TERMS OF REFERENCE TO CONDUCT DUE DILIGENCE OF ASSETS AND LIABILITIES OF Nova KBM d.d. and Nova KBM GROUP

1. Objectives of Assignment

The main objectives of the assignment are to conduct a comprehensive due diligence and valuation of the assets and liabilities of Nova KBM Group in order to assist management and potential investors to assess the Group's potential capital requirements. The Consultant should review the valuation of all material assets and liabilities on the balance sheet (taking account of contingent liabilities) and in particular should undertake the following tasks:

(a) conduct a comprehensive review of the bank's loan portfolio based on the methodologies explained in the "2. Scope of Services and Methodology";

(b) assess the bank's loan portfolio quality (with particular focus on the corporate segment) and deliver forward-looking estimates as to further deterioration of the loan portfolio under the baseline as well as the stress scenario as provided by the Bank of Slovenia (which is in line with EBA) for the following two years;

(c) analyse the non-performing loan (NPL) recognition policy, and the adequacy of loan loss reserves (provisions) levels as per IFRS, and based on the analysis of the due diligence estimate the fair NPL level as well as shortfall in the provisions and its impact on the bank's capital (IFRS);

(d) estimate the expected impairment expense in 2012 – 2013 and impact on the bank's capital (IFRS);

(e) assess the fair value of the equity and debt instruments (whether held as available for sale, held to maturity or in other assets), investments in material subsidiaries and affiliates, and investment property and identify any additional provisions required and their impact on the bank's capital (IFRS);

(f) review and estimate the potential losses / gains from off-balance sheet exposures;

(g) outline key weaknesses identified in the bank's impairment and or valuation policy as well as weaknesses in the practical application of such policy identified during the loan file review;

(h) identify key weaknesses in the bank's proceedings of approving/granting loans and establishment of securities

(i) review the valuation of all borrowings, debt securities, derivatives and other liabilities and consider whether additional provisions should be made for contingent or other liabilities.

(j) Based on due diligence determine and present in details the adjustments to be done on the current book value of Nova KBM's capital;

2. Scope of Services and Methodology

Analysis of Loan Portfolio, Securities, Investment Property and Off-B/S Exposure of both core Nova KBM Bank and Group entities

In order to achieve the objectives of the assignment related to the loan portfolio analysis the Consultant is required to:

(a) Review the existing loan portfolio (including syndicated loans and sub-participations in loans fronted by another bank) for amounts over EUR 100,000 and segment it by:

   i. business/ product following the bank's own internal classification (e.g. retail: incl. mortgage, car loans, etc. and corporate: incl. small, medium, large);

   ii. current loans (serviced at original terms), restructured performing loans, and non-performing loans (including: i) due to be restructured, ii) in liquidation and foreclosure, iii) to be fully written off/no collection expected.

(b) Analyze loan portfolio by economic sectors, size, currency, collateral structure and maturities.

(c) Review and assess the quality of the top 75% (90%, see note after point (d)) of the largest corporate group exposures (each exposure includes all outstanding loans to all companies, which relate to one group), including repayment history and future repayment capacity, completeness of credit files, monitoring quality/frequency, adequacy, quality and fair value of collateral (including whether or not the collaterals are validly established, perfect and enforceable), as well as any need for additional impairment reserves required under IFRS (IAS #39) allocated against such exposures.

(d) Review and assess the lower of (i) 30 largest corporate group exposures overdue by more than 90 days (outside of top 75% (90%, see note after this point) corporate exposures mentioned in p. (c) above), which are less than 90% provisioned (i.e. the outstanding balance sheet value, net of provisions, will amount to at least 10% of the amount due) and (ii) 90% of the gross outstanding amount as of 31 December 2011 in this category. Such review to include a review of the loan files with a focus on the bank's compliance with internal provisioning policies, borrower's repayment capacity, monitoring quality/frequency, quality and current market value of collateral (including whether or not the collaterals are validly established, perfect and enforceable), as well as the adequacy of the reserves required under IFRS allocated against such exposures.

   Note for (c) and (d): It is expected that the sample to be reviewed under (c) and (d) above should be no less than 75% of the corporate loan book in Scenario A and 90% of the corporate loan book in Scenario B .

(e) Perform legal due diligence of a sample of the loan documentation (including security documents).

(f) Perform due diligence procedures for each class (e.g.: mortgage, car, etc) of retail loan product to assess and report on the adequacy of impairment reserves under IFRS as well as vintage analysis (quarterly origination) of overdue>90 days in the last 2 years. Review adequacy and prudence of loan current and past underwriting policies and procedures for ach main loan product. Undertake a detailed loan file review of 20 randomly selected mortgage loan files (including local currency and foreign currency loans in the sample) and 10 randomly selected loans for each other main category of the retail loan product to assess the completeness of credit files and monitoring quality/frequency as well as the need for further impairment provision to be used as basis to extrapolate results for the whole retail loan book.

Review and assess in detail a sample of not less than 20 of loans/credit exposures to SME borrowers and private enterprises, assessing the credit underwriting criteria applied, adequacy of legal documentation, collateral taken, repayment capacity of the borrower, adequacy of provisioning and portfolio monitoring.

(g) Provide a summary of the techniques and approaches used to restructure loans (observed and tested as part of the loan portfolio review) and identify potential credit risk (if any) in the overall re-structuring process, highlighting the quality and depth of internal analysis made to assess repayment capacity of the borrowers post-restructuring

(h) Provide a summary and an estimate or a range of estimates of total additional impairment reserves required under IFRS on a total portfolio basis, using extrapolation where necessary, to arrive at 1) a portfolio-wide impairment amount and 2) total estimated impact on the bank's capital under IFRS on the basis of (i) stress scenario which will be provided to the advisor by the Bank of Slovenia (which is in line with EBA), (ii) base, (iii) and optimistic scenarios; where necessary substantiating assumptions. Present the details of the extrapolation performed on a loan type basis (i.e corporate, retail etc).

(i) Using the three scenarios above provide an estimate of loan loss provision charge (i.e. impairment expense) in 2012-2013 and its impact on the bank's capital. This estimate will relate only to the existing loan portfolio and will not include effect of the new business (constant balance sheet assumption).

(j) Review the debt and equity securities (apart from government bonds).

(k) Review the valuation of the bank's material loans to and investments in its subsidiaries and affiliates; and assess the need for additional impairments required under the IFRS and taking in consideration regulation imposed by Bank of Slovenia.

(l) Review all material borrowings, debt securities, derivatives and other liabilities and assess adequacy of their valuation in the balance sheet taking account of foreign exchange, derivatives and market values.

(m) Provide a summary and estimate the potential losses / gains from off-balance sheet exposures.

The work should be performed in accordance with the generally accepted practice and internal policies of the Consultant as to due diligence services. The engagement is not an audit based on International Standards of Auditing.

3. Deliverables & Timing

As the main deliverable of this assignment the Consultant will produce a full version of the report under both above mentioned Scenarios by July 31, 2012.

The report will:

- contain an Executive Summary incorporating the Consultant's key conclusions;
- address all areas as referred to under Scope and Methodology;
- be comprehensive, precise and accurate, presenting the Consultant's findings, analysis and conclusions in a clear and concise way; and
- where appropriate, include detailed information in appendices (to include inter alia the samples of loans reviewed and a one page summary of each of the top-70 corporate exposures, top-30 NPLs, and retail loans) and as far as possible identify the source of each piece of important information.

The Consultant is to deliver 2 copies of the final report in hard copies and an electronic copy to Nova KBM d.d. The report shall be done in English.

Please note that Nova KBM d.d. may share the report to existing controlling shareholders as well as to potential new investors

4. Consultants profile

The Consultant shall be a team of individuals proposed by an international reputable firm. At least 6 experts should be working on the assignment for 4 weeks. Fluency in English is a requirement, knowledge of local language a bonus. Key experts are expected to be:

- One Team Leader (an international expert) for the due diligence component with significant professional experience in managing similar assignments;
- At least senior experts with relevant qualifications and significant (at least 5 years) professional experience related to portfolio analysis and loan file review and asset valuations;
    - Of which at least 1 senior expert with adequate knowledge of Slovenian financial, accounting and other applicable rules and procedures;
- At least 3 junior experts with relevant qualifications and experience (at least 3 years) related to portfolio analysis and loan file review and relevant credit and accounting skills.