

1/4 UNAUDITED REPORT ON OPERATIONS
OF THE NOVA KBM GROUP
AND NOVA KBM D.D.
JANUARY – MARCH 2014



MAY 2014

 **Nova KBM**
READY FOR TOMORROW

Corporate governance bodies as of 31 March 2014

Management Board of Nova KBM

Aleš Hauc **President**
Igor Žibrik **Member**

Executive Directors of Nova KBM

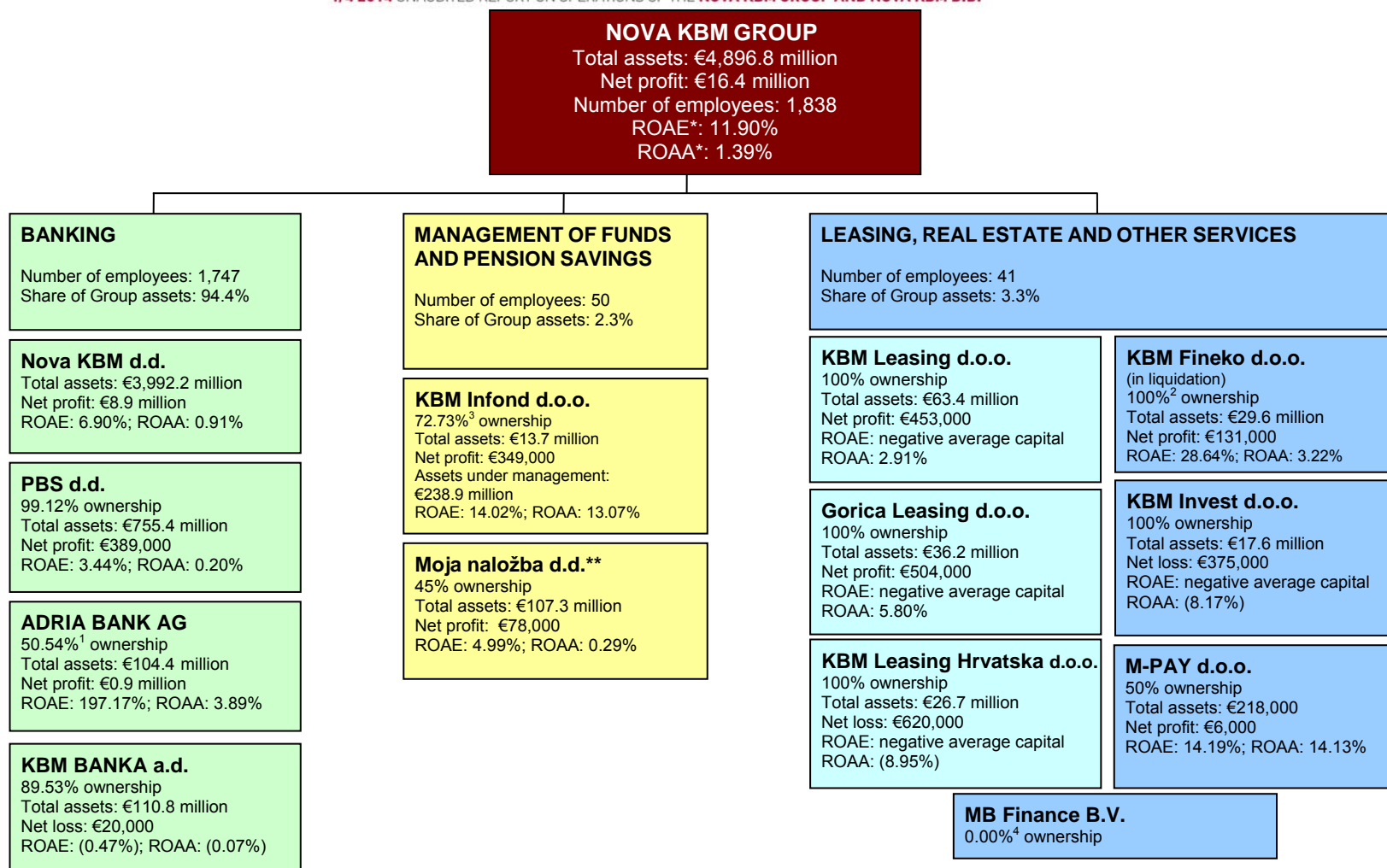
Aleksander Batič
Jernej Močnik
Peter Kupljen
Sabina Župec Kranjc
Vlasta Brečko

Supervisory Board of Nova KBM

Peter Kukovica	Chairman
Niko Samec	Deputy Chairman
Andrej Fatur	Member
Keith Charles Miles FCA	Member
Peter Kavčič	Member
Miha Glavič	Member

Name of the parent bank:	Nova Kreditna banka Maribor d.d.
Short name of the parent bank:	Nova KBM d.d.
Registered office:	Ulica Vita Kraigherja 4, 2505 Maribor
BIC (SWIFT):	KBMASI2X
Reuters:	KBMS
IBAN:	SI56 0100 0000 0400 014
Account No.:	01000-0000400014

Registration No.:	5860580
Entry No. in the register of companies kept by the Maribor District Court:	062/10924200
VAT ID No.:	SI94314527
Share capital:	€150,000,000



* ROAE and ROAA are presented on a pre-tax basis.

** Associated company.

¹ The Group's stake in the share capital of and voting rights in Adria Bank accounts for 50.54%, while its stake in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.

² KBM Fineko filed for liquidation on 29 November 2013.

³ The Group's stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain amount of its own shares, the Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.

⁴ In accordance with IFRS 10, MB Finance is regarded as a consolidated structured entity controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Group.

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Key performance indicators of the Nova KBM Group

	2014	2013	Index
Statement of financial position (€000)	31.03.	31.12.	
Total assets	4,896,767	4,810,793	102
Total deposits from the non-banking sector	3,153,433	3,079,299	102
Total loans and advances to the non-banking sector	2,143,789	2,231,765	96
Total equity	599,568	560,028	107
Income statement (€000)	Q1	Q1	
Net interest income	27,640	22,420	123
Net fee and commission income	14,190	14,179	100
Net gains/(losses) from trading in securities and foreign exchange	5,848	(521)	
Other income/(expenses)	(689)	878	
Operating costs	(26,195)	(28,307)	93
Impairment losses and provisions	(4,223)	(19,982)	21
Profit/(loss) from continuing and discontinued operations	16,571	(11,333)	
Net profit/(loss) for the reporting period	16,364	(8,468)	
Ratios	31.03.	31.12.	
Net earnings/(loss) per share ¹ (€)	5.52	(63.05)	
Book value per share ² (€)	60.36	56.67	
Total capital adequacy ratio (%)	19.47	18.13	
Tier I capital ratio (%)	19.40	18.06	
Core Tier I capital ratio (%)	19.40	18.06	
ROAA before tax (%)	1.39	(12.74)	
ROAE before tax (%)	11.90	(221.22)	
Operating costs/Average total assets (%)	2.20	2.35	
Cost/Income (%)	55.75	64.56	

¹ *Net earnings/loss per share* is calculated as the ratio between the annualised net profit or loss attributable to owners of the parent and the number of Bank shares outstanding on the last day of the reporting period.

² *Book value per share* on the last day of the reporting period is calculated as the ratio between the equity attributable to owners of the parent and the total number of Bank shares outstanding on the last day of the reporting period.

Performance highlights for the period January – March 2014

- For the three-month period ended 31 March 2014, the Nova KBM Group (hereafter also referred to as the 'Group') posted a **pre-tax, pre-provision profit from continuing operations** of €20,794,000, up from €8,649,000 reported for the comparable period of 2013.
- The Group's **net profit from continuing operations** totalled €16,571,000 in the first three months of the year, compared to a net loss of €11,333,000 incurred by the Group in the corresponding period last year. This considerable year-on-year improvement was partially due to a 27.1% increase in operating income, and partially the result of a drop in net provisioning expenses, which in Q1 2014 accounted for only one-third of the figure we saw in Q1 2013.
- The Group's **total assets** were €4,896,767,000 at the end of March 2014, up €85,974,000, or 1.8%, on the 2013 year-end figure.
- In terms of **deposits from the non-banking sector**, Nova KBM's market share remained flat at 10.5%, while its **market share in total assets** increased by 0.2 percentage points to 9.9% of the Slovene banking system assets.
- **Net interest income** for the three-month period ended 31 March 2014 totalled €27,640,000, compared to €22,420,000 reported for the same period last year. Net interest income earned by the Group in Q1 2014 was largely in line with the projection.
- **Net fees and commissions** were €14,190,000 – roughly the same as in Q1 2013. The amount of net fee and commission income earned by the Group was sufficient to cover just over one half of its operating costs.
- In the period from January through March 2014, the Group incurred **operating costs** of €26,195,000, down 7.5% on Q1 2013. The ratio of operating costs to the average total assets stood at 2.20% – an improvement of 0.15 percentage points from the end of 2013. The Group's cost-to-income ratio was 55.75% in Q1 2014.
- In the first three months of 2014, the Group's **return on average equity before tax (ROAE)** was 11.90%, while its **return on average assets before tax (ROAA)** stood at 1.39%.
- As of 31 March 2014, the Group's **total equity** amounted to €599,568,000, up €39,540,000, or 7.0%, on the 2013 year-end figure. Its total capital adequacy ratio was 19.47%, compared to 18.13% reported for the end of 2013.

Other important events

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

January

- On 2 January, Igor Hustič withdrew as a candidate for the Nova KBM Management Board after he had been nominated for that position in October 2013.
- On 30 January, Moody's Investors Service upgraded Nova KBM's long-term deposit rating to Caa1 from Caa2, at the same time changing the outlook on the rating from negative to stable. The financial strength rating was affirmed at E. Moody's also raised Nova KBM's baseline credit assessment (BCA) to caa2 from caa3.

February

- Since 1 February, KBM Banka has been run by a two-member Executive Board, with Ljubinka Lovčević acting as the President and Vesna Užnik Đorić acting as the member.
- On 1 February, the entire Supervisory Board of M-Pay was replaced: Vlasta Brečko was appointed as the Chairman, Marko Jagodič as the Deputy Chairman, and Aleksander Batič, Miha Šlamberger and Marko Boštjančič were appointed as members of the Supervisory Board.
- On 6 February, Karmen Dvorjak resigned as a member of the Nova KBM Supervisory Board.
- On 14 February, Borut Celcer was appointed as the fifth member of the KBM Infond Supervisory Board.
- On 27 February, Uroš Lorenčič stepped down as the Chairman of the Supervisory Board of KBM Leasing, Gorica Leasing, KBM Leasing Hrvatska and KBM Invest,

handing over his position in the supervisory boards of these companies to Mitja Leskovar.

March

- On 11 March, with the aim of controlling the operations of Adria Bank and supporting the improvement of its performance, the Austrian Financial Market Authority (FMA) appointed a government commissioner to the Adria Bank Management Board. The commissioner's term of office is limited to a maximum of 18 months.
- The 25th Nova KBM Shareholders' Meeting was held on 14 March.
- Fitch Ratings affirmed the ratings of Nova KBM.
- On 19 March, Egon Žižmond resigned as a member of the Nova KBM Supervisory Board.

Events after the end of the reporting period

April

- On 3 April, the Supervisory Board appointed Robert Senica as the third member of the Nova KBM Management Board, with his five-year term of office starting on the day he takes up the position.
- On 30 April, Nova KBM released the 2013 Annual Report of the Nova KBM Group and Nova KBM.

May

- On 22 May, Slovenska odškodninska družba, on behalf of the Republic of Slovenia, published an invitation to express interest in the acquisition of a 100% shareholding in Nova KBM.
- Nova KBM infused fresh capital of €12,200,000 into Adria Bank, its Austria-based bank subsidiary.

Changes in the Supervisory Board of Nova KBM d.d.

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

Statement by the Management Board

Dear Sirs,

In the first quarter of 2014, the operations of both the Bank and the Group were in line with the policy of transforming the Nova KBM Group into a sustainably successful and profitable financial institution. Following the state-sponsored recapitalisation carried out in December 2013, we are continuing to take decisive and responsible steps and actions to gradually improve our performance while reducing negative impacts on profitability.

The conditions in which the Group operates remain challenging; while companies are continuing the de-leveraging process, they tend to save more, and spend less on investments. The same is true for households; consumer spending remains weak, while the propensity to save is on the upswing. The unemployment rate is still high, as is the number of companies filing for bankruptcy. The rehabilitation of the national banking system, which started in 2013 and from which Slovenia's emergence from the crisis will largely depend, is continuing.

These economic and social conditions were, to a certain degree, reflected in our operating results. For the three-month period ended 31 March 2014, the Group reported a net profit of €16.4 million, while the net profit earned by the Bank reached €8.9 million. The volume of customer deposits is increasing, and the lending activity is declining at a slower pace than last year, which suggests that both the Bank and the Group are regaining customer confidence.

In the first three months of 2014, Nova KBM and its Group managed to retain

their market shares in most business segments while considerably reducing their operating costs. Our enhanced responsiveness to external opportunities and challenges is demonstrated in our improved and intensified customer service, as well as in our efforts to help companies restructure their businesses and de-leverage their balance sheets, all of which is done with the aim of giving impetus to the economy. A great deal of attention has been devoted, both internally and in cooperation with several business partners, to the development and upgrade of our financial services and modern distribution channels. Among the products and services we have launched successfully over the last few months are the Visa prepaid payment card, redeemable deposits, and more favourable terms and conditions that apply to housing loans.

The level of provisioning expenses set aside by the Group in the first three months of the year was 78.9% below that of the same period last year and totalled €4.2 million. Given that a certain proportion of customers, despite their own efforts and those of the Bank, cannot repay their debts due to reasons beyond their control, it is expected that the Bank will continue incurring some impairment losses in the future. Considering that the quality of their loan portfolios is stabilizing, and that the Bank has implemented the early warning system for potentially distressed loans, which allows for more effective action, the financial plan envisages that the Bank's and the Group's level of provisioning expenses at the end of 2014 will be significantly lower than at the 2013 year-end. At the end of March,

the Nova KBM Group's total capital adequacy ratio was 19.47%, with its equity amounting to €599.6 million, up 7.0% on the 2013 year-end figure.

According to the April macroeconomic projections of the Bank of Slovenia, the GDP growth in Slovenia in 2014 is expected to reach 0.6%, while in the next two years it will be around 1.5% annually. This upward correction compared to previous forecasts is based on faster recovery of foreign demand, coupled with a cooling off of conditions in the labour market and slightly improved confidence in the economy.

All companies in the Nova KBM Group are actively focused on cost-efficiency, at all business levels, and on the reduction of operating costs. In the first three months of the year, the Bank incurred operating costs of €17.3 million, which was roughly in line with the adopted strategic policy of cost reduction. With €26.2 million in the first quarter of the year, the same is true for the operating costs incurred by the Nova KBM Group. A high level of optimisation has been reached by the Nova KBM Group for all types of its costs. Further reductions in costs and more efficient operations of both the Bank and the Nova KBM Group are expected to be seen after the overhaul of business processes, which is proceeding on schedule.

The downsizing of staff is being carried out as planned. Nova KBM, which employs the large majority of Group employees, saw a year-on-year reduction of 97 in the number of staff. It is expected that the total number of employees working at the Bank will reach 1,113 by the end of the year, down 88 on the 2013 year-end figure. When making employees redundant, we will try as far as possible to make use of so-called soft employment termination measures. However, if this proves not to be possible in some cases, we will draw up a redundancy scheme in collaboration

with the trade union. Simultaneously with the implementation of this scheme, presumably in autumn, we will launch an outplacement programme, by which the Bank, as a socially responsible organisation, will demonstrate in a compassionate and ethical manner its ability to adopt a fair attitude towards its employees even when terminating employment contracts.

The commitments set out in the restructuring programme, which the European Commission approved last December following the state-sponsored recapitalisation of the Bank, are being met by the Nova KBM Group in accordance with the adopted time schedule. The purpose of these commitments, which the Bank and Republic of Slovenia must fulfil by the end of 2017, unless the Bank is sold to a strategic investor prior to that date, is to restore the profitability of both the Bank and the Nova KBM Group and to consolidate their operations. The principal commitments of the Bank laid down in the restructuring programme are as follows: transfer of NPLs to the Bank Asset Management Company (the book-transfer took place in December 2013, while the physical transfer was completed this April); gradual downsizing of total assets (by 2017, total assets are to be reduced by 7% relative to 2012); a reduction in operating costs and streamlining of business processes (by 2017, operating costs are to be reduced by 12.6% relative to 2012), and the strengthening of the cost-to-income ratio to below 55%; disposal or liquidation of non-strategic subsidiaries and focus of the Nova KBM Group on the banking business; a reduction in the lending volume and in business with foreign customers, as well as closure of several branch offices in Slovenia and Serbia; divestment, i.e. the sale of non-strategic assets; improvements in the corporate governance system; and improvements in

the risk management and the loan origination models.

The Bank and all other companies in the Nova KBM Group are determined to continue implementing the restructuring programme and other measures necessary to achieve operational efficiency targets. Some measures have already started to bear fruit, and have contributed to the stability and more robust financial position of the Bank, to a more efficient cost management and the management of all types of risk, and to improved services and customer relationships.

We wish to thank the owner of Nova KBM, our business partners, employees and all those who support our struggle to restructure our operations and make them profitable again. We will continue making every effort to retain the confidence you have placed in us and to strengthen the reputation of the Bank and the entire Nova KBM Group.

Maribor, May 2014

Management Board of Nova KBM d.d.



Igor Žibrik
Member



Aleš Hauc
President

Statement of management's responsibilities

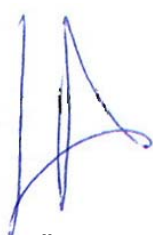
(pursuant to Article 113 of the Financial Instruments Market Act)

By signing this statement, the Nova KBM Management Board **confirms** to the best of its knowledge that:

- the financial report summary has been drawn up in accordance with the appropriate accounting framework of reporting and that it provides 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 interim business report, which has been drawn up in accordance with the appropriate accounting standard, provides a fair view of significant transactions with related parties.

Maribor, 30 May 2014

Management Board of Nova KBM d.d.



Igor Žibrik
Member



Aleš Hauc
President

Profile of the Nova KBM Group and Nova KBM d.d.

The Nova KBM Group consists of the parent company (Nova KBM), 11 subsidiary companies, and one associated company. The names of the companies and Nova KBM's shareholding in them are presented in the table below.

Nova KBM d.d. (in this report also referred to as 'Nova KBM' or the 'Bank') is a commercial bank with a tradition of understanding and supporting its retail and corporate customers to whom it provides standard banking products. The Bank's registered office is at Ulica Vita Kraigherja 4, 2505 Maribor, Slovenia.

The Bank is obliged to prepare consolidated financial statements.

Composition of the Nova KBM Group, including the associated company, as of 31 March 2014

Company	Position in the Group	Share of voting rights (%)
Nova KBM d.d.	parent bank	
Poštna banka Slovenije d.d.	subsidiary bank	99.12
Adria Bank AG	subsidiary bank	50.54 ³
KBM Banka a.d.	subsidiary bank	89.53
KBM Fineko d.o.o. (in liquidation)	subsidiary company	100.00 ⁴
KBM Infond d.o.o.	subsidiary company	72.73 ⁵
KBM Leasing d.o.o.	subsidiary company	100.00
KBM Invest d.o.o.	subsidiary company	100.00
Gorica Leasing d.o.o.	subsidiary company	100.00
M-Pay d.o.o.	subsidiary company	50.00
KBM Leasing Hrvatska d.o.o.	subsidiary company	100.00
MB Finance B.V.	subsidiary company	0.00 ⁶
Moja naložba d.d.	associated company	45.00

No changes took place in the shareholding of the Group companies in the first three months of 2014.

³ The Group's stake in the share capital of and voting rights in Adria Bank accounts for 50.54%, while its stake in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.

⁴ KBM Fineko filed for liquidation on 29 November 2013.

⁵ The Group's stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain amount of its own shares, the Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.

⁶ In accordance with IFRS 10, MB Finance is regarded as a consolidated structured entity controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Group.

Key performance indicators of individual Group companies for the three-month period ended 31 March 2014

COMPANY	Number of employees 31.03.2014	Net profit or (loss) (€000)	Total assets (€000)	ROAE before tax (%)	ROAA before tax (%)
Nova KBM d.d.	1,188	8,922	3,992,223	6.90	0.91
Poštna banka Slovenije d.d.	242	389	755,392	3.44	0.20
Adria Bank AG	34	944	104,376	197.17	3.89
KBM Banka a.d.	283	(20)	110,765	(0.47)	(0.07)
KBM Fineko d.o.o. (in liquidation)	3	191	29,620	28.64	3.22
KBM Infond d.o.o.	35	349	13,655	14.02	13.07
KBM Leasing d.o.o.	10	453	63,423	*	2.91
KBM Invest d.o.o.	8	(375)	17,592	*	(8.17)
Gorica Leasing d.o.o.	12	504	36,213	*	5.80
M-Pay d.o.o.	0	6	218	14.19	14.13
KBM Leasing Hrvatska d.o.o.	8	(620)	26,720	*	(8.95)
Moja naložba d.d.	15	78	107,325	4.99	0.29

* Not calculated due to negative average capital.

Shareholder structure and information on shares

As of 31 March 2014, the share capital of the Bank totalled €150,000,000 and was split into 10,000,000 ordinary no-par value shares, all of which were held by the Republic of Slovenia. Nova KBM shares, with the ticker symbol KBMS, are not quoted on a regulated stock market.

Nova KBM has issued only one class of shares which are all freely transferable and bear the same rights. Each ordinary share entitles its holder to one vote at the Bank Shareholders' Meeting. The rights of the holders of ordinary shares are set out in the relevant legislation of the Republic of Slovenia.

Information on shares

	Nova KBM				Nova KBM Group			
	31.03.14	31.12.13	31.12.12	31.12.11	31.03.14	31.12.13	31.12.12	31.12.11
Book value per share ⁷ (€)	54.33	51.77	4.92	9.55	60.36	56.67	5.37	10.07
Net earnings/(loss) per share ⁸ (€)	3.57	(65.65)	(5.20)	(2.42)	5.52	(63.05)	(5.25)	(2.38)

⁷ *Book value per share* on the last day of the reporting period is calculated as the ratio between the Bank's total equity (for the Group: equity attributable to owners of the parent) and the total number of Bank shares outstanding at the end of the reporting period.

⁸ *Net earnings or loss per share* is calculated as the ratio between the Bank's annualised net profit or loss (for the Group: net profit or loss attributable to owners of the parent) and the weighted average number of Bank shares in the period. The total number of KBMS shares outstanding at the end of the reporting period was taken into account in the calculation of the 2013 net loss per share and the Q1 2014 net earnings per share.

Operating results of the Nova KBM Group

For the three-month period ended 31 March 2014, the Group reported a **pre-tax, pre-provision profit from continuing operations** of €20,794,000, up from €8,649,000 reported for the comparable period of 2013. The year-on-year improvement in the operating result was driven by a 27.1% increase in operating income⁹ as well as by lower net provisioning expenses. The decrease of 7.5% in operating costs also contributed to the results of the Group reported for the first quarter of the year being more favourable than in the corresponding period of 2013. The **Q1 2014 net profit of the Group** was €16,364,000, against a net loss of €8,468,000 posted by the Group for the same period last year.

Net interest income earned by the Group in the first three months of the year reached €27,640,000, which was largely in line with the projection made for the period. Interest income totalled €43,541,000, down 15.8% on the same period last year, while interest expenses amounted to €15,901,000, which was roughly one-half of the figure reported for the same period last year. Of the total net interest income earned by the Group, the largest proportion, €21,829,000, was attributable to Nova KBM, followed by PBS. The structure of interest income and expenses by market segment and type of assets and liabilities for both the Bank and the Group is presented in the notes to the financial statements.

Net fee and commission income generated by the Group in the first three months of the year reached €14,190,000 – roughly the same as in the corresponding period of 2013. With €10,209,000, Nova KBM contributed by far the largest proportion of the total net fees and commissions of the Group. Net fees and commissions earned by the Group in the first three months of the year were sufficient to cover 54.1% of its operating costs. The structure of net fees and commissions is presented in the notes to the financial statements of the Group and the Bank.

Other non-interest income¹⁰ was €5,159,000, up from €357,000 earned in the same period last year, resulting mainly from gains generated by Nova KBM due to share price increases.

Operating costs (administration costs, including depreciation and amortisation) incurred by the Group in the first three months of the year totalled €26,195,000, which was 2.2% below the projection, and 7.5% below the figure reported for the same period last year. As regards the composition of operating costs, staff costs accounted for 51.0% of the total operating costs, followed by general and administrative costs (34.0%), and depreciation and amortisation (15.0%). At the end of March 2014, the Group had 1,838 employees, down 18 on the end of 2013 and 201 on the end of March 2013. The Group's cost-to-income ratio stood at 55.75% in the first three months of the year.

Net provisioning expenses incurred by the Group in the first three months of the year totalled €4,223,000, compared to €19,982,000 reported for the same period last year, with impairment losses of €5,495,000 set aside during the period being partially offset by the release of provisions in the amount of €1,272,000.

⁹ Operating income includes interest income and all non-interest income streams.

¹⁰ Other non-interest income includes: dividend income; realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss; net gains or losses on financial assets and liabilities held for trading; gains or losses on financial assets and liabilities designated at fair value through profit or loss; net exchange rate differences; net gains or losses on derecognition of assets excluding non-current assets held for sale; other net operating income or loss; share of profits of associates and joint ventures accounted for using the equity method; and net gains or losses from non-current assets held for sale and liabilities associated therewith.

Financial position of the Nova KBM Group

At the end of March 2014, the **Group's total assets** amounted to €4,896,767,000, up €85,974,000 on the end of 2013.

Net loans and advances to customers decreased in the first three months of the year by €87,976,000, to €2,143,789,000 at the end of March, with the largest decline being seen in the banking segment. The decline in this asset category was in line with the Group's financial forecast.

Available-for-sale and held-to-maturity financial assets, which make up the secondary liquidity reserve, increased in the first three months of the year by €38,976,000, to reach €1,785,125,000 at the end of March, of which the largest proportion was held by Nova KBM.

Deposits from customers totalled €3,153,433,000, up €74,134,000 on the end of 2013, with Nova KBM and PBS registering the largest increase.

Loans to banks in the Group went down by €50,462,000 in the first three months of the year, with the bulk of this decline being attributable to Nova KBM, as a result of the repayments and maturing of loans.

As of 31 March 2014, the Group's **total equity** amounted to €599,568,000, an increase of €39,540,000 from the end of last year, partially as a result of the net profit generated by the Group in the first three months of the year, and partially due to the increase in the prices of securities that are valued through equity. The Group's **Tier I capital ratio** stood at 19.40% at the end of March 2014.

Plans for 2014

The Bank's Supervisory Board consented to the 2014 plan of the Bank and the Nova KBM Group at its regular meeting on 14 February 2014. The planning of the business policy and financial plan of the Group and the Bank for the year 2014 was carried out on the basis of macroeconomic projections that were supported mainly by the autumn forecasts of the Institute of Macroeconomic Analysis and Development, taking into consideration the Bank's strategic programme for the period 2014 to 2018 and commitments set out in its restructuring programme.

In 2014, focus will be placed on the continuation of efforts aimed at re-embarking the Bank and the Group on the path towards becoming successful and profitable financial institutions while strengthening customer relationships by providing superb financial services. The financial plan of the Bank and the Group envisages that the Bank will generate a net profit of €8.4 million in 2014, provided no deterioration in the economic conditions occurs. The Group is expected to report a pre-tax, pre-provision profit, while a minor loss of €0.9 million is expected after absorbing the impact of provisioning expenses.

In accordance with the commitments set out in the restructuring programme, the Group must, among other steps, gradually reduce its total assets. To make this happen, the financial plan anticipates that the total assets of the Bank and the Nova KBM Group will come down to €3.6 billion and €4.5 billion, respectively, by the end of 2014. The loan portfolios of both the Bank and the Group were cleaned up by the end of 2013. Considering that a number of efforts have been taken to enhance credit risk management, it is expected that the level of bad loans and provisioning expenses will remain relatively low in the future. However, the realisation of this projection will to a certain degree depend on the future economic climate in Slovenia.

As a result of declining average assets and increasing net interest, both the Bank and the Group expect that their interest margin will start to go up. Fee and commission income is expected to increase as well, to a level sufficient to cover 54.87% of the operating costs incurred by the Bank. One of the commitments set out in the restructuring programme is to reduce costs and streamline business processes. To comply with this commitment, the 2014 financial plan envisages a reduction in operating costs at the level of both the Bank and the Group.

The capital position of the Group will remain strong throughout 2014. A more robust capital base will facilitate the access of the Bank to funding needed to support the local economy, with priority in financing being given to customers with a good credit rating. However, in its lending activity, the Group will fully take into consideration its commitment to reduce its risk-weighted assets according to the agreed timeline.

Intensive consolidation of the Group will be carried out in 2014, with a focus being placed on banking and other segments that have the ability to generate profits. The restructuring programme envisages the sale of KBM Leasing and Gorica Leasing as well as the end of the liquidation proceedings against KBM Fineko.

Key performance indicators of Nova KBM d.d.

	2014	2013	Index
Statement of financial position (€000)	31.03.	31.12.	
Total assets	3,992,223	3,909,983	102
Total deposits from the non-banking sector	2,440,488	2,364,102	103
Total loans and advances to the non-banking sector	1,766,744	1,826,371	97
Total equity	543,279	517,712	105
Total impairment losses and provisions	593,041	583,006	102
Income statement (€000)	Q1	Q1	
Net interest income	21,829	16,570	132
Net fee and commission income	10,209	9,871	103
Net gains/(losses) from trading in securities and foreign exchange	5,348	(1,152)	
Other (expenses)	(1,163)	(476)	244
Operating costs	(17,292)	(18,840)	92
Impairment losses and provisions	(10,089)	(12,158)	83
Profit/(loss) from continuing operations	8,842	(6,185)	
Net profit/(loss) for the reporting period	8,922	(4,593)	
Ratios	31.03.	31.12.	
Net earnings/(loss) per share ¹¹ (€)	3.57	(65.65)	
Book value per share ¹² (€)	54.33	51.77	
Total capital adequacy ratio (%)	21.61	20.49	
Tier I capital ratio (%)	21.58	20.45	
Core Tier I capital ratio (%)	21.58	20.45	
ROAA before tax (%)	0.91	(15.03)	
ROAE before tax (%)	6.90	(249.42)	
Operating costs/Average total assets (%)	1.78	1.97	
Cost/Income (%)	47.74	54.45	
Ratings (long-term)	31.03.	31.12.	
	Caa1 (Moody's)	Caa2 (Moody's)	
	BB- (Fitch)	BB- (Fitch)	

¹¹ Annualised net profit or loss/Weighted average number of shares in the period.

¹² Bank's total equity at the end of the period/Total number of ordinary no-par value shares.

**UNAUDITED INTERIM
FINANCIAL REPORT OF THE
NOVA KBM GROUP**

JANUARY – MARCH 2014

Interim Income Statement – Nova KBM Group

€000

ITEM DESCRIPTION	Notes	Three months ended 31.03.2014	Three months ended 31.03.2013
Interest income	9	43,541	51,741
Interest expense	9	(15,901)	(29,321)
Net interest income	9	27,640	22,420
Dividend income	-	0	7
Fee and commission income	10	21,468	22,073
Fee and commission expense	10	(7,278)	(7,894)
Net fee and commission income	10	14,190	14,179
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	-	2,639	508
Net gains/(losses) on financial assets and liabilities held for trading	11	(862)	1,406
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	12	3,696	(1,503)
Net exchange rate differences	13	375	(932)
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	-	(10)	32
Other net operating income/(loss)	-	(782)	702
Administration costs	14	(22,254)	(24,281)
Depreciation and amortisation	-	(3,941)	(4,026)
Provisions	15	1,272	2,739
Impairment losses	16	(5,495)	(22,721)
Share of profits of associates and joint ventures accounted for using the equity method	17	35	55
Net gains from non-current assets held for sale and liabilities associated therewith	-	68	82
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	-	16,571	(11,333)
Income tax related to profit or loss from continuing operations	18	(207)	2,865
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	-	16,364	(8,468)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD	-	16,364	(8,468)
a) Attributable to owners of the parent	-	13,803	(6,858)
– continuing operations	-	13,803	0
b) Attributable to non-controlling interest	-	2,561	(1,610)
Basic earnings/(loss) per share (€)	-	1.38	(0.18)
Diluted earnings/(loss) per share (€)	-	1.38	(0.18)

The accompanying notes form an integral part of these financial statements.

Interim Income Statement – Nova KBM Group (by quarter)

€000

ITEM DESCRIPTION	2014	2013			
	Q1	Q4	Q3	Q2	Q1
Interest income	43,541	34,012	48,596	46,733	51,741
Interest expense	(15,901)	(21,804)	(24,791)	(26,483)	(29,321)
Net interest income	27,640	12,208	23,805	20,250	22,420
Dividend income	0	4	1,029	347	7
Fee and commission income	21,468	22,795	23,579	23,884	22,073
Fee and commission expense	(7,278)	(7,981)	(8,154)	(9,015)	(7,894)
Net fee and commission income	14,190	14,814	15,425	14,869	14,179
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	2,639	61,526	489	907	508
Net gains/(losses) on financial assets and liabilities held for trading	(862)	27	139	960	1,406
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	3,696	390	(1,389)	1,273	(1,503)
Net exchange rate differences	375	(197)	330	(875)	(932)
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	(10)	140	281	91	32
Other net operating income/(loss)	(782)	(12,600)	(719)	(1,103)	702
Administration costs	(22,254)	(29,826)	(25,149)	(25,765)	(24,281)
Depreciation and amortisation	(3,941)	(4,121)	(4,198)	(4,109)	(4,026)
Provisions	1,272	(57,923)	1,117	(570)	2,739
Impairment losses	(5,495)	(571,629)	(14,837)	(61,445)	(22,721)
Share of profits/(losses) of associates and joint ventures accounted for using the equity method	35	(253)	19	5	55
Net gains/(losses) from non-current assets held for sale and liabilities associated therewith	68	(1,206)	150	72	82
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	16,571	(588,646)	(3,508)	(55,093)	(11,333)
Income tax related to profit or loss from continuing operations	(207)	(29,335)	(713)	855	2,865
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	16,364	(617,981)	(4,221)	(54,238)	(8,468)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD	16,364	(617,981)	(4,221)	(54,238)	(8,468)
a) Attributable to owners of the parent	13,803	(572,401)	(2,039)	(49,158)	(6,858)
b) Attributable to non-controlling interest	2,561	(45,580)	(2,182)	(5,080)	(1,610)
Basic earnings/(loss) per share (€)	1.38	(62.67)	0.36	(0.56)	(0.18)
Diluted earnings/(loss) per share (€)	1.38	(62.67)	0.36	(0.56)	(0.18)

The accompanying notes form an integral part of these financial statements.

Interim Statement of Other Comprehensive Income – Nova KBM Group

€000

ITEM DESCRIPTION	Three months ended 31.03.2014	Three months ended 31.03.2013
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD AFTER TAX	16,364	(8,468)
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX	23,176	(8,010)
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	23,176	(8,010)
Foreign currency translation differences arising from consolidation	(87)	457
– translation gains/(losses) taken to equity	(87)	457
Available-for-sale financial assets	28,090	(10,137)
– valuation gains/(losses) taken to equity	28,102	(10,125)
– transferred to profit or loss	(12)	(12)
Share of other recognised comprehensive (loss) of associates and joint ventures accounted for using the equity method	(55)	(29)
Income tax on items that may be reclassified subsequently to profit or loss	(4,772)	1,699
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE REPORTING PERIOD AFTER TAX	39,540	(16,478)
a) Attributable to owners of the parent	36,907	(12,427)
b) Attributable to non-controlling interest	2,633	(4,051)

The accompanying notes form an integral part of these financial statements.

Interim Statement of Other Comprehensive Income – Nova KBM Group (by quarter)

€000

ITEM DESCRIPTION	2014	2013			
	Q1	Q4	Q3	Q2	Q1
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD AFTER TAX	16,364	(617,981)	(4,221)	(54,238)	(8,468)
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX	23,176	21,385	(4,698)	2,208	(8,010)
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	0	274	0	0	0
Actuarial net gains on defined benefit pension plans recognised in retained earnings	0	300	0	0	0
Income tax on items that will not be reclassified subsequently to profit or loss	0	(26)	0	0	0
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	23,176	21,111	(4,698)	2,208	(8,010)
Foreign currency translation differences arising from consolidation	(87)	55	(451)	(200)	457
– translation gains/(losses) taken to equity	(87)	55	(451)	(200)	457
Available-for-sale financial assets	28,090	25,062	(4,841)	2,805	(10,137)
– valuation gains/(losses) taken to equity	28,102	19,211	(4,852)	2,805	(10,125)
– transferred to profit or loss	(12)	5,851	11	0	(12)
Share of other recognised comprehensive income/(loss) of associates and joint ventures accounted for using the equity method	(55)	156	(104)	18	(29)
Income tax on items that may be reclassified subsequently to profit or loss	(4,772)	(4,162)	698	(415)	1,699
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE REPORTING PERIOD AFTER TAX	39,540	(596,596)	(8,919)	(52,030)	(16,478)
a) Attributable to owners of the parent	36,907	(553,981)	(6,733)	(47,306)	(12,427)
b) Attributable to non-controlling interest	2,633	(42,615)	(2,186)	(4,724)	(4,051)

The accompanying notes form an integral part of these financial statements.

Interim Statement of Financial Position – Nova KBM Group

€000

ITEM DESCRIPTION	Notes	31.03.2014	31.12.2013
Cash and balances with the central bank	19	630,672	435,478
Financial assets held for trading	20	2,009	1,786
Financial assets designated at fair value through profit or loss	21	23,644	24,586
Available-for-sale financial assets	22	1,523,115	1,466,864
Loans and advances	-	2,242,540	2,379,322
– loans and advances to banks	23	79,212	129,674
– loans and advances to customers	24	2,143,789	2,231,765
– other financial assets	25	19,539	17,883
Held-to-maturity financial assets	26	262,010	280,153
Non-current assets and disposal groups classified as held for sale and discontinued operations	-	7,261	7,868
Property, plant and equipment	-	72,014	73,677
Investment property	-	38,145	38,426
Intangible assets	-	30,932	32,863
Investments in the equity of associates and joint ventures accounted for using the equity method	-	2,937	2,957
Tax assets	-	7,502	11,699
– current tax assets	-	267	960
– deferred tax assets	-	7,235	10,739
Other assets	-	53,986	55,114
TOTAL ASSETS	-	4,896,767	4,810,793
Financial liabilities to the central bank	-	431,394	482,891
Financial liabilities held for trading	-	1,668	1,422
Financial liabilities measured at amortised cost	27	3,747,421	3,650,942
– deposits from banks	27	58,781	60,271
– deposits from customers	27	3,148,875	3,074,748
– loans from banks	27	402,691	414,883
– loans from customers	27	4,558	4,551
– debt securities	-	64,345	60,973
– subordinated liabilities	27	1,250	1,250
– other financial liabilities	27	66,921	34,266
Provisions	28	98,822	100,163
Tax liabilities	-	1,443	96
– current tax liabilities	-	82	88
– deferred tax liabilities	-	1,361	8
Other liabilities	-	16,451	15,251
TOTAL LIABILITIES	-	4,297,199	4,250,765
Share capital	29	150,000	150,000
Share premium	-	360,572	360,572
Revaluation reserves	30	32,162	8,981
Translation reserves	-	(2,563)	(2,486)
Reserves from profit	31	499	663
Retained earnings (including net profit for the reporting period)	-	62,904	48,937
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	-	603,574	566,667
Non-controlling interest	-	(4,006)	(6,639)
TOTAL SHAREHOLDERS' EQUITY	-	599,568	560,028
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	-	4,896,767	4,810,793

The accompanying notes form an integral part of these financial statements.

Interim Statement of Cash Flows – Nova KBM Group

€000

Designation	ITEM DESCRIPTION	Three months ended 31.03.2014	Three months ended 31.03.2013
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Total profit/(loss) before tax from continuing operations	16,571	(11,333)
	Depreciation and amortisation	3,941	4,026
	Impairment of available-for-sale financial assets	1,000	10,910
	Impairment of loans and advances	4,961	11,985
	Impairment/(reversal of impairment) of held-to-maturity financial assets	(1)	13
	(Reversal of impairment) of tangible assets, investment property, intangible assets and other assets	(465)	(187)
	Share of (profits) of associates and joint ventures accounted for using the equity method	(35)	(55)
	Net (gains)/losses from exchange rate differences	(375)	932
	Net losses from held-to-maturity financial assets	0	77
	Net (gains)/losses from the sale of tangible assets and investment properties	91	(32)
	Other (gains) from investing activities	(2,358)	(4,560)
	Other losses from financing activities	0	2,837
	Net unrealised (gains) from non-current assets held for sale and discontinued operations and liabilities associated therewith	(68)	(82)
	Other adjustments to total net profit or loss before tax	(1,284)	(2,739)
	Cash flow from operating activities before changes in operating assets and liabilities	21,978	11,792
b)	(Increase)/decrease in operating assets (excluding cash equivalents)	50,706	(10,328)
	Net (increase) in financial assets held for trading	(224)	(1,458)
	Net decrease in financial assets designated at fair value through profit or loss	942	2,031
	Net (increase) in available-for-sale financial assets	(29,262)	(94,819)
	Net decrease in loans and advances	77,621	83,672
	Net decrease in non-current assets held for sale	88	276
	Net (increase)/decrease in other assets	1,541	(30)
c)	Increase/(decrease) in operating liabilities	47,100	(18,792)
	Net (decrease) in financial liabilities to the central bank	(51,497)	(5,112)
	Net increase/(decrease) in financial liabilities held for trading	246	(182)
	Net increase/(decrease) in deposits and loans taken, measured at amortised cost	93,848	(8,078)
	Net increase/(decrease) in debt securities in issue, measured at amortised cost	3,372	(16,414)
	Net increase in other liabilities	1,131	10,994
d)	Cash flow from operating activities (a + b + c)	119,784	(17,328)
e)	Income taxes (paid)/refunded	89	(283)
f)	Net cash flow from operating activities (d + e)	119,873	(17,611)

€000

Designation	ITEM DESCRIPTION	Three months ended 31.03.2014	Three months ended 31.03.2013
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	Receipts from investing activities	29,240	25,826
	Receipts from the sale of tangible assets and investment properties	717	173
	Receipts from the sale of intangible assets	1	0
	Receipts from non-current assets or liabilities held for sale	117	246
	Receipts from the sale of held-to-maturity financial assets	28,405	25,407
b)	Cash payments on investing activities	(9,194)	(15,717)
	(Cash payments to acquire tangible assets and investment properties)	(447)	(2,395)
	(Cash payments to acquire intangible assets)	(841)	(1,035)
	(Cash payments to acquire held-to-maturity financial assets)	(7,906)	(12,287)
c)	Net cash flow from investing activities (a + b)	20,046	10,109
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	Cash proceeds from financing activities	0	100,000
	Cash proceeds from the issuance of subordinated liabilities	0	100,000
b)	Cash payments on financing activities	(1)	(83)
	(Dividends and share in profits paid)	(1)	0
	(Repayments of subordinated liabilities)	0	(83)
c)	Net cash flow from financing activities (a + b)	(1)	99,917
D.	Effects of change in exchange rates on cash and cash equivalents	453	1,673
E.	Net increase in cash and cash equivalents (Af + Bc + Cc)	139,918	92,415
F.	Opening balance of cash and cash equivalents	557,246	332,522
G.	Closing balance of cash and cash equivalents (D + E + F)	697,617	426,610

Reconciliation of cash and cash equivalents as of 31 March 2014 with the statement of financial position items is presented in Note 19.1.

The balance of cash and cash equivalents as of 31 March 2013 amounted to €426,610,000 and was made up of cash and balances with the central bank, in the amount of €323,567,000, and loans and advances to banks with an original maturity of up to three months, in the amount of €103,043,000.

Cash Flows from Interest, Dividends and Participation in Profits

€000

	Three months ended 31.03.2014	Three months ended 31.03.2013
Interest paid	(20,502)	(33,541)
Interest received	48,484	46,744
Dividends and participation in profits paid	(1)	0
Dividends and participation in profits received	0	7

The accompanying notes form an integral part of these financial statements.

Interim Statement of Changes in Equity – Nova KBM Group

Interim Statement of Changes in Equity for the three months ended 31.03.2014

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Translation reserves	Reserves from profit	Retained earnings (including net profit for the reporting period)	Equity attributable to owners of the parent	Non-controlling interest	Total shareholders' equity
OPENING BALANCE FOR THE REPORTING PERIOD	150,000	360,572	8,981	(2,486)	663	48,937	566,667	(6,639)	560,028
Total comprehensive income for the period after tax	0	0	23,181	(77)	0	13,803	36,907	2,633	39,540
Other	0	0	0	0	(164)	164	0	0	0
CLOSING BALANCE FOR THE REPORTING PERIOD	150,000	360,572	32,162	(2,563)	499	62,904	603,574	(4,006)	599,568

The accompanying notes form an integral part of these financial statements.

Interim Statement of Changes in Equity for the three months ended 31.03.2013

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Translation reserves	Reserves from profit	Retained losses (including net loss for the reporting period)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Non-controlling interest	Total shareholders' equity
OPENING BALANCE FOR THE REPORTING PERIOD	40,814	165,775	(1,149)	(2,365)	289,741	(281,237)	(1,412)	210,167	43,037	253,204
Total comprehensive (loss) for the period after tax	0	0	(5,984)	415	0	(6,858)	0	(12,427)	(4,051)	(16,478)
Other	1	0	(1)	(1)	0		0	(1)	(1)	(2)
CLOSING BALANCE FOR THE REPORTING PERIOD	40,815	165,775	(7,134)	(1,951)	289,741	(288,095)	(1,412)	197,739	38,985	236,724

Line 'Other': rounding adjustments.

The accompanying notes form an integral part of these financial statements.

1 General information

Nova KBM d.d. (hereafter also referred to as the 'Bank') is the parent company of the Nova KBM Group (hereafter also referred to as the 'Group') which, as of 31 March 2014, comprised the parent company and 11 subsidiary companies.

Nova KBM d.d. is a commercial bank with a tradition of understanding and supporting its retail and corporate customers to whom it provides standard banking products. The Bank's registered office is at Ulica Vita Kraigherja 4, 2505 Maribor, Republic of Slovenia.

As of 31 March 2014, the share capital of the Bank totalled €150,000,000 and was split into 10,000,000 ordinary no-par value shares, all of which were held by the Republic of Slovenia.

The Bank is obliged to prepare consolidated financial statements.

2 Definition of the Group

The Group is composed of the parent bank and its subsidiary companies.

Company	Position in the Group	Group's voting rights in the company (%)
Nova Kreditna banka Maribor d.d.	parent bank	
Poštna banka Slovenije d.d.	subsidiary bank	99.12
Adria Bank AG	subsidiary bank	50.54 ¹
KBM Banka a.d.	subsidiary bank	89.53
KBM Fineko d.o.o. (in liquidation) ²	subsidiary company	100.00
KBM Infond d.o.o.	subsidiary company	72.73 ³
KBM Leasing d.o.o.	subsidiary company	100.00
KBM Invest d.o.o.	subsidiary company	100.00
Gorica Leasing d.o.o.	subsidiary company	100.00
M-PAY d.o.o.	subsidiary company	50.00
KBM Leasing Hrvatska d.o.o.	subsidiary company	100.00
MB Finance B.V.	subsidiary company	00.00 ⁴

¹ The Group's stake in the share capital of and voting rights in Adria Bank accounts for 50.54%, while its stake in the paid-up capital of Adria Bank equals 46.65%. Paid-up capital is made up of share capital and participating interests without voting rights held by non-controlling interest.

² KBM Fineko filed for liquidation on 29 November 2013. Since the company is still controlled by Nova KBM, it is fully consolidated in the Group's financial statements.

³ The Group's stake in the share capital of KBM Infond accounts for 72.00%. Due to KBM Infond holding a certain amount of its own shares, the Group's stake in the capital of and voting rights in KBM Infond equals 72.73%.

⁴ In accordance with IFRS 10, MB Finance is regarded as a consolidated structured entity controlled by Nova KBM. Nova KBM has neither voting rights nor an equity stake in this entity, and the operations of this entity are considered to be immaterial to the Group.

Moja naložba is an associated company in which Nova KBM has a 45% shareholding.

3 Basis for the presentation of financial statements

The financial statements of the Group for the three-month period ended 31 March 2014 were authorised for issue on 13 May 2014 by the Nova KBM Management Board.

3.1 Statement of compliance and purpose of financial statements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereafter 'IFRSs') as endorsed by the European Union.

The interim financial report is prepared in a condensed form and includes selected explanatory notes as requested in accordance with IAS 34 – Interim Financial Reporting.

The interim financial statements are unaudited. They have been prepared assuming that the Group will continue as a going concern in the foreseeable future and that it will be able to meet its liabilities when due.

3.2 Presentation and functional currency

Items included in the consolidated financial statements are presented in euro, which is the functional and presentation currency of the Group.

All amounts in the consolidated financial statements and in the notes to the consolidated financial statements are expressed in thousands of euros except where stated otherwise. Slight discrepancies in totals may occur due to rounding adjustments. Euro figures in the text are stated as whole numbers, rounded to the nearest thousand.

4 Significant accounting policies

The accounting policies used by the Group are presented in detail in its Annual Report for 2013.

Adopted accounting policies have been consistently applied in both reporting periods presented in these consolidated financial statements.

During the interim reporting period and in 2013, the Group did not reclassify any of its financial assets into another category.

Newly adopted standards and interpretations in effect since 1 January 2014 are presented below:

- **IFRS 10** – Consolidated Financial Statements; adopted by the EU on 11 December 2012.
- **IFRS 11** – Joint Arrangements; adopted by the EU on 11 December 2012.
- **IFRS 12** – Disclosure of Interests in Other Entities; adopted by the EU on 11 December 2012.
- **IAS 27** (revised in 2011) – Separate Financial Statements; adopted by the EU on 11 December 2012.
- **IAS 28** (revised in 2011) – Investments in Associates and Joint Ventures; adopted by the EU on 11 December 2012.
- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 11** – Joint Arrangements, and **IFRS 12** – Disclosures of Interests in Other Entities – Transition Guidance; adopted by the EU on 4 April 2013.
- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 12** – Disclosure of Interests in Other Entities, and **IAS 27** (revised in 2011) – Separate Financial Statements – Investment Entities; adopted by the EU on 20 November 2013.
- **Amendments to IAS 32** – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012.

- **Amendments to IAS 36** – Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets; adopted by the EU on 19 December 2013.
- **Amendments to IAS 39** – Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting; adopted by the EU on 19 December 2013.

The amendments to the existing standards have not led to any material changes in the Group's accounting policies.

Standards and interpretations issued by the International Accounting Standards Board (IASB) but, as of the date of this interim report, not yet adopted for use by the EU are set out below:

- **IFRS 9** – Financial Instruments and subsequent amendments (effective date has not been yet determined).
- **Amendments to IAS 19** – Employee Benefits – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2010 – 2012) resulting from the annual improvement project of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2011 – 2013) resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **IFRIC 21** – Levies (effective for annual periods beginning on or after 1 January 2014).

The Group has not early adopted any standard or interpretation issued but not yet effective. It anticipates that the adoption of these standards, revisions and interpretations will have no material impact on its financial statements in the period of initial application.

5 Risk exposure

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 organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the adopted rules of procedure, each risk management policy has to be approved by the Policy Approval Committee.

Further details with respect to risk management are provided in the Group's Annual Report for 2013.

5.1 Credit risk

Analysis of exposure to credit risk

	Loans to customers		Loans to banks	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Net disbursed loans	2,143,789	2,231,765	79,212	129,674
Individual impairment				
Gross amount	1,057,934	1,057,140	20,272	9,617
Impairment	(516,615)	(509,385)	(2,523)	(2,547)
Net amount	541,319	547,755	17,749	7,070
Collective impairment				
Credit rating A	982,939	1,026,876	0	0
Credit rating B	390,014	409,305	0	0
Credit rating C	186,663	207,286	0	0
Credit rating D	16,463	16,146	0	0
Credit rating E	65,232	59,831	0	0
Gross amount	1,641,311	1,719,444	0	0
Impairment	(82,385)	(80,572)	0	0
Net amount	1,558,926	1,638,872	0	0
Net non-impaired loans	43,544	45,138	61,463	122,604
Total net loans	2,143,789	2,231,765	79,212	129,674

Overdue and unpaid claims

	31.03.2014				Total
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	
Banks	0	0	0	2,480	2,480
State	31	0	0	63	94
Legal entities	62,543	18,036	18,806	515,911	615,296
Households	4,018	2,049	852	54,056	60,975
Total	66,592	20,085	19,658	572,510	678,845

	31.12.2013				
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	0	0	0	2,523	2,523
State	124	5	0	3	132
Legal entities	72,377	29,476	8,403	445,765	556,021
Households	4,658	1,227	1,090	51,635	58,610
Total	77,159	30,708	9,493	499,926	617,286

NPLs of the total loan portfolio

	31.03.2014	31.12.2013
Total gross loan portfolio	2,824,524	2,953,943
Total net loan portfolio	2,223,001	2,361,439
Net NPLs (overdue over 90 days; credit ratings D and E)	456,349	424,407
Net NPLs/total net loan portfolio (%)	20.53	17.97

Analysis of NPLs by industry sectors

Industry sector	31.03.2014			31.12.2013		
	Total net loans	Net NPLs	Share of NPLs (%)	Total net loans	Net NPLs	Share of NPLs (%)
Households	903,231	27,452	3.04	929,943	26,030	2.80
Agriculture and hunting, forestry, fishing	28,105	5,909	21.02	31,667	5,602	17.69
Mining	1,218	667	54.76	1,307	252	19.28
Manufacturing industry	422,991	140,650	33.25	436,937	121,969	27.91
Electricity, gas and steam supply	60,787	9,821	16.16	64,646	10,808	16.72
Water supply, waste and sewage management, rehabilitation of the environment	16,743	815	4.87	16,701	808	4.84
Construction	83,553	31,974	38.27	87,809	31,042	35.35
Trade, maintenance and repair of motor vehicles	223,542	80,384	35.96	236,731	78,014	32.95
Transportation and storage	56,339	853	1.51	58,917	1,266	2.15
Accommodation and food service activities	43,430	17,266	39.76	45,143	17,447	38.65
Information and communication activities	27,800	13,225	47.57	30,520	7,946	26.04
Financial intermediation	143,050	23,156	16.19	203,651	23,296	11.44
Real estate activities	47,441	35,845	75.56	48,323	32,454	67.16
Professional, scientific and technical activities	66,600	25,764	38.68	69,533	22,427	32.25
Other various business activities	10,522	2,523	23.98	10,818	2,768	25.59
Public administration and defence services, compulsory social security activities	13,347	249	1.87	14,643	189	1.29
Education	3,692	340	9.21	3,628	329	9.07
Health and welfare security	24,078	9,114	37.85	24,423	9,150	37.46
Arts, entertainment and recreation	33,209	28,738	86.54	35,802	31,064	86.77
Other activities	13,323	1,604	12.04	10,297	1,546	15.01
Total net loans	2,223,001	456,349	20.53	2,361,439	424,407	17.97

5.2 Liquidity risk

Analysis of liquidity risk as of 31 March 2014

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	630,672	630,672	0	0	0	0
Financial assets held for trading	2,009	2,009	0	0	0	0
Financial assets designated at fair value through profit or loss	23,644	23,644	0	0	0	0
Available-for-sale financial assets	1,523,115	1,523,115	0	0	0	0
Loans and advances	2,242,540	600,878	95,755	327,520	727,006	491,381
Held-to-maturity financial assets	262,010	73,367	49	96,450	59,735	32,409
Other assets*	212,777	45,170	1,194	15,968	32,913	117,532
Total assets	4,896,767	2,898,855	96,998	439,938	819,654	641,322
Liabilities						
Financial liabilities to the central bank	431,394	3	0	431,349	42	0
Financial liabilities held for trading	1,668	1,668	0	0	0	0
Financial liabilities measured at amortised cost	3,747,421	1,760,543	442,728	1,097,173	342,118	104,859
Other liabilities*	716,284	27,420	8,401	56,770	46,181	577,512
Total liabilities and equity	4,896,767	1,789,634	451,129	1,585,292	388,341	682,371
Assets-liabilities (including equity) mismatch	0	1,109,221	(354,131)	(1,145,354)	431,313	(41,049)
Guarantees	290,251	24,446	30,740	95,807	94,195	45,063

* Assets and liabilities without a direct impact on liquidity.

Analysis of liquidity risk as of 31 December 2013

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	435,478	435,478	0	0	0	0
Financial assets held for trading	1,786	1,786	0	0	0	0
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	0	0
Available-for-sale financial assets	1,466,864	1,466,864	0	0	0	0
Loans and advances	2,379,322	610,924	122,390	365,565	768,226	512,217
Held-to-maturity financial assets	280,153	10,853	17,447	130,314	89,128	32,411
Other assets*	222,604	65,239	1,238	9,697	31,716	114,714
Total assets	4,810,793	2,615,730	141,075	505,576	889,070	659,342
Liabilities						
Financial liabilities to the central bank	482,891	3	3,000	9	479,879	0
Financial liabilities held for trading	1,422	1,422	0	0	0	0
Financial liabilities measured at amortised cost	3,650,942	1,742,042	480,014	949,538	369,241	110,107
Other liabilities*	675,538	18,278	5,922	40,536	47,021	563,781
Total liabilities and equity	4,810,793	1,761,745	488,936	990,083	896,141	673,888
Assets-liabilities (including equity) mismatch	0	853,985	(347,861)	(484,507)	(7,071)	(14,546)
Guarantees	295,381	34,533	22,504	95,624	97,614	45,106

* Assets and liabilities without a direct impact on liquidity.

5.3 Interest rate risk

Analysis of interest rate risk as of 31 March 2014

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	630,672	73,113	557,559	557,559	0	0	0	0
Financial assets held for trading	2,009	1,958	51	51	0	0	0	0
Financial assets designated at fair value through profit or loss	23,644	23,644	0	0	0	0	0	0
Available-for-sale financial assets	1,523,115	31,096	1,492,019	88,313	50,651	264,431	876,576	212,048
Loans and advances	2,242,540	119,361	2,123,179	662,395	428,243	963,013	56,685	12,843
Held-to-maturity financial assets	262,010	0	262,010	72,842	0	95,199	60,942	33,027
Other assets	53,986	53,986	0	0	0	0	0	0
Total assets	4,737,976	303,158	4,434,818	1,381,160	478,894	1,322,643	994,203	257,918
Liabilities								
Financial liabilities to the central bank	431,394	0	431,394	55	0	431,339	0	0
Financial liabilities held for trading	1,668	1,304	364	364	0	0	0	0
Financial liabilities measured at amortised cost	3,747,421	73,559	3,673,862	1,865,905	531,981	1,098,316	175,554	2,106
Other liabilities	16,451	16,451	0	0	0	0	0	0
Total liabilities	4,196,934	91,314	4,105,620	1,866,324	531,981	1,529,655	175,554	2,106
Assets-liabilities mismatch	541,042	211,844	329,198	(485,164)	(53,087)	(207,012)	818,649	255,812

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 2013

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	435,478	80,880	354,598	354,598	0	0	0	0
Financial assets held for trading	1,786	1,779	7	7	0	0	0	0
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	0	0	0	0
Available-for-sale financial assets	1,466,864	40,107	1,426,757	27,390	82,491	299,451	819,499	197,926
Loans and advances	2,379,322	127,765	2,251,557	1,117,752	540,747	480,408	98,908	13,742
Held-to-maturity financial assets	280,153	1,697	278,456	10,247	16,248	128,522	90,212	33,227
Other assets	55,114	55,114	0	0	0	0	0	0
Total assets	4,643,303	331,928	4,311,375	1,509,994	639,486	908,381	1,008,619	244,895
Liabilities								
Financial liabilities to the central bank	482,891	668	482,223	8,164	3,001	11	471,047	0
Financial liabilities held for trading	1,422	976	446	446	0	0	0	0
Financial liabilities measured at amortised cost	3,650,942	12,665	3,638,277	1,800,906	566,899	1,130,336	137,826	2,310
Other liabilities	15,251	15,251	0	0	0	0	0	0
Total liabilities	4,150,506	29,560	4,120,946	1,809,516	569,900	1,130,347	608,873	2,310
Assets-liabilities mismatch	492,797	302,368	190,429	(299,522)	69,586	(221,966)	399,746	242,585

The table above shows the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

5.4 Foreign exchange risk

Analysis of foreign exchange risk as of 31 March 2014

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	617,260	970	1,507	1,006	9,929	630,672
Financial assets held for trading	1,789	189	0	0	31	2,009
Financial assets designated at fair value through profit or loss	23,644	0	0	0	0	23,644
Available-for-sale financial assets	1,513,875	0	0	0	9,240	1,523,115
Loans and advances	2,061,821	27,410	82,339	24,887	46,083	2,242,540
Held-to-maturity financial assets	261,771	0	0	0	239	262,010
Other assets	197,589	0	0	2,616	12,572	212,777
Total assets	4,677,749	28,569	83,846	28,509	78,094	4,896,767
Liabilities						
Financial liabilities to the central bank	431,394	0	0	0	0	431,394
Financial liabilities held for trading	1,668	0	0	0	0	1,668
Financial liabilities measured at amortised cost	3,657,924	28,577	19,111	214	41,595	3,747,421
Other liabilities	743,079	2	0	(15,070)	(11,727)	716,284
Total liabilities and equity	4,834,065	28,579	19,111	(14,856)	29,868	4,896,767
Assets-liabilities (including equity) mismatch	(156,316)	(10)	64,735	43,365	48,226	0
Derivatives	64,913	0	(65,198)	0	0	(285)
Assets-liabilities (including equity and derivatives) mismatch	(91,403)	(10)	(463)	43,365	48,226	(285)

Analysis of foreign exchange risk as of 31 December 2013

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	418,729	764	1,419	750	13,816	435,478
Financial assets held for trading	1,672	0	0	0	114	1,786
Financial assets designated at fair value through profit or loss	24,586	0	0	0	0	24,586
Available-for-sale financial assets	1,451,678	0	0	0	15,186	1,466,864
Loans and advances	2,209,864	27,741	90,210	25,160	26,347	2,379,322
Held-to-maturity financial assets	279,906	0	0	0	247	280,153
Other assets	206,191	0	0	1,711	14,702	222,604
Total assets	4,592,626	28,505	91,629	27,621	70,412	4,810,793
Liabilities						
Financial liabilities to the central bank	482,891	0	0	0	0	482,891
Financial liabilities held for trading	1,422	0	0	0	0	1,422
Financial liabilities measured at amortised cost	3,552,062	28,379	19,578	192	50,731	3,650,942
Other liabilities	701,403	3	0	(14,540)	(11,328)	675,538
Total liabilities and equity	4,737,778	28,382	19,578	(14,348)	39,403	4,810,793
Assets-liabilities (including equity) mismatch	(145,152)	123	72,051	41,969	31,009	0
Derivatives	73,515	0	(73,823)	0	0	(308)
Assets-liabilities (including equity and derivatives) mismatch	(71,637)	123	(1,772)	41,969	31,009	(308)

5.5 Capital risk

	31.03.2014	31.12.2013
Original own funds		
Paid-up share capital	150,000	150,000
Share premium	360,572	360,572
Reserves and retained earnings or losses	68,381	68,381
Revaluation excesses (PP) – prudential filters	(18,868)	(18,319)
Non-controlling interest	(4,006)	(6,639)
(-) Intangible long-term assets	(30,932)	(32,863)
(-) Other country specific deductions	(3)	(22)
Total	525,144	521,110
Additional own funds I		
Subordinated debt I	1,000	1,000
Other	2,285	2,565
Total	3,285	3,565
(-) Deductions from original own funds and additional own funds I		
(-) Deductions from original own funds	(1,469)	(1,479)
(-) Deductions from additional own funds I	(1,469)	(1,479)
Total	(2,938)	(2,958)
Total equity (for solvency purposes)	525,491	521,717
Capital requirements		
Capital requirements for credit risk	188,642	196,510
Regional governments and local authorities	259	251
Administrative bodies	815	445
Institutions	9,124	10,728
Corporates	49,966	55,607
Retail banking	65,869	67,916
Secured by real estate	2,839	3,120
Past due items	6,553	7,340
Items belonging to regulatory high-risk categories	36,452	32,941
Collective investment undertakings	655	823
Other items	16,110	17,339
Total capital requirements for market risks	4,140	5,854
Debt securities	205	193
Equity instruments	3,935	4,113
Foreign exchange	0	1,548
Capital requirement for operational risk	23,138	27,791
Total	215,920	230,155
Total capital adequacy ratio	19.47%	18.13%
Tier I capital ratio	19.40%	18.06%
Core Tier I capital ratio	19.40%	18.06%

6 Fair value of financial assets and financial liabilities

	31.03.2014		31.12.2013	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and balances with the central bank	630,672	630,672	435,478	435,478
Financial assets held for trading	2,009	2,009	1,786	1,786
Financial assets designated at fair value through profit or loss	23,644	23,644	24,586	24,586
Available-for-sale financial assets	1,523,115	1,523,115	1,466,864	1,466,864
Loans and advances to banks	79,212	83,713	129,674	134,665
Loans and advances to customers	2,143,789	2,151,988	2,231,765	2,239,964
Other financial assets	19,539	19,539	17,883	17,883
Held-to-maturity financial assets	262,010	265,857	280,153	280,605
Financial liabilities				
Financial liabilities to the central bank	431,394	431,138	482,891	482,274
Financial liabilities held for trading	1,668	1,668	1,422	1,422
Deposits from banks	58,781	58,787	60,271	60,354
Deposits from customers	3,148,875	3,158,367	3,074,748	3,084,106
Loans from banks	402,691	403,357	414,883	416,038
Loans from customers	4,558	4,559	4,551	4,555
Debt securities	64,345	69,557	60,973	66,132
Subordinated liabilities	1,250	1,250	1,250	1,250
Other financial liabilities	66,921	66,921	34,266	34,266

Analysis of fair value hierarchy

	31.03.2014				31.12.2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Derivatives	218	0	218	0	612	0	612	0
Financial assets held for trading	1,791	1,791	0	0	1,174	1,174	0	0
– debt securities	51	51	0	0	7	7	0	0
– equity instruments	1,740	1,740	0	0	1,167	1,167	0	0
Available-for-sale financial assets	1,523,115	1,096,910	423,254	2,951	1,466,864	1,434,154	29,543	3,167
– debt securities	1,492,019	1,068,765	423,254	0	1,432,102	1,402,559	29,543	0
– equity instruments	31,096	28,145	0	2,951	34,762	31,595	0	3,167
Financial assets designated at fair value through profit or loss	23,644	23,644	0	0	24,586	24,586	0	0
– equity instruments	23,644	23,644	0	0	24,586	24,586	0	0
Financial liabilities								
Derivatives	1,668	0	1,668	0	1,422	0	1,422	0

Level 1 includes financial assets whose fair value is determined on the basis of prices quoted on active markets.

Level 2 includes financial assets whose fair value is estimated on the basis of valuation models which take into account variables derived from public market data (such as market interest rates).

Level 3 includes financial assets whose fair value is estimated on the basis of valuation models which take into account subjective variables that are not publicly available.

Financial assets designated at fair value through profit or loss (equity financial instruments) form part of forward sales and are valued in connection with the underlying forward contracts.

Analysis of transitions between Level 1, Level 2 and Level 3

	31.03.2014		
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 3
Financial assets held for trading	0	0	0
Available-for-sale financial assets	394,250	0	0
– debt securities	394,250	0	0
– equity instruments	0	0	0
Financial assets designated at fair value through profit or loss	0	0	0

	31.12.2013		
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 3
Financial assets held for trading	0	0	0
Available-for-sale financial assets	2,000	28,757	1,527
– debt securities	2,000	25,209	0
– equity instruments	0	3,548	1,527
Financial assets designated at fair value through profit or loss	0	0	0

The Group starts measuring financial assets according to the valuation model that takes into account available market prices once it establishes that the market is not active. Debt securities with a determinable cash flow and without an available market price are valued at the end of each month using the discounted cash flow model. The interest rate used for discounting is the sum of the interest rate of a risk-free instrument of comparable maturity, and a margin for credit risk. The transition from Level 2 to Level 1 is a result of re-availability of a financial asset's market price. The price of a financial asset is considered to be available if the published market price is the result of the actual turnover in the period of less than one month. The transition from Level 1 to Level 3 is the result of a valuation of a financial asset that was previously recorded at the market price.

Movements in financial assets included in Level 3

	Available-for-sale financial assets		
	Total	Shares	Participating interests
1 January 2013	11,608	11,002	606
– acquisition	13		13
– transfer of shares to BAMC	(9,238)	(9,238)	
– revaluation of shares	(743)	(738)	(5)
– transition to Level 3 due to the valuation of shares	1,527	1,527	
31 December 2013	3,167	2,553	614
– change due to sale	(933)	(933)	
– change due to debt-to-equity swaps	718	718	
31 March 2014	2,952	2,338	614

The table above presents changes within Level 3 of the fair value hierarchy. The decrease in the value of available-for-sale financial assets, which we saw in the first quarter of 2014, was the result of the sale of a financial asset, partially offset by the Bank converting into equity its claims against two companies.

7 Reporting by operating segments

Analysis by operating segments as of 31 March 2014

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationships	Relationships to third parties
A. Net income/expense	45,359	194	1,183	212	8	46,956	70	46,886
Interest income	45,056	1,111	0	167	1	46,335	2,794	43,541
Interest expense	(16,660)	(1,693)	(5)	(347)	0	(18,705)	(2,804)	(15,901)
Net interest income	28,396	(582)	(5)	(180)	1	27,630	(10)	27,640
Dividend income	0	0	0	0	0	0	0	0
Fee and commission income	20,256	14	1,367	0	0	21,637	169	21,468
Fee and commission expense	(7,061)	(86)	(265)	(7)	0	(7,419)	(141)	(7,278)
Net fee and commission income	13,195	(72)	1,102	(7)	0	14,218	28	14,190
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	2,232	0	68	338	0	2,638	(1)	2,639
Net gains/(losses) on financial assets and liabilities held for trading	(867)	0	5	0	0	(862)	0	(862)
Net gains on financial assets and liabilities designated at fair value through profit or loss	3,696	0	0	0	0	3,696	0	3,696
Net exchange rate differences	407	(31)	0	0	0	376	1	375
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	14	(21)	0	1	0	(6)	4	(10)
Other net operating income/(loss)	(1,714)	900	13	60	7	(734)	48	(782)
B. Other items by segments	(35,036)	143	(760)	(353)	(1)	(36,007)	(5,692)	(30,315)
Administration costs	(20,895)	(569)	(505)	(352)	(1)	(22,322)	(68)	(22,254)
Depreciation and amortisation	(3,578)	(107)	(255)	(2)	0	(3,942)	(1)	(3,941)
Provisions	(929)	0	0	0	0	(929)	(2,201)	1,272
Impairment losses	(9,698)	819	0	1	0	(8,878)	(3,383)	(5,495)
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	(35)	35
Net gains from non-current assets held for sale and liabilities associated therewith	64	0	0	0	0	64	(4)	68
C. Profit or loss								
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	10,323	337	423	(141)	7	10,949	(5,622)	16,571
Income tax related to profit or loss from continuing operations	(88)	0	(74)	(43)	(1)	(206)	1	(207)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	10,235	337	349	(184)	6	10,743	(5,621)	16,364
D. Segment assets and liabilities								
Total assets	4,962,756	126,356	13,655	47,212	218	5,150,197	253,430	4,896,767
- non-current assets held for sale and discontinued operations	6,322	1,309	0	0	0	7,631	370	7,261
- investments in the equity of associates and joint ventures accounted for using the equity method	54,139	0	0	0	0	54,139	51,202	2,937
Liabilities (excluding equity) by segments	4,351,086	188,564	636	57,228	3	4,597,517	300,318	4,297,199
Total equity	611,670	(62,208)	13,019	(10,016)	215	552,680	(46,888)	599,568
Increase in property, plant and equipment and intangible assets	347	7	37	0	0	391	0	391

Analysis by operating segments as of 31 March 2013

	Banking	Leasing	Fund management	Real estate activity	Other	Total	Inter-segment relationships	Relationships to third parties
A. Net income/expense	35,078	102	1,409	95	6	36,690	(129)	36,819
Interest income	53,730	1,458	0	172	2	55,362	3,621	51,741
Interest expense	(29,823)	(2,523)	(20)	(576)	0	(32,942)	(3,621)	(29,321)
Net interest income	23,907	(1,065)	(20)	(404)	2	22,420	0	22,420
Dividend income	7	0	0	0	0	7	0	7
Fee and commission income	20,749	29	1,577	3	0	22,358	285	22,073
Fee and commission expense	(7,873)	(57)	(195)	(5)	0	(8,130)	(236)	(7,894)
Net fee and commission income	12,876	(28)	1,382	(2)	0	14,228	49	14,179
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	141	1	42	324	0	508	0	508
Net gains on financial assets and liabilities held for trading	1,183	0	0	0	0	1,183	(223)	1,406
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	(1,511)	0	8	0	0	(1,503)	0	(1,503)
Net exchange rate differences	(786)	(146)	0	0	0	(932)	0	(932)
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	34	(2)	0	0	0	32	0	32
Other net operating income/(loss)	(773)	1,342	(3)	177	4	747	45	702
B. Other items by segments	(46,892)	(1,006)	(792)	(357)	(1)	(49,048)	(896)	(48,152)
Administration costs	(22,869)	(630)	(534)	(343)	(1)	(24,377)	(96)	(24,281)
Depreciation and amortisation	(3,506)	(249)	(258)	(13)	0	(4,026)	0	(4,026)
Provisions	2,346	0	0	0	0	2,346	(393)	2,739
Impairment losses	(22,945)	(127)	0	(1)	0	(23,073)	(352)	(22,721)
Share of profits of associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	(55)	55
Net gains from non-current assets held for sale and liabilities associated therewith	82	0	0	0	0	82	0	82
C. Profit or loss								
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(11,814)	(904)	617	(262)	5	(12,358)	(1,025)	(11,333)
Income tax related to profit or loss from continuing operations	3,084	20	0	(54)	(1)	3,049	184	2,865
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(8,730)	(884)	617	(316)	4	(9,309)	(841)	(8,468)
D. Segment assets and liabilities								
Total assets	5,541,468	210,372	15,623	63,832	202	5,831,497	443,718	5,387,779
- non-current assets held for sale and discontinued operations	282	1,970	0	0	0	2,252	0	2,252
- investments in the equity of associates and joint ventures accounted for using the equity method	55,980	33	0	0	0	56,013	52,897	3,116
Liabilities (excluding equity) by segments	5,261,542	254,831	1,817	79,028	1	5,597,219	446,164	5,151,055
Total equity	279,926	(44,459)	13,806	(15,196)	201	234,278	(2,446)	236,724
Increase in property, plant and equipment and intangible assets	1,460	35	15	4	0	1,514	0	1,514

8 Transfer of assets to BAMC

On 11 July 2013, the Government of the Republic of Slovenia made a ruling that Nova KBM had met the conditions to be entitled to benefit from measures aimed at stabilising its financial position, in accordance with the first paragraph of Article 4 of the Decree on the Implementation of Measures to Strengthen Bank Stability.

According to the measures adopted for Nova KBM, it was agreed that the bad assets on the books of the Group were to be transferred to BAMC (the state-run Bank Asset Management Company). On 18 December 2013, the European Commission consented to this transfer of assets.

For the purpose of transferring assets to BAMC, assets at risk held on the books of the Group were valued on the basis of their long-term realistic economic value calculated according to the methodology described in the decree referred to above.

The legal and book transfer of assets was carried out on 20 December 2013.

In exchange for transferring the assets, the Group received from BAMC state-guaranteed bonds.

The effect of transferring the assets to BAMC was reflected in the following statement of financial position items (as of 31 December 2013):

Item	Amount
Financial assets designated at fair value through profit or loss	182
Available-for-sale financial assets	13,305
Loans and advances to customers and other financial assets	374,849
– gross value	1,015,556
– impairment	640,707
Total net transfer value of assets	388,336

Notes to the income statement items

9 Interest income and expense

9.1 Analysis of interest by market segments

	Q1 2014		Q1 2013	
	Income	Expense	Income	Expense
Non-financial companies	14,240	1,215	24,353	1,288
State	14,203	477	7,659	6,344
Banks	848	3,345	1,880	6,266
Other financial organisations	265	936	1,419	2,208
Households	11,869	9,482	13,221	12,643
Foreign persons	2,077	387	3,158	481
Non-profit household service providers	39	59	51	91
Total	43,541	15,901	51,741	29,321
Net interest income	27,640		22,420	

9.2 Analysis of interest income and expense by type of assets and liabilities

	Q1 2014		Q1 2013	
	Current	Non-current	Current	Non-current
Interest income				
Balances with the central bank (measured at amortised cost)	218	0	155	0
Financial assets held for trading	39	0	43	0
Available-for-sale financial assets	8,897	3,909	3,177	1,427
Loans and advances (including finance leases)	8,246	19,843	13,002	29,299
Held-to-maturity financial assets	136	2,221	231	4,328
Other financial assets	32	0	79	0
Total by maturity	17,568	25,973	16,687	35,054
Total	43,541		51,741	
Interest expense				
Financial liabilities due to the central bank (measured at amortised cost)	0	284	0	872
Financial liabilities held for trading	0	38	0	42
Financial liabilities measured at amortised cost	4,301	11,268	6,755	21,566
Other financial liabilities (including finance leases)	10	0	86	0
Total by maturity	4,311	11,590	6,841	22,480
Total	15,901		29,321	
Net interest income	27,640		22,420	

10 Fee and commission income and expense

	Q1 2014	Q1 2013
Fee and commission income	21,468	22,073
Fees from guarantees	1,008	943
Domestic payment transactions	11,144	11,632
Transactions under current accounts	3,271	2,910
Payment card operations	1,937	1,921
International payment transactions	589	750
Brokerage and agency services	491	102
Transactions in securities for customers	96	112
Lending operations	1,431	2,026
Safekeeping of objects and valuables	26	15
Other services	1,475	1,662
Fee and commission expense	7,278	7,894
Domestic banking services	1,556	1,125
Banking services abroad	83	355
Brokerage and agency services	212	144
Stock exchange transactions and other transactions in securities	104	110
Payment transactions	5,019	5,835
Other services	304	325
Net fee and commission income	14,190	14,179

11 Net gains or losses on financial assets and liabilities held for trading

	Q1 2014			Q1 2013		
	Gains	Losses	Net gains/(losses)	Gains	Losses	Net gains/(losses)
Trading in equity instruments	123	110	13	89	156	(67)
Trading in debt securities	1	0	1	6	0	6
Trading in foreign exchange (purchase/sale)	330	134	196	345	163	182
Trading in derivatives	603	1,675	(1,072)	2,115	830	1,285
– futures/forwards	492	894	(402)	1,759	567	1,192
– swaps	111	37	74	356	263	93
– other derivatives	0	744	(744)	0	0	0
Total	1,057	1,919	(862)	2,555	1,149	1,406

The Group uses derivatives (futures/forwards) for economic hedging of its exposure to foreign exchange risk. The effects of derivatives are linked to the effects arising from exchange rate differences (Note 13).

12 Net gains or losses on financial assets and liabilities designated at fair value through profit or loss

	Q1 2014			Q1 2013		
	Gains	Losses	Net gains	Gains	Losses	Net (losses)
Financial assets designated at fair value through profit or loss	3,703	7	3,696	349	1,852	(1,503)
Total	3,703	7	3,696	349	1,852	(1,503)

Gains and losses on financial assets designated at fair value through profit or loss are attributable to the valuation and disposal of equities and bonds for which a joint-selling agreement has been made by the Bank.

13 Net exchange rate differences

	Q1 2014	Q1 2013
Foreign exchange gains	3,976	9,974
Foreign exchange losses	3,601	10,906
Net foreign exchange gain/(loss)	375	(932)

14 Administration costs

	Q1 2014	Q1 2013
Staff expenses	13,352	14,307
Gross salaries	10,168	10,928
Social security and pension insurance contribution	1,831	1,976
Pay for annual leave	289	351
Other staff costs	1,064	1,052
General and administrative expenses	8,902	9,974
Costs of materials	864	1,030
Costs of services	5,202	6,194
Maintenance costs of fixed assets	1,677	1,667
Advertising costs	546	473
Other administrative costs	613	610
Total administration costs	22,254	24,281

15 Provisions

	Q1 2014	Q1 2013
Provisions for off-balance sheet liabilities	(2,752)	(2,636)
Provisions for tax claims and other pending legal issues	1,672	(219)
Other provisions	(192)	116
Total	(1,272)	(2,739)

16 Impairment losses

	Q1 2014	Q1 2013
Financial assets not measured at fair value through profit or loss	5,960	22,908
Other assets	(465)	(187)
Total impairment losses	5,495	22,721

16.1 Impairment of financial assets not measured at fair value through profit or loss

	Q1 2014	Q1 2013
Financial assets measured at cost	0	10,750
Available-for-sale financial assets designated at fair value	1,000	160
Loans and advances (including finance leases and other financial assets) measured at amortised cost	4,961	11,985
– loans and advances to banks	(178)	(27)
– loans and advances to customers	4,686	18,044
– other financial assets	453	(6,032)
Held-to-maturity financial assets measured at amortised cost	(1)	13
Total impairment of financial assets not measured at fair value through profit or loss	5,960	22,908

17 Share of profits of associates accounted for using the equity method

	Q1 2014	Q1 2013
Moja naložba d.d.	35	55
Total	35	55

18 Income tax related to profit or loss from continuing operations

	Q1 2014	Q1 2013
Income tax expense related to profit or loss from continuing operations	124	86
Deferred tax from continuing operations	83	(2,951)
Total	207	(2,865)

Notes to the statement of financial position items

19 Cash and balances with the central bank

	31.03.2014	31.12.2013
Cash in hand	66,841	68,994
Obligatory deposits with the central bank	166,814	357,130
Other deposits with the central bank	397,017	9,354
Total	630,672	435,478

Obligatory deposit funds are available to finance day-to-day operations and are therefore considered as cash equivalent.

19.1 Cash and cash equivalents

	31.03.2014	31.12.2013
Cash and balances with the central bank	630,672	435,478
Loans and advances to banks	66,945	121,768
Total	697,617	557,246

20 Financial assets held for trading

	31.03.2014	31.12.2013
Derivatives	218	612
Equity instruments	1,740	1,167
Debt securities	51	7
Total	2,009	1,786
Quoted	340	364
Unquoted	1,669	1,422
Total	2,009	1,786

No assets of this portfolio are pledged as collateral.

None of the instruments included in the portfolio of financial assets held for trading have the characteristics to qualify as subordinated debt.

20.1 Movements in financial assets held for trading

	Q1 2014	2013
1 January	1,786	1,572
Increase during the year	1,781	4,828
– acquisition	2,081	4,136
– exchange rate differences	10	0
– change in fair value (recovery and reversal of impairment)	(352)	136
– other (deferred interest, realised gains)	42	556
Decrease during the year	1,558	4,614
– disposal (sale and redemption)	1,485	3,879
– change in fair value (impairment and reversal of recovery)	66	663
– exchange rate differences	0	2
– other (deferred interest, realised losses)	7	70
31 March/31 December	2,009	1,786

21 Financial assets designated at fair value through profit or loss

	31.03.2014	31.12.2013
Equity instruments that are quoted on a stock exchange	23,644	24,586

As of 31 March 2014, no assets of this portfolio were pledged as collateral, and during the three-month period ended 31 March 2014, the Group did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

Financial assets designated at fair value through profit or loss include equity instruments for which the Group has entered into forward sale contracts.

The effects of valuation of financial assets designated at fair value through profit or loss and the effects of valuation of forward contracts are recorded through profit or loss.

None of the instruments included in the portfolio of financial assets designated at fair value through profit or loss have the characteristics to qualify as subordinated debt.

21.1 Movements in financial assets designated at fair value through profit or loss

	Q1 2014	2013
1 January	24,586	34,563
Increase during the year	3,703	9,134
– change in fair value (recovery and reversal of impairment)	3,582	9,134
– other	121	0
Decrease during the year	4,645	19,111
– disposal (sale and redemption)	4,638	8,046
– change in fair value (impairment and reversal of recovery)	0	2,252
– transfer to BAMC	0	182
– other	7	8,631
31 March/31 December	23,644	24,586

22 Available-for-sale financial assets

22.1 Analysis by type and market segments

	31.03.2014	31.12.2013
Equity instruments designated at fair value	29,675	33,125
Equity instruments measured at cost	1,421	1,636
Debt securities	1,492,019	1,432,103
– issued by the state and the central bank	1,383,826	1,294,633
– issued by banks	74,855	105,402
– issued by other issuers	33,337	32,067
Total	1,523,115	1,466,864
Quoted	1,487,128	1,451,551
Unquoted	35,987	15,313
Total	1,523,115	1,466,864

As of 31 March 2014, assets of this portfolio worth €617,741,000 were pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors. In the three-month period ended 31 March 2014, the Group did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

None of the instruments included in the portfolio of available-for-sale financial assets have the characteristics to qualify as subordinated debt.

22.2 Movements in available-for-sale financial assets

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2014	33,125	1,636	1,432,103	1,466,864
Recognition of new financial assets	0	718	118,106	118,824
Interest	0	0	(6,573)	(6,573)
Net exchange rate differences	(1)	0	(144)	(145)
Net revaluation through equity	(414)	0	28,504	28,090
Net impairment through profit or loss	(1,000)	0	0	(1,000)
Derecognition of financial assets upon disposal	(2,210)	(1,599)	(22,189)	(25,998)
Derecognition of financial assets upon maturity	0	0	(59,067)	(59,067)
Net gains on sale	175	666	1,279	2,120
31 March 2014	29,675	1,421	1,492,019	1,523,115

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2013	50,810	23,225	515,378	589,413
Recognition of new financial assets	8,343	10,763	1,162,938	1,182,044
Interest	0	0	9,741	9,741
Net exchange rate differences	11	0	(136)	(125)
Net revaluation through equity	161	0	12,728	12,889
Net impairment through profit or loss	(14,440)	(18,482)	(8,230)	(41,152)
Derecognition of financial assets upon disposal	(11,359)	0	(30,200)	(41,559)
Derecognition of financial assets upon maturity	0	0	(206,852)	(206,852)
Transfer to BAMC	0	(13,305)	0	(13,305)
Net gains/(losses) on sale	(401)	(565)	(23,264)	(24,230)
31 December 2013	33,125	1,636	1,432,103	1,466,864

23 Loans and advances to banks

	31.03.2014	31.12.2013
Sight deposits	25,065	25,447
Impairment of sight deposits	(2)	(1)
Current loans	56,604	106,709
Impairment of current loans	(2,453)	(2,501)
Non-current loans	66	65
Impairment of non-current loans	(68)	(45)
Total – net amount	79,212	129,674
Impairment	2,523	2,547
Total – gross amount	81,735	132,221

24 Loans and advances to customers

	31.03.2014	31.12.2013
Current loans	591,643	623,657
Impairment of current loans	(179,288)	(183,970)
Non-current loans	2,138,930	2,187,224
Impairment of non-current loans	(411,250)	(398,338)
Claims under guarantees	12,216	10,841
Impairment of claims under guarantees	(8,462)	(7,649)
Total – net amount	2,143,789	2,231,765
Impairment	599,000	589,957
Total – gross amount	2,742,789	2,821,722

24.1 Movements in impairment of loans and advances to customers

	Q1 2014	2013
1 January	589,957	641,358
Net impairment of principal	4,686	567,596
– additional impairment of principal	34,298	811,451
– reversal of impairment of principal	(29,612)	(243,855)
Additional impairment of interest	4,358	30,794
Additional impairment of fees	4	4
Write-off of loans and advances to customers	(3,118)	(19,967)
Exchange rate differences	(76)	(98)
Transfer to BAMC	0	(640,039)
Other	3,189	10,309
31 March/31 December	599,000	589,957

Recognition of additional impairment/reversal of impairment of interest and fees on loans given to customers is reflected in profit or loss (Note 9: Interest income and expense, and Note 10: Fee and commission income and expense).

25 Other financial assets

	31.03.2014	31.12.2013
Cheques	37	278
Claims for fees and commissions	2,181	1,890
Claims for advance payments	2	0
Accounts receivables	3,666	1,014
Surplus arising from authorised transactions for customers	0	16
Other financial assets	13,653	14,685
Total – net amount	19,539	17,883
Impairment	5,464	4,853
Total – gross amount	25,003	22,736

25.1 Movements in impairment of other financial assets

	Q1 2014	2013
1 January	4,853	10,053
Net impairment of principal	453	(4,701)
– additional impairment of principal	717	3,277
– reversal of impairment of principal	(264)	(7,978)
Additional impairment of interest	4	29
Additional impairment of fees	196	498
Write-off of other financial assets	(38)	(384)
Exchange rate differences	(8)	22
Transfer to BAMC	0	(668)
Other	4	4
31 March/31 December	5,464	4,853

Recognition of additional impairment/reversal of impairment of interest and fees on other financial assets is reflected in profit or loss (Note 9: Interest income and expense, and Note 10: Fee and commission income and expense).

26 Held-to-maturity financial assets

	31.03.2014	31.12.2013
Debt securities		
– current securities issued by the state and the central bank	27,763	35,722
– non-current securities issued by the state and the central bank	200,497	210,770
– non-current securities issued by banks and savings banks	24,790	24,791
– current securities issued by other issuers	239	248
– non-current securities issued by other issuers	8,721	8,622
Total	262,010	280,153
Quoted	261,771	279,906
Unquoted	239	247
Total	262,010	280,153

As of 31 March 2014, assets of this portfolio worth €25,191,000 were pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.

26.1 Movements in held-to-maturity financial assets

	Q1 2014	2013
1 January	280,153	500,108
Increase during the year	10,264	56,128
– acquisition	7,906	41,485
– gains	0	903
– reversal of impairment	1	108
– other (deferred interest)	2,357	13,632
Decrease during the year	28,407	276,083
– disposal (sale and redemption)	25,888	259,511
– losses	0	4,295
– impairment	0	816
– exchange rate differences	2	39
– other (interest received)	2,517	11,422
31 March/31 December	262,010	280,153

27 Financial liabilities measured at amortised cost

	31.03.2014	31.12.2013
Deposits	3,207,656	3,135,019
Loans	407,249	419,434
Debt securities	64,345	60,973
Subordinated liabilities	1,250	1,250
Other financial liabilities	66,921	34,266
Total	3,747,421	3,650,942

27.1 Deposits by type of customers and maturity

	31.03.2014	31.12.2013
Deposits from banks	58,781	60,271
– sight deposits	1,477	1,520
– current deposits	56,490	57,924
– non-current deposits	814	827
Deposits from customers	3,148,875	3,074,748
– sight deposits	1,373,471	1,349,936
– current deposits	780,641	742,991
– non-current deposits	994,763	981,821
Total	3,207,656	3,135,019

27.2 Loans by type of customers and maturity

	31.03.2014	31.12.2013
Loans from banks	402,691	414,883
– current loans	6,749	7,710
– non-current loans	395,942	407,173
Loans from customers	4,558	4,551
– current loans	0	1
– non-current loans	4,558	4,550
Total	407,249	419,434

27.3 Subordinated liabilities

Issuer	Currency	Date of maturity	Interest rate	31.03.2014	31.12.2013
Subordinated debt					
Adria Bank AG	EUR	perpetual; call option on each 28.12.	variable	1,250	1,250
Total				1,250	1,250

Subordinated liabilities are included in the calculation of capital adequacy. Capital risk is presented in Note 5.5.

27.4 Other financial liabilities

	31.03.2014	31.12.2013
Liabilities for fees and commissions	45	73
Liabilities for gross salaries of employees	3,100	3,367
Liabilities to suppliers	1,876	5,097
Liabilities related to payment card transactions	6,350	7,629
Liabilities related to ATM transactions	2,165	1,785
Liabilities related to funds provided by customers for payments abroad	1,638	595
Liabilities related to cash transactions	4,848	2,524
Liabilities arising from participation in profits – dividends	74	75
Accruals and deferred income	7,120	6,999
Surplus arising from authorised transactions for customers	120	139
Other financial liabilities	39,585	5,983
Total other financial liabilities	66,921	34,266

28 Provisions

	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2014	11,280	17,785	6,549	64,060	489	100,163
Net creation of provisions through profit or loss	(63)	1,672	(129)	(2,752)	0	(1,272)
– provisions made during the period	0	1,672	15	13,784	0	15,471
– provisions reversed during the period	(63)	0	(144)	(16,536)	0	(16,743)
Provisions used during the period	0	(20)	(39)	0	(6)	(65)
Exchange rate differences	0	(1)	(2)	(1)	0	(4)
31 March 2014	11,217	19,436	6,379	61,307	483	98,822

	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2013	0	4,400	7,598	34,143	489	46,630
Net creation of provisions through profit or loss	11,280	13,554	(116)	29,919	0	54,637
– provisions made during the year	11,280	15,998	538	54,882	22	82,720
– provisions reversed during the year	0	(2,444)	(654)	(24,963)	(22)	(28,083)
Net reversal of provisions through equity	0	0	(300)	0	0	(300)
Provisions used during the year	0	(166)	(629)	0	0	(795)
Exchange rate differences	0	(3)	(4)	(2)	0	(9)
31 December 2013	11,280	17,785	6,549	64,060	489	100,163

29 Share capital

	31.03.2014	31.12.2013
Ordinary shares	150,000	150,000
– subscribed by the state	150,000	150,000

In 2013, Nova KBM was recapitalised by the state. The details of this state-sponsored recapitalisation are set out in the Bank's and the Group's Annual Report for 2013.

In the three-month period ended 31 March 2014 and during 2013, the Group did not purchase or sell treasury shares. A total of 136,000 Nova KBM shares worth €1,412,000 which PBS received in 2010 (it took over the possession of shares that were provided as collateral for securing a loan) were cancelled on 18 December 2013 in accordance with the Bank of Slovenia decision. As a result, no treasury shares were held by the Group at the end of 2013.

30 Revaluation reserves

	31.03.2014	31.12.2013
Revaluation reserves in respect of available-for-sale financial assets	31,889	8,708
– revaluation	38,437	10,502
– deferred taxes	(6,548)	(1,794)
Other revaluation reserves	273	273
– revaluation	299	299
– deferred taxes	(26)	(26)
Total	32,162	8,981

30.1 Movements in revaluation reserves

	Q1 2014	2013
1 January	8,981	(1,149)
Net change in valuation of available-for-sale financial assets	27,935	11,824
– gains recognised in revaluation reserves	27,947	5,976
– gains/(losses) transferred from revaluation reserves to profit or loss	(12)	5,848
Net change in other revaluation reserves	0	299
Exchange rate differences	0	1
Net change in deferred taxes	(4,754)	(1,993)
Other	0	(1)
31 March/31 December	32,162	8,981

31 Reserves from profit

	31.03.2014	31.12.2013
Regulatory reserves	499	663
Total	499	663

31.1 Movements in reserves from profit

	Q1 2014	2013
1 January	663	289,741
Decrease in regulatory reserves	(164)	(12,953)
Decrease in statutory reserves	0	(174,184)
Decrease in reserves for treasury shares	0	(1,412)
Decrease in other reserves	0	(100,529)
31 March/31 December	499	663

Other notes

32 Commitments and contingent liabilities by type

	31.03.2014		
	Current	Non-current	Total
Financial guarantees	45,112	44,005	89,117
Service guarantees	105,516	95,618	201,134
Total guarantees	150,628	139,623	290,251
Approved and undrawn loans	66,465	4,156	70,621
Approved and undrawn overdrafts	189,054	1,213	190,267
Approved credit lines	6,425	0	6,425
Other	10	0	10
Total commitments and contingent liabilities	261,954	5,369	267,323
Derivatives	104,494	40,000	144,494
Total	517,076	184,992	702,068

	31.12.2013		
	Current	Non-current	Total
Financial guarantees	46,797	45,634	92,431
Service guarantees	106,145	96,806	202,951
Total guarantees	152,942	142,440	295,382
Unsecured letters of credit	128	0	128
Approved and undrawn loans	69,714	1,039	70,753
Approved and undrawn overdrafts	184,838	1,196	186,034
Approved credit lines	9,696	0	9,696
Total commitments and contingent liabilities	264,248	2,235	266,483
Derivatives	123,713	40,000	163,713
Total	541,031	184,675	725,706

33 Related party transactions

33.1 Statement of financial position and off-balance sheet items

	Associates	
	31.03.2014	31.12.2013
Assets		
Loans and advances given (gross amount)	1	1
– loans and advances to customers	1	1
Investment in securities	2,237	2,237
– equity instruments	2,237	2,237
Liabilities		
Deposits and loans received	1,683	1,759
– deposits and loans from banks	0	0
– deposits and loans from customers	1,683	1,749
– other financial liabilities	0	10
Off-balance sheet items	4	4

	Key management personnel		Other related persons	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Assets				
Loans and advances given (gross amount)	282	297	4,987	5,166
– loans and advances to banks	0	0	0	0
– loans and advances to customers	282	297	4,987	5,166
Investment in securities	0	0	34	382
– equity instruments	0	0	34	382
Liabilities				
Deposits and loans received	525	574	1,382	1,560
– deposits and loans from banks	0	0	0	0
– deposits and loans from customers	517	574	1,380	1,442
– other financial liabilities	8	0	2	118
Other liabilities	4	0	0	0
Off-balance sheet items	52	69	457	371

Key management personnel include members of the Management Board, executive directors and members of the Supervisory Board of the Bank.

Other related persons of the Group include:

- immediate family of the key management personnel
- entities, the owners or key management personnel of which are members of key management personnel of the Group or of their immediate family
- key management personnel of subsidiaries (management board and executive directors)
- immediate family of the key management personnel of subsidiaries
- entities, the owners or key management personnel of which are members of key management personnel of subsidiaries or of their immediate family.

Transactions with related persons are conducted on an arm's length basis.

33.2 Income statement

	Associates	
	Q1 2014	Q1 2013
Net interest income	(22)	(22)
Net fee and commission income	1	2
Costs of services	0	(8)
Impairment of loans	0	0
Impairment of investments	0	0
Write-offs	0	0
Total	(21)	(28)

	Key management personnel		Other related persons	
	Q1 2014	Q1 2013	Q1 2014	Q1 2013
Net interest income	(2)	(4)	59	464
Net fee and commission income	0	0	(53)	(122)
Costs of services	(132)	(67)	(293)	(500)
Impairment of loans	0	0	165	(40)
Provisions	0	0	0	0
Write-offs	0	0	0	0
Total	(134)	(71)	(122)	(198)

33.3 Loans and guarantees given

	Management Board members		Supervisory Board members		Other Group employees on individual contract	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Loans	13	6	34	47	2,513	2,539
Average interest rate on loans (%)	8.24	8.48	3.7	3.66	3.42	3.48
Repayments	1	0	2	12	161	490

34 Exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions

Exposure to:	31.03.2014	31.12.2013
Bank of Slovenia	155,942	329,921
– settlement account	138,957	323,191
– other	16,985	6,730
Republic of Slovenia	1,380,233	1,396,878
– bonds	702,034	705,739
– other securities	263,475	276,472
– loans	1,633	1,765
– loans guaranteed by the Republic of Slovenia, by type	410,963	411,335
– other	1,227	666
State-owned institutions	454,849	440,272
– loans	209,083	212,252
– securities	99,128	88,632
– commitments and contingent liabilities	84,830	83,504
– other	61,808	55,884
Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	1,991,024	2,167,071
Share in total assets (%)	40.66	45.05
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	901	901
Total assets	4,896,767	4,810,793

35 Remuneration

	Q1 2014	Q1 2013
Management Board members	67	68
Aleš Hauc	34	34
Igor Žibrik	33	34
Supervisory Board members	37	28
Members of Supervisory Board committees	15	14
Other Group employees on individual contract	1,806	1,949
Total	1,925	2,059

Remuneration paid to Management Board members comprises: salary, pay for annual leave, awards, bonuses, and the payment of supplementary pension insurance premiums.

Remuneration paid to members of the Supervisory Board, the Audit Committee, the Remuneration and Nomination Committee, and the Appointment Board comprises: a payment for holding the office, meeting attendance fees, reimbursement of costs, seminar participation fees, and the payment of liability insurance premiums.

Remuneration paid to other Group employees working on individual contracts comprises: salary, pay for annual leave, bonuses, the payment of supplementary pension insurance premiums, and other remuneration under employment contracts (severance benefits paid to employees who are made redundant for business reasons, severance benefits paid upon retirement, compensation for a non-competition clause, and some other remuneration under employment contracts).

The total amount paid in the first quarter of 2014 to Aleš Hauc, President of the Management Board, and Igor Žibrik, Management Board Member, for holding their offices and for meeting attendance fees, reimbursement of costs and awards for acting on supervisory boards of subsidiaries and the associated company was €15,000 and €12,000, respectively.

36 Events after the statement of financial position date

On 29 April 2014, Nova KBM infused fresh capital of €12,200,000 into Adria Bank, its Austria-based subsidiary bank.

**UNAUDITED INTERIM
FINANCIAL REPORT OF
NOVA KBM d.d.

JANUARY – MARCH 2014**

Interim Income Statement – Nova KBM d.d.

€000

ITEM DESCRIPTION	Notes	Three months ended 31.03.2014	Three months ended 31.03.2013
Interest income	7	34,690	41,456
Interest expense	7	(12,861)	(24,886)
Net interest income	7	21,829	16,570
Fee and commission income	8	10,994	10,541
Fee and commission expense	8	(785)	(670)
Net fee and commission income	8	10,209	9,871
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	-	2,270	148
Net gains/(losses) on financial assets and liabilities held for trading	9	(1,014)	1,082
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	10	3,696	(1,511)
Net exchange rate differences	11	396	(871)
Net gains on derecognition of assets excluding non-current assets held for sale	-	44	33
Other net operating (loss)	-	(1,271)	(591)
Administration costs	12	(14,404)	(15,962)
Depreciation and amortisation	-	(2,888)	(2,878)
Provisions	13	(1,407)	2,296
Impairment losses	14	(8,682)	(14,454)
Net gains from non-current assets held for sale and liabilities associated therewith	-	64	82
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	-	8,842	(6,185)
Income tax related to profit or loss from continuing operations	15	80	1,592
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	-	8,922	(4,593)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD	-	8,922	(4,593)
Basic earnings/(loss) per share (€)	-	0.89	(0.12)
Diluted earnings/(loss) per share (€)	-	0.89	(0.12)

The accompanying notes form an integral part of these financial statements.

Interim Income Statement – Nova KBM d.d. (by quarter)

€000

ITEM DESCRIPTION	2014	2013			
	Q1	Q4	Q3	Q2	Q1
Interest income	34,690	27,448	39,746	37,257	41,456
Interest expense	(12,861)	(17,939)	(20,473)	(21,981)	(24,886)
Net interest income	21,829	9,509	19,273	15,276	16,570
Dividend income	0	4	1,010	797	0
Fee and commission income	10,994	11,734	12,046	11,858	10,541
Fee and commission expense	(785)	(1,212)	(1,001)	(1,541)	(670)
Net fee and commission income	10,209	10,522	11,045	10,317	9,871
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	2,270	62,950	295	640	148
Net gains/(losses) on financial assets and liabilities held for trading	(1,014)	(202)	(376)	558	1,082
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	3,696	390	(1,389)	1,281	(1,511)
Net exchange rate differences	396	(99)	546	(919)	(871)
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale	44	(42)	55	39	33
Other net operating (loss)	(1,271)	(11,486)	(1,054)	(1,545)	(591)
Administration costs	(14,404)	(21,023)	(16,936)	(17,321)	(15,962)
Depreciation and amortisation	(2,888)	(2,967)	(2,977)	(2,966)	(2,878)
Provisions	(1,407)	(46,875)	1,243	38	2,296
Impairment losses	(8,682)	(588,291)	(10,388)	(46,526)	(14,454)
Net gains from non-current assets held for sale and liabilities associated therewith	64	63	150	72	82
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	8,842	(587,547)	497	(40,259)	(6,185)
Income tax related to profit or loss from continuing operations	80	(25,221)	(55)	678	1,592
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	8,922	(612,768)	442	(39,581)	(4,593)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD	8,922	(612,768)	442	(39,581)	(4,593)
Basic earnings/(loss) per share (€)	0.89	(65.36)	0.29	(0.46)	(0.12)
Diluted earnings/(loss) per share (€)	0.89	(65.36)	0.29	(0.46)	(0.12)

The accompanying notes form an integral part of these financial statements.

Interim Statement of Other Comprehensive Income – Nova KBM d.d.

€000

ITEM DESCRIPTION	Three months ended 31.03.2014	Three months ended 31.03.2013
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD AFTER TAX	8,922	(4,593)
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX	16,645	(2,961)
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	16,645	(2,961)
Available-for-sale financial assets	20,054	(3,483)
– valuation gains/(losses) taken to equity	20,054	(3,483)
Income tax on items that may be reclassified subsequently to profit or loss	(3,409)	522
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE REPORTING PERIOD AFTER TAX	25,567	(7,554)

The accompanying notes form an integral part of these financial statements.

Interim Statement of Other Comprehensive Income – Nova KBM d.d. (by quarter)

€000

ITEM DESCRIPTION	2014	2013			
	Q1	Q4	Q3	Q2	Q1
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD AFTER TAX	8,922	(612,768)	442	(39,581)	(4,593)
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX	16,645	14,801	(4,145)	1,537	(2,961)
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	0	268	0	0	0
Actuarial net gains on defined benefit pension plans recognised in retained earnings	0	293	0	0	0
Income tax on items that will not be reclassified subsequently to profit or loss	0	(25)	0	0	0
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	16,645	14,533	(4,145)	1,537	(2,961)
Available-for-sale financial assets	20,054	17,292	(4,876)	1,807	(3,483)
– valuation gains/(losses) taken to equity	20,054	11,447	(4,876)	1,807	(3,483)
– transferred to profit or loss	0	5,845	0	0	0
Income tax on items that may be reclassified subsequently to profit or loss	(3,409)	(2,759)	731	(270)	522
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE REPORTING PERIOD AFTER TAX	25,567	(597,967)	(3,703)	(38,044)	(7,554)

The accompanying notes form an integral part of these financial statements.

Interim Statement of Financial Position – Nova KBM d.d.

€000

ITEM DESCRIPTION	Notes	31.03.2014	31.12.2013
Cash and balances with the central bank	16	524,066	334,830
Financial assets held for trading	17	407	612
Financial assets designated at fair value through profit or loss	18	23,644	24,586
Available-for-sale financial assets	19	1,243,510	1,210,799
Loans and advances	-	1,876,102	1,988,824
– loans and advances to banks	20	99,236	151,294
– loans and advances to customers	21	1,766,744	1,826,371
– other financial assets	22	10,122	11,159
Held-to-maturity financial assets	23	172,131	192,437
Non-current assets and disposal groups classified as held for sale and discontinued operations	-	693	780
Property, plant and equipment	-	56,650	58,010
Investment property	-	2,339	2,339
Intangible assets	-	16,758	18,329
Investments in the equity of subsidiaries, associates and joint ventures accounted for using the equity method	-	54,139	54,139
Tax assets	-	6,960	10,290
– current tax assets	-	2	2
– deferred tax assets	-	6,958	10,288
Other assets	-	14,824	14,008
TOTAL ASSETS	-	3,992,223	3,909,983
Financial liabilities to the central bank	-	426,265	426,002
Financial liabilities held for trading	-	1,305	976
Financial liabilities measured at amortised cost	24	2,923,707	2,869,463
– deposits from banks	24	5,160	51,982
– deposits from customers	24	2,435,931	2,359,553
– loans from banks	24	348,938	357,910
– loans from customers	24	4,557	4,549
– debt securities	-	72,384	69,284
– other financial liabilities	24	56,737	26,185
Provisions	25	85,236	83,851
Other liabilities	-	12,431	11,979
TOTAL LIABILITIES	-	3,448,944	3,392,271
Share capital	26	150,000	150,000
Share premium	-	360,572	360,572
Revaluation reserves	27	23,785	7,140
Net profit for the reporting period	-	8,922	0
TOTAL SHAREHOLDERS' EQUITY	-	543,279	517,712
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	-	3,992,223	3,909,983

The accompanying notes form an integral part of these financial statements.

Interim Statement of Cash Flows – Nova KBM d.d.

€000

Designation	ITEM DESCRIPTION	Three months ended 31.03.2014	Three months ended 31.03.2013
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Total profit/(loss) before tax from continuing operations	8,842	(6,185)
	Depreciation and amortisation	2,888	2,878
	Impairment of available-for-sale financial assets	986	10,928
	Impairment of loans and advances	7,676	3,526
	Impairment of tangible assets, investment property, intangible assets and other assets	20	0
	Net (gains)/losses from exchange rate differences	(396)	871
	Net losses from held-to-maturity financial assets	0	77
	Net (gains) from the sale of tangible assets and investment properties	(44)	(33)
	Other (gains) from investing activities	(1,508)	(3,481)
	Other losses from financing activities	0	2,764
	Net unrealised (gains) from non-current assets held for sale and discontinued operations and liabilities associated therewith	(64)	(82)
	Other adjustments to total net profit or loss before tax	1,407	(2,296)
	Cash flow from operating activities before changes in operating assets and liabilities	19,807	8,967
b)	(Increase)/decrease in operating assets (excluding cash equivalents)	15,410	(952)
	Net (increase)/decrease in financial assets held for trading	206	(826)
	Net decrease in financial assets designated at fair value through profit or loss	942	1,511
	Net (increase) in available-for-sale financial assets	(13,643)	(65,064)
	Net decrease in loans and advances	28,654	63,683
	Net decrease in non-current assets held for sale	87	274
	Net (increase) in other assets	(836)	(530)
c)	Increase/(decrease) in operating liabilities	55,282	(41,722)
	Net increase in financial liabilities to the central bank	263	787
	Net increase in financial liabilities held for trading	329	65
	Net increase/(decrease) in deposits and loans taken, measured at amortised cost	51,160	(44,105)
	Net increase/(decrease) in debt securities in issue, measured at amortised cost	3,100	(8,776)
	Net increase in other liabilities	430	10,307
d)	Cash flow from operating activities (a + b + c)	90,499	(33,707)
e)	Income taxes	0	0
f)	Net cash flow from operating activities (d + e)	90,499	(33,707)

€000

Designation	ITEM DESCRIPTION	Three months ended 31.03.2014	Three months ended 31.03.2013
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	Receipts from investing activities	22,036	23,188
	Receipts from the sale of tangible assets and investment properties	222	126
	Receipts from non-current assets or liabilities held for sale	0	246
	Receipts from the sale of held-to-maturity financial assets	21,814	21,816
	Other receipts from investing activities	0	1,000
b)	Cash payments on investing activities	(992)	(2,672)
	(Cash payments to acquire tangible assets and investment properties)	(294)	(2,028)
	(Cash payments to acquire intangible assets)	(698)	(644)
c)	Net cash flow from investing activities (a + b)	21,044	20,516
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	Cash proceeds from financing activities	0	100,000
	Cash proceeds from the issuance of subordinated liabilities	0	100,000
b)	Cash payments on financing activities	(1)	0
	(Dividends paid)	(1)	0
c)	Net cash flow from financing activities (a + b)	(1)	100,000
D.	Effects of change in exchange rates on cash and cash equivalents	585	1,101
E.	Net increase in cash and cash equivalents (Af + Bc + Cc)	111,542	86,809
F.	Opening balance of cash and cash equivalents	453,124	220,530
G.	Closing balance of cash and cash equivalents (D + E + F)	565,251	308,440

Reconciliation of cash and cash equivalents as of 31 March 2014 with the statement of financial position items is presented in Note 16.1.

The balance of cash and cash equivalents as of 31 March 2013 amounted to €308,440,000 and was made up of cash and balances with the central bank, in the amount of €236,310,000, and loans and advances to banks with an original maturity of up to three months, in the amount of €72,130,000.

Cash Flows from Interest, Dividends and Participation in Profits

€000

	Three months ended 31.03.2014	Three months ended 31.03.2013
Interest paid	(17,870)	(29,120)
Interest received	36,846	35,181
Dividends paid	(1)	0

The accompanying notes form an integral part of these financial statements.

Interim Statement of Changes in Equity – Nova KBM d.d.

Interim Statement of Changes in Equity for the three months ended 31.03.2014

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Net profit for the reporting period	Total shareholders' equity
OPENING BALANCE FOR THE REPORTING PERIOD	150,000	360,572	7,140	0	517,712
Total comprehensive income for the period after tax	0	0	16,645	8,922	25,567
CLOSING BALANCE FOR THE REPORTING PERIOD	150,000	360,572	23,785	8,922	543,279

The accompanying notes form an integral part of these financial statements.

Interim Statement of Changes in Equity for the three months ended 31.03.2013

€000

ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained (losses) (including net loss for the reporting period)	Total shareholders' equity
OPENING BALANCE FOR THE REPORTING PERIOD	40,814	165,775	(2,092)	275,044	(286,972)	192,569
Total comprehensive (loss) for the period after tax	0	0	(2,961)	0	(4,593)	(7,554)
Other	1	0	0	0	0	1
CLOSING BALANCE FOR THE REPORTING PERIOD	40,815	165,775	(5,053)	275,044	(291,565)	185,016

Line 'Other': rounding adjustments.

The accompanying notes form an integral part of these financial statements.

1 General information

Nova KBM d.d. (hereafter also referred to as the 'Bank') is the parent company of the Nova KBM Group (hereafter also referred to as the 'Group') which, as of 31 March 2014, comprised the parent company and 11 subsidiary companies.

Nova KBM d.d. is a commercial bank with a tradition of understanding and supporting its retail and corporate customers to whom it provides standard banking products. The Bank's registered office is at Ulica Vita Kraigherja 4, 2505 Maribor, Republic of Slovenia.

As of 31 March 2014, the share capital of the Bank totalled €150,000,000 and was split into 10,000,000 ordinary no-par value shares, all of which were held by the Republic of Slovenia.

The Bank is obliged to prepare consolidated financial statements.

2 Basis for the presentation of financial statements

The financial statements of the Bank for the three-month period ended 31 March 2014 were authorised for issue on 25 April 2014 by the Nova KBM Management Board.

2.1 Statement of compliance and purpose of financial statements

The financial statements are prepared in accordance with International Financial Reporting Standards (hereafter 'IFRSs') as endorsed by the European Union.

The interim financial report is prepared in a condensed form and includes selected explanatory notes as requested in accordance with IAS 34 – Interim Financial Reporting.

The interim financial statements are unaudited. They have been prepared assuming that the Bank will continue as a going concern in the foreseeable future and that it will be able to meet its liabilities when due.

2.2 Presentation and functional currency

Items included in the financial statements are presented in euro, which is the functional and presentation currency of the Bank.

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros except where stated otherwise. Slight discrepancies in totals may occur due to rounding adjustments. Euro figures in the text are stated as whole numbers, rounded to the nearest thousand.

3 Significant accounting policies

The accounting policies used by the Bank are presented in detail in its Annual Report for 2013.

Adopted accounting policies have been consistently applied in both reporting periods presented in these financial statements.

During the interim reporting period and in 2013, the Bank did not reclassify any of its financial assets into another category.

Newly adopted standards and interpretations in effect since 1 January 2014 are presented below:

- **IFRS 10** – Consolidated Financial Statements; adopted by the EU on 11 December 2012.
- **IFRS 11** – Joint Arrangements; adopted by the EU on 11 December 2012.
- **IFRS 12** – Disclosure of Interests in Other Entities; adopted by the EU on 11 December 2012.
- **IAS 27** (revised in 2011) – Separate Financial Statements; adopted by the EU on 11 December 2012.
- **IAS 28** (revised in 2011) – Investments in Associates and Joint Ventures; adopted by the EU on 11 December 2012.
- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 11** – Joint Arrangements, and **IFRS 12** – Disclosures of Interests in Other Entities – Transition Guidance; adopted by the EU on 4 April 2013.
- **Amendments to IFRS 10** – Consolidated Financial Statements, **IFRS 12** – Disclosure of Interests in Other Entities, and **IAS 27** (revised in 2011) – Separate Financial Statements – Investment Entities; adopted by the EU on 20 November 2013.
- **Amendments to IAS 32** – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities; adopted by the EU on 13 December 2012.
- **Amendments to IAS 36** – Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets; adopted by the EU on 19 December 2013.
- **Amendments to IAS 39** – Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting; adopted by the EU on 19 December 2013.

The amendments to the existing standards have not led to any material changes in the Bank's accounting policies.

Standards and interpretations issued by the International Accounting Standards Board (IASB) but, as of the date of this interim report, not yet adopted for use by the EU are set out below:

- **IFRS 9** – Financial Instruments and subsequent amendments (effective date has not been yet determined).
- **Amendments to IAS 19** – Employee Benefits – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2010 – 2012) resulting from the annual improvement project of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards** – Improvements to IFRSs (cycle 2011 – 2013) resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **IFRIC 21** – Levies (effective for annual periods beginning on or after 1 January 2014).

The Bank has not early adopted any standard or interpretation issued but not yet effective. It anticipates that the adoption of these standards, revisions and interpretations will have no material impact on its financial statements in the period of initial application.

4 Risk exposure

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 organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the adopted rules of procedure, each risk management policy has to be approved by the Policy Approval Committee.

Further details with respect to risk management are provided in the Bank's Annual Report for 2013.

4.1 Credit risk

Analysis of exposure to credit risk

	Loans to customers		Loans to banks	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Net disbursed loans	1,766,744	1,826,371	99,236	151,294
Individual impairment				
Gross amount	798,418	788,637	62,885	56,909
Impairment	(396,144)	(389,705)	(20,668)	(20,396)
Net amount	402,274	398,932	42,217	36,513
Collective impairment				
Credit rating A	829,657	859,638	0	0
Credit rating B	295,233	312,845	0	0
Credit rating C	184,476	202,157	0	0
Credit rating D	26,988	26,140	0	0
Credit rating E	45,891	40,603	0	0
Gross amount	1,382,245	1,441,383	0	0
Impairment	(59,157)	(57,166)	0	0
Net amount	1,323,088	1,384,217	0	0
Net non-impaired loans	41,382	43,222	57,019	114,781
Total net loans	1,766,744	1,826,371	99,236	151,294

Overdue and unpaid claims

	31.03.2014				Total
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	
Banks	0	0	0	2	2
State	26	0	0	60	86
Legal entities	47,273	7,081	1,322	289,589	345,265
Households	2,659	712	651	35,233	39,255
Total	49,958	7,793	1,973	324,884	384,608

31.12.2013					
	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Banks	0	0	0	2	2
State	119	0	0	0	119
Legal entities	47,986	23,346	3,264	233,257	307,853
Households	3,161	960	599	32,464	37,184
Total	51,266	24,306	3,863	265,723	345,158

NPLs of the total loan portfolio

	31.03.2014	31.12.2013
Total gross loan portfolio	2,341,949	2,444,932
Total net loan portfolio	1,865,980	1,977,665
Net NPLs (overdue over 90 days; credit ratings D and E)	403,270	379,405
Net NPLs/total net loan portfolio (%)	21.61	19.18

Analysis of NPLs by industry sectors

Industry sector	31.03.2014			31.12.2013		
	Total net loans	Net NPLs	Share of NPLs (%)	Total net loans	Net NPLs	Share of NPLs (%)
Households	797,200	22,998	2.88	822,832	21,415	2.60
Agriculture and hunting, forestry, fishing	20,635	2,400	11.63	20,210	2,199	10.88
Mining	360	219	60.83	394	215	54.57
Manufacturing industry	319,761	104,240	32.60	332,199	87,478	26.33
Electricity, gas and steam supply	54,795	8,954	16.34	56,701	9,779	17.25
Water supply, waste and sewage management, rehabilitation of the environment	4,729	387	8.18	4,185	458	10.94
Construction	45,030	11,436	25.40	45,730	10,339	22.61
Trade, maintenance and repair of motor vehicles	142,269	53,580	37.66	147,284	52,595	35.71
Transportation and storage	50,882	591	1.16	53,520	500	0.93
Accommodation and food service activities	31,830	12,236	38.44	32,233	11,024	34.20
Information and communication activities	13,977	7,820	55.95	13,783	7,680	55.72
Financial intermediation	204,727	70,739	34.55	266,076	71,979	27.05
Real estate activities	43,861	34,653	79.01	44,847	34,592	77.13
Professional, scientific and technical activities	64,845	37,198	57.36	64,035	31,530	49.24
Other various business activities	6,916	1,142	16.51	6,854	1,036	15.12
Public administration and defence services, compulsory social security activities	8,314	59	0.71	8,479		0.00
Education	3,488	315	9.03	3,391	297	8.76
Health and welfare security	20,865	9,114	43.68	21,030	9,150	43.51
Arts, entertainment and recreation	27,910	24,734	88.62	30,157	26,643	88.35
Other activities	3,586	455	12.69	3,725	496	13.32
Total net loans	1,865,980	403,270	21.61	1,977,665	379,405	19.18

4.2 Liquidity risk

Analysis of liquidity risk as of 31 March 2014

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	524,066	524,066	0	0	0	0
Financial assets held for trading	407	407	0	0	0	0
Financial assets designated at fair value through profit or loss	23,644	23,644	0	0	0	0
Available-for-sale financial assets	1,243,510	1,243,510	0	0	0	0
Loans and advances	1,876,102	410,320	100,655	329,464	637,453	398,210
Held-to-maturity financial assets	172,131	62,337	0	45,531	36,517	27,746
Other assets*	152,363	7,343	0	1,276	14,038	129,706
Total assets	3,992,223	2,271,627	100,655	376,271	688,008	555,662
Liabilities						
Financial liabilities to the central bank	426,265	0	0	426,265	0	0
Financial liabilities held for trading	1,305	1,305	0	0	0	0
Financial liabilities measured at amortised cost	2,923,707	1,284,905	326,886	929,598	281,203	101,115
Other liabilities*	640,946	19,860	6,014	51,626	41,425	522,021
Total liabilities and equity	3,992,223	1,306,070	332,900	1,407,489	322,628	623,136
Assets-liabilities (including equity) mismatch	0	965,557	(232,245)	(1,031,218)	365,380	(67,474)
Guarantees	244,991	21,637	39,656	66,552	75,339	41,807

* Assets and liabilities without a direct impact on liquidity.

Analysis of liquidity risk as of 31 December 2013

	Total	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets						
Cash and balances with the central bank	334,830	334,830	0	0	0	0
Financial assets held for trading	612	612	0	0	0	0
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	0	0
Available-for-sale financial assets	1,210,799	1,210,799	0	0	0	0
Loans and advances	1,988,824	497,630	85,997	338,783	653,898	412,516
Held-to-maturity financial assets	192,437	10,607	10,963	82,147	60,976	27,744
Other assets*	157,895	11,514	0	0	14,031	132,350
Total assets	3,909,983	2,090,578	96,960	420,930	728,905	572,610
Liabilities						
Financial liabilities to the central bank	426,002	0	0	0	426,002	0
Financial liabilities held for trading	976	976	0	0	0	0
Financial liabilities measured at amortised cost	2,869,463	1,275,456	367,547	756,963	363,503	105,994
Other liabilities*	613,542	12,242	3,976	34,304	41,308	521,712
Total liabilities and equity	3,909,983	1,288,674	371,523	791,267	830,813	627,706
Assets-liabilities (including equity) mismatch	0	801,904	(274,563)	(370,337)	(101,908)	(55,096)
Guarantees	250,991	32,613	17,509	79,077	80,840	40,952

* Assets and liabilities without a direct impact on liquidity.

4.3 Interest rate risk

Analysis of interest rate risk as of 31 March 2014

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	524,066	37,888	486,178	486,178	0	0	0	0
Financial assets held for trading	407	407	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	23,644	23,644	0	0	0	0	0	0
Available-for-sale financial assets	1,243,510	26,510	1,217,000	41,700	31,797	246,985	760,077	136,441
Loans and advances	1,876,102	38,273	1,837,829	538,186	404,384	786,304	92,458	16,497
Held-to-maturity financial assets	172,131	0	172,131	62,167	0	44,470	37,268	28,226
Other assets	14,824	14,824	0	0	0	0	0	0
Total assets	3,854,684	141,546	3,713,138	1,128,231	436,181	1,077,759	889,803	181,164
Liabilities								
Financial liabilities to the central bank	426,265	0	426,265	0	0	426,265	0	0
Financial liabilities held for trading	1,305	1,305	0	0	0	0	0	0
Financial liabilities measured at amortised cost	2,923,707	62,832	2,860,875	1,361,350	422,216	933,127	143,408	774
Other liabilities	12,431	12,431	0	0	0	0	0	0
Total liabilities	3,363,708	76,568	3,287,140	1,361,350	422,216	1,359,392	143,408	774
Assets-liabilities mismatch	490,976	64,978	425,998	(233,119)	13,965	(281,633)	746,395	180,390

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 2013

	Total	Non-interest-bearing	Interest-bearing	Up to 1 month	1 month to 3 months	3 to 12 months	1 year to 5 years	Over 5 years
Assets								
Cash and balances with the central bank	334,830	41,113	293,717	293,717	0	0	0	0
Financial assets held for trading	612	612	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	24,586	24,586	0	0	0	0	0	0
Available-for-sale financial assets	1,210,799	29,820	1,180,979	0	56,798	258,050	716,583	149,548
Loans and advances	1,988,824	39,351	1,949,473	902,426	440,697	517,075	72,487	16,788
Held-to-maturity financial assets	192,437	0	192,437	9,999	10,368	81,449	62,060	28,561
Other assets	14,008	14,008	0	0	0	0	0	0
Total assets	3,766,096	149,490	3,616,606	1,206,142	507,863	856,574	851,130	194,897
Liabilities								
Financial liabilities to the central bank	426,002	0	426,002	0	0	0	426,002	0
Financial liabilities held for trading	976	976	0	0	0	0	0	0
Financial liabilities measured at amortised cost	2,869,463	297	2,869,166	1,322,221	449,454	931,384	165,125	982
Other liabilities	11,979	11,979	0	0	0	0	0	0
Total liabilities	3,308,420	13,252	3,295,168	1,322,221	449,454	931,384	591,127	982
Assets-liabilities mismatch	457,676	136,238	321,438	(116,079)	58,409	(74,810)	260,003	193,915

The table above shows the distribution of interest-sensitive items by individual time buckets with regard to the interest rate repricing period.

4.4 Foreign exchange risk

Analysis of foreign exchange risk as of 31 March 2014

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	520,174	684	1,212	872	1,124	524,066
Financial assets held for trading	218	189	0	0	0	407
Financial assets designated at fair value through profit or loss	23,644	0	0	0	0	23,644
Available-for-sale financial assets	1,243,510	0	0	0	0	1,243,510
Loans and advances	1,764,913	25,388	78,762	713	6,326	1,876,102
Held-to-maturity financial assets	172,131	0	0	0	0	172,131
Other assets	152,363	0	0	0	0	152,363
Total assets	3,876,953	26,261	79,974	1,585	7,450	3,992,223
Liabilities						
Financial liabilities to the central bank	426,265	0	0	0	0	426,265
Financial liabilities held for trading	1,305	0	0	0	0	1,305
Financial liabilities measured at amortised cost	2,874,820	26,302	15,286	289	7,010	2,923,707
Other liabilities	640,946	0	0	0	0	640,946
Total liabilities and equity	3,943,336	26,302	15,286	289	7,010	3,992,223
Assets-liabilities (including equity) mismatch	(66,383)	(41)	64,688	1,296	440	0
Derivatives	64,913	0	(65,198)	0	0	(285)
Assets-liabilities (including equity and derivatives) mismatch	(1,470)	(41)	(510)	1,296	440	(285)

Analysis of foreign exchange risk as of 31 December 2013

	EUR	USD	CHF	HRK	Other currencies	Total
Assets						
Cash and balances with the central bank	331,681	536	1,156	599	858	334,830
Financial assets held for trading	612	0	0	0	0	612
Financial assets designated at fair value through profit or loss	24,586	0	0	0	0	24,586
Available-for-sale financial assets	1,210,799	0	0	0	0	1,210,799
Loans and advances	1,869,467	25,664	86,836	235	6,622	1,988,824
Held-to-maturity financial assets	192,437	0	0	0	0	192,437
Other assets	157,895	0	0	0	0	157,895
Total assets	3,787,477	26,200	87,992	834	7,480	3,909,983
Liabilities						
Financial liabilities to the central bank	426,002	0	0	0	0	426,002
Financial liabilities held for trading	976	0	0	0	0	976
Financial liabilities measured at amortised cost	2,820,215	26,221	15,853	159	7,015	2,869,463
Other liabilities	613,542	0	0	0	0	613,542
Total liabilities and equity	3,860,735	26,221	15,853	159	7,015	3,909,983
Assets-liabilities (including equity) mismatch	(73,258)	(21)	72,139	675	465	0
Derivatives	73,515	0	(73,823)	0	0	(308)
Assets-liabilities (including equity and derivatives) mismatch	257	(21)	(1,684)	675	465	(308)

4.5 Capital risk

	31.03.2014	31.12.2013
Original own funds		
Paid-up share capital	150,000	150,000
Share premium	360,572	360,572
Reserves and retained earnings or losses	702	702
Revaluation excesses (PP) – prudential filters	(702)	(702)
(-) Intangible long-term assets	(16,758)	(18,329)
(-) Other country specific deductions	(3)	(21)
Total	493,811	492,222
Additional own funds I		
Other	1,730	2,117
Total	1,730	2,117
(-) Deductions from original own funds and additional own funds I		
(-) Deductions from original own funds	(1,119)	(1,119)
(-) Deductions from additional own funds I	(1,119)	(1,119)
Total	(2,238)	(2,238)
Total equity (for solvency purposes)	493,303	492,101
Capital requirements		
Capital requirements for credit risk	161,436	167,097
Regional governments and local authorities	130	142
Administrative bodies	232	46
Institutions	7,650	9,545
Corporates	34,632	38,527
Retail banking	54,758	56,361
Secured by real estate	2,839	3,120
Past due items	2,197	2,465
Items belonging to regulatory high-risk categories	37,851	34,688
Collective investment undertakings	390	524
Other items	20,757	21,679
Total capital requirements for market risks	3,892	4,119
Debt securities	205	193
Equity instruments	3,687	3,926
Capital requirement for operational risk	17,312	20,897
Total	182,640	192,113
Total capital adequacy ratio	21.61%	20.49%
Tier I capital ratio	21.58%	20.45%
Core Tier I capital ratio	21.58%	20.45%

5 Fair value of financial assets and financial liabilities

	31.03.2014		31.12.2013	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and balances with the central bank	524,066	524,066	334,830	334,830
Financial assets held for trading	407	407	612	612
Financial assets designated at fair value through profit or loss	23,644	23,644	24,586	24,586
Available-for-sale financial assets	1,243,510	1,243,510	1,210,799	1,210,799
Loans and advances to banks	99,236	103,737	151,294	156,285
Loans and advances to customers	1,766,744	1,775,239	1,826,371	1,835,125
Other financial assets	10,122	10,122	11,159	11,159
Held-to-maturity financial assets	172,131	175,397	192,437	193,305
Financial liabilities				
Financial liabilities to the central bank	426,265	426,009	426,002	425,385
Financial liabilities held for trading	1,305	1,305	976	976
Deposits from banks	5,160	5,166	51,982	52,065
Deposits from customers	2,435,931	2,444,895	2,359,553	2,368,603
Loans from banks	348,938	349,604	357,910	359,065
Loans from customers	4,557	4,558	4,549	4,553
Debt securities	72,384	77,596	69,284	74,443
Other financial liabilities	56,737	56,737	26,185	26,185

Analysis of fair value hierarchy

	31.03.2014				31.12.2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Derivatives	218	0	218	0	612	0	612	0
Financial assets held for trading	189	189	0	0	0	0	0	0
– equity instruments	189	189	0	0	0	0	0	0
Available-for-sale financial assets	1,243,510	829,862	410,832	2,816	1,210,799	1,178,297	29,475	3,027
– debt securities	1,216,999	806,167	410,832	0	1,180,979	1,151,504	29,475	0
– equity instruments	26,511	23,695	0	2,816	29,820	26,793	0	3,027
Financial assets designated at fair value through profit or loss	23,644	23,644	0	0	24,586	24,586	0	0
– equity instruments	23,644	23,644	0	0	24,586	24,586	0	0
Financial liabilities								
Derivatives	1,305	0	1,305	0	976	0	976	0

Level 1 includes financial assets whose fair value is determined on the basis of prices quoted on active markets.

Level 2 includes financial assets whose fair value is estimated on the basis of valuation models which take into account variables derived from public market data (such as market interest rates).

Level 3 includes financial assets whose fair value is estimated on the basis of valuation models which take into account subjective variables that are not publicly available.

Financial assets designated at fair value through profit or loss (equity financial instruments) form part of forward sales and are valued in connection with the underlying forward contracts.

Analysis of transitions between Level 1, Level 2 and Level 3

	31.03.2014		
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 3
Financial assets held for trading	0	0	0
Available-for-sale financial assets	381,897	0	0
– debt securities	381,897	0	0
– equity instruments	0	0	0
Financial assets designated at fair value through profit or loss	0	0	0

	31.12.2013		
	Transition from Level 1 to Level 2	Transition from Level 2 to Level 1	Transition from Level 1 to Level 3
Financial assets held for trading	0	0	0
Available-for-sale financial assets	2,000	27,807	1,527
– debt securities	2,000	24,259	0
– equity instruments	0	3,548	1,527
Financial assets designated at fair value through profit or loss	0	0	0

The Bank starts measuring financial assets according to the valuation model that takes into account available market prices once it establishes that the market is not active. Debt securities with a determinable cash flow and without an available market price are valued at the end of each month using the discounted cash flow model. The interest rate used for discounting is the sum of the interest rate of a risk-free instrument of comparable maturity, and a margin for credit risk. The transition from Level 2 to Level 1 is a result of re-availability of a financial asset's market price. The price of a financial asset is considered to be available if the published market price is the result of the actual turnover in the period of less than one month. The transition from Level 1 to Level 3 is the result of a valuation of a financial asset that was previously recorded at the market price.

Movements in financial assets included in Level 3

	Available-for-sale financial assets		
	Total	Shares	Participating interests
1 January 2013	11,460	10,987	473
– acquisition	13	0	13
– transfer of shares to BAMC	(9,238)	(9,238)	0
– revaluation of shares	(736)	(736)	0
– transition to Level 3 due to the valuation of shares	1,527	1,527	0
31 December 2013	3,026	2,540	486
– change due to sale	(928)	(928)	0
– change due to debt-to-equity swaps	718	718	0
31 March 2014	2,816	2,330	486

The table above presents changes within Level 3 of the fair value hierarchy. The decrease in the value of available-for-sale financial assets, which we saw in the first quarter of 2014, was the result of the sale of a financial asset, partially offset by the Bank converting into equity its claims against two companies.

6 Transfer of assets to BAMC

On 11 July 2013, the Government of the Republic of Slovenia made a ruling that Nova KBM had met the conditions to be entitled to benefit from measures aimed at stabilising its financial position, in accordance with the first paragraph of Article 4 of the Decree on the Implementation of Measures to Strengthen Bank Stability.

According to the measures adopted for Nova KBM, it was agreed that the bad assets on the books of Nova KBM were to be transferred to BAMC (the state-run Bank Asset Management Company). On 18 December 2013, the European Commission consented to this transfer of assets.

For the purpose of transferring assets to BAMC, assets at risk held on the books of the Bank were valued on the basis of their long-term realistic economic value calculated according to the methodology described in the decree referred to above.

The legal and book transfer of assets was carried out on 20 December 2013.

In exchange for transferring the assets, Nova KBM received from BAMC state-guaranteed bonds.

The effect of transferring the assets to BAMC was reflected in the following statement of financial position items (as of 31 December 2013):

Item	Amount
Financial assets designated at fair value through profit or loss	182
Available-for-sale financial assets	13,305
Loans and advances to customers and other financial assets	362,542
– gross value	971,809
– impairment	609,267
Total net transfer value of assets	376,029

Notes to the income statement items

7 Interest income and expense

7.1 Analysis of interest by market segments

	Q1 2014		Q1 2013	
	Income	Expense	Income	Expense
Non-financial companies	10,116	1,057	19,109	1,049
State	11,507	265	5,052	6,034
Banks	1,246	2,763	1,893	4,956
Other financial organisations	1,286	851	2,671	1,936
Households	9,402	7,694	10,875	10,573
Foreign persons	1,102	191	1,814	263
Non-profit household service providers	31	40	42	75
Total	34,690	12,861	41,456	24,886
Net interest income	21,829		16,570	

7.2 Analysis of interest income and expense by type of assets and liabilities

	Q1 2014		Q1 2013	
	Current	Non-current	Current	Non-current
Interest income				
Balances with the central bank (measured at amortised cost)	136	0	47	0
Financial assets held for trading	39	0	43	0
Available-for-sale financial assets	8,531	2,084	2,690	0
Loans and advances (including finance leases)	5,511	16,874	8,163	27,020
Held-to-maturity financial assets	108	1,400	86	3,395
Other financial assets	7	0	12	0
Total by maturity	14,332	20,358	11,041	30,415
Total	34,690		41,456	
Interest expense				
Financial liabilities due to the central bank (measured at amortised cost)	0	262	0	788
Financial liabilities held for trading	0	38	0	42
Financial liabilities measured at amortised cost	2,640	9,921	4,185	19,871
Total by maturity	2,640	10,221	4,185	20,701
Total	12,861		24,886	
Net interest income	21,829		16,570	

8 Fee and commission income and expense

	Q1 2014	Q1 2013
Fee and commission income	10,994	10,541
Guarantees	834	814
Services provided to banks in the Group	106	212
Services provided to other Group subsidiaries	83	69
Domestic payment transactions	4,450	4,169
Transactions under current accounts	2,375	2,103
Card operations	1,500	1,433
International payment transactions	325	385
Brokerage and agency services	480	85
Transactions in securities for customers	93	107
Lending operations	700	1,130
Safekeeping of objects and valuables	22	12
Other services	26	22
Fee and commission expense	785	670
Domestic banking services	574	167
Banking services abroad	70	344
Brokerage and agency services	5	15
Stock exchange transactions and other transactions in securities	43	48
Payment transactions	88	90
Services of banks in the Group	4	5
Other services	1	1
Net fee and commission income	10,209	9,871

9 Net gains or losses on financial assets and liabilities held for trading

	Q1 2014			Q1 2013		
	Gains	Losses	Net gains/(losses)	Gains	Losses	Net gains/(losses)
Trading in equity instruments	42	17	25	4	45	(41)
Trading in foreign exchange (purchase/sale)	236	127	109	231	150	81
Trading in derivatives	527	1,675	(1,148)	2,020	978	1,042
– futures/forwards	492	894	(402)	1,759	567	1,192
– options	0	0	0	0	148	(148)
– swaps	35	37	(2)	261	263	(2)
– other derivatives	0	744	(744)	0	0	0
Total	805	1,819	(1,014)	2,255	1,173	1,082

The Bank uses derivatives (futures/forwards) for economic hedging of its exposure to foreign exchange risk. The effects of derivatives are linked to the effects arising from exchange rate differences (Note 11).

10 Net gains or losses on financial assets and liabilities designated at fair value through profit or loss

	Q1 2014			Q1 2013		
	Gains	Losses	Net gains	Gains	Losses	Net (losses)
Financial assets designated at fair value through profit or loss	3,703	7	3,696	341	1,852	(1,511)
Total	3,703	7	3,696	341	1,852	(1,511)

Gains and losses on financial assets designated at fair value through profit or loss are attributable to the valuation and disposal of equities and bonds for which a joint-selling agreement has been made by the Bank.

11 Net exchange rate differences

	Q1 2014	Q1 2013
Foreign exchange gains	1,830	5,968
Foreign exchange losses	1,434	6,839
Net foreign exchange gain/(loss)	396	(871)

12 Administration costs

	Q1 2014	Q1 2013
Staff expenses	8,639	9,234
Gross salaries	6,694	7,209
Social security and pension insurance contribution	1,077	1,166
Pay for annual leave	238	249
Other staff costs	630	610
General and administrative expenses	5,765	6,728
Costs of materials	523	595
Costs of services	3,533	4,480
Maintenance costs of fixed assets	1,054	1,074
Advertising costs	386	332
Other administrative costs	269	247
Total administration costs	14,404	15,962

13 Provisions

	Q1 2014	Q1 2013
Provisions for off-balance sheet liabilities	(202)	(2,287)
Provisions for tax claims and other pending legal issues	1,672	0
Other provisions	(63)	(9)
Total	1,407	(2,296)

14 Impairment losses

	Q1 2014	Q1 2013
Financial assets not measured at fair value through profit or loss	8,662	14,454
Other assets	20	0
Total impairment losses	8,682	14,454

14.1 Impairment of financial assets not measured at fair value through profit or loss

	Q1 2014	Q1 2013
Financial assets measured at cost	0	10,750
Available-for-sale financial assets designated at fair value	986	178
Loans and advances (including finance leases and other financial assets) measured at amortised cost	7,676	3,526
– loans and advances to banks	96	35
– loans and advances to customers	7,663	9,724
– other financial assets	(83)	(6,233)
Total impairment of financial assets not measured at fair value through profit or loss	8,662	14,454

15 Income tax related to profit or loss from continuing operations

	Q1 2014	Q1 2013
Deferred tax related to continuing operations	80	1,592
Total	80	1,592

The effective tax rate for the three-month period ended 31 March 2014 has not been calculated because the income tax liability has not been accounted for in this period.

Notes to the statement of financial position items

16 Cash and balances with the central bank

	31.03.2014	31.12.2013
Cash in hand	37,888	41,113
Obligatory deposits with the central bank	102,134	289,938
Other deposits with the central bank	384,044	3,779
Total	524,066	334,830

Obligatory deposit funds are available to finance day-to-day operations and are therefore considered as cash equivalent.

16.1 Cash and cash equivalents

	31.03.2014	31.12.2013
Cash and balances with the central bank	524,066	334,830
Loans and advances to banks	41,185	118,294
Total	565,251	453,124

17 Financial assets held for trading

	31.03.2014	31.12.2013
Derivatives	218	612
Equity instruments	189	0
– equity instruments issued by other issuers	189	0
Total	407	612
Unquoted	407	612
Total	407	612

No assets of this portfolio are pledged as collateral.

None of the instruments included in the portfolio of financial assets held for trading have the characteristics to qualify as subordinated debt.

17.1 Movements in financial assets held for trading

	Q1 2014	2013
1 January	612	1,178
Increase during the year	1,280	3,867
– acquisition	1,631	3,831
– exchange rate differences	1	0
– change in fair value (recovery and reversal of impairment)	(394)	0
– other (deferred interest, realised gains)	42	36
Decrease during the year	1,485	4,433
– disposal (sale and redemption)	1,468	3,797
– change in fair value (impairment and reversal of recovery)	10	566
– other (deferred interest, realised losses)	7	70
31 March/31 December	407	612

18 Financial assets designated at fair value through profit or loss

	31.03.2014	31.12.2013
Equity instruments that are quoted on a stock exchange	23,644	24,586

As of 31 March 2014, no assets of this portfolio were pledged as collateral, and during the three-month period ended 31 March 2014, the Bank did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

Financial assets designated at fair value through profit or loss include equity instruments for which the Bank has entered into forward sale contracts.

The effects of valuation of financial assets designated at fair value through profit or loss and the effects of valuation of forward contracts are recorded through profit or loss.

None of the instruments included in the portfolio of financial assets designated at fair value through profit or loss have the characteristics to qualify as subordinated debt.

18.1 Movements in financial assets designated at fair value through profit or loss

	Q1 2014	2013
1 January	24,586	34,043
Increase during the year	3,703	9,134
– change in fair value (recovery and reversal of impairment)	3,582	9,134
– other	121	0
Decrease during the year	4,645	18,591
– disposal (sale and redemption)	4,638	8,046
– change in fair value (impairment and reversal of recovery)	0	2,252
– other	7	8,111
– transfer to BAMC	0	182
31 March/31 December	23,644	24,586

19 Available-for-sale financial assets

19.1 Analysis by type and market segments

	31.03.2014	31.12.2013
Equity instruments designated at fair value	25,222	28,321
Equity instruments measured at cost	1,289	1,499
Debt securities	1,216,999	1,180,979
– issued by the state and the central bank	1,146,352	1,099,301
– issued by banks	50,833	60,962
– issued by other issuers	19,814	20,716
Total	1,243,510	1,210,799
Quoted	1,236,302	1,199,406
Unquoted	7,208	11,393
Total	1,243,510	1,210,799

As of 31 March 2014, assets of this portfolio worth €491,999,000 were pledged with the Bank of Slovenia for the pool of collateral, the guarantee scheme and the guaranteed claims of depositors. In the three-month period ended 31 March 2014, the Bank did not receive any financial assets that are included in this category from the realisation of collateral provided as security for loans.

None of the instruments included in the portfolio of available-for-sale financial assets have the characteristics to qualify as subordinated debt.

19.2 Movements in available-for-sale financial assets

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2014	28,321	1,499	1,180,979	1,210,799
Recognition of new financial assets	0	718	84,386	85,104
Interest	0	0	(3,992)	(3,992)
Net revaluation through equity	(582)	0	20,636	20,054
Net impairment through profit or loss	(986)	0	0	(986)
Derecognition of financial assets upon maturity	0	0	(47,000)	(47,000)
Derecognition of financial assets upon disposal	(1,636)	(1,581)	(19,289)	(22,506)
Net gains on sale	105	653	1,279	2,037
31 March 2014	25,222	1,289	1,216,999	1,243,510

	Equity instruments		Debt securities	Total
	At fair value	At cost		
1 January 2013	45,425	23,081	348,596	417,102
Recognition of new financial assets	8,343	10,763	1,073,958	1,093,064
Interest	0	0	6,472	6,472
Net revaluation through equity	588	0	10,152	10,740
Net impairment through profit or loss	(14,435)	(18,475)	(8,248)	(41,158)
Derecognition of financial assets upon maturity	0	0	(198,487)	(198,487)
Derecognition of financial assets upon disposal	(11,156)	0	(29,200)	(40,356)
Net (losses) on sale	(444)	(565)	(22,264)	(23,273)
Transfer to BAMC	0	(13,305)	0	(13,305)
31 December 2013	28,321	1,499	1,180,979	1,210,799

20 Loans and advances to banks

	31.03.2014	31.12.2013
Sight deposits	6,059	17,346
Impairment of sight deposits	(1)	0
Current loans	47,429	108,903
Impairment of current loans	(97)	(7,955)
Non-current loans	66,416	45,441
Impairment of non-current loans	(20,570)	(12,441)
Total – net amount	99,236	151,294
Impairment	20,668	20,396
Total – gross amount	119,904	171,690

21 Loans and advances to customers

	31.03.2014	31.12.2013
Current loans	409,909	420,225
Impairment of current loans	(120,483)	(118,665)
Non-current loans	1,804,383	1,846,670
Impairment of non-current loans	(329,510)	(323,725)
Claims under guarantees	7,753	6,347
Impairment of claims under guarantees	(5,308)	(4,481)
Total – net amount	1,766,744	1,826,371
Impairment	455,301	446,871
Total – gross amount	2,222,045	2,273,242

21.1 Movements in impairment of loans and advances to customers

	Q1 2014	2013
1 January	446,871	573,234
Net impairment of principal	7,663	464,800
– additional impairment of principal	28,195	688,803
– reversal of impairment of principal	(20,532)	(224,003)
Additional impairment of interest	3,392	24,747
Additional impairment of fees	4	4
Write-off of loans and advances to customers	(2,629)	(7,308)
Transfer to BAMC	0	(608,606)
31 March/31 December	455,301	446,871

Recognition of additional impairment/reversal of impairment of interest and fees on loans given to customers is reflected in profit or loss (Note 7: Interest income and expense, and Note 8: Fee and commission income and expense).

22 Other financial assets

	31.03.2014	31.12.2013
Cheques	22	80
Claims for fees and commissions	1,476	1,403
Accounts receivables	34	38
Other financial assets	8,590	9,638
Total – net amount	10,122	11,159
Impairment	1,595	1,667
Total – gross amount	11,717	12,826

22.1 Movements in impairment of other financial assets

	Q1 2014	2013
1 January	1,667	7,721
Net impairment of principal	(83)	(5,536)
– additional impairment of principal	141	2,343
– reversal of impairment of principal	(224)	(7,879)
Additional impairment of interest	5	28
Additional impairment of fees	42	498
Write-off of other financial assets	(36)	(383)
Transfer to BAMC	0	(661)
31 March/31 December	1,595	1,667

Recognition of additional impairment/reversal of impairment of interest and fees on other financial assets is reflected in profit or loss (Note 7: Interest income and expense, and Note 8: Fee and commission income and expense).

23 Held-to-maturity financial assets

	31.03.2014	31.12.2013
Debt securities		
– current securities issued by the state and the central bank	19,844	29,736
– non-current securities issued by the state and the central bank	142,222	152,739
– non-current securities issued by banks and savings banks	6,144	6,088
– non-current securities issued by other issuers	3,921	3,874
Total	172,131	192,437
Quoted	172,131	192,437
Total	172,131	192,437

As of 31 March 2014, assets of this portfolio worth €168,241,000 were pledged with the Bank of Slovenia for the pool of collateral and the guarantee scheme.

Notes issued by Adria Bank have the characteristics to qualify as subordinated debt. In accordance with a decision reached by the Bank's Management Board in December 2013, these notes were impaired to €0 from their original value of €1,657,000.

23.1 Movements in held-to-maturity financial assets

	Q1 2014	2013
1 January	192,437	397,130
Increase during the year	1,508	40,386
– acquisition	0	29,628
– gains	0	903
– other (deferred interest)	1,508	9,855
Decrease during the year	21,814	245,079
– disposal (sale and redemption)	20,000	232,162
– impairment	0	1,657
– losses	0	4,295
– other (interest received)	1,814	6,965
31 March/31 December	172,131	192,437

24 Financial liabilities measured at amortised cost

	31.03.2014	31.12.2013
Deposits	2,441,091	2,411,535
Loans	353,495	362,459
Debt securities	72,384	69,284
Other financial liabilities	56,737	26,185
Total	2,923,707	2,869,463

24.1 Deposits by type of customers and maturity

	31.03.2014	31.12.2013
Deposits from banks	5,160	51,982
– sight deposits	2,542	2,657
– current deposits	1,804	2,298
– non-current deposits	814	47,027
Deposits from customers	2,435,931	2,359,553
– sight deposits	1,006,792	979,958
– current deposits	582,935	545,819
– non-current deposits	846,204	833,776
Total	2,441,091	2,411,535

24.2 Loans by type of customers and maturity

	31.03.2014	31.12.2013
Loans from banks	348,938	357,910
– non-current loans	348,938	357,910
Loans from customers	4,557	4,549
– non-current loans	4,557	4,549
Total	353,495	362,459

24.3 Other financial liabilities

	31.03.2014	31.12.2013
Liabilities for fees and commissions	16	25
Liabilities for gross salaries of employees	2,263	2,445
Liabilities to suppliers	1,036	3,965
Liabilities related to payment card transactions	6,298	7,599
Liabilities related to ATM transactions	1,989	1,640
Liabilities related to funds provided by customers for payments abroad	1,453	594
Liabilities related to cash transactions	652	1,240
Liabilities arising from participation in profits – dividends	74	75
Accruals and deferred income	3,500	3,472
Surplus arising from authorised transactions for customers	117	135
Other financial liabilities	39,339	4,995
Total other financial liabilities	56,737	26,185

25 Provisions

	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2014	1,680	15,867	3,940	61,943	421	83,851
Net creation of provisions through profit or loss	(63)	1,672	0	(202)	0	1,407
– provisions made during the period	0	1,672	0	15,807	0	17,479
– provisions reversed during the period	(63)	0	0	(16,009)	0	(16,072)
Provisions used during the period	0	0	(22)	0	0	(22)
31 March 2014	1,617	17,539	3,918	61,741	421	85,236

	Provisions for restructuring	Provisions for pending legal issues	Provisions for pensions and similar benefits	Provisions for off-balance sheet liabilities	Other provisions	Total
1 January 2013	0	3,274	4,333	32,998	428	41,033
Net creation of provisions through profit or loss	1,680	12,593	87	28,945	(7)	43,298
– provisions made during the year	1,680	14,580	372	52,388	0	69,020
– provisions reversed during the year	0	(1,987)	(285)	(23,443)	(7)	(25,722)
Net reversal of provisions through equity	0	0	(293)	0	0	(293)
Provisions used during the year	0	0	(187)	0	0	(187)
31 December 2013	1,680	15,867	3,940	61,943	421	83,851

26 Share capital

	31.03.2014	31.12.2013
Ordinary shares	150,000	150,000
– subscribed by the state	150,000	150,000

In 2013, Nova KBM was recapitalised by the state. The details of this state-sponsored recapitalisation are set out in the Bank's Annual Report for 2013.

In the three-month period ended 31 March 2014 and during 2013, the Bank did not purchase or sell treasury shares, and no treasury shares were held by the Bank at the end of 2013 or at the end of March 2014.

27 Revaluation reserves

	31.03.2014	31.12.2013
Revaluation reserves in respect of available-for-sale financial assets	23,517	6,872
– revaluation	28,334	8,279
– deferred taxes	(4,817)	(1,407)
Other revaluation reserves	268	268
– revaluation	293	293
– deferred taxes	(25)	(25)
Total	23,785	7,140

27.1 Movements in revaluation reserves

	Q1 2014	2013
1 January	7,140	(2,092)
Net change in valuation of available-for-sale financial assets	20,054	10,740
– gains recognised in revaluation reserves	20,054	4,895
– transferred from revaluation reserves to profit or loss	0	5,845
Net change in other revaluation reserves	0	293
Net change in deferred taxes	(3,409)	(1,801)
31 March/31 December	23,785	7,140

Other notes

28 Commitments and contingent liabilities by type

	31.03.2014		
	Current	Non-current	Total
Financial guarantees	38,081	35,198	73,279
Service guarantees	90,282	85,419	175,701
Total guarantees	128,363	120,617	248,980
Unsecured letters of credit	302	80	382
Approved and undrawn loans	69,354	3,658	73,012
Approved and undrawn overdrafts	160,199	0	160,199
Other	10	0	10
Total commitments and contingent liabilities	229,563	3,658	233,221
Derivatives	92,994	40,000	132,994
Total	451,222	164,355	615,577

	31.12.2013		
	Current	Non-current	Total
Financial guarantees	39,391	36,888	76,279
Service guarantees	89,808	84,904	174,712
Total guarantees	129,199	121,792	250,991
Unsecured letters of credit	293	0	293
Approved and undrawn loans	68,093	870	68,963
Approved and undrawn overdrafts	157,640	0	157,640
Total commitments and contingent liabilities	225,733	870	226,603
Derivatives	112,213	40,000	152,213
Total	467,438	162,662	630,100

29 Related party transactions

29.1 Statement of financial position and off-balance sheet items

	Subsidiaries		Associates	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Assets				
Loans and advances given (gross amount)	253,069	323,994	1	1
– loans and advances to banks	71,433	76,283	0	0
– loans and advances to customers	181,593	247,661	1	1
– other financial assets	43	50	0	0
Investment in securities	51,901	56,752	2,237	2,237
– equity instruments	51,901	55,064	2,237	2,237
– debt securities	0	1,688	0	0
Other claims	45	165	0	0
Liabilities				
Deposits and loans received	8,032	53,924	1,683	1,748
– deposits and loans from banks	2,151	48,208	0	0
– deposits and loans from customers	5,000	4,616	1,683	1,748
– other financial liabilities	881	1,100	0	0
Securities issued	8,038	8,279	0	0
– debt securities	8,038	8,279	0	0
Subordinated liabilities	0	100	0	0
Other liabilities	0	1	0	0
Off-balance sheet items	8,068	4,063	4	4

	Key management personnel		Other related persons	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Assets				
Loans and advances given (gross amount)	282	297	4,534	4,621
– loans and advances to banks	0	0	0	0
– loans and advances to customers	282	297	4,534	4,621
Investment in securities	0	0	0	348
– equity instruments	0	0	0	348
Liabilities				
Deposits and loans received	421	474	54	164
– deposits and loans from customers	413	474	52	46
– other financial liabilities	8	0	2	118
Other liabilities	4	0	0	0
Off-balance sheet items	52	69	208	132

Key management personnel include members of the Management Board, executive directors and members of the Supervisory Board of the Bank.

Other related persons are members of the immediate family of the Bank's key management personnel, and entities whose owners or members of the key management personnel are members of the Bank's key management personnel or their immediate family.

Transactions with related persons are conducted on an arm's length basis.

29.2 Income statement

	Subsidiaries		Associates	
	Q1 2014	Q1 2013	Q1 2014	Q1 2013
Net interest income	2,476	2,939	(22)	(22)
Net fee and commission income	145	249	1	2
Costs of services	(24)	(33)	0	0
Impairment of loans	253	702	0	0
Provisions	(2,171)	(245)	0	0
Impairment of investments	0	0	0	0
Write-offs	0	0	0	0
Total	679	3,612	(21)	(20)

	Key management personnel		Other related persons	
	Q1 2014	Q1 2013	Q1 2014	Q1 2013
Net interest income	(2)	(4)	63	197
Net fee and commission income	0	0	2	10
Costs of services	(96)	(41)	(248)	(234)
Impairment of loans	0	0	165	0
Provisions	0	0	0	(40)
Write-offs	0	0	0	0
Total	(98)	(45)	(18)	(67)

29.3 Loans and guarantees given

	Management Board members		Supervisory Board members		Other Bank employees on individual contract	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Loans	13	6	34	47	1,423	1,422
Average interest rate on loans (%)	8.24	8.48	3.70	3.66	3.32	3.43
Repayments	1	0	2	12	55	267

30 Exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions

Exposure to:	31.03.2014	31.12.2013
Bank of Slovenia	106,152	293,717
– settlement account	102,134	289,938
– other	4,018	3,779
Republic of Slovenia	1,134,292	1,155,415
– bonds	497,052	504,918
– other securities	250,564	263,594
– loans guaranteed by the Republic of Slovenia, by type	384,953	385,587
– other	822	415
State-owned institutions	566,466	543,943
– loans	346,064	346,021
– securities	113,619	101,117
– commitments and contingent liabilities	87,974	83,302
– other	18,809	13,503
Total exposure to the Bank of Slovenia, Republic of Slovenia and state-owned institutions	1,806,910	1,993,075
Share in total assets (%)	45.26	50.97
Off-balance sheet items covered by collateral provided by the Bank of Slovenia or the Republic of Slovenia	901	901
Total assets	3,992,223	3,909,983

31 Remuneration

	Q1 2014	Q1 2013
Management Board members	67	68
Aleš Hauc	34	34
Igor Žibrik	33	34
Supervisory Board members	37	28
Members of Supervisory Board committees	15	14
Other Bank employees on individual contract	811	857
Total	930	967

Remuneration paid to Management Board members comprises: salary, pay for annual leave, awards, bonuses, and the payment of supplementary pension insurance premiums.

Remuneration paid to members of the Supervisory Board, the Audit Committee, the Remuneration and Nomination Committee, and the Appointment Board comprises: a payment for holding the office, meeting attendance fees, reimbursement of costs, seminar participation fees, and the payment of liability insurance premiums.

Remuneration paid to other Bank employees working on individual contracts comprises: salary, pay for annual leave, bonuses, the payment of supplementary pension insurance premiums, and other remuneration under employment contracts (severance benefits paid to employees who are made redundant for business reasons, severance benefits paid upon

retirement, compensation for a non-competition clause, and some other remuneration under employment contracts).

32 Events after the statement of financial position date

On 29 April 2014, Nova KBM infused fresh capital of €12,200,000 into Adria Bank, its Austria-based subsidiary bank.

Financial calendar of Nova KBM d.d. for 2014

All notices and announcements released by Nova KBM are available in the electronic dissemination system of the Ljubljana Stock Exchange (www.ljse.si) and on the Nova KBM website (www.nkbm.si).

Type of publication or event	Anticipated date of publication or event
The 26th regular Shareholders' Meeting of Nova KBM d.d.	Tuesday, 10 June 2014
Decisions adopted at the 26th regular Shareholders' Meeting of Nova KBM d.d.	Wednesday, 11 June 2014
Preliminary information on results for the period January – June 2014	Thursday, 31 July 2014
Report on operations and unaudited financial statements of Nova KBM d.d. and the Nova KBM Group for the period January – June 2014	Friday, 29 August 2014
Preliminary information on results for the period January – September 2014	Thursday, 30 October 2014
Report on operations and unaudited financial statements of Nova KBM d.d. and the Nova KBM Group for the period January – September 2014	Friday, 28 November 2014
The 2015 Business Plan of Nova KBM d.d. and the Nova KBM Group	Monday, 22 December 2014

The dates stated above are indicative only and are subject to change. Any changes in the release dates will be published on the Nova KBM website.

Nova KBM d.d., May 2014