Disclosures made by Nova KBM d.d. for the year 2010 on the basis of its consolidated financial situation

Pursuant to the Regulation on Disclosures by Banks and Savings Banks, Nova KBM d.d. (hereafter also the 'Bank') is, on the basis of its consolidated financial situation, obliged to disclose important information that could, if omitted or misstated, change or influence the assessment or decision of a user relying on that information to make economic decisions. The legislation gives banks the option of not disclosing confidential information or business secrets.

Based on the options available, Nova KBM d.d. decided to publish the disclosures in a separate document in which it described each individual disclosure in accordance with the Regulation on Disclosures by Banks and Savings Banks. The majority of requested information is disclosed by the Bank in its annual report in compliance with the applicable legislation and International Financial Reporting Standards. The disclosures, which form an integral part of the annual report and must, in addition, be published under the Regulation on Disclosures by Banks and Savings Banks, are not contained herein; only a reference is given in this document to the relevant disclosures in the annual report.

The disclosures have been verified from the point of view of integrity and accuracy by the Internal Audit Centre of Nova KBM d.d.

Article		**Disclosure**
10.	**Risk management objectives and policies**	
	a) the strategies and processes for managing risks	Disclosure 2
	b) the structure and organisation of the relevant risk management function or other appropriate arrangements	Disclosure 3
	c) the scope and nature of internal risk reporting and risk measurement systems	Disclosure 4
	d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	Disclosure 5
11.	**Information on entities included in disclosures**	
	a) the name of the bank obliged to make disclosures pursuant to the regulation	Disclosure 1
	b) an outline of the differences in the basis of consolidation for accounting and prudential purposes (consolidation for supervision on a consolidated basis)	Disclosure 9
	c) any current or foreseen practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	Disclosure 6
	d) the aggregate amount by which the own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name(s) of these subsidiaries	Disclosure 7
12.	**Own funds**	
	a) key information on the terms and conditions of the main features of all own funds items and components thereof	Disclosure 8
	b) the amount of the original own funds, with separate disclosure of all positive items and deductions	Disclosure 9
	c) the total amount of additional and ancillary own funds as can be taken into consideration in the calculation of the bank's own funds	Disclosure 9
	d) deductions from original and additional own funds with separate disclosure of items specified in point (f) of the second paragraph of	Disclosure 9

	Article 30 of the own funds regulation	
	e) the amount of own funds	Disclosure 9
13.	**Minimum capital requirements and process of estimating necessary internal capital**	
	a) a summary of the bank's approach to assessing the adequacy of its internal capital to support current and planned activities	Disclosure 10
	b) the amount of the capital requirement for all categories of exposure as defined in Article 4 of the Regulation on the Calculation of Capital Requirements for Credit Risk Under the Standardised Approach for Banks and Savings Banks	Disclosure 9
	c) the amount of capital requirement for credit risk under the IRB approach	Not relevant
	d) the amount of capital requirement for market risks	Disclosure 9
	e) the amount of capital requirement for operational risk	Disclosure 9
14.	**Counterparty credit risk (CCR)**	
	a) a description of the methodology used to assign internal capital and credit limits for counterparty credit exposures	Disclosure 11
	b) a description of policies for securing collateral	Disclosure 12
	c) a description of policies with respect to wrong-way risk exposures	Disclosure 12
	d) a description of the effects of a downgrade in the bank's credit assessment in increasing the amount of collateral to be secured by the bank	Disclosure 13
	e) the gross positive fair values of contracts, netting benefits, netted current credit exposures, collateral at the bank's disposal, and net credit exposure from derivatives	Disclosure 14
	f) a description of the method that it uses for calculating the exposure value for derivatives, swaps, securities or commodities lending or borrowing transactions, margin lending transactions, and long settlement transactions defined in Articles 48 to 68 of the market risk regulations	Disclosure 11
	g) the nominal value of credit derivatives used for hedging, and the distribution of current credit exposure by types of credit exposure	Disclosure 15
	h) the nominal value of credit derivatives transactions, the value of these instruments for the bank's own portfolio and the values for clients being illustrated separately, and an indication of the types of credit derivatives further broken down as bought and sold	Disclosure 15
	i) an estimate of α if the bank holds the Bank of Slovenia authorisation to use its own estimate of α	Disclosure 16
15.	**Credit risk and dilution risk**	
	a) a definition of past due and impaired items for accounting purposes	Disclosure 17
	b) a description of the methodology for making value adjustments to items and provisions	Disclosure 18
	c) the total amount of exposures, minus impairments and provisions, without taking the effects of credit protection into consideration, and the average exposure amount in the reporting period (from quarterly data), broken down by category of exposure	Disclosure 19
	d) the geographic distribution of exposures, broken down by material category of exposure, and further detailed if appropriate	Disclosure 20
	e) the distribution of exposures by institutional sector or counterparty type, broken down by category of exposure, and further detailed if appropriate	Disclosure 21
	f) a breakdown of all categories of exposure into residual maturities of up to one year and more than one year, and further detailed if	Disclosure 22

	appropriate	
	g) for significant institutional sectors or counterparty types (as defined by the bank) as at the end of the reporting period: the amount of past due exposures, and within this the amount of impaired exposures (net amounts); the amount of value adjustments due to impairments and provisions; the amount of eliminated/formed value adjustments due to impairments and provisions during the reporting period	Disclosure 23
	h) for significant geographical areas the amount of past due exposures as at the end of the reporting period, and within this the amount of impaired exposures, including, if practical, the amounts of impairments and of provisions related to each geographical area	Disclosure 20
	i) for impaired exposures an illustration of the changes in value adjustments and an illustration of the changes in provisions, these comprising: a description of the value adjustments and provisions by type of asset; the opening balance of the value adjustments and provisions as at the beginning of the year; the increase in the reporting period; the decrease in the reporting period; the closing balance of the value adjustments and provisions as at the end of the reporting period	Disclosure 24
16.	**Additional disclosures by a bank using the standardised approach**	
	a) the business names of the nominated external credit assessment institutions (hereinafter: ECAI) or export credit agencies (hereinafter: ECA), and the reasons for any replacements	Disclosure 25
	b) an indication of the ECAI or ECA whose credit assessments are used for a particular category of exposure	Disclosure 25
	c) a general description of the process for determining the risk weights for individual exposures on the basis of the credit assessments available for the obligor and its financial instruments	Disclosure 25
	d) an indication of the mapping of the credit assessments of a particular nominated ECAI or ECA to the credit quality steps specified in the standardised approach regulation, if it is a mapping not published by the Bank of Slovenia	Disclosure 25
	e) the exposure values and the exposure values allowing for the effects of credit protection, broken down by credit quality step in accordance with the standardised approach regulation and the Regulation on Credit Protection, and the values of capital deduction items	Disclosure 19
17.	**Additional disclosures by a bank using the IRB approach**	Not relevant
18.	**Breakdown of market risk capital requirements – by individual types of risk**	Disclosure 9
19.	**Additional disclosures by bank using internal models to calculate market risk capital requirements**	Not relevant
20.	**Operational risk**	
	a) the approach that it uses to calculate operational risk capital requirements	Disclosure 26
	b) a description of the advanced measurement approach methodology, if the bank uses it	Not relevant
21.	**Investments in equities not included in trading book**	
	a) the accounting techniques and valuation methods used with regard to the purpose of the investments, including for capital gains relationships and strategic reasons, and any changes in accounting practices	Disclosure 27

	b) the balance sheet value and the fair value of investments, and, for exchange-traded securities, a comparison with the market price where it is materially different from the fair value	Disclosure 27
	c) the types, nature and amounts of exposures from exchange-traded securities, exposures from private equity if sufficiently diversified, and other exposures	Disclosure 27
	d) the cumulative realised gains and losses from the sale of investments in equities in the reporting period	Disclosure 27
	e) the total amount of unrealised gains and losses, and any of these amounts that the bank includes in the original capital or Tier I additional capital	Disclosure 27
22.	**Interest-rate risk from items not included in trading book**	
	a) the nature of the interest-rate risk and the key assumptions (including assumptions about the early repayment of loans and the movement of sight deposits), and the frequency of the measurement of interest-rate risk	Disclosure 28
	b) the effect on earnings or any other measurement of value used in the management of interest-rate risk in the event of upward or downward shocks in interest rates on major currencies	Disclosure 28
23.	**Securitisation**	Not relevant
23(a)	**Liquidity risk**	Disclosure 29
	a) methodologies for managing liquidity risk	Disclosure 29
	b) mitigation of liquidity risk	Disclosure 29
	c) measures for preventing and removing the causes of liquidity shortages	Disclosure 29
24.	**IRB approach**	Not relevant
25.	**Credit protection**	
	a) the policies and processes for using balance-sheet netting, and the extent of use of this type of protection	Disclosure 30
	b) the policies and processes for collateral valuation and management	Disclosure 31
	c) a description of the main types of collateral taken by the bank	Disclosure 32
	d) the major types of personal guarantor and counterparties in credit derivatives transactions, and their creditworthiness	Disclosure 33
	e) information about market or credit risk concentrations within the credit protection taken (by type of protection)	Disclosure 34
	f) for a bank that uses the standardised approach or an IRB approach to calculating credit risk capital requirements without its own estimates of LGDs (and CFs), the total exposure value (after balance sheet netting, if used) that is covered by collateral, after the application of volatility adjustments, for each category of exposure	Disclosure 19
	g) the total exposure value (after balance sheet netting, if used) that is covered by personal guarantees or credit derivatives for each category of exposure. For the category of exposures from equity instruments, this requirement shall apply to each of the approaches set out in Articles 133, 134 and 138 of the IRB approach regulation	Disclosure 19
26.	**Operational risk – advanced measurement approach**	Not relevant

<u>Disclosure 1: The name of the bank obliged to make disclosures and entities included in disclosures</u>
(Article 11(a) and (b) of the Regulation on Disclosures by Banks and Savings Banks)

The information is disclosed by Nova KBM d.d.

In accordance with the requirements of International Financial Reporting Standards, all subsidiaries, associates and joint ventures shall be included in consolidated financial statements; subsidiaries are fully consolidated, whilst associates and joint ventures are included in the consolidation using the equity method (the Bank does not have any joint ventures). The Bank has set up a reporting, controlling and risk monitoring system for all Nova KBM Group (hereafter also the 'Group') companies through their integration into the risk assessment system, in spite of the fact that the associates are not subject to the control on a consolidated basis. A brief description of Nova KBM Group companies is included in the annual report.

Subsidiaries:
- Poštna banka Slovenije d.d.
- Adria Bank AG
- Credy banka a.d.
- KBM Leasing d.o.o.
- Gorica Leasing d.o.o.
- KBM Infond d.o.o.
- KBM Invest d.o.o.
- KBM Fineko d.o.o.
- M-Pay d.o.o.
- KBM Leasing Hrvatska d.o.o.
- KBM Projekt d.o.o.

Associates:
- Zavarovalnica Maribor d.d.
- Moja naložba, pokojninska družba, d.d.

<u>Disclosure 2: The strategies and processes for managing risks</u>
(Article 10(a) of the Regulation on Disclosures by Banks and Savings Banks)

This disclosure is included in the annual report; the overall aspect of strategies and processes with respect to risk management is presented in the business part of the annual report, whilst disclosures by individual risks are set out in the notes to the financial statements.

In accordance with its mission, the Group will always ensure the safety of its operations and comply with the highest standards of risk management. The principal guidance of risk management in the Group is based on this premise. The Group is aware of all the risks that arise in its operations, and categorizes these according to the type of risk, individual organisational units, business processes, and employees.

The Group uses a systematic approach for measuring risks. It identifies, measures (or assesses), monitors and manages each type of risk. For each type of risk, the Bank identifies the factors that have an impact on the size of exposure, and risk factors that cause a change in value. A quantified level of acceptable risk is determined for each type of risk at least at the level of each independent legal entity and, where appropriate and reasonable, also at the level of organisational units.

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

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

Disclosure 3: The structure and organisation of the relevant risk management function
(Article 10(b) of the Regulation on Disclosures by Banks and Savings Banks)

The Group revises the document Strategy of the Nova KBM Group on an annual basis. The Strategy of the Group is a key document in preparing the annual business plan at the level of individual Group companies as well as at the Group level. The responsibility for attaining the objectives of a business plan, including those with respect to risk management, is assigned to management boards of Group companies.

The Bank's Management Board has delegated 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 respective risks. The responsible officers are specialised in defining, measuring and controlling individual types of risk. The organisational unit responsible for defining the acceptable level of a specific type of risk and the method of measuring and monitoring the risk is organisationally separate from the unit it monitors. In accordance with the rules of procedure, each risk management policy has to be approved by the Policy Adoption Committee and, in addition, agreed by the President of the Management Board or his deputy. Risk management policies form the basis for managing risks across the entire Group. Considering the volume of their operations, the Group companies may use their own approach in managing risks, but shall in each case receive an approval from the person in charge of the respective risk within the Bank.

Risk management is conducted in accordance with the established and approved risk management policies. The methods for managing specific risks, the system of limits and the limits themselves are proposed by the organisational units that are specialised in managing individual risks and are organisationally independent of the units accepting risks, while the approval is assigned to the decision-making bodies or the Management Board. The organisational units specialised in managing individual risks report periodically on the exposure to risks and any exceeding of limits.

At the Group level, the Bank manages risks on the basis of monthly reporting provided by all Group companies. Through its representatives on supervisory boards of Group companies, the Bank regularly exercises control over individual members of the Group.

Disclosure 4: The scope and nature of internal risk reporting and risk measurement systems
(Article 10(c) of the Regulation on Disclosures by Banks and Savings Banks)

Respective risk management policies set out the methods and frequency of reporting. The scope and frequency of reporting depends on the category of risk and the recipients of reports. Persons responsible for managing and reporting of individual risks are independent of the organisational units accepting risks, which ensures the prevention of the conflicts of interest.

The reports comply with the requirements for impartial, informative and transparent reporting of individual risks. The regular reports are standardised. For compiling consolidated accounts, an automated system for collecting data has been set up at the Group level.

Disclosure 5: The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants
(Article 10(d) of the Regulation on Disclosures by Banks and Savings Banks)

The methods of risk management and control are set out for each category of risk in respective risk management policies that take into consideration specific characteristics of each category of risk. One person is in charge of each risk management policy; the responsible person shall take care that each risk management policy is harmonised with all other policies, considering the applicable legislation and best banking practice. The minimum scope of risk management policies has been determined; each policy shall include the definition of risk, the method for measuring risk and the reporting of risk, the limiting of exposure, and a clear definition of responsibilities of individual persons.

The following risk management policies are considered to be the most important for managing risks at the Group level:
- the Credit Risk Management Policy
- the Collateral Policy
- the Policy of Restructuring and Collecting Doubtful Debts
- the Liquidity Risk Management Policy
- the Policy of Managing the Banking Book Market Risks
- the Policy of Managing the Trading Book Market Risks
- the Interest Rate Risk Management Policy
- the Operational Risk Management Policy
- the Capital Risk Management Policy
- the Organisation and Staff Development Policy
- the Reputation Risk Management Policy
- the Strategic Risk Management Policy
- the Information Security Policy

Risk management policies form the basis for managing risks across the entire Group. Considering the volume of their operations, the Group companies may use their own approach in managing risks, but shall in each case receive an approval from the person in charge of the respective risk within the Bank.

Disclosure 6: Any current or foreseen practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries
(Article 11(c) of the Regulation on Disclosures by Banks and Savings Banks)

Subject to observance of regulatory requirements as regards the operations of individual Group companies, there are no legal impediments to the transfer of own funds or repayment of liabilities among the Bank and its subsidiaries.

Disclosure 7: The aggregate amount by which the own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name(s) of these subsidiaries
(Article 11(d) of the Regulation on Disclosures by Banks and Savings Banks)

All Group companies comply with minimum capital requirements as laid down in the applicable legislation. As of 31 December 2010, all Group companies exceeded the minimum regulatory capital requirements prescribed for their operations.

Disclosure 8: Key information on the terms and conditions of the main features of all own funds items and components thereof
(Article 12(a) of the Regulation on Disclosures by Banks and Savings Banks)

With regard to its characteristics, the Bank's equity is made up of three components: original own funds (Tier I), additional own funds I (Tier II) and additional own funds II (Tier III). The characteristics of each component of equity are set out in the Decision Regulating Banks' and Savings Banks' Capital Calculation (Official Gazette of the Republic of Slovenia, No. 85/10).

Original own funds include paid-up share capital, share premium, retained earnings, innovative instruments, and non-controlling interests.

Additional own funds include subordinated debt, hybrid instruments, revaluation adjustment in respect of available-for-sale financial assets, and adjustment of effect of investment property valuation. The amount of subordinated debt included in additional own funds I shall be gradually reduced by a cumulative 20% discount rate over the final five years before maturity. The following instruments were included in the calculation of the Nova KBM Group's equity as of 31 December 2010:

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ISIN code	Currency	Date of maturity	Interest rate	Nominal amount	Included in the calculation of equity
Subordinated debt					
SI0022102279	EUR	30 Sep 2011	4.70%	4,173	0
-	EUR	Call option exercisable at the end of each financial year; redemption after 4 years	variable	1,250	1,000
Innovative instruments					
-	EUR	Perpetual	6M EURIBOR + 2.70%	6,456	6,456
-	EUR	Perpetual	6M EURIBOR + 3.50%	1,890	1,890
XS0270427163	EUR	Perpetual; call option after 5 Oct 2016	3M EURIBOR + 1.60%	50,000	50,000
XS0325446903	EUR	Perpetual; call option after 12 Oct 2012	7.02%	100,000	100,000
Hybrid instruments					
SI0022103046	EUR	Perpetual; call option after 29 Dec. 2014	8.70%	26,030	26,030

Disclosure 9: Capital and capital requirements with a description of differences in the basis of consolidation for accounting and prudential purposes
(Articles 11(b), 12(b), (c), (d) and (e), 13(b), (d) and (e) and 18 of the Regulation on Disclosures by Banks and Savings Banks)

This information is disclosed in the annual report, in section 4 of the financial report. In accordance with the Regulation on the Calculation of Capital Requirements, the calculation of capital requirements for credit risk is made under the standardised approach, while the basic indicator approach is used for the calculation of capital requirements for operational risk.

The calculation of capital adequacy is based on consolidated financial statements in accordance with the Regulation on the Supervision on a Consolidated Basis.

The Bank complies with the prescribed ratios and restrictions relating to individual components of equity.

For the purpose of complying with the requirements of the Regulation on the Supervision on a Consolidated Basis, the Bank does not include Moja naložba, pokojninska družba, d.d. and Zavarovalnica Maribor d.d. in the supervision on a consolidated basis. Investments in these two associates are capital deduction items in the calculation of equity on a consolidated basis.

Disclosure 10: A summary of the bank's approach to assessing the adequacy of its internal capital to support current and planned activities
(Article 13(a) of the Regulation on Disclosures by Banks and Savings Banks)

Within the process of assessing adequate capital, the Bank has adopted a methodology for calculating available capital and adequate economic capital.

Available economic capital is the Group's own consideration of the amount of available capital. The amount of available economic capital equals the amount of regulatory available capital increased by a portion of profit for the current year.

Adequate economic capital is the Group's own consideration of the amount of capital needed for covering any unexpected risks the Group is exposed to in its operations. The amount of adequate economic capital equals the amount of minimum capital as prescribed by the regulator (pillar I), taking into account additional capital requirements.

Adequate economic capital takes separately into account the following risks:
- credit risk: in accordance with pillar I
- market risks (other than currency risk): in accordance with pillar I
- operational risk: in accordance with pillar I
- interest rate risk of the banking book: an internal methodology based on stress testing
- currency risk: an internal methodology based on value-at-risk (VaR)
- liquidity risk: an internal methodology based on the calculation of costs of substituting unexpected loss of liquidity
- capital risk: availability of raising additional capital
- reputation risk: an expert assessment
- strategic risk: an expert assessment

Target values of capital components for the Group as a whole are determined by the Bank in its annual plans. The ALCO is responsible for overseeing regulatory available and minimum capital as well as economic available and adequate capital.

Disclosure 11: A description of the methodology used to assign internal capital and credit limits for counterparty credit exposures; a description of the method that it uses for calculating the exposure value for derivatives, swaps, securities or commodities lending or borrowing transactions, margin lending transactions, and long settlement transactions
(Article 14(a) and (f) of the Regulation on Disclosures by Banks and Savings Banks)

The Nova KBM Group monitors counterparty credit exposure using the current exposure methodology pursuant to the provisions of the Regulation on the Calculation of Capital Requirements for Market Risk. The credit replacement value is the aggregate of current and potential exposure.

Repo transactions are valued as the difference between the current value of investment (nominal amount plus accrued interest) and the current value of collateral (market value of the instrument). The maximum exposure shall be within the defined limits, and additional collateral is required in case of exceeding such limits. Counterparty exposure is controlled in accordance with the Credit Risk Management Policy.

The calculation of adequate economic capital needed for the aforementioned transactions is made in accordance with an internal methodology that defines the method of calculating available and adequate economic capital. The calculation of adequate economic capital for the aforementioned transactions is made in accordance with pillar I and is the same as prescribed by the regulator for the calculation of capital requirements for credit risk.

Disclosure 12: A description of policies for securing collateral and a description of policies with respect to wrong-way risk exposures
(Article 14(b) and (c) of the Regulation on Disclosures by Banks and Savings Banks)

The Bank offers transactions in derivatives without requesting collateral only to customers with the highest credit rating; the exposure to credit risk under these transactions is included in the calculation of the total exposure. As regards other customers, the Bank offers transactions in derivatives only if adequate collateral is provided.

For repo transactions, the Bank has determined the minimum eligible quality of assets accepted as collateral.

The Bank enters into transactions that involve wrong-way risk exposure only to the extent that allows the Bank closing a position, if a customer fails to provide additional prime collateral required. The Bank controls daily counterparty credit risk on the basis of available market prices or prices calculated according to the internal methodology, the input data of which are prevailing market prices.

Disclosure 13: A description of the effects of a downgrade in the bank's credit assessment in increasing the amount of collateral to be secured by the bank
(Article 14(d) of the Regulation on Disclosures by Banks and Savings Banks)

The Bank has not entered into any transactions that would require an increase in the amount of collateral provided by the Bank in case of a downgrade in the Bank's credit rating.

Disclosure 14: The gross positive fair values of contracts, netting benefits, netted current credit exposures, collateral at the bank's disposal, and net credit exposure from derivatives
(Article 14(e) of the Regulation on Disclosures by Banks and Savings Banks)

The Nova KBM Group does not use netting contracts. The gross positive value of contracts equals net credit exposure from derivatives.

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Type of derivative	Total gross positive value of contracts or net credit exposure
Currency forwards	0
Forwards on securities	2,658
Interest rate swaps	0

Disclosure 15: The nominal value of credit derivatives used for hedging, and the distribution of current credit exposure by types of credit exposure; the nominal value of credit derivatives transactions, the value of these instruments for the bank's own portfolio and the values for clients being illustrated separately, and an indication of the types of credit derivatives further broken down as bought and sold
(Article 14(g) of the Regulation on Disclosures by Banks and Savings Banks)

The Nova KBM Group does not hold credit derivatives in its portfolios.

Disclosure 16: An estimate of α if the bank holds the Bank of Slovenia authorisation to use its own estimate of α
(Article 14(i) of the Regulation on Disclosures by Banks and Savings Banks)

The Nova KBM Group has not obtained the Bank of Slovenia authorisation to use its own estimate of α.

Disclosure 17: A definition of past due and impaired items for accounting purposes
(Article 15(a) of the Regulation on Disclosures by Banks and Savings Banks)

The Nova KBM Group treats as past due items all on- and off-balance sheet items for which a counterparty has not met its contractual obligations on time and in the agreed-upon scope.

Impaired items for accounting purposes are all items for which the Nova KBM Group has made impairment losses. Individually impaired items and collectively impaired items are accounted for separately.

Disclosure 18: A description of the methodology for making value adjustments to items and provisions
(Article 15(b) of the Regulation on Disclosures by Banks and Savings Banks)

The Group records financial assets and liabilities at amortised cost or at fair value, whilst off-balance sheet commitments are recorded at contractual value.

Amortised cost of a financial asset equals the amount of outstanding principal increased by outstanding interest and fees and decreased by corresponding impairment loss made in accordance with the Nova KBM's Methodology for Assessing Losses from Credit Risk.

Fair value of a financial asset equals its current market value. If the market price for a financial asset cannot be established, the Bank applies the fair value hierarchy in accordance with International Accounting Standards. If the market price of a financial asset is not available for one month, the fair value of such an asset is determined by applying the model that takes into consideration market prices. If the value of a financial asset cannot be determined according to this model, the acquisition cost of a financial assets is regarded as its fair value.

The Group continuously, or at least quarterly, assesses whether impartial evidence exists, or events have occurred since recognition of an asset, and whether these events have an impact on the future cash flows of a financial asset or a group of financial assets, or off-balance sheet commitments, which can be reliably assessed. Information that indicates impairment of financial assets or a possibility of loss under off-balance sheet items includes: non-fulfilment of obligations to Group companies, significant financial difficulties of a borrower, and the probability of bankruptcy, compulsory settlement or a financial reorganisation.

Individually significant financial assets or off-balance sheet items are assessed individually. The amount of impairment loss is measured as the difference between the asset's carrying value and the present value of future cash flows on liquidated collateral discounted by the contractual interest rate of the financial asset.

Individually insignificant financial assets or off-balance sheet items are assessed and impaired collectively. In accordance with the Methodology for Assessing Losses from Credit Risk, the collective impairment rates are determined for homogeneous asset groups. The calculation is based on the probability of migration of a customer in an individual credit rating group to default customers.

If the amount of impairment or provision decreases in the following period, the previously recognised impairment loss shall be reversed. The amount of reversed loss is recognised in the statement of income.

Disclosure 19: The total amount of exposures, minus impairments and provisions, without taking the effects of credit protection into consideration, and the average exposure amount in the reporting period (from quarterly data), broken down by category of exposure; the exposure values and the exposure values allowing for the effects of credit protection, broken down by credit quality step in accordance with the standardised approach regulation and the Regulation on Credit Protection, and the values of capital deduction items; for a bank that uses the standardised approach or an IRB approach to calculating credit risk capital requirements without its own estimates of LGDs (and CFs), the total exposure value (after balance sheet netting, if used) that is covered by collateral, after the application of volatility adjustments, for each category of exposure; the total exposure value (after balance sheet netting, if used) that is covered by personal guarantees or credit derivatives for each category of exposure

(Articles 15(c), 16(e) and 25(f) and (g) of the Regulation on Disclosures by Banks and Savings Banks)

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Category of exposure	ORIGINAL EXPOSURE PRE CONVERSION FACTORS	% OF EXPOSURE BY CATEGORY	NET VALUE OF EXPOSURE	CRM WITH SUBSTITUTION EFFECTS ON THE EXPOSURE				VALUE OF COLLATERAL/ NET VALUE OF EXPOSURE	NET EXPOSURE AFTER CRM SUBSTITUTION EFFECTS PRE CONVERSION FACTORS	FULLY ADJUSTED EXPOSURE VALUE	RISK WEIGHTED EXPOSURE AMOUNT	CAPITAL REQUIREMENT	SHARE OF CAPITAL
				UNFUNDED CREDIT PROTECTION		FUNDED CREDIT PROTECTION							
				GUARANTEES	CREDIT DERIVATIVES	FINANCIAL COLLATERAL: SIMPLE METHOD	OTHER FUNDED CREDIT PROTECTION						
	1	2=1/sum(1)	3	4	5	6	7	8=(sum4:7)/3	9	10	11	12	13=12/sum(12)
Central governments and central banks	624,947	8.94%	624,190	0	0	0	0	0.00%	818,565	810,697	45,346	3,628	1.00%
Regional governments and local authorities	12,880	0.18%	12,821	0	0	0	0	0.00%	12,821	12,767	6,383	511	0.14%
Administrative bodies	4,893	0.07%	4,891	3,913	0	1	0	80.02%	6,789	6,343	3,171	254	0.07%
Multilateral development banks	858	0.01%	858	0	0	0	0	0.00%	858	858	0	0	0.00%
Institutions	705,346	10.09%	704,917	42,538	0	0	0	6.03%	698,698	694,678	289,197	23,136	6.38%
Corporates	2,803,067	40.10%	2,693,078	114,967	0	28,226	0	5.32%	2,549,885	2,331,478	2,334,510	186,761	51.46%
Retail banking	1,841,175	26.34%	1,807,352	3,278	0	33,308	0	2.02%	1,770,767	1,551,416	1,163,562	93,085	25.65%
Past due items	324,199	4.64%	223,982	201	0	138	0	0.15%	223,643	222,033	290,511	23,241	6.40%
Items belonging to regulatory high-risk categories	246,037	3.52%	147,155	947	0	84	0	0.70%	146,123	143,749	169,299	13,544	3.73%
Collective investment undertakings	37,787	0.54%	37,786	0	0	0	0	0.00%	37,786	37,786	37,786	3,023	0.83%
Other exposure	388,185	5.55%	285,566	0	0	8,905	0	3.12%	276,661	276,402	196,593	15,727	4.33%
TOTAL	**6,989,375**	**100.00%**	**6,542,596**	**165,844**	**0**	**70,662**	**0**	**3.61%**	**6,542,596**	**6,088,205**	**4,536,358**	**362,909**	**100.00%**

Disclosure 20: The geographic distribution of exposures, broken down by material category of exposure, and further detailed if appropriate; for significant geographical areas the amount of past due exposures as at the end of the reporting period, and within this the amount of impaired exposures, including, if practical, the amounts of impairments and of provisions related to each geographical area

(Article 15(d) and (h) of the Regulation on Disclosures by Banks and Savings Banks)

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COUNTRY	Central governments and central banks	Regional governments and local authorities	Administrative bodies	Multilateral development banks	Institutions	Corporates	Retail banking	Past due items	Items belonging to regulatory high-risk categories	Collective investment undertakings	Other exposure	**TOTAL**
SLOVENIA	567,256	12,879	4,893	0	328,289	2,464,477	1,762,990	322,112	187,507	37,787	387,295	**6,075,487**
CROATIA	1,333	0	0	0	8,425	193,097	26,668	380	40,970	0	676	**271,549**
SERBIA	42,770	0	0	0	10,563	72,533	35,255	75	12,360	0	113	**173,669**
USA	0	0	0	0	101,388	1,463	0	0	0	0	4	**102,855**
AUSTRIA	1,000	0	0	0	52,970	36,462	5,868	620	62	0	73	**97,054**
ITALY	0	0	0	0	27,637	6,062	2,033	560	4,058	0	12	**40,361**
FRANCE	5,277	0	0	0	33,189	1,689	131	0	0	0	0	**40,295**
GERMANY	3,2170	0	0	0	32,463	1,333	1,181	0	2	0	3	**38,199**
SPAIN	0	0	0	0	28,248	0	47	0	0	0	1	**28,297**
GREAT BRITAIN	0	0	0	0	21,450	0	11	0	0	0	0	**21,461**
AUSTRALIA	0	0	0	0	15,196	0	0	0	0	0	0	**15,196**
SWITZERLAND	0	0	0	0	13,886	0	21	0	0	0	0	**13,907**
DENMARK	0	0	0	0	11,014	0	399	0	140	0	0	**11,553**
THE NETHERLANDS	0	0	0	0	5,747	4,719	250	0	0	0	0	**10,715**
BOSNIA AND HERZEGOVINA	0	0	0	0	0	8,022	49	0	70	0	0	**8,141**
MONTENEGRO	0	0	0	0	0	5,000	2,338	44	0	0	0	**7,382**
PORTUGAL	0	0	0	0	7,359	0	0	0	0	0	0	**7,359**
HUNGARY	0	0	0	0	0	5,994	83	9	0	0	0	**6,086**
BELGIUM	0		0	0	5,000	0	150	0	48	0	0	**5,207**
THE SLOVAK REPUBLIC	0	0	0	0	0	2,215	37	23	0	0	0	**2,276**
REPUBLIC OF MACEDONIA	2,000	0	0	0	0	0	72	93	0	0	0	**2,165**
ROMANIA	2,094	0	0	0	0	0	30	0	0	0	0	**2,124**
LATVIA	0	0	0	0	682	0	1,000	0	148	0	0	**1,830**
CYPRUS	0	0	0	0	0	0	402	0	671	0	0	**1,073**
Other	0	0	0	858	1,832	0	2,161	283	0	0	0	**5,133**
TOTAL	**624,947**	**12,880**	**4,893**	**858**	**705,346**	**2,803,067**	**1,841,175**	**324,199**	**246,037**	**37,787**	**388,185**	**6,989,375**

Disclosure 21: The distribution of exposures by institutional sector or counterparty type, broken down by category of exposure, and further detailed if appropriate
(Article 15(e) of the Regulation on Disclosures by Banks and Savings Banks)

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CATEGORY	CENTRAL GOVERNMENT	REGIONAL GOVERNMENT	PUBLIC SECTOR	INSTITUTIONS	CORPORATE CUSTOMERS	INDIVIDUAL CUSTOMERS AND SOLE PROPRIETORS	FUNDS	OTHER	**TOTAL**
Central governments and central banks	624,947	0	0	0	0	0	0	0	**624,947**
Regional governments and local authorities	0	12,880	0	0	0	0	0	0	**12,880**
Administrative bodies	0		4,893	0	0	0	0	0	**4,893**
Multilateral development banks	0	0	0	858	0	0	0	0	**858**
Institutions	0	0	0	702,097	3,249	0	0	0	**705,346**
Corporates	0	0	0	0	2,744,633	58,434	0	0	**2,803,067**
Retail banking	11	0	1,131	1,000	501,832	1,337,201	0	0	**1,841,175**
Past due items	0	185	1	0	273,890	50,123	0	0	**324,199**
Items belonging to regulatory high-risk categories	0	0	37	2,105	242,018	1,877	0	0	**246,037**
Collective investment undertakings	0	0	0	0	0	0	37,787	0	**37,787**
Other exposure	0	0	0	270,423	88,983	12	0	28,767	**388,185**
TOTAL	**624,958**	**13,065**	**6,062**	**976,483**	**3,854,605**	**1,447,647**	**37,787**	**28,767**	**6,989,375**

Disclosure 22: A breakdown of all categories of exposure into residual maturities of up to one year and more than one year, and further detailed if appropriate
(Article 15(f) of the Regulation on Disclosures by Banks and Savings Banks)

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CATEGORY OF EXPOSURE	Residual maturity	Amount of exposure
Central governments and central banks	non-current	168,288
	current	456,659
Regional governments and local authorities	non-current	10,487
	current	2,393
Administrative bodies	non-current	4,164
	current	729
Multilateral development banks	non-current	0
	current	858
Institutions	non-current	50,265
	current	655,081
Corporates	non-current	1,350,216
	current	1,452,851
Retail banking	non-current	1,178,471
	current	662,704
Past due items	non-current	157,515
	current	166,684
Items belonging to regulatory high-risk categories	non-current	76,777
	current	169,260
Collective investment undertakings	non-current	0
	current	37,787
Other exposure	non-current	930
	current	387,255
TOTAL		**6,989,375**

Disclosure 23: For significant institutional sectors or counterparty types as at the end of the reporting period: the amount of past due exposures, and within this the amount of impaired exposures (net amounts); the amount of value adjustments due to impairments and provisions; the amount of eliminated/formed value adjustments due to impairments and provisions during the reporting period
(Article 15(g) of the Regulation on Disclosures by Banks and Savings Banks)

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	31 Dec 2009		31 Dec 2010	
Category	**Opening balance Past due exposures**	**Impairment**	**Closing balance Past due exposures**	**Impairment**
Retail banking	60,866	31,190	50,123	24,208
Institutions	816	31	0	0
Corporates	192,534	53,688	273,890	75,985
Regional governments and administrative bodies	1	0	186	24
TOTAL	**254,217**	**84,909**	**324,199**	**100,217**

Disclosure 24: For impaired exposures an illustration of the changes in value adjustments and an illustration of the changes in provisions, these comprising:
- a description of the value adjustments and provisions by type of asset
- the opening balance of the value adjustments and provisions as at the beginning of the year
- the increase in the reporting period
- the decrease in the reporting period
- the closing balance of the value adjustments and provisions as at the end of the reporting period
(Article 15(i) of the Regulation on Disclosures by Banks and Savings Banks)

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Category of exposure	Impairment losses and provisions at the beginning of the period	Impairment losses and provisions at the end of the period	Increase/decrease in the reporting period
On-balance sheet items	280,612	435,300	154,689
Off-balance sheet items	9,117	11,478	2,361
TOTAL	**289,728**	**446,778**	**157,050**

Disclosure 25: The business names of the nominated external credit assessment institutions (hereinafter: ECAI) or export credit agencies (hereinafter: ECA), and the reasons for any replacements; an indication of the ECAI or ECA whose credit assessments are used for a particular category of exposure; a general description of the process for determining the risk weights for individual exposures on the basis of the credit assessments available for the obligor and its financial instruments
(Article 16(a), (b), (c) and (d) of the Regulation on Disclosures by Banks and Savings Banks)

The Group calculates capital requirements for credit risk using the standardised approach. As a reference export credit agency for the category ‘exposure to central governments and central banks’, the Bank nominated SID Bank Inc., Ljubljana. As a reference external credit assessment institution for the category ‘exposure to institutions, including exposure to institutions with a short-term rating’, the Bank nominated the rating agency Moody’s.

The Bank of Slovenia considers SID Bank Inc. as an appropriate export credit agency and Moody’s as an appropriate external credit assessment institution. The Bank Slovenia publishes publicly a comparison of ratings used by SID Bank Inc. and Moody’s.

The process of determining weights for individual categories of exposure on the basis of available ratings of a debtor and its financial instruments is made in compliance with the Regulation on the Calculation of Capital Requirements for Credit Risk under the Standardised Approach. For categories of exposure for which the external credit assessment institution has been nominated, the determination of weights is based on ratings of financial instruments. If the rating of a financial instrument is not available, the long-term rating of a debtor or of a comparable financial instrument of a debtor is used. In case these ratings are not available, the sovereign rating of the country in which the debtor is located is used.

For categories of exposure for which the external credit assessment institution has not been nominated, the determination of weights is made according to the applicable legislation, meaning that weights are determined on the basis of a rating assigned to the country in which the debtor is located, or on the basis of specific rules applicable to each category of exposure.

Disclosure 26: Operational risk – the approach to operational risk
(Article 20(a) of the Regulation on Disclosures by Banks and Savings Banks)

In 2010, the Group monitored operational risk and calculated capital requirements for operational risk in accordance with the basic indicator approach.

Disclosure 27: Investments in equities not included in trading book
(Article 21 of the Regulation on Disclosures by Banks and Savings Banks)

With regard to the investment purpose, the Nova KBM Group's portfolio of equity instruments is divided into the following three sub-portfolios:
- investments needed for regular operations of the Group (Bankart, S.W.I.F.T.)
- investments in equities and funds for which the Group, as an investor, has adopted appropriate exit strategies in accordance with the financial objectives
- temporary investments in equities resulting from the liquidation of collateral, which the Group intends to sell within a short period of time.

All of the investments listed above are kept in the available-for-sale portfolio and measured at fair value through equity, taking into account capital requirements for credit risk. The market price of an instrument, if available, is disclosed in the accounts. If the market price of an instrument is not available, a team of valuation experts determines the value of investment on the basis of an internal methodology.

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Type of investment	Investment amount as of 31 Dec 2010
Investments needed for regular operations of the Group	460
Investments in equities and funds with an exit strategy	68,290
Temporary investments in equities resulting from the liquidation of collateral	15,042
Total	**83,792**

The aggregate investment in associated companies (Zavarovalnica Maribor d.d. and Moja naložba d.d.) amounts to €24,729 thousand.

Pursuant to the applicable legislation, the Group deducts from the share capital the entire unrealised loss on equities of the banking book, which amounted to €4,578 thousand as of 31 December 2010. In accordance with the legislation, the Group includes 80% of unrealised gains on equities of the banking book in the calculation of additional capital, which amounted to €2,126 thousand as of 31 December 2010.

In 2010, the Nova KBM Group realised a gain of €18 thousand from the sale of equities of the banking booking.

Disclosure 28: The nature of the interest-rate risk and the key assumptions (including assumptions about the early repayment of loans and the movement of sight deposits), and the frequency of the measurement of interest-rate risk; the effect on earnings or any other measurement of value used in the management of interest-rate risk in the event of upward or downward shocks in interest rates on major currencies
(Article 22(a) and (b) of the Regulation on Disclosures by Banks and Savings Banks)

Interest rate risk management is described in detail in the annual report, in section 4 of the financial report.

Disclosure 29: Liquidity risk
(Article 23(a) of the Regulation on Disclosures by Banks and Savings Banks)

Liquidity risk is the risk of loss resulting from the Bank's inability to meet all of its payment obligations. The Group companies monitor daily liquidity in accordance with regulatory requirements and methodologies that reflect their activities and the volume of operations. The Group manages liquidity risk in accordance with the Policy of Managing Liquidity Risk in the Nova KBM Group. The policy sets out the procedures and methodologies for identifying, measuring, managing and monitoring liquidity risk.

The Group measures liquidity risk using the liquidity gap method, and by analyzing and calculating liquidity ratios, the liquidity position as well as other elements of liquidity risk. A system of limits has been set up with the aim of controlling the exposure to liquidity risk.

Liquidity risk management, including the carrying out of stress testing, is further detailed in the annual report, in section 4 of the financial report.

Disclosure 30: The policies and processes for using balance-sheet netting, and the extent of use of this type of protection
(Article 25(a) of the Regulation on Disclosures by Banks and Savings Banks)

The Group does not use balance-sheet netting as an instrument of credit protection.

Disclosure 31: The policies and processes for collateral valuation and management
(Article 25(b) of the Regulation on Disclosures by Banks and Savings Banks)

The Collateral Policy of the Nova KBM Group sets out the key aspects in respect of accepting, continuously valuing, and verifying the enforcement of collateral.

The principal aim of the Collateral Policy is to reduce the Bank’s exposure to credit risk. Collateral provided for investments represents a secondary source for the repayment of contractual obligations; it is liquidated in case a borrower, for whatever reason, ceases to settle its obligations, or in case of a change in circumstances that prevailed at the time of approving the investment.

Upon entering into any transaction, the Group obtains appropriate documentation for each type of collateral, which ensures adequate legal protection in case the secondary repayment source needs to be realised. For each type of collateral, the frequency and the method of valuation has been determined. During a contractual relationship, the Bank regularly controls the coverage of investment with collateral, and, where appropriate, requests additional collateral to be provided in case of a drop in the value of collateral.

The Bank methodically collects for the entire Group the data regarding the success rate in enforcing individual types of collateral. The results of analysis of the data collected are of key importance when accepting individual types of collateral.

Disclosure 32: A description of the main types of collateral taken by the bank
(Article 25(c) of the Regulation on Disclosures by Banks and Savings Banks)

In accordance with the Collateral Policy, the following classification of collateral has been adopted:

- prime collateral
- adequate collateral
- pledging of real estate
- pledging of moveable property

- other types of collateral.

Prime collateral is collateral that can be liquidated within a 30-day period, such as:
- bank deposits
- securities issued by the Republic of Slovenia, the Bank of Slovenia and governments and central banks of A-zone countries
- irrevocable guarantees at first request issued by banks that have obtained the authorisation of the Bank of Slovenia for banking operations, or issued by prime banks of the Member States and other prime foreign banks
- prime senior debt securities that are issued by banks and traded on financial markets
- irrevocable guarantees of the Republic of Slovenia.

Adequate collateral:
- an independent guarantee issued by the company of a good financial standing that meets the criteria for being classified in the A credit rating group and that provides sufficient cash flows for the settlement of obligations
- a guarantee of a private individual who demonstrates appropriate creditworthiness
- insurance with insurance companies
- pledging of life insurance policies
- liquid securities that can be sold on the active market of a regulated stock exchange.

Disclosure 33: The major types of personal guarantor and counterparties in credit derivatives transactions, and their creditworthiness
(Article 25(d) of the Regulation on Disclosures by Banks and Savings Banks)

Personal guarantors	% of total
- state guarantees	30.5%
- guarantees by corporate customers	51.4%
- guarantees by private individuals	17.1%
- bank guarantees	1.0%
Total	**100.0%**

The Nova KBM Group does not enter into credit derivatives transactions.

Disclosure 34: Information about market or credit risk concentrations within the credit protection taken (by type of protection)
(Article 25(e) of the Regulation on Disclosures by Banks and Savings Banks)

In accordance with its policies, the Nova KBM Group grants loans and advances for which the primary source of repayment is the expected cash flow; collateral provided represents a secondary source of repayment and is utilised to a lesser extent.

In monitoring large exposures, the Nova KBM Group controls the concentration of credit risk resulting from personal guarantees taken as collateral.

The Nova KBM Group monitors the concentration of market risks within the credit protection from the point of view of liquidity of securities obtained. With the support of the specialist services, the Group assesses the liquidity of securities taken as protection on the basis of regular turnover in securities and the amount of securities received. In the same way, it also assesses value adjustments to be made as a result of reduced liquidity.

Nova Kreditna banka Maribor d.d.
Maribor, 20 April 2011