trading	2,784	2,784	0	0	0	0
Financial assets designated at fair value through profit or loss	16,266	543	3,140	9,454	3,129	0
Available-for-sale financial assets	685,918	685,918	0	0	0	0
Loans and advances	3,719,578	767,411	332,860	809,162	1,211,975	598,170
Held-to-maturity financial assets	78,894	192	225	1,113	54,946	22,418
Other assets*	224,347	28,085	921	3,068	4,860	187,413
Total assets	4,806,511	1,563,657	337,146	822,797	1,274,910	808,001
Liabilities						
Financial liabilities due to the central bank	130,149	50,090	80,059	0	0	0
Financial liabilities held for trading	5,842	5,842	0	0	0	0
Financial liabilities measured at amortised cost	4,252,256	1,339,141	485,135	1,123,354	1,115,722	188,904
Other liabilities*	418,264	16,227	1,953	8,586	9,021	382,477
Total liabilities	4,806,511	1,411,300	567,147	1,131,940	1,124,743	571,381
Assets-liabilities mismatch	0	152,357	(230,001)	(309,143)	150,167	236,620
Guarantees	357,863	41,217	25,699	135,670	104,096	51,181

* Assets and liabilities without a direct impact on liquidity.

The table above shows the distribution of significant statement of financial position items with maturity of less than five years.

Non-derivative balance sheet liabilities as of 31 December 2010

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Liabilities						
Financial liabilities due to the central bank	130,149	50,090	80,059	0	0	0
Financial liabilities held for trading	5,842	5,842	0	0	0	0
Financial liabilities measured at amortised cost	4,419,678	1,344,248	493,627	1,176,178	1,201,168	204,457
Other liabilities	418,264	16,227	1,953	8,586	9,021	382,477
Total liabilities	4,973,933	1,416,407	575,639	1,184,764	1,210,189	586,934
Guarantees	357,863	41,217	25,699	135,670	104,096	51,181

The table above shows non-discounted contractual balance sheet liabilities.

Derivatives as of 31 December 2010

	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
CURRENCY DERIVATIVES						
Forward contracts						
outflow	101,368	20,423	27,091	53,854	0	0
inflow	95,986	19,362	25,925	50,699	0	0
INTEREST RATE DERIVATIVES						
Interest rate and currency swaps						
outflow	175	0	0	175	0	0
inflow	238	0	0	238	0	0
TOTAL OUTFLOW	101,543	20,423	27,091	54,029	0	0
TOTAL INFLOW	96,224	19,362	25,925	50,937	0	0

The table above presents non-discounted cash flows on derivatives. Amounts are translated into the euro at the ECB exchange rate effective as of 31 December 2010.

4.3 MARKET RISKS

The Bank monitors market risks of trading book and markets risks of banking book separately. The method of monitoring and reporting as well as of limiting the exposure to market risks is set out in respective risk management policies.

4.3.1 POSITION RISK

Position risk is a risk of loss arising due to a change in the price of financial instrument that the Bank holds in its portfolio for the purpose of trading on its proprietary account.

The trading limit methodology is based on the value-at-risk (VaR) measure and is compliant with Basel requirements: 99% one-sided confidence interval, a 10-day retention period and the calculation of volatility based on 250 days of data. The basis for establishing trading limits is the capital requirement set out in the financial plan. The Bank measures the market value of all trading items on a daily basis. The volume of transactions by specific type of financial instruments is defined in detail by the methodology for establishing limits.

The portfolio of equity instruments is limited by the highest market value, stop-loss limit and the VaR measure. The portfolio of debt securities is limited by the highest market value and stop-loss limit. The limits for specific types of transactions may be changed by a decision of the ALCO. Changes to the structure of limits shall not affect the annual plan of capital adequacy.

The Bank manages three trading portfolios: the portfolio of debt securities, the portfolio of equity instruments and the currency portfolio. The value-at-risk of trading portfolios for the year 2011 demonstrates with a 99% probability that, by holding the unchanged position in securities, a portfolio loss over the 10 consecutive working days would not exceed €272,000.

10-day VaR in 2011

Maximum	Minimum	Average
€272,000	€0	€72,000

10-day VaR in 2010

Maximum	Minimum	Average
€854,000	€0	€609,000

A more detailed breakdown of financial assets held for trading and of their movements is disclosed in the table Financial assets held for trading in notes to the financial statements.

Position risk in foreign exchange trading is controlled by trading limits. Limits for foreign currency trading for the account of the Bank are defined as the maximum allowable open position for the Trading Department. The Trading Support Department monitors trading results on a daily basis and reports findings to those responsible.

The Bank offers its customers the service of buying and selling derivatives as a broker only and does not assume its own positions.

4.3.2 INTEREST RATE RISK

Interest rate risk is the risk of loss arising due to changes in interest rates or the structure of interest rates for maturity mismatches of interest-bearing assets and liabilities with regard to interest rate repricing and the method of charging interest.

Interest rate risk management of trading book items is included in the methodology for establishing trading limits. Interest rate risk management of non-trading book items is carried out using an interest rate matching methodology. The Bank monitors interest-bearing statement of financial position items and off-balance sheet items with regard to maturity of variable interest rate items, separated by the key currencies and reference interest rates in which it operates. The Bank monitors separately reference interest rate risk for euros, U.S. dollars and Swiss francs, and the interest rate TOM (basic interest rate), which together cover 98.80% of the entire exposure to interest rate changes.

The Bank calculates, on a monthly basis, the results of the standardised stress test for interest rate risk as the impact of a parallel shift in interest rate curve on its equity and net interest income in a period of one year.

The impact of the results of the standardised stress test on the Bank's equity, as of 31 December 2011:

Currency	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
EUR	(1)	(10)	(873)	(23,317)	(10,369)	(34,570)
USD	0	0	0	0	0	0
Total	(1)	(10)	(873)	(23,317)	(10,369)	(34,570)

The impact of the results of the standardised stress test on the Bank's equity, as of 31 December 2010:

Currency	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
EUR	(23)	(1,004)	(777)	(10,100)	(15,847)	(27,751)
USD	0	0	0	0	0	0
Total	(23)	(1,004)	(777)	(10,100)	(15,847)	(27,751)

The tables above show the decline in the fair value of the debt securities portfolio in case of a parallel rise of the interest rate curve by 200 basis points. A change in fair value is reflected in equity.

The impact of the results of the standardised stress test on the Bank's net interest income, as of 31 December 2011:

Currency	+ 200 basis points	- 200 basis points
EUR	13,045	(6,251)
USD	(124)	40
CHF	(623)	28
Other	86	(86)
Total	12,384	(6,269)

The impact of the results of the standardised stress test on the Bank's net interest income, as of 31 December 2010:

Currency	+ 200 basis points	- 200 basis points
EUR	13,501	(8,313)
USD	(305)	41
CHF	(242)	(28)
Other	217	(218)
Total	13,171	(8,518)

The tables above show the impact of a shift of the interest rate curve on the Bank's net interest income in a period of one year.

In addition to the standardised stress test analysis, the Bank calculates its exposure to interest rate changes as the change of the net current value of the difference between assets and liabilities subject to variable interest rate in a given period and the expected interest rate changes in the next three months. The expected interest rate changes are calculated as the difference between current and term interest rates, separated for each currency

and maturity handled. An analysis of interest rate risk is included in a monthly report on liquidity and market risk and is subject to a monthly review by the ALCO.

The analysis treats net positions in individual interest rate repricing periods as fixed-coupon debt securities. A longer interest rate repricing period has a bigger impact on net current value of assets and liabilities. The interest rate risk analysis made for the Bank showed, for the 2011 year-end, a probable negative effect on the net present value of all interest-sensitive items in the total amount of €1,448,000. The main advantage of this analysis when compared to the standardised interest rate stress test lies in anticipation of probable interest rate changes in the observed period.

The impact of interest rate changes on profit or loss is measured for a one-year period. For calculating the change in interest income, the current interest rate is used for the period until the change of interest rate, after which date and until the end of a one-year period the changed interest rate is used. The average interest rate repricing period by individual time buckets is used for the calculation of interest. At the 2011 year-end, the anticipated interest rate change in a three-month period would result in the annual increase in interest income by €4,345,000.

At the 2011 year-end, the standardised stress test of the impact of a parallel shift of interest rate curve by 200 basis points on the total present value of all interest-sensitive items gave a result that equals 1.20% of the Bank's regulatory equity. In compliance with the applicable legislation, the regulator may impose certain measures for reducing the risk if the result of the standardised stress test exceeds 20% of the Bank's equity.

A more detailed breakdown of the Bank's statement of financial position by interest rate maturities as of 31 December 2011 and 2010 is disclosed in the table Analysis of interest rate risk which shows the distribution of items with regard to the interest rate repricing periods. Exposure to changes in interest rates is managed through reconciliation of the method of charging interest on assets and liabilities, and by considering the characteristics of individual items.

Analysis of interest rate risk as of 31 December 2011

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	97,023	39,703	57,320	57,320	0	0	0	0
Financial assets held for trading	8,442	8,442	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	37,942	34,823	3,119	0	0	3,119	0	0
Available-for-sale financial assets	523,932	81,362	442,570	75,714	164,001	6,152	145,062	51,641
Loans and advances	3,524,541	45,220	3,479,321	1,311,022	860,658	1,142,221	138,158	27,262
Held-to-maturity financial assets	339,819	0	339,819	0	859	29,182	278,129	31,649
Other assets	52,975	52,975	0	0	0	0	0	0
Total assets	4,584,674	262,525	4,322,149	1,444,056	1,025,518	1,180,674	561,349	110,552
Liabilities								
Financial liabilities due to the central bank	370,465	0	370,465	0	70,383	0	300,082	0
Financial liabilities held for trading	1,693	1,693	0	0	0	0	0	0
Financial liabilities measured at amortised cost	3,997,295	426	3,996,869	1,520,847	581,406	1,357,067	535,730	1,819
Financial liabilities associated to transferred assets	8,022	0	8,022	8,022	0	0	0	0
Other liabilities	28,058	28,058	0	0	0	0	0	0
Total liabilities	4,405,533	30,177	4,375,356	1,528,869	651,789	1,357,067	835,812	1,819
Assets-liabilities mismatch	179,141	232,348	(53,207)	(84,813)	373,729	(176,393)	(274,463)	108,733

The table above shows the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

Analysis of interest rate risk as of 31 December 2010

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	78,724	38,901	39,823	39,823	0	0	0	0
Financial assets held for trading	2,784	2,784	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	16,266	13,051	3,215	0	0	86	3,129	0
Available-for-sale financial assets	685,918	73,928	611,990	20,927	215,480	84,289	159,525	131,769
Loans and advances	3,719,578	6,041	3,713,537	803,110	371,816	2,369,527	140,788	28,296
Held-to-maturity financial assets	78,894	0	78,894	192	225	2,770	54,946	20,761
Other assets	24,991	24,991	0	0	0	0	0	0
Total assets	4,607,155	159,696	4,447,459	864,052	587,521	2,456,672	358,388	180,826
Liabilities								
Financial liabilities due to the central bank	130,149	0	130,149	50,090	80,059	0	0	0
Financial liabilities held for trading	5,842	5,842	0	0	0	0	0	0
Financial liabilities measured at amortised cost	4,252,256	17	4,252,239	1,440,244	856,372	1,295,276	658,697	1,650
Other liabilities	26,235	26,235	0	0	0	0	0	0
Total liabilities	4,414,482	32,094	4,382,388	1,490,334	936,431	1,295,276	658,697	1,650
Assets-liabilities mismatch	192,673	127,602	65,071	(626,282)	(348,910)	1,161,396	(300,309)	179,176

The table above shows the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

Actual interest rates (%)

	31.12.2011	31.12.2010
ASSETS		
Customers	5.10	4.80
- non-financial companies	5.26	4.98
- state	5.59	5.08
- other financial organisations	4.91	4.73
- non-profit household service providers	5.37	5.01
- households	4.86	4.47
Banks	2.08	1.62
Securities	3.58	3.05
Total assets	4.67	4.40
LIABILITIES		
Customers	2.41	2.15
- non-financial companies	1.23	1.45
- state	3.90	3.78
- other financial organisations	3.87	3.57
- non-profit household service providers	1.07	0.86
- households	2.08	1.79
Banks	2.44	1.97
Securities	4.03	3.99
Subordinated liabilities	6.18	6.00
Total liabilities	2.58	2.28

4.3.3 CURRENCY RISK

Currency risk represents a potential loss arising from an open foreign currency position and the volatility of foreign exchange rates. The Bank controls currency risk exposure by maintaining neutral position in individual foreign currencies.

In accordance with the resolution adopted by the ALCO, the Bank maintains a daily aggregate closed foreign currency position. The aggregate open position for all currencies is limited by its impact on the Bank's capital adequacy ratio. The methodology for monitoring and maintaining a balanced foreign currency position is based on the VaR method in compliance with Basel requirements. The maximum allowable VaR is established at the individual currency level just as for the entire foreign currency portfolio. VaR depends on the exposure amount and the volatility of individual pair of currencies.

The open position for each foreign currency is monitored daily, and the Bank calculates the daily result due to discrepancies in the foreign currency position. In case of an increase in volatility, the Bank, in accordance with the adopted methodology, reduces the allowable open position in individual currencies. Any changes in volatility are reviewed on a monthly basis.

A 10-day value-at-risk of the open foreign currency position is calculated on the basis of one-year data and a 99% confidence interval. For the period from 1 January to 31 December 2011, at the highest exposure to currency risk, the calculation made demonstrates with a 99% probability that, by holding the unchanged currency position, a loss over the 10 consecutive working days would not exceed €717,000.

10-day VaR in 2011

	Maximum	Minimum	Average
	€717,000	€23,000	€316,000

10-day VaR in 2010

	Maximum	Minimum	Average
	€128,000	€21,000	€40,000

Analysis of currency risk as of 31 December 2011

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	92,216	711	1,649	905	1,542	97,023
Financial assets held for trading	8,442	0	0	0	0	8,442
Financial assets designated at fair value through profit or loss	37,649	0	0	0	293	37,942
Available-for-sale financial assets	523,932	0	0	0	0	523,932
Loans and advances	3,353,565	36,404	127,373	15	7,184	3,524,541
Held-to-maturity financial assets	339,819	0	0	0	0	339,819
Other assets	279,364	23	0	0	5	279,392
Total assets	4,634,987	37,138	129,022	920	9,024	4,811,091
Liabilities						
Financial liabilities due to the central bank	370,465	0	0	0	0	370,465
Financial liabilities held for trading	1,693	0	0	0	0	1,693
Financial liabilities measured at amortised cost	3,927,878	39,683	21,460	390	7,884	3,997,295
Financial liabilities associated to transferred assets	8,022	0	0	0	0	8,022
Other liabilities	433,551	3	61	0	1	433,616
Total liabilities	4,741,609	39,686	21,521	390	7,885	4,811,091
Assets-liabilities mismatch	(106,622)	(2,548)	107,501	530	1,139	0
Derivatives	107,006	0	(106,449)	0	(236)	321
Assets-liabilities mismatch (including derivatives)	384	(2,548)	1,052	530	903	321

The table above presents only the statement of financial position items in which the Bank has a position also in currencies other than euro. The last line in the table, which shows the open position in individual foreign currencies by taking into account derivatives, gives the accurate information on the total foreign currency exposure.

Analysis of currency risk as of 31 December 2010

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	75,764	473	570	649	1,268	78,724
Financial assets held for trading	2,784	0	0	0	0	2,784
Financial assets designated at fair value through profit or loss	15,723	0	0	0	543	16,266
Available-for-sale financial assets	685,918	0	0	0	0	685,918
Loans and advances	3,530,220	38,576	143,535	40	7,207	3,719,578
Held-to-maturity financial assets	78,894	0	0	0	0	78,894
Other assets	222,245	2,085	0	0	17	224,347
Total assets	4,611,548	41,134	144,105	689	9,035	4,806,511
Liabilities						
Financial liabilities due to the central bank	130,149	0	0	0	0	130,149
Financial liabilities held for trading	5,842	0	0	0	0	5,842
Financial liabilities measured at amortised cost	4,156,452	39,154	48,835	300	7,515	4,252,256
Other liabilities	415,693	2,357	63	0	151	418,264
Total liabilities	4,708,136	41,511	48,898	300	7,666	4,806,511
Assets-liabilities mismatch	(96,588)	(377)	95,207	389	1,369	0
Derivatives	90,360	0	(95,285)	0	(457)	(5,382)
Assets-liabilities mismatch (including derivatives)	(6,228)	(377)	(78)	389	912	(5,382)

The table above presents only the statement of financial position items in which the Bank has a position also in currencies other than euro. The last line in the table, which shows the open position in individual foreign currencies by taking into account derivatives, gives the accurate information on the total foreign currency exposure.

Foreign currency sensitivity analysis

Currency	Exchange rate change against EUR 2011	Impact on profit or loss 2011	Exchange rate change against EUR 2010	Impact on profit or loss 2010
USD	+12%	(306)	+12%	(45)
CHF	+17%	18,275	+9%	8,569
HRK	+2%	11	+2%	8
Other currencies	+10%	114	+10%	137

The impact of exchange rate changes on equity is negligible and is therefore not disclosed in the table.

4.4 GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES AS OF 31 DECEMBER 2011

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	97,023	97,023	0	0	0	0
Financial assets held for trading	8,442	7,269	1,173	590	0	583
Financial assets designated at fair value through profit or loss	37,942	34,530	3,412	3,119	293	0
Available-for-sale financial assets	523,932	351,800	172,132	116,304	0	55,828
Loans and advances	3,524,541	3,180,864	343,677	114,466	226,139	3,072
Held-to-maturity financial assets	339,819	317,604	22,215	22,215	0	0
Other assets	279,392	236,972	42,420	16,209	26,192	19
Total assets	4,811,091	4,226,062	585,029	272,903	252,624	59,502
Liabilities						
Financial liabilities due to the central bank	370,465	370,465	0	0	0	0
Financial liabilities held for trading	1,693	616	1,077	517	0	560
Financial liabilities measured at amortised cost	3,997,295	3,659,664	337,631	307,111	25,418	5,102
Financial liabilities associated to transferred assets	8,022	0	8,022	8,022	0	0
Other liabilities	433,616	432,968	648	122	434	92
Total liabilities	4,811,091	4,463,713	347,378	315,772	25,852	5,754
Assets-liabilities mismatch	0	(237,651)	237,651	(42,869)	226,772	53,748

Available-for-sale financial assets of foreign issuers

Country of the issuer	31.12.2011	31.12.2010
Australia	0	14,936
Belgium	8	9
Denmark	9,714	9,752
France	33,194	33,198
Italy	7,126	11,514
Luxembourg	858	858
Germany	16,240	16,329
The Netherlands	1,636	1,693
Portugal	5,594	7,359
Spain	20,969	28,248
Great Britain	20,965	21,187
United States of America	55,828	75,567
Total	172,132	220,650

Geographical analysis of assets and liabilities as of 31 December 2010

	Total	Slovenia	Total foreign countries	European Union	Republics of the former Yugoslavia	Other
Assets						
Cash and balances with the central bank	78,724	78,724	0	0	0	0
Financial assets held for trading	2,784	2,702	82	82	0	0
Financial assets designated at fair value through profit or loss	16,266	12,508	3,758	3,215	543	0
Available-for-sale financial assets	685,918	465,268	220,650	130,146	0	90,504
Loans and advances	3,719,578	3,311,617	407,961	92,200	286,880	28,881
Held-to-maturity financial assets	78,894	77,178	1,716	1,716	0	0
Other assets	224,347	177,135	47,212	16,992	26,393	3,827
Total assets	4,806,511	4,125,132	681,379	244,351	313,816	123,212
Liabilities						
Financial liabilities due to the central bank	130,149	130,149	0	0	0	0
Financial liabilities held for trading	5,842	123	5,719	3,829	0	1,890
Financial liabilities measured at amortised cost	4,252,256	3,578,735	673,521	640,713	27,532	5,276
Other liabilities	418,264	413,207	5,057	1,046	217	3,794
Total liabilities	4,806,511	4,122,214	684,297	645,588	27,749	10,960
Assets-liabilities mismatch	0	2,918	(2,918)	(401,237)	286,067	112,252

4.5 OPERATIONAL RISK

Operational risk management is set out in the Bank's Operational Risk Management Policy which complies with recommendations of the Basel standards and the local regulator.

The Bank has its own-developed software for the systematic monitoring of operational risk loss events, which has been in use since 2007. This system enables the Bank to carry out qualitative analyses of operational risk loss events, and it automatically warns responsible persons of losses on a monthly basis. On the basis of monitoring operational risk loss events, the Bank has internally set the threshold of material loss resulting from operational risk at €1,000. Uniform recording of loss events has been set up, as well as the standard monthly internal reporting procedure.

All organisational units of the Bank are responsible for addressing and assessing operational risk – each unit for the cost centres that are headed by the manager of the respective unit. The main aim of this is to ensure the functioning of the established system of internal controls. In assessing the risk profile of the Bank as a whole, individual organisational units have to give its subjective assessment of operational risk on an annual basis.

The following employees are responsible for managing operational risk by individual segments:

- operational risk analyst is the administrator of the operational risk loss events data base, who prepares monthly, quarterly, half-yearly and annual reports for the Bank's management, guides the self-assessment of operational risk by individual organisational units and business processes, and calculates the capital requirement for operational risk and conducts interim assessments of operational risk (simulations)
- head of the Bank's information system security is responsible for all the activities set out in the Information Protection Policy of Nova KBM

- business continuity manager acts as a coordinator of business continuity administrator
- professional adviser for information technology operational risk in responsible for special projects
- adviser for the prevention of money laundering
- compliance officer
- two advisers for the security are in charge of physical and technical protection.

In 2011, the Bank monitored operational risk and calculated capital requirements for operational risk in accordance with the basic indicator approach.

Within the internal process of assessing required capital, the risk profile of the entire Bank for 2011 was produced in November 2011, which also includes the assessment of operational risk and internal controls.

The majority of loss events in 2011 related to (according to the Basel standards) 'Retail banking' (64%), followed by 'Payment and settlement' (23%) and 'Unallocated other expenses' (12%)¹. In terms of type, the majority of loss events related to 'Execution, delivery and process management' (47%), followed by 'Damages to physical assets' (37%) and 'External Fraud' (15%).

By providing for a systematic collection of operational risk loss events, the Bank successfully accomplished its short-term objective of operational risk management. The mid-term objective is to develop software support for assessing risks – 'Risk profile of the Bank,' which shall include also assessments of operational risk.

¹ 'Unallocated other expenses' include operational risk loss events that cannot be allocated to only one area or department, such as, for example, breakdown of air conditioning systems, heating devices, lifts etc. The majority of such loss events occur at the headquarters of the Bank.

4.6 CAPITAL RISK

The Bank manages its capital by:

- monitoring (i) current and projected assessments of the regulatory capital; and (ii) capital requirements for credit, market and operational risks
- monitoring current and projected assessments of the economic available capital and adequate capital
- controlling movements in its capital adequacy ratio
- examining the possibilities to increase the share capital and additional capital.

The ALCO reviews the adequate amount of capital and the projection of capital, capital requirements and capital adequacy ratio on a monthly basis. The information on capital adequacy is included in the regular monthly Report on the Bank's Operations prepared for the Management Board. The Supervisory Board is informed of the level of capital and capital adequacy ratio at its meetings.

The Bank calculates capital requirements for credit risk using the standardised approach. As a reference export agency for the category 'exposure to central governments and central banks', the Bank nominated SID Bank Inc., Ljubljana. As a reference external rating agency for the category 'exposure to institutions, including exposure to institutions with a short-term rating', the Bank nominated the rating agency Moody's.

The Bank calculates capital requirements for market risks in accordance with the applicable regulations and does not use internal models for the time being. The capital requirement for operational risk is calculated according to the basic indicator approach.

Within the internal process of assessing adequate capital, the Bank uses the methodology which defines the method of calculating available economic capital and adequate economic capital.

Available economic capital is the Bank's own consideration of the amount of available capital. The amount of available economic capital equals the amount of regulatory available capital increased by 50% of the profit for the current year.

Adequate economic capital is the Bank's own consideration of the amount of capital needed for covering any unexpected risks it is exposed to in its operations. The amount of adequate economic capital equals the amount of minimum capital as prescribed by the regulator (pillar I), including additional capital requirements. Additional capital requirements for the banking book interest rate risk, currency risk, liquidity risk and capital risk are determined on the basis of an internal methodology. Additional capital requirements for reputation and strategic risks are determined on a basis of an expert assessment.

ALCO is responsible for reviewing regulatory available and minimum capital as well as economic available and adequate capital.

In May 2011, the Bank successfully completed the issue of new shares and raised €101 million of additional capital.

The required total capital adequacy ratio for the Bank is set at 8%. In the period from 1 January to 31 December 2011, the Bank fully complied with the regulatory capital adequacy requirements.

With the aim of restoring confidence in the banking sector, the European Council adopted in October 2011 a decision requiring banks to achieve the Core Tier 1 capital ratio of 9% by 30 June 2012. Nova KBM's Core Tier I ratio as of 31 December 2011 was 7.81%.

To that effect, the Bank will carry out measures to reduce its risk-adjusted assets or capital requirements. This will be achieved by disposing of assets that are not deemed necessary for the operations of the Bank. In addition, when granting new loans, the Bank will pursue the strategy of achieving broader portfolio diversification.

Composition of capital and capital requirements

ITEM DESCRIPTION	31.12.2011	31.12.2010
Original own funds		
Paid-up share capital	40,815	27,210
(-) Treasury shares	(270)	(1,086)
Share premium	165,775	78,314
Reserves and retained earnings or loss	275,095	269,065
(-) Interim result used in the calculation (unaudited) – loss	(84,190)	0
Revaluation excesses (PP) – prudential filters	(4,085)	(4,590)
Hybrid instruments as a component of original own funds	26,030	26,030
(-) Intangible long-term assets	(27,099)	(27,008)
(-) Other country specific deductions	(2)	0
Total	392,069	367,935
Additional own funds I		
Hybrid instruments and preferential cumulative shares	150,000	150,000
Other	1,605	158
Total	151,605	150,158
(-) Deductions from original own funds and additional own funds I		
(-) Deductions from original own funds	(58,520)	(52,529)
(-) Deductions from additional own funds I	(58,520)	(52,529)
Total	(117,040)	(105,058)
Total equity (for solvency purposes)	426,634	413,035
Capital requirements		
Capital requirements for credit risk	290,487	303,403
Central governments and central banks	748	746
Regional governments and local authorities	213	358
Administrative bodies	93	13
Institutions	16,367	20,123
Corporates	150,234	166,096
Retail banking	64,827	78,741
Secured by real estate property	3,989	0
Past due items	6,308	13,725
Items belonging to regulatory high-risk categories	29,146	10,001
Collective investment undertakings	2,112	2,373
Other items	16,450	11,227
Total capital requirements for market risks	1,772	2,475
Debt securities	670	520
Equity instruments	1,102	1,955
Capital requirement for operational risk	22,773	23,017
Total	315,032	328,895
Capital adequacy ratio (total equity)	10.83%	10.05%
Capital adequacy ratio (original own funds)	8.47%	7.67%
Common equity capital ratio (Core Tier I ratio)	7.81%	7.04%

4.7 BASEL III

A requirement to enhance the transparency and quality of capital, which proved to be inadequate in the crisis situation, has triggered several changes in the area of capital standards. Banks must always have such a level of capital as is needed to cover all risks to which they are exposed. In addition, each bank must create a capital conservation reserve or a buffer which should be capable of absorbing losses.

The changes to the capital standards and capital requirements, as well as the changes with regard to liquidity risk, the so-called Basel III, were published by the Basel Committee on Banking Supervision in December 2010. Banks will be required to comply with the new capital requirements as from 1 January 2013. The transitional period is expected to last until 2019.

Basel III provides for a raise in the common equity capital ratio (Core Tier I ratio), which is a ratio that does not take into consideration hybrid instruments. For 2013, the minimum requirement for this ratio is set at 3.5%, for 2014 at 4.0%, and for 2015, when the final minimum requirement is to be implemented, at 4.5%. The capital conservation buffer is to be introduced as well. It will be phased in between 2016 and 2019, each year by 0.625%, to reach 2.5% in 2019, following the end of the transitional period. This means that the Core Tier I ratio will have to be at least 7.0%. Nova KBM's Core Tier I ratio was 7.81% as of 31 December 2011.

As regards the Tier I capital requirement, the ratio will have to be at least 4.5% in 2013, 5.5% in 2014, and 6.0% in 2015 when the final minimum requirement will be implemented. When calculating this ratio, the capital buffer must also be taken into account, meaning that the minimum Tier I capital ratio requirement will be 8.5% in 2019. Innovative instruments, which the Bank includes in the Tier I capital, may be taken into account as a component of Tier I capital in their full amount, until recall or until 2040 at the latest. Nova KBM's Tier I capital ratio was 8.47% as of 31 December 2011.

The minimum total capital adequacy ratio requirement will be increased by the capital conservation buffer of 2.5%, meaning an effective minimum requirement of 10.50% in 2019. Nova KBM's total capital adequacy ratio was 10.83% as of 31 December 2011.

Furthermore, provided for systemically important banks is a countercyclical buffer to withstand future risks that follow a period of high economic growth. In case the regulator decides to introduce a certain capital conservation buffer for a bank, it will have to inform the bank of such an intention 12 month prior to the introduction; the capital conservation buffer shall amount to a maximum of 2.5%.

Two new ratios are to be introduced in the area of liquidity. The Liquidity Coverage Ratio (LCR) relates to the provision of short-term liquidity needed for a bank's resilience under a stress scenario over a period of 30 days. The Net Stable Fund Ratio (NSFR) has the objective of ensuring the resilience of banking activities over a longer time horizon. LCR and NSFR will become effective in 2015 and 2018, respectively.

4.8 INFORMATION PROTECTION RISK

The information protection strategy of Nova KBM is based on guidelines laid down in the Bank's business strategy and was formulated in accordance with the applicable legislation and requirements of the Bank of Slovenia and other regulators.

Protection of information includes:

- Protection of Bank's information and information technology from sabotage, unauthorised access and all other threats in such a way that in case of an unpleasant incident any possible loss is kept to a minimum while ensuring business continuity.
- Risk mitigation in case of exceptional occurrences, damages, natural and other disasters that might have a significant impact on the Bank's operations.
- High awareness of all of the employees and other providers about their responsibilities, and their acquaintance and compliance with the Bank's information security policy, internal regulations, legislation and standards, as well as their appropriate handling of information with regard to its classification.

The purpose of the overall security plan is to protect the following characteristics of information:

- Confidentiality – protecting sensitive business information from unauthorised access and interception.
- Integrity – protecting the accuracy and entirety of business information and computer business equipment.
- Availability – ensuring that business information and computer services are available to the users whenever and wherever they need them to perform day-to-day business processes.

The umbrella information security policy is adopted by the Policy Harmonisation Forum on the proposal of the Information Protection Forum.

In 2011, the Information Protection Forum met once and discussed the amended and redrafted umbrella information security policy.

A web-based training programme on the protection of information was conducted for all Bank employees. The main purpose of this training was to make employees aware of the importance of information and information protection for the organisation, of threats to which information and information systems are exposed, and to inform them of the methods and ways of work that contribute to a reduction of risks threatening the information security.

4.9 PREVENTION OF MONEY LAUNDERING

The policy for detection and prevention of money laundering and the financing of terrorism is an integral part of the Bank's strategic policy. The Bank's policy for detection and prevention of money laundering and the financing of terrorism is based on the Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT) and on guidelines published by the Bank of Slovenia. The Group companies are also included in the implementation of policy covering the management of risk in this area.

During 2011, a great emphasis was put on a further development of the Bank's system aimed at minimising the possibility of abusing the Bank for money laundering and terrorism financing, and on the upgrade of preventive and control measures applied in this respect.

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

The Bank's guiding principle in conducting its business is a good knowledge of customers and of the legal activity customers are engaged in.

The Bank reports daily to the Office for Money Laundering Prevention on all cash transactions exceeding €30,000 and on all payments exceeding this amount which are, on the request of a customer, made to the accounts of legal entities or individuals residing in countries that do not comply with the standards applicable to the prevention of money laundering and terrorism financing. The Bank reports to the Office for Money Laundering Prevention also on all transaction and/or persons with the suspicion of money laundering or terrorism financing. In order to easily identify potentially suspicious transactions, the Bank has set up a system for account monitoring for both legal and private entities.

Following the guidelines of the Bank of Slovenia, the Bank uses its own methodology for assessing risk of each group or type of customer, business relationship, product or transaction to identify possible money laundering and terrorism financing. Such segmentation of customers is used to decide on the scope of customer verification to be carried out, i.e. a regular or an in-depth verification.

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

To identify clients with whom conducting business is prohibited due to restrictive measures, a consolidated list of the EU Banking Association is used. If any individual or legal entity from the list attempts to conduct business with Nova KBM, they are restricted from doing so and the relevant information is forwarded to the Ministry of Foreign Affairs of the Republic of Slovenia and the Office for Money Laundering Prevention.

Nova KBM encourages employees to attend training on the prevention of money laundering and financing of terrorism activities. These training sessions are mainly carried out internally for all employees, who are, directly or indirectly, engaged in client operations. The up-to-date internal manual for the prevention of money laundering and terrorism financing in Nova KBM, together with ZPPDFT and related executive regulations, are available to all employees on the Bank's intranet website.

5 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	31.12.2011		31.12.2010	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and balances with the central bank	97,023	97,023	78,724	78,724
Financial assets held for trading	8,442	8,442	2,784	2,784
Financial assets designated at fair value through profit or loss	37,942	37,942	16,266	16,266
Available-for-sale financial assets	523,932	523,932	685,918	685,918
Loans and advances to banks	182,418	182,640	213,712	213,712
Loans and advances to customers	3,342,123	3,348,369	3,505,866	3,512,703
Held-to-maturity financial assets	339,819	337,361	78,894	78,060
Other assets	52,975	52,975	24,991	24,991
Financial liabilities				
Financial liabilities due to the central bank	370,465	340,467	130,149	130,149
Financial liabilities held for trading	1,693	1,693	5,842	5,842
Deposits from banks	121,381	121,343	66,200	66,215
Deposits from customers	3,065,998	3,082,565	3,024,563	3,036,918
Loans from banks	603,842	603,842	938,787	938,787
Loans from customers	154	154	349	333
Debt securities	27,885	27,932	44,404	44,593
Subordinated liabilities	178,035	180,410	177,953	186,238
Other liabilities	28,058	28,058	26,235	26,235

The Bank determines fair values according to the following hierarchy: market value; valuation based on market interest rates; acquisition cost. The table above sets forth fair values of individual balance sheet items. Fair value of items measured at amortised or acquisition cost is established on the basis of a model that uses market interest rates. Fair value is calculated for items with a fixed interest rate and residual maturity of over one year. As for other items, the Bank deems that there is no material difference between the book and fair value.

Fair value is established on the basis of discounted cash flows for each item by using the market interest rates prevailing at the reporting date.

Analysis of fair value hierarchy

	31.12.2011				31.12.2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Derivatives	8,442	0	8,442	0	2,705	0	2,705	0
Financial assets held for trading	0	0	0	0	79	79	0	0
- debt securities	0	0	0	0	0	0	0	0
- equity instruments	0	0	0	0	79	79	0	0
Available-for-sale financial assets	503,610	436,471	67,139	0	678,483	619,595	58,888	0
- debt securities	442,569	375,430	67,139	0	611,570	552,682	58,888	0
- equity instruments	61,041	61,041	0	0	66,913	66,913	0	0
Financial assets designated at fair value through profit or loss	37,942	25,072	12,870	0	16,266	3,758	12,508	0
- debt securities	3,118	3,118	0	0	3,215	3,215	0	0
- equity instruments	34,824	21,954	12,870	0	13,051	543	12,508	0
Financial liabilities								
Derivatives	1,693	0	1,693	0	5,842	0	5,842	0

Level 1 includes financial assets whose fair value is determined on the basis of prices quoted in active markets.

Level 2 includes financial assets whose fair value is established on the basis of valuation models which take into account variables derived from public market data (such as market interest rates).

Level 3 includes financial assets whose fair value is established on the basis of valuation models which take into account subjective variables that are not publicly available.

Financial assets designated at fair value through profit or loss - equity financial instruments form a part of a forward sale and are valued in connection with forward contracts.

Analysis of transitions between Level 1 and Level 2

	Transition from Level 1 to Level 2 in 2011	Transition from Level 2 to Level 1 in 2011	Transition from Level 1 to Level 2 in 2010	Transition from Level 2 to Level 1 in 2010
Financial assets held for trading	0	0	0	0
Available-for-sale financial assets	20,020	11,579	13,787	174,933
- debt securities	20,020	11,579	13,787	174,933
- equity instruments	0	0	0	0
Financial assets designated at fair value through profit or loss	0	0	0	0

The Bank starts measuring financial assets according to the valuation model which takes into account available market prices once it establishes that the market is not active. Debt securities with a determinable cash flow and without an available market price are valued at the end of each month using the discounted cash flow model. The interest rate used for discounting is the sum of the interest rate of a risk-free instrument of comparable maturity and a margin for credit risk. The transition from Level 2 to Level 1 is a result of re-availability of a financial asset's market price. The price of a financial asset is considered to be available if the published market price is a result of an actual turnover in the period of less than one month.

NOTES TO THE STATEMENT OF INCOME ITEMS

6 INTEREST INCOME AND EXPENSE

6.1 ANALYSIS OF INTEREST BY TYPE

	2011		2010	
	Income	Expense	Income	Expense
Regular interest	194,666	107,787	190,739	91,943
Default interest	12,264	0	11,174	0
Other similar income/expense	155	41	157	22
Total	207,085	107,828	202,070	91,965
Net interest income	99,257		110,105	

6.2 ANALYSIS OF INTEREST BY MARKET SEGMENTS

	2011		2010	
	Income	Expense	Income	Expense
Non-financial companies	96,689	4,047	95,664	4,497
State	12,453	22,216	12,632	18,237
Banks	13,496	33,105	10,201	26,909
Other financial organisations	13,666	8,377	13,833	7,194
Households	55,575	39,100	52,581	34,194
Foreign persons	14,920	773	16,866	734
Non-profit household service providers	286	210	293	200
Total	207,085	107,828	202,070	91,965
Net interest income	99,257		110,105	

6.3 ANALYSIS OF INTEREST INCOME AND EXPENSE BY TYPE OF ASSETS AND LIABILITIES

	2011		2010	
	Current	Non-current	Current	Non-current
Interest income				
Balances with the central bank	653	0	514	0
Financial assets held for trading	0	0	140	0
Financial assets designated at fair value through profit or loss	0	120	0	120
Available-for-sale financial assets	17,166	0	5,094	13,830
Loans and advances (including finance leases)	47,440	137,389	60,661	119,182
Held-to-maturity financial assets	0	4,270	0	2,484
Other claims	47	0	45	0
Total by maturity	65,306	141,779	66,454	135,616
Total	207,085		202,070	
Interest expense				
Financial liabilities due to the central bank	1,646	380	402	1,240
Financial liabilities held for trading	0	39	0	22
Financial liabilities measured at amortised cost	20,957	84,804	19,862	70,439
Other financial liabilities (including finance leases)	2	0	0	0
Total by maturity	22,605	85,223	20,264	71,701
Total	107,828		91,965	
Net interest income	99,257		110,105	

6.4 NET INTEREST INCOME

	2011	2010
Total interest income and similar income	207,085	202,070
Total interest expense and similar expense	107,828	91,965
Net interest income	99,257	110,105
Average interest rate on assets (%)	4.67	4.40
Average interest rate on liabilities (%)	2.58	2.28

7 DIVIDEND INCOME

	2011	2010
Financial assets held for trading	28	13
- shares and participating interests in other issuers	28	13
Financial assets designated at fair value through profit or loss	703	241
- shares and participating interests in banks	29	196
- shares and participating interests in other issuers	674	45
Available-for-sale financial assets	2,207	1,452
- shares and participating interests in banks	574	0
- shares and participating interests in other issuers	1,633	1,452
Investments in Group companies accounted for using the cost method	5,862	3,794
- investments in equity of subsidiaries	1,416	3,794
- investments in equity of associates	4,446	0
Total	8,800	5,500

The largest proportion of the 2011 dividend income from available-for-sale financial assets comes from Mercator d.d. shares (€1,578,000).

The 2011 dividend income from investments in equity of Group companies is made up of dividends from the following companies: Adria Bank (€881,000), KBM Infond (€535,000) and Zavarovalnica Maribor (€4,446,000).

The 2010 dividend income from investments in equity of Group companies is made up of dividends from the following companies: Adria Bank (€1,322,000), KBM Fineko (€290,000) and KBM Infond (€2,182,000).

8 FEE AND COMMISSION INCOME AND EXPENSE

8.1 ANALYSIS OF FEES AND COMMISSIONS BY TYPE

	2011	2010
Fee and commission income	49,944	52,768
Fees from guarantees	3,742	4,427
Services provided to banks in the Group	944	694
Services provided to other Group subsidiaries	365	333
Domestic payment transactions	14,636	14,857
International payment transactions	2,193	2,021
Brokerage and agency services	230	225
Transactions in securities for customers	358	442
Credit operations	7,589	10,427
Transactions under current accounts	7,263	7,643
Card operations	10,014	9,151
Electronic banking	1,101	951
Safekeeping of objects and valuables	67	61
Other services	1,442	1,536
Fee and commission expense	9,520	5,925
Domestic banking services	1,203	1,550
Banking services abroad	6,804	1,602
Brokerage and agency services	46	114
Stock exchange transactions and other transactions in securities	328	322
Payment transactions	863	1,023
Services of banks in the Group	72	42
Other services	204	1,272
Net fee and commission income	40,424	46,843

8.2 ANALYSIS OF FEES AND COMMISSIONS BY MARKET SEGMENTS

	2011	2010
Fee and commission income	49,944	52,768
Non-financial companies	22,075	23,600
State	336	378
Banks	3,228	3,074
Other financial organisations	1,379	1,376
Households	21,504	22,796
Foreign persons	737	852
Non-profit household service providers	685	692
Fee and commission expense	9,520	5,925
Net fee and commission income	40,424	46,843

8.3 FEE AND COMMISSION INCOME AND EXPENSE RELATING TO FIDUCIARY ACTIVITIES

	2011	2010
Income from fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	409	506
Receipt, transmission and execution of orders	355	441
Management of financial instruments	9	16
Investment advice	0	1
Administration of book-entry securities accounts of customers	45	48
Expenses for fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	265	281
Fees and commissions in connection with the Central Securities Clearing Corporation and similar organisations	222	244
Fees and commissions in connection with the stock exchange and similar organisations	43	37

9 REALISED GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011			2010		
	Realised gains	Realised losses	Net realised gains/(losses)	Realised gains	Realised losses	Net realised gains/(losses)
Available-for-sale financial assets	489	909	(420)	2,980	1,929	1,051
Loans and advances	1,896	2,732	(836)	1,162	824	338
Held-to-maturity financial assets (Note 26.1)	696	169	527	18	4	14
Other financial assets and liabilities measured at amortised cost	77	87	(10)	41	49	(8)
Total	3,158	3,897	(739)	4,201	2,806	1,395

10 NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2011			2010		
	Gains	Losses	Net gains	Gains	Losses	Net gains/(losses)
Trading in equity instruments	485	330	155	984	485	499
Trading in debt securities	0	0	0	304	99	205
Trading in foreign exchange (purchase/sale)	2,059	1,665	394	1,966	1,347	619
Trading in derivatives	15,741	13,102	2,639	4,490	18,623	(14,133)
- futures/forwards	15,691	13,102	2,589	4,490	18,603	(14,113)
- swaps	50	0	50	0	20	(20)
Total	18,285	15,097	3,188	7,744	20,554	(12,810)

The Bank uses derivatives (futures/forwards) for economic hedging of exposure to currency risk. Their effects are associated with the effects of exchange rate differences (Note 12).

11 NET LOSSES ON FINANCIAL ASSETS (AND LIABILITIES) DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Gains	2011 Losses	Net (losses)	Gains	2010 Losses	Net (losses)
Financial assets designated at fair value through profit or loss	2,751	9,886	(7,135)	875	2,317	(1,442)
Total	2,751	9,886	(7,135)	875	2,317	(1,442)

12 NET EXCHANGE RATE DIFFERENCES

	2011	2010
Foreign exchange gains	46,310	62,607
Foreign exchange losses	44,108	46,459
Net foreign exchange gain	2,202	16,148

13 OTHER NET OPERATING INCOME/LOSS

	2011	2010
Income		
Income from investment property given under operating leases	154	124
Other operating income	1,589	5,644
Total	1,743	5,768
Expense		
Taxes	3,563	5
Contributions	489	384
Other charges	0	4
Membership fees and similar fees	130	141
Other operating expenses	524	1,373
Total	4,706	1,907
Other net operating income/(loss)	(2,963)	3,861

The largest proportion of other operating income generated in 2011, in the amount of €524,000, relates to the transfer to income of deposit accounts which were closed due to not being active.

14 ADMINISTRATION COSTS

	2011	2010
Staff expenses		
Gross salaries	31,807	33,677
Social security contribution	2,321	2,457
Pension insurance contribution	2,833	2,999
Transportation allowance	816	841
Meal allowance	1,069	1,093
Employee bonuses	0	44
Termination benefits and early retirement payments	575	665
Supplementary pension insurance premiums	1,157	1,369
Pay for annual leave	2,319	2,404
Solidarity help and jubilee benefits	19	27
Other staff costs under employment contracts	440	339
Total	43,356	45,915
General and administrative expenses		
Cost of material	1,012	865
Cost of energy	1,317	1,083
Cost of specialised text books	68	217
Other costs of material	322	293
Cost of renting business premises	2,034	2,225
Postal costs	1,989	2,375
Transport costs	2,010	1,960
Information system costs	4,421	4,632
Cost of other services	4,207	3,890
Business travel expenses	212	368
Maintenance costs of fixed assets	4,908	4,809
Advertising costs	4,593	4,159
Entertainment costs	198	303
Consulting, auditing, accounting and other services	3,415	3,669
School fees, scholarships and other training costs	460	567
Cost of insurance	662	607
Other administrative costs	396	266
Total	32,224	32,288
Total administration costs	75,580	78,203

Pay for annual leave amounted in 2011 to 80% of the average salary paid to Bank employees during the three months preceding the month in which pay for annual leave was provided, which totalled €1,582.25 gross. The Christmas allowance and the 13th salary were not paid to Bank employees in 2011.

The largest proportion of the cost of other services in 2011 relates to the refurbishing of business premises and the tidying of their surrounding area as well as the costs of public utility services (€765,000), the costs relating to the security (€734,000), and the costs of electronic archiving (€548,000).

The largest proportion of the cost of other services in 2010 relates to the refurbishing of business premises and the tidying of their surrounding area as well as the costs of public utility services (€740,000), the costs relating to the security (€641,000), and the costs of electronic archiving (€600,000).

Remuneration of auditors

	2011	2010
Audit of the annual report	141	124
Other audit services	337	103
Other non-audit services	0	2
Total	478	229

15 DEPRECIATION AND AMORTISATION

	2011	2010
Depreciation of property, plant and equipment (Note 27)	6,446	6,219
Amortisation of intangible assets (Note 29)	6,716	5,909
Total	13,162	12,128

16 PROVISIONS

	2011	2010
Provisions for pensions and similar benefits (Note 38)	(31)	479
Provisions for off-balance sheet liabilities (Note 38)	14,742	1,774
Provisions for pending legal issues (Note 38)	1,501	90
Other provisions (Note 38)	(281)	(7)
Total	15,931	2,336

17 IMPAIRMENT LOSSES

	2011	2010
Financial assets not measured at fair value through profit or loss	125,694	65,735
Other assets	16,559	112
Total impairment losses	142,253	65,847

17.1 IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
Financial assets measured at cost	22,874	0
Available-for-sale financial assets (Note 23.2)	9,742	1,638
Loans and advances measured at amortised cost	93,078	64,097
- loans and advances to banks (Note 24.1)	(834)	524
- loans and advances to customers (Note 25.1)	93,912	63,573
Total impairment of financial assets not measured at fair value through profit or loss	125,694	65,735

17.2 IMPAIRMENT OF OTHER ASSETS

	2011	2010
Investment property	(123)	0
Investments in equity of subsidiaries, associates and joint ventures	16,421	0
Other assets (Note 32.1)	261	112
Total impairment of other assets	16,559	112

Impairment losses recognised by the Bank in 2011 on its investments in equity of subsidiaries were as follows: KBM Leasing (€8,316,000), KBM Invest (€369,000), Gorica Leasing (€754,000), KBM Projekt (€3,997,000) and KBM Leasing Hrvatska (€2,985,000).

18 INCOME TAX EXPENSE RELATED TO PROFIT/LOSS FROM CONTINUING OPERATIONS

	2011	2010
Deferred tax from continuing operations (Note 31.3)	(20,043)	1,993
Total	(20,043)	1,993

18.1 RECONCILIATION OF EFFECTIVE TAX RATE

	2011	2010
Profit/(loss) before tax in accordance with IFRSs	(104,018)	11,365
Income tax calculated by applying the official tax rate (20%)	(20,804)	2,273
Increased tax base – 5% of the dividend income	88	55
Non-allowable tax expenses	2,432	712
Income that reduces the tax base	(1,761)	(1,100)
Income adjustment to the level of taxable income (increase)	2	53
Total income tax	(20,043)	1,993
Effective tax rate (%)	/	17.60

The effective tax rate for the period from 1 January to 31 December 2011 has not been calculated because the income tax liability has not been accounted for. The amount of €20,043,000 represents net income from deferred taxes.

19 BASIC EARNINGS PER SHARE

	2011	2010
Net profit/(loss) for the financial year (€000)	(83,975)	9,372
Weighted average number of ordinary no-par value shares	34,692,605	26,081,979
Basic earnings/(loss) per share (€)	(2.42)	0.36

Diluted earnings/loss per share equals basic earnings/loss per share.

Basic earnings per share is calculated as the ratio between net profit or loss reported for the period and the weighted average number of ordinary no-par value shares.

The total number of outstanding shares of the Bank as of 31 December 2010 was 26,081,979. Following the May 2011 capital raising, the total number of outstanding shares increased to 39,122,968. The increase in the number of shares took effect on 5 May 2011, i.e. on the day on which the decision of the court with respect to the registration of share capital was received by the Bank. The weighted average number of ordinary shares of the Bank in 2011 was 34,692,605.

NOTES TO THE STATEMENT OF FINANCIAL POSITION ITEMS

20 CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2011	31.12.2010
Cash in hand	39,703	38,901
Obligatory deposits with the central bank	42,415	36,448
Other deposits with the central bank	14,905	3,375
Total	97,023	78,724

Obligatory deposit funds are available for day-to-day operations and are therefore considered as cash equivalent.

20.1 CASH AND CASH EQUIVALENTS

	31.12.2011	31.12.2010
Cash and balances with the central bank	97,023	78,724
Loans and advances to banks	103,910	131,276
Total	200,933	210,000

21 FINANCIAL ASSETS HELD FOR TRADING

	31.12.2011	31.12.2010
Derivatives	8,442	2,705
Equity instruments	0	79
- of banks	0	79
Total	8,442	2,784
Quoted	0	79
Unquoted	8,442	2,705
Total	8,442	2,784

No assets of this portfolio are pledged as collateral.

Financial assets held for trading do not have the characteristics of a subordinated debt.

21.1 MOVEMENT IN FINANCIAL ASSETS HELD FOR TRADING

	2011	2010
1 January	2,784	16,754
Increase during the year	23,437	29,716
- acquisition	17,215	27,717
- exchange rate differences	0	1
- change in fair value (recovery)	5,737	699
- other (deferred interest, realised gains)	485	1,299
Decrease during the year	17,779	43,686
- disposal (sale and redemption)	17,449	43,401
- change in fair value (impairment)	0	(258)
- other (deferred interest, realised losses)	330	543
31 December	8,442	2,784

22 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2011	31.12.2010
Equity instruments	34,824	13,051
Debt securities	3,118	3,215
Total	37,942	16,266
Quoted	25,072	3,758
Unquoted	12,870	12,508
Total	37,942	16,266

Assets of this portfolio pledged as collateral amount to €3,118,000. Assets are pledged with the Bank of Slovenia for the purpose of the guarantee scheme. The amount of assets, obtained in 2011 from the liquidation of collateral provided as security for loans, totalled €26,780,000 at the 2011 year-end.

Financial assets designated at fair value through profit or loss include bonds and equities for which the Bank has entered into forward sale contracts.

The effects of valuation of financial assets designated at fair value through profit or loss and the effects of valuation of forward contracts are recorded through profit or loss.

Financial assets designated at fair value through profit or loss do not have the characteristics of a subordinated debt.

22.1 MOVEMENT IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
1 January	16,266	24,736
Increase during the year	35,130	20,252
- acquisition	32,219	19,695
- change in fair value (recovery)	2,542	0
- deferred interest	120	120
- exchange rate differences	82	40
- other	167	397
Decrease during the year	13,454	28,722
- disposal (sale and redemption)	3,401	26,503
- change in fair value (impairment)	9,886	2,045
- interest received	120	120
- exchange rate differences	47	54
31 December	37,942	16,266

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

23.1 ANALYSIS BY TYPE AND MARKET SEGMENTS

	31.12.2011	31.12.2010
Available-for-sale equity instruments designated at fair value	61,041	66,913
- equity investments in other financial organisations	31,076	34,402
- equity investments in non-financial organisations	29,965	32,511
Available-for-sale equity instruments measured at cost	20,322	7,015
- equity investments in banks	11,210	0
- equity investments in other financial organisations	1	1
- equity investments in non-financial organisations	9,103	7,006
- equity investments in other foreign entities	8	8
Available-for-sale debt securities	442,569	611,990
- issued by the state and the central bank	217,350	272,785
- issued by banks	200,348	314,169
- issued by other issuers	24,871	25,036
Total	523,932	685,918
Quoted	480,995	678,482
Unquoted	42,937	7,436
Total	523,932	685,918

Assets of this portfolio pledged as collateral amount to €416,569,000. Assets are pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors. The amount of assets, obtained in 2011 from the liquidation of collateral provided as security for loans, totalled €49,980,000 at the 2011 year-end.

The following four instruments qualify as a subordinated debt: NLB FLOAT 49, in the amount of €2,788,000, bonds ZVM2, in the amount of €1,813,000, BCE 11, in the amount of €2,852,000, and ABVIP FLOAT 12/29/49, in the amount of €1,636,000, which in aggregate accounts for 1.73% of the total portfolio.

23.2 MOVEMENT IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2011	66,913	7,015	611,990	685,918
Recognition of new financial assets	0	36,124	0	36,124
Interest	0	0	(1,217)	(1,217)
Net revaluation through equity (Note 42.1)	2,738	0	(22,085)	(19,347)
Net impairment through profit or loss (Note 17.1)	(8,714)	(22,874)	(1,028)	(32,616)
Derecognition of financial assets	0	0	(144,510)	(144,510)
Net gains/(losses) on sale	104	57	(581)	(420)
31 December 2011	61,041	20,322	442,569	523,932

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2010	45,384	6,786	781,237	833,407
Recognition of new financial assets	26,712	229	5,079	32,020
Interest	0	0	(2,414)	(2,414)
Net exchange rate differences	0	0	85	85
Net revaluation through equity (Note 42.1)	(4,096)	0	1,595	(2,501)
Net impairment through profit or loss (Note 17.1)	(676)	0	(962)	(1,638)
Derecognition of financial assets	(438)	0	(173,654)	(174,092)
Net gains on sale	27	0	1,024	1,051
31 December 2010	66,913	7,015	611,990	685,918

24 LOANS AND ADVANCES TO BANKS

	31.12.2011	31.12.2010
Sight deposits	4,537	28,688
Impairment of sight deposits	0	(3)
Current loans	108,782	107,300
Impairment of current loans	(273)	(675)
Non-current loans	69,492	78,953
Impairment of non-current loans	(121)	(551)
Claims under guarantees	1	0
Total – net amount	182,418	213,712
Impairment	394	1,229
Total – gross amount	182,812	214,941

24.1 MOVEMENT IN IMPAIRMENT OF LOANS AND ADVANCES TO BANKS

	2011	2010
1 January	1,229	954
Net impairment of principal (Note 17.1)	(834)	524
- additional impairment	3,990	4,282
- reversal of impairment	(4,824)	(3,758)
Reversal of impairment of interest	(1)	(3)
Write-offs of loans and advances to banks	0	(246)
31 December	394	1,229

Additional impairment/reversal of impairment of interest on loans and advances to banks is reflected in the statement of income (Note 6: 'Interest income and expense' and Note 8: 'Fee and commission income and expense').

25 LOANS AND ADVANCES TO CUSTOMERS

	31.12.2011	31.12.2010
Current loans	732,032	864,472
Impairment of current loans	(86,012)	(56,378)
Non-current loans	2,932,460	2,877,618
Impairment of non-current loans	(243,372)	(182,832)
Claims under guarantees	12,704	5,559
Impairment of claims under guarantees	(5,689)	(2,573)
Total – net amount	3,342,123	3,505,866
Impairment	335,073	241,783
Total – gross amount	3,677,196	3,747,649

25.1 MOVEMENT IN IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

	2011	2010
1 January	241,783	205,489
Net impairment of principal (Note 17.1)	93,912	63,573
- additional impairment of principal	220,576	205,203
- reversal of impairment of principal	(126,664)	(141,630)
Additional impairment of interest	9,181	6,884
Additional impairment of fees	106	207
Write-offs of loans and advances to customers	(9,909)	(34,370)
31 December	335,073	241,783

Additional impairment/reversal of impairment of interest and fees on loans and advances to customers is reflected in the statement of income (Note 6: 'Interest income and expense' and Note 8: 'Fee and commission income and expense').

26 HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2011	31.12.2010
Held-to-maturity debt securities		
- non-current securities issued by the state and the central bank	276,545	25,559
- non-current securities issued by banks and savings banks	59,393	49,450
- non-current securities issued by other issuers	3,881	3,885
Total	339,819	78,894
Quoted	338,101	77,178
Unquoted	1,718	1,716
Total	339,819	78,894

Assets of this portfolio pledged as collateral amount to €332,044,000. Assets in the amount of €322,932,000 are pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme, while assets totalling €9,112,000 are pledged as collateral for a repo transaction entered into with ING Bank NV, Amsterdam.

The following instruments qualify as a subordinated debt: debt securities of Adria Bank, in the amount of €1,718,000, and debt securities NLB26, in the amount of €3,092,000, which in aggregate accounts for 1.41% of the total portfolio.

26.1 MOVEMENT IN HELD-TO-MATURITY FINANCIAL ASSETS

	2011	2010
1 January	78,894	43,043
Increase during the year	264,820	37,520
- acquisition	259,854	35,002
- gains (Note 9)	696	18
- other (deferred interest)	4,270	2,500
Decrease during the year	3,895	1,669
- losses (Note 9)	169	4
- other (interest received)	3,726	1,665
31 December	339,819	78,894

27 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Computer equipment	Other equipment	PPE in progress	Total
Cost					
1 January 2011	82,832	27,158	27,704	1,201	138,895
Transfer between types of assets	1,605	1,549	1,228	(4,382)	0
Additions	0	0	0	5,667	5,667
Disposals	(85)	(1,830)	(1,506)	(49)	(3,470)
31 December 2011	84,352	26,877	27,426	2,437	141,092
Accumulated depreciation					
1 January 2011	29,703	23,557	19,953	0	73,213
Additions	0	2	5	0	7
Depreciation (Note 15)	2,584	1,845	2,017	0	6,446
Disposals	(80)	(1,820)	(1,427)	0	(3,327)
31 December 2011	32,207	23,584	20,548	0	76,339
Carrying amount as of 1 January 2011	53,129	3,601	7,751	1,201	65,682
Carrying amount as of 31 December 2011	52,145	3,293	6,878	2,437	64,753

No items of property, plant and equipment are pledged.

The acquisition cost of completely depreciated items of property, plant and equipment that are still used by the Bank totals €30,263,000.

The Bank's obligation to suppliers of items of property, plant and equipment as of 31 December 2011 was €741,000.

Purchases of items of property, plant and equipment were in 2011 evenly spread across all asset types.

	Land and buildings	Computer equipment	Other equipment	Finance lease	PPE in progress	Total
Cost						
1 January 2010	71,451	27,648	26,511	25	1,031	126,666
Transfer between types of assets	(1,370)	(4)	29	(25)	0	(1,370)
Additions	12,882	1,503	2,547	0	170	17,102
Disposals	(131)	(1,989)	(1,383)	0	0	(3,503)
31 December 2010	82,832	27,158	27,704	0	1,201	138,895
Accumulated depreciation						
1 January 2010	28,170	23,626	19,154	15	0	70,965
Transfer between types of assets	(599)	(3)	18	(15)	0	(599)
Additions	0	6	3	0	0	9
Depreciation (Note 15)	2,252	1,887	2,080	0	0	6,219
Disposals	(120)	(1,959)	(1,302)	0	0	(3,381)
31 December 2010	29,703	23,557	19,953	0	0	73,213
Carrying amount as of 1 January 2010	43,281	4,022	7,357	10	1,031	55,701
Carrying amount as of 31 December 2010	53,129	3,601	7,751	0	1,201	65,682

28 INVESTMENT PROPERTY

	2011	2010
1 January	1,777	933
Additions	0	844
Change in fair value	123	0
31 December	1,900	1,777

The Bank has in place five agreements for renting out investment properties. The aggregate annual rent amounts to €169,000 (VAT included).

Fair value of investment property has been assessed by a certified appraiser on the basis of market data.

Direct operating expenses relating to investment property amounted in 2011 to €7,000, compared to €34,000 in 2010.

There are no sales restrictions on the items of investment property.

29 INTANGIBLE ASSETS

	Computer software	Intangible assets in preparation	Total
Cost			
1 January 2011	55,307	217	55,524
Transfer between types of assets	6,438	(6,438)	0
Additions	0	6,806	6,806
31 December 2011	61,745	585	62,330
Accumulated amortisation			
1 January 2011	28,516	0	28,516
Amortisation (Note 15)	6,715	0	6,715
31 December 2011	35,231	0	35,231
Carrying amount as of 1 January 2011	26,791	217	27,008
Carrying amount as of 31 December 2011	26,514	585	27,099

	Computer software	Intangible assets in preparation	Total
Cost			
1 January 2010	47,878	284	48,162
Additions	7,429	0	7,429
Disposals	0	(67)	(67)
31 December 2010	55,307	217	55,524
Accumulated amortisation			
1 January 2010	22,607	0	22,607
Amortisation (Note 15)	5,909	0	5,909
31 December 2010	28,516	0	28,516
Carrying amount as of 1 January 2010	25,271	284	25,555
Carrying amount as of 31 December 2010	26,791	217	27,008

The Bank's obligation to suppliers of intangible assets as of 31 December 2011 was €704,000.

The Bank may freely dispose of its intangible assets and no such assets are pledged.

In 2011 and 2010, the Bank did not capitalise development costs.

30 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	31.12.2011	31.12.2010
Investments in equity of banks in the Group	51,726	46,726
- banks in the Group	51,726	46,726
Investments in equity of other Group companies	50,241	47,626
- financial associates	31,918	24,729
- other financial subsidiaries	13,695	13,903
- non-financial subsidiaries	4,628	8,994
Total	101,967	94,352

30.1 MOVEMENT IN INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	2011	2010
1 January	94,352	74,936
Increase during the year	24,248	19,416
- acquisition	24,191	19,416
- other (realised gains)	57	0
Decrease during the year	16,633	0
- sale and redemption	212	0
- impairment	16,421	0
31 December	101,967	94,352

During 2011, the Bank injected additional capital into the following subsidiaries: Credy banka (€5,000,000), KBM Leasing (€3,000,000), KBM Leasing Hrvatska (€1,997,000) and KBM Infond (€6,850,000). In addition, the Bank invested €7,401,000 in the equity of Zavarovalnica Maribor. Also during 2011, the Bank reduced its shareholding in Zavarovalnica Maribor by €212,000, and recognised impairment of its investments in Group companies as follows: KBM Leasing (€8,316,000), KBM Invest (€369,000), Gorica Leasing (€754,000), KBM Projekt (€3,997,000) and KBM Leasing Hrvatska (€2,985,000).

In 2010, the Bank acquired Credy banka. The total transaction value, including capital injection into the Serbian bank, was €19,416,000.

30.2 INFORMATION ON COMPANIES IN WHICH THE BANK HOLDS AT LEAST A 20% SHAREHOLDING

Name and registered address of the company	Total equity of the company as of 31.12.2011	2011 net profit/(loss) of the company	Proportional share of total equity	Acquisition cost	Bank's shareholding (%)	Bank's voting rights (%)	Investment value as of 31.12.2011
Investment in equity of banks				51,726			51,726
Adria Bank AG, Vienna	36,355	(96)	16,960	16,149	46.65	50.54	16,149
Credy banka a.d., Kragujevac	25,668	282	19,672	24,416	76.64	76.64	24,416
Poštna banka Slovenije d.d., Maribor	45,386	2,484	24,962	11,161	55.00	55.00	11,161
Investment in equity of other companies				66,662			50,241
Gorica Leasing d.o.o., Nova Gorica	2,815	44	2,815	3,610	100.00	100.00	2,856
KBM Fineko d.o.o., Maribor	2,350	283	2,350	853	100.00	100.00	853
KBM Infond d.o.o., Maribor	13,595	728	9,888	8,660	72.73	72.73	8,660
KBM Invest d.o.o., Maribor	3,943	(1,193)	3,943	4,143	100.00	100.00	3,774
KBM Leasing d.o.o., Maribor	270	(6,691)	270	9,062	100.00	100.00	746
KBM Leasing Hrvatska d.o.o., Zagreb	490	(835)	462	4,360	94.38	94.38	1,375
KBM Projekt d.o.o., Zagreb	(11,321)	70	(7,833)	3,997	69.19	69.19	0
M-PAY d.o.o., Maribor	185	13	93	59	50.00	50.00	59
Moja naložba, pokojninska družba, d.d., Maribor	6,431	410	2,894	2,237	45.00	45.00	2,237
Zavarovalnica Maribor d.d., Maribor	87,540	10,557	44,642	29,681	51.00	51.00	29,681
Total				118,388			101,967

The shareholders' agreement entered into between the Bank and the Republic of Serbia includes a provision under which a 12.89% stake of the Republic of Serbia in Credy banka is subject to a call option available to the Bank and a put option available to the Republic of Serbia. Following the exercise of the option, the price of which is set at €5,636,000, the shareholding of the Bank in Credy banka will increase to 89.53%.

31 TAX ASSETS AND LIABILITIES

31.1 TAX ASSETS

	31.12.2011	31.12.2010
Current tax assets	3	3,072
Deferred tax assets	30,245	6,890
Total	30,248	9,962

Based on the projections for the period 2013 – 2015, the Bank believes it will be able to use deferred tax assets.

31.2 TAX LIABILITIES

	31.12.2011	31.12.2010
Current tax liabilities	0	2
Deferred tax liabilities	554	1,111
- valuation of available-for-sale securities	554	1,111
Total	554	1,113

31.3 DEFERRED TAXES

	31.12.2011	31.12.2010
Deferred tax assets		
- tax loss	12,096	722
- investments in fixed assets	6	0
- grants for cultural projects and for protection against natural disasters	22	0
- fees and commissions	589	0
- available-for-sale financial assets	14,813	5,229
- other provisions for pending legal issues	83	83
- other provisions for settled deposits	0	50
- other provisions for employees	748	806
- investments in equity of Group companies	1,888	0
Total deferred tax assets	30,245	6,890
Deferred tax liabilities		
- available-for-sale financial assets	554	1,111
Total deferred tax liabilities	554	1,111
Included in the statement of income		
- tax loss	11,374	722
- investments in fixed assets	6	0
- grants for cultural projects and for protection against natural disasters	22	0
- available-for-sale financial assets	6,272	(2,167)
- fees and commissions	589	0
- other provisions for pending legal issues	0	(495)
- other provisions for settled deposits	(50)	(1)
- other provisions for employees	(58)	(52)
- investments in equity of Group companies	1,888	0
Total included in the statement of income (Note 18)	20,043	(1,993)
Included in equity		
- available-for-sale financial assets (Note 42)	6,045	2,176
Total included in equity	6,045	2,176

32 OTHER ASSETS

	31.12.2011	31.12.2010
Cheques	66	117
Inventories	14	16
Assets obtained for the settlement of receivables	43,590	3,195
Claims for fees and commissions	1,663	1,545
Claims for advance payments	33	64
Account receivables	159	317
Claims from arbitrage transactions	0	4,544
Deferred costs and accrued revenues	310	597
Other claims	7,140	14,596
Total – net amount	52,975	24,991
Impairment	994	626
Total – gross amount	53,969	25,617

For 2011, the majority of the amount stated in the item 'Assets obtained for the settlement of receivables' relates to the plots of land which KBM Projekt transferred to the Bank (€40,000,000), while the amount stated in the item 'Other claims' is mainly made up of claims of various types (€2,508,000; provisional accounts of organisational units, claims for compensation for the Mestna Hranilnica business premises, claims for loss compensation) and claims relating to card operations (€3,622,000).

The majority of the amount stated in the item 'Other claims' in 2010 relates to the claim for interest against the Tax Administration of the Republic of Slovenia (€4,676,000; see Note 13), followed by a claim against the company KBM Fineko in respect of selling a debt (€3,383,000) and claims relating to card operations (€3,734,000).

32.1 MOVEMENT IN IMPAIRMENT OF OTHER ASSETS

	2011	2010
1 January	626	918
Net impairment of principal (Note 17.2)	261	112
- additional impairment of principal	1,388	373
- reversal of impairment of principal	(1,127)	(261)
Additional impairment of interest	11	12
Additional impairment of fees	179	78
Write-offs of other assets	(83)	(494)
31 December	994	626

Additional impairment/reversal of impairment of interest and fees on other assets is reflected in the statement of income (Note 6: 'Interest income and expense' and Note 8: 'Fee and commission income and expense').

33 NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

	31.12.2011	31.12.2010
Items of property, plant and equipment held for sale	450	575
Total	450	575

34 FINANCIAL LIABILITIES DUE TO THE CENTRAL BANK

	31.12.2011	31.12.2010
Loans from the central bank	370,465	130,149
- current loans	70,382	130,149
- non-current loans	300,083	0
Total	370,465	130,149

The expected maturity of these liabilities is disclosed in section '4.2 Liquidity risk'.

35 FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2011	31.12.2010
Derivatives	1,693	5,842
- valuation, forward contracts	1,680	5,780
- valuation, swap contracts	13	62
Total	1,693	5,842

36 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31.12.2011	31.12.2010
Deposits (Note 36.1)	3,187,379	3,090,763
Loans (Note 36.2)	603,996	939,136
Debt securities (Note 36.4)	27,885	44,404
Subordinated liabilities (Note 36.5)	178,035	177,953
Total	3,997,295	4,252,256

36.1 DEPOSITS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2011	31.12.2010
Deposits from banks	121,381	66,200
Sight deposits	9,805	10,638
Current deposits	65,228	55,185
Non-current deposits	46,348	377
Deposits from customers	3,065,998	3,024,563
Sight deposits	969,890	937,311
Current deposits	715,996	845,145
Non-current deposits	1,380,112	1,242,107
Total	3,187,379	3,090,763

36.2 LOANS BY TYPE OF CUSTOMERS AND MATURITY

	31.12.2011	31.12.2010
Loans from banks	603,842	938,787
Non-current loans	603,842	938,787
Loans from customers	154	349
Non-current loans	154	349
Total	603,996	939,136

As a result of being downgraded, the Bank had to repay two term loan facilities it borrowed in the past. A dual-currency term loan facility of €157,500,000 and CHF 150,000,000, which the Bank contracted on 12 December 2006, was repaid on 12 December 2011. The term loan facility in the amount of €165,000,000, which the Bank contracted on 5 November 2010, was partially repaid in 2011, while the remaining portion, in the amount of €94,500,000, was repaid on 20 February 2012.

36.3 DEPOSITS AND LOANS BY MARKET SEGMENTS

	31.12.2011	31.12.2010
Deposits	3,187,379	3,090,763
Banks	121,381	66,200
Non-financial companies	261,622	305,920
State	537,083	469,279
Other financial organisations	159,804	169,171
Foreign persons	37,648	35,704
Non-profit household service providers	26,097	23,504
Households	2,043,744	2,020,985
Loans	603,996	939,136
Banks	603,842	938,787
Non-financial companies	154	344
State	0	5
Total	3,791,375	4,029,899

36.4 DEBT SECURITIES BY TYPE AND MATURITY

	31.12.2011	31.12.2010
Debt securities		
Current securities	15,832	5,082
- certificates of deposit	15,832	5,082
Non-current securities	12,053	39,322
- certificates of deposit	12,053	10,013
- bonds issued	0	29,309
Total	27,885	44,404

36.5 SUBORDINATED LIABILITIES

ISIN code	Currency	Date of maturity	Interest rate	31.12.2011	31.12.2010
Hybrid instruments as a component of additional own funds					
ISIN: XS0270427163	EUR	perpetual; call option after 05.10.2016	3M EURIBOR + 1.60%	50,386	50,311
ISIN: XS0325446903	EUR	perpetual; call option after 12.10.2012	7.02%	101,599	101,599
Hybrid instruments as a component of original own funds					
ISIN: SI0022103046	EUR	perpetual; call option after 29.12.2014	8.70%	26,050	26,043
Total				178,035	177,953

Subordinated liabilities are included in the calculation of capital adequacy. Capital risk is disclosed in Note 4.6.

37 FINANCIAL LIABILITIES ASSOCIATED TO TRANSFERRED ASSETS

	31.12.2011	31.12.2010
Financial liabilities to banks	8,022	0
- current financial liabilities	8,022	0
Total	8,022	0

Current financial liabilities of the Bank as of 31 December 2011 relate to repo transactions.

38 PROVISIONS

	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Provisions for pending legal issues	Other provisions	Total
1 January 2011	4,786	9,031	1,031	812	15,660
Net provisions made during the year (Note 16)	(31)	14,742	1,501	(281)	15,931
- provisions made during the year	194	31,176	1,564	0	32,934
- provisions reversed during the year	(225)	(16,434)	(63)	(281)	(17,003)
Provisions used during the year	(226)	0	0	(97)	(323)
31 December 2011	4,529	23,773	2,532	434	31,268

Provisions for pensions and similar benefits to employees are recognised on the basis of an actuarial calculation; assumptions used in the calculation are disclosed in Note 3.14.

Other provisions in the amount of €434,000 relate to the provisions for undrawn loans under the National Housing Savings Scheme.

	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Provisions for pending legal issues	Other provisions	Total
1 January 2010	4,770	7,257	4,321	1,483	17,831
Net provisions made during the year (Note 16)	479	1,774	90	(7)	2,336
- provisions made during the year	672	23,500	502	0	24,674
- provisions reversed during the year	(193)	(21,726)	(412)	(7)	(22,338)
Provisions used during the year	(463)	0	(3,380)	(664)	(4,507)
31 December 2010	4,786	9,031	1,031	812	15,660

Provisions for pensions and similar benefits to employees are recognised on the basis of an actuarial calculation; assumptions used in the calculation are disclosed in Note 3.14.

Provisions used during the year for pending legal issues, in the amount of €3,250,000, relate to the out-of-court settlement of claims in respect of denationalisation of the Mestna Hranilnica business premises.

Other provisions of €812,000 relate to the provisions for undrawn loans under the National Housing Savings Scheme (€561,000) and to the provisions for settled deposits of citizens (€251,000).

39 OTHER LIABILITIES

	31.12.2011	31.12.2010
Liabilities for fees and commissions	59	53
Liabilities for gross salaries of employees	2,729	2,844
Liabilities to suppliers	4,199	3,911
Liabilities related to card operations	7,780	5,586
Liabilities under arbitrage transactions	0	4,544
Liabilities related to transactions with ATMs	1,472	1,743
Liabilities to the Ministry of Finance	0	255
Accrued expenses and deferred revenues	3,744	3,475
Surplus of liabilities under authorised transactions for customers	117	58
Other liabilities	7,959	3,766
Total other liabilities	28,059	26,235

40 SHARE CAPITAL

	31.12.2011	31.12.2010
Ordinary shares	40,815	27,210
- subscribed by non-financial companies	7,305	995
- subscribed by the state	14,562	13,909
- subscribed by banks	615	611
- subscribed by other financial organisations	2,663	2,939
- subscribed by households	6,693	6,264
- subscribed by foreign persons	8,977	2,492

In May 2011, the Bank raised additional capital. Share capital of the Bank increased by €13,605,000 to €40,815,000 (exact amount: €40,814,313.08) at the end of 2011.

The Bank's share capital as of 31 December 2011 was split into 39,122,968 shares, compared to 26,081,979 shares a year earlier. The accounting value of each ordinary no-par value share, calculated as the ratio between the share capital and the total number of shares, is €1.04.

The shares issued by the Bank are ordinary no-par value shares. All shares are of the same class, entail a voting right, are freely transferable, and have been issued in a book-entry form. Holders of shares have the following rights: participation in the management of the Bank; participation in profits (dividend); and pro-rata distribution of residual assets in case of bankruptcy or liquidation of the Bank, as laid down by the law. All shares have been fully paid for.

On 31 December 2011, the Bank had 98,354 shareholders (2010: 100,295), of which 1,018 were legal entities, 97,204 were individuals and 132 were foreign investors. The number of shareholders of the Bank decreased by 1,941 year-on-year.

In 2011 and 2010 the Bank did not acquire or sell treasury shares. As of 31 December 2011, the Bank did not hold treasury shares. At the end of 2011, a subsidiary of the Bank held 136,000 shares of the Bank (it took over the possession of shares that were provided as collateral for securing a loan).

41 SHARE PREMIUM

	31.12.2011	31.12.2010
Paid-in capital surplus	143,467	56,006
Share premium arising from the general capital revaluation	22,308	22,308
Total	165,775	78,314

Following the May 2011 capital increase, the Bank's share premium increased by €90,723,000. Direct costs of capital raising totalled €3,262,000 and were charged against share premium. The total amount of share premium as of 31 December 2011 was €165,775,000.

Share premium cannot be paid out to shareholders.

42 REVALUATION RESERVES

	31.12.2011	31.12.2010
Revaluation reserves in respect of available-for-sale financial assets (Note 42.1)	(24,181)	(8,704)
- revaluation	(30,226)	(10,880)
- deferred taxes (Note 31.3)	6,045	2,176
Total	(24,181)	(8,704)

42.1 MOVEMENT IN REVALUATION RESERVES

	2011	2010
1 January	(8,704)	(6,703)
Net change in valuation of available-for-sale financial assets (Note 23.2)	(19,347)	(2,501)
- losses recognised in revaluation reserves	(27,868)	(3,463)
- losses transferred from revaluation reserves to profit or loss	8,521	962
Net change in deferred taxes	3,870	500
31 December	(24,181)	(8,704)

43 RESERVES FROM PROFIT

	31.12.2011	31.12.2010
Reserves from profit	275,044	275,044
- regulatory reserves	12,145	12,145
- statutory reserves	172,158	172,158
- other reserves from profit	90,741	90,741
Total	275,044	275,044

The Management Board adopted a resolution to allocate €469,000 of the 2010 net profit to regulatory reserves, €4,451,000 to statutory reserves and €1,059,000 to other reserves. Due to a loss reported for 2011, the Bank did not increase its reserves from profit in 2011. The Management and the Supervisory Board resolved not to cover the 2011 loss.

43.1 MOVEMENT IN RESERVES FROM PROFIT

	2011	2010
1 January	275,044	266,180
- increase in regulatory reserves	0	469
- increase in statutory reserves	0	4,451
- increase in other reserves	0	3,944
31 December	275,044	275,044

44 RETAINED EARNINGS/LOSS (INCLUDING NET PROFIT/LOSS FOR THE FINANCIAL YEAR)

	31.12.2011	31.12.2010
Retained earnings from previous years	262	0
Net profit/(loss) for the financial year	(83,979)	3,392
Total	(83,717)	3,392

For 2011, the Bank reported a net loss of €83,979,000.

On 22 July 2011, the Shareholders' Meeting of Nova KBM resolved to appropriate the entire 2010 profit available for distribution, in the amount of €3,391,912.68, for the payment of dividends. The gross dividend per share was €0.08. Shareholders entered in the share register on 3 August 2011 were entitled to dividends. The total amount earmarked for the payment of dividends was €3,129,837.44 (39,122,968 x €0.08), and the dividends were paid to shareholders on 20 September 2011. As a result of rounding the amount of gross dividend to two decimal places, €262,075.24 of the 2010 profit available for distribution has not been allocated and was included in retained earnings.

Movements in retained earnings are disclosed in the statement of changes in equity.

OTHER NOTES

45 PROFIT AVAILABLE FOR DISTRIBUTION/RETAINED LOSS

	31.12.2011	31.12.2010
Net profit/(loss) for the financial year	(83,975)	9,372
+ retained earnings from previous years	262	0
- transfer to regulatory reserves	0	(469)
- transfer to statutory reserves	0	(4,451)
- transfer to other reserves from profit	0	(1,059)
- rounding-off	(4)	(1)
Profit available for distribution/retained loss	(83,717)	3,392

The Management and the Supervisory Board resolved not to cover the 2011 loss. Retained loss reported by the Bank for 2011 totals €83,717,000.

46 COMMITMENTS AND CONTINGENT LIABILITIES BY TYPE

	Current	Non-current	Total
31 December 2011			
Financial guarantees	56,852	48,942	105,794
Service guarantees	106,698	96,945	203,643
Total guarantees	163,550	145,887	309,437
Uncollateralised letters of credit	543	0	543
Approved and undrawn loans	120,267	21,792	142,059
Approved and undrawn overdrafts	174,127	108	174,235
Other	2,360	0	2,360
Total commitments and contingent liabilities	296,754	21,900	318,654
Derivatives	157,024	13,873	170,897
Total	617,871	181,660	799,531

	Current	Non-current	Total
31 December 2010			
Financial guarantees	78,303	37,684	115,987
Service guarantees	124,283	117,592	241,875
Total guarantees	202,586	155,276	357,862
Uncollateralised letters of credit	409	0	409
Approved and undrawn loans	146,690	46,048	192,738
Approved and undrawn overdrafts	181,942	0	181,942
Other	34	0	34
Total commitments and contingent liabilities	328,666	46,048	374,714
Derivatives	117,072	16,152	133,224
Total	648,733	217,476	866,209

As of 31 December 2011, legal claims against the Bank totalled €15,222,000, compared to €13,176,000 a year earlier. Based on legal opinions in respect of these claims, in 2011 the Bank created provisions of €2,532,000, compared to €1,031,000 in 2010.

Liabilities under rental agreements

	Annual amount in 2012	2 to 5 years (2013 – 2016)	Over 5 years
Business premises, ATMs, parking places	1,126	4,103	6,928
Information channels	693	2,771	6,929
Total	1,819	6,874	13,857

Agreements for renting business premises, ATMs and information channels account for the largest share of liabilities under rental agreements.

The Bank has not entered into any irrevocable rental agreements.

Claims under rental agreements

	Annual amount in 2012	2 to 5 years (2013 – 2016)	Over 5 years
Business premises and apartments	436	1,601	3,065
Equipment	29	77	194
Total	465	1,678	3,259

The most important rental agreements have been concluded for renting out business premises and apartments.

47 DERIVATIVES

Type of risk	Type of derivative	Carrying amount in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	0	13	3,000
Equity instrument price risk	Futures contracts in securities	7,252	608	45,587
Equity instrument price risk	Options	0	0	13,873
Currency risk	Currency forwards	1,190	1,072	108,437
Total as of 31 December 2011		8,442	1,693	170,897

Type of risk	Type of derivative	Carrying amount in the statement of financial position		Off-balance sheet amount
		Assets	Liabilities	
Interest rate risk	Interest rate swaps	0	62	3,000
Equity instrument price risk	Futures contracts in securities	2,639	123	15,704
Equity instrument price risk	Options	0	0	13,152
Currency risk	Currency forwards	66	5,657	101,368
Total as of 31 December 2010		2,705	5,842	133,224

47.1 DERIVATIVES BY TYPE

	Current	Non-current	Total
Forward contracts	108,437	0	108,437
- trading	108,437	0	108,437
Futures contracts	45,587	0	45,587
- trading	45,587	0	45,587
Swaps	3,000	0	3,000
- trading	3,000	0	3,000
Options	0	13,873	13,873
- trading	0	13,873	13,873
Total as of 31 December 2011	157,024	13,873	170,897

	Current	Non-current	Total
Forward contracts	101,368	0	101,368
- trading	101,368	0	101,368
Futures contracts	15,704	0	15,704
- trading	15,704	0	15,704
Swaps	0	3,000	3,000
- trading	0	3,000	3,000
Options	0	13,152	13,152
- trading	0	13,152	13,152
Total as of 31 December 2010	117,072	16,152	133,224

48 AUTHORISED TRANSACTIONS

	31.12.2011	31.12.2010
Non-financial companies	35	68
State	12,067	15,632
Banks and other financial organisations	37,585	38,079
Households	26	41
Non-profit household service providers	1,321	1,214
Liabilities from transactions in securities	215	919
Total	51,249	55,953

49 FIDUCIARY ACTIVITIES

	31.12.2011	31.12.2010
ASSETS	1,151	882
Claims of settlement and transactions accounts for customer assets	480	271
- from financial instruments	344	35
- against the Central Securities Clearing Corporation or the Bank's clearing account for sold financial instruments	23	25
- against other settlement systems and institutions for sold financial instruments (buyers)	113	211
Customers' cash	671	611
- in the settlement account for customer assets	571	548
- in banks' transaction accounts	100	63
LIABILITIES	1,151	882
Liabilities of settlement and transactions accounts for customer assets	1,151	882
- to customers from cash and financial instruments	805	742
- to the Central Securities Clearing Corporation or the Bank's clearing account for purchased financial instruments	256	35
- to other settlement systems and institutions for purchased financial instruments (suppliers)	2	0
- to the Bank or the Bank's settlement account for commissions, fees, etc.	88	105
OFF-BALANCE SHEET ITEMS	258	35
Customers' financial instruments, itemised by service	258	35
- receipt, transmission and execution of orders	258	35

50 RELATED PARTY TRANSACTIONS

50.1 STATEMENT OF FINANCIAL POSITION AND OFF-BALANCE SHEET ITEMS

	31.12.2011	
	Subsidiaries	Associates
Loans and advances to banks	98,964	0
Loans and advances to customers	275,581	0
Debt securities not held for trading	1,718	1,814
Deposits and loans from banks	79,850	0
Deposits and loans from customers	11,642	27,740
Off-balance sheet items	12,043	1,766

	31.12.2011	
	Key management personnel	Other related persons
Loans and advances to customers	489	43,405
Shares and participating interests	0	31,073
Other assets	2	42
Deposits and loans from customers	776	2,697
Other liabilities	0	134
Off-balance sheet items	104	1,605

	31.12.2010	
	Subsidiaries	Associates
Loans and advances to banks	88,950	0
Loans and advances to customers	279,734	0
Debt securities not held for trading	1,716	1,814
Deposits and loans from banks	23,061	0
Deposits and loans from customers	5,522	29,964
Off-balance sheet items	6,848	1,296

	31.12.2010	
	Key management personnel	Other related persons
Loans and advances to customers	534	57,215
Shares and participating interests	0	31,110
Deposits and loans from customers	789	4,255
Other liabilities	0	15
Off-balance sheet items	252	17,858

Key management personnel include the Management Board, executive directors and the Supervisory Board of the Bank.

Other related persons are members of the immediate family of the Bank's key management personnel, and entities in which owners or members of the key management personnel are members of the Bank's key management personnel or their immediate family.

Transactions with related persons are conducted on an arm's length basis.

50.2 STATEMENT OF INCOME

	Subsidiaries	2011 Associates
Net interest income	15,521	(977)
Dividend income	1,416	4,446
Net fee and commission income	1,112	465
Cost of services	(512)	(664)
Individual impairment	(5,663)	0
Impairment of investments	(16,421)	0
Write-offs	0	0
Total	(4,547)	3,270

	Key management personnel	2011 Other related persons
Net interest income	(5)	2,267
Dividend income	0	1,593
Net fee and commission income	0	343
Cost of services	0	(1,563)
Write-offs	0	0
Total	(5)	2,640

	Subsidiaries	2010 Associates
Net interest income	12,672	(802)
Dividend income	3,794	0
Net fee and commission income	919	469
Cost of services	(534)	(602)
Individual impairment	(4,728)	0
Write-offs	0	0
Total	12,123	(935)

	Key management personnel	2010 Other related persons
Net interest income	(10)	3,174
Dividend income	0	1,420
Net fee and commission income	1	700
Cost of services	0	(81)
Individual impairment	0	(4,284)
Write-offs	0	0
Total	(9)	929

50.3 LOANS AND GUARANTEES GIVEN

	Management Board members		Supervisory Board members		Other Bank employees on individual contract	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Loans	60	67	47	18	2,153	2,307
Average interest rate on loans (%)	4.34	3.66	4.30	6.65	4.09	3.56
Repayments	9	12	4	202	338	491

51 EXPOSURE TO THE BANK OF SLOVENIA, REPUBLIC OF SLOVENIA AND STATE-OWNED INSTITUTIONS

Exposure to:	31.12.2011	31.12.2010
Bank of Slovenia	57,333	39,836
- settlement account	42,390	36,417
- other	14,943	3,419
Republic of Slovenia	592,739	452,095
- bonds	303,201	298,345
- other securities	170,198	0
- loans	18	3,895
- investments guaranteed by the Republic of Slovenia, by type	109,942	132,443
- other	297	7,989
State-owned institutions	754,786	518,490
- loans	474,303	229,150
- securities	165,387	194,552
- commitments and contingent liabilities	79,064	79,218
- other	36,032	15,570
Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	1,404,858	1,010,421
Share in total assets (%)	29.20	21.02
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	9,083	9,423
Total assets	4,811,091	4,806,511

52 MOVEMENT IN OVERDUE AND UNPAID CLAIMS

Type of claim	01.01.2011	%	Net increase/ decrease	Write-offs	31.12.2011	%
Loans and advances to banks	3	0.00	1	0	4	0.00
Loans and advances to customers	306,688	8.18	159,536	(12,641)	453,583	12.34
Other assets	793	3.10	904	(171)	1,526	2.83
Total	307,484	6.58	160,441	(12,812)	455,113	10.26

Type of claim	01.01.2010	%	Net increase/ decrease	Write-offs	31.12.2010	%
Available-for-sale financial assets	349	0.04	(349)	0	0	0.00
Loans and advances to banks	251	0.11	(2)	(246)	3	0.00
Loans and advances to customers	207,707	5.87	134,177	(35,196)	306,688	8.18
Other assets	947	4.15	388	(542)	793	3.10
Total	209,254	4.52	134,214	(35,984)	307,484	6.58

53 REMUNERATION

	31.12.2011	31.12.2010
Management Board	479	510
Matjaž Kovačič	214	183
Manja Skernišak	132	174
Andrej Plos	133	153
Supervisory Board members	123	53
Members of Supervisory Board committees	52	38
Other Bank employees on individual contract	3,962	4,232
Total	4,616	4,833

A more detailed disclosure of remuneration is set forth in Note 54 of the Nova KBM Group's Financial Report.

54 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

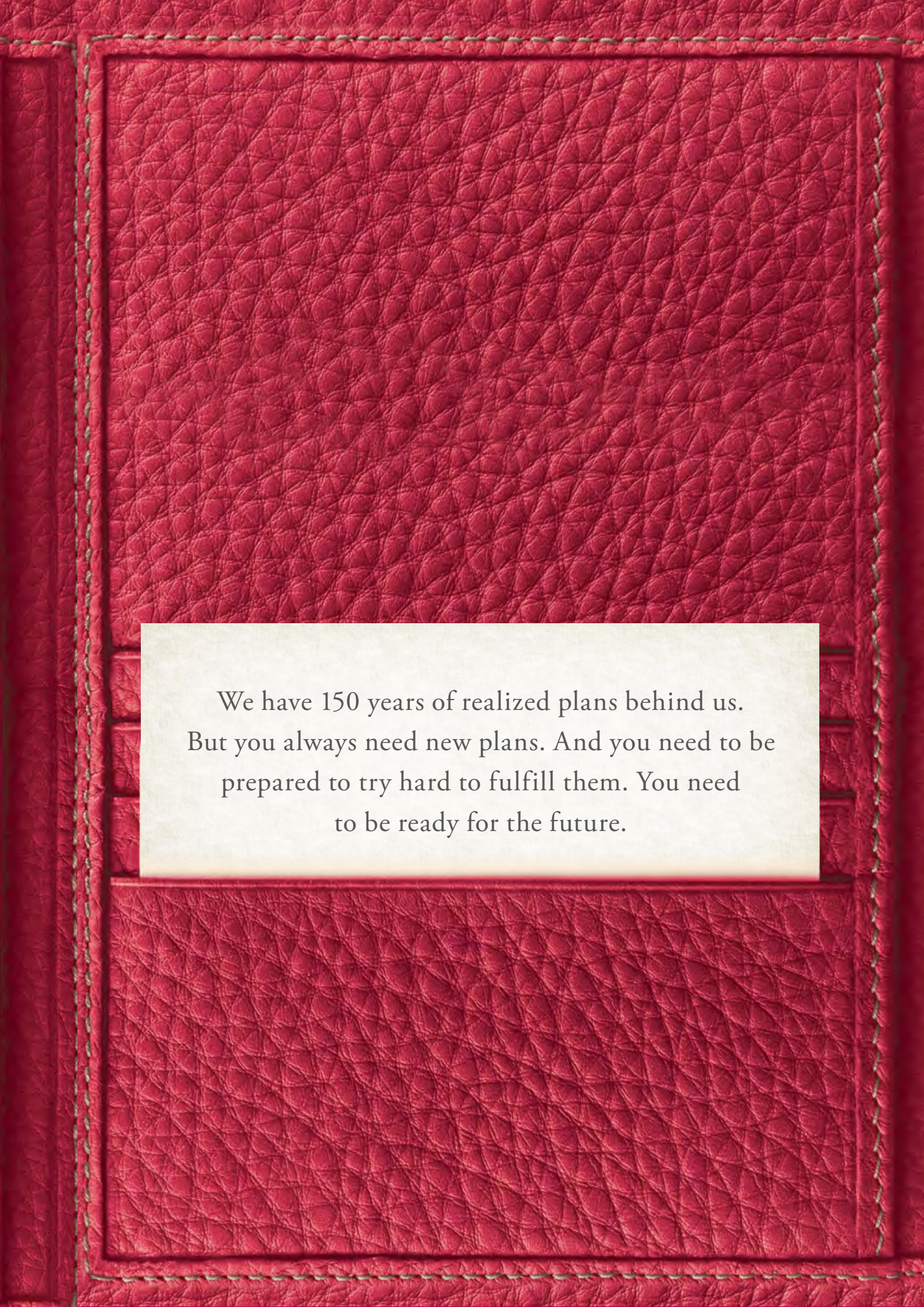
On 1 February 2012, the rating agency Fitch Ratings affirmed the long-term and short-term ratings of Nova KBM at 'BBB' and 'F3', respectively. At the same time the outlook was changed from 'stable' to 'negative'. Thus, the Bank is currently rated by Fitch Ratings as follows: BBB/F3 (negative outlook).

On 20 February 2012, the Bank prepaid the remaining portion of a syndicated term loan facility in the amount of €94.5 million.

On 9 March 2012, the Supervisory Board of Nova KBM appointed Aleš Hauc as the President of the Bank's Management Board. Aleš Hauc will start his five-year term of office after being granted a licence by the Bank of Slovenia.



{ Ljubljana Center Branch Office }

The image shows the front cover of a book. The cover is made of a deep red, textured material, likely leather or faux leather, with a prominent pebbled grain. A rectangular border is stitched into the cover, featuring a double-line design with a light-colored thread. In the center of the cover is a rectangular area of lighter, cream-colored material. This area contains a block of text in a black, serif font, which is centered horizontally and vertically within the cream area.

We have 150 years of realized plans behind us.
But you always need new plans. And you need to be
prepared to try hard to fulfill them. You need
to be ready for the future.