from bad to good

# BAMC HALF-YEAR REPORT 2017

SEPTEMBER 2017

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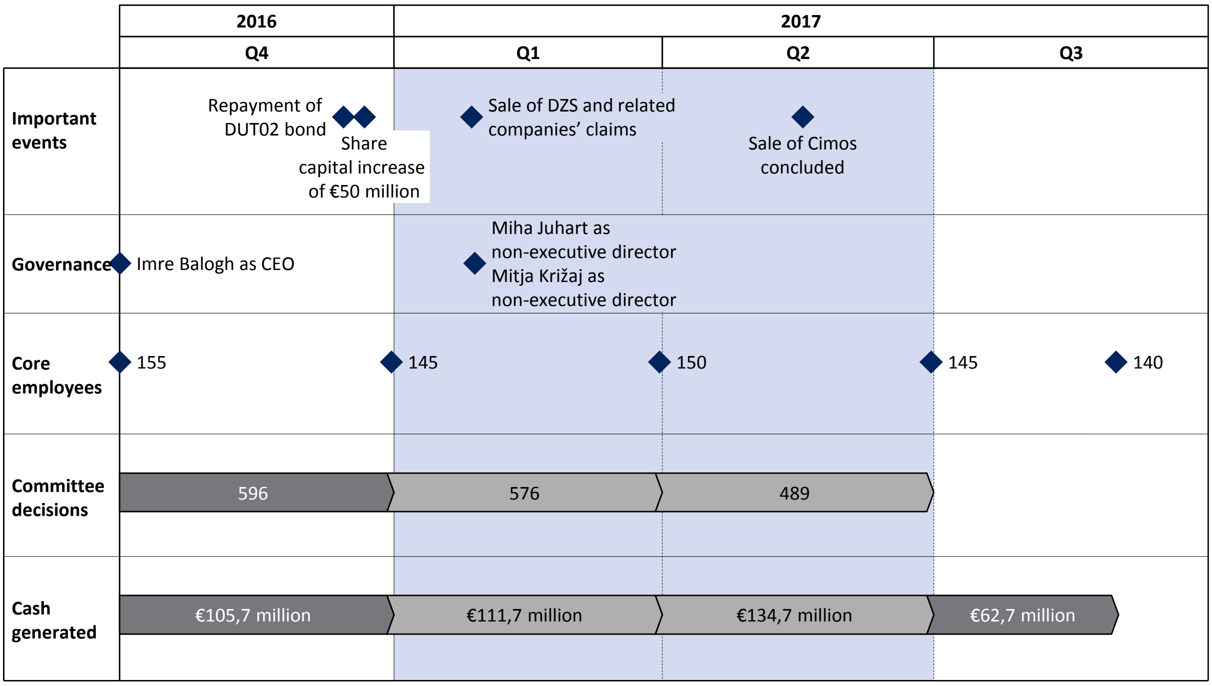
# Highlights and summary of the first half of 2017

H1 2017 has been a half-year of full-speed work and outstanding performance for BAMC in terms of closed transactions, real estate sales and overall cash generation. In addition to that financing costs dropped significantly. Furthermore, positive effects related to post-merger optimisation and the absence of major extraordinary costs coupled with regular cost control also contributed to an excellent half-year result, a profit of €17,1 million.

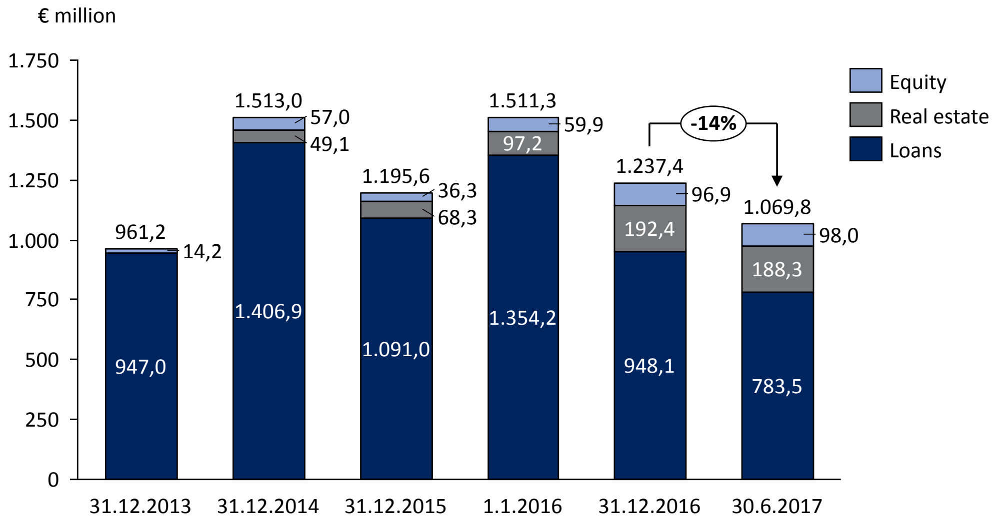
Figure 1: BAMC's overview of H1 2017




**Note:** Core employees headcount displayed in the figure relate to staff not employed in temporary projects.

Following successful liquidation of assets, mainly loans, assets under management reduced by 14% in H1 2017. Sizeable real estate sales, most notably in Celovški dvori and Nokturno, but also of other types and locations, were partly outweighed by new debt-to-real estate repossessions as BAMC is offering and is going to offer additional units, land plots and other real property opportunities to the market.

Figure 2: Assets under management




**Note:** 1 January 2016 displays the fair value of the portfolio at the merger of Factor banka and Probanka into BAMC. Since the merger BAMC also manages a minor leasing portfolio which is presented together with "Loans".

Given no additional owner-induced transactions which would affect BAMC's equity, the average yearly EROE (economic return on equity, calculated as the value of equity at 30 June 2017 over invested capital with corrections due to decisions of the owner) stood at 14,3%, well above the return required in the Guidelines.

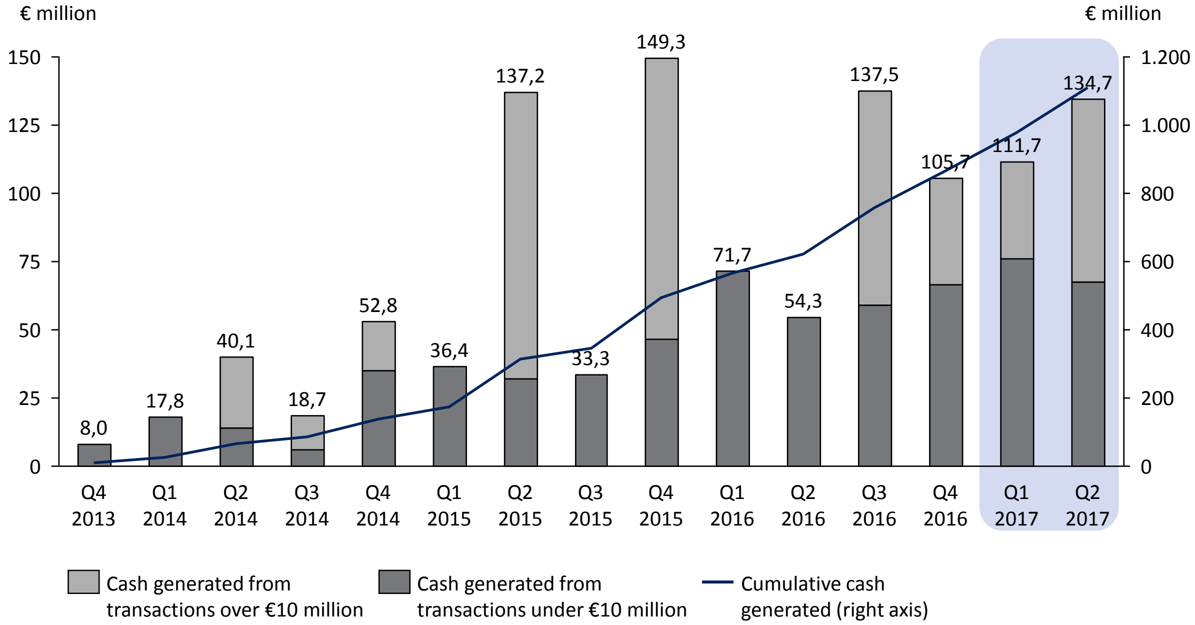
Table 1: Corrections to initially invested capital since inception

| in € million | **Effect on BAMC equity** |
|---|---|
| **Capital invested by the Republic of Slovenia in 2013** | **203,6** |
| **Cumulative capital returned to the owner in the 2013 – H1 2017 period** | **-196,2** |
| Transfers of non-performing assets from NLB, NKBM, Abanka and Banka Celje in years 2013 and 2014 | -110,1 |
| Other transactions based on General Meeting decisions (in years 2014 and 2015) | -5,4 |
| Merger of Factor banka and Probanka into BAMC in the beginning of 2016 | -79,4 |
| Merger of five subsidiaries of Factor banka and Probanka in H1 2016 | -1,4 |
| **De facto invested capital by mid-year 2017** | **7,4** |
| **Recapitalisations** | **53,1** |
| Recapitalisation in May 2016 (booked in July 2016) | *3,1 |
| Recapitalisation in December 2016 | 50,0 |
| **Invested capital with corrections (returns to the owner and recapitalisations) by mid-year 2017** | **60,5** |

**Note:** The recapitalisation was made in the nominal amount of €4,6 million but also induced BAMC a €1,5 million day-one loss.

Since inception until mid-year 2017 BAMC generated €1.109,2 million of inflows, representing 54,8% of assets transferred to BAMC in the course of measures to strengthen bank stability and the merger of Factor banka and Probanka. Already in H1 2017 BAMC exceed the statutory yearly target of cash generation from transferred and merged assets. Through active asset management €246,4 million of inflows were generated, representing 12,2% of cumulative asset transfer value.[1] Both smaller and larger transactions contributed an important part to this exceptional result.

FIGURE 3: CASH GENERATED BY QUARTERS

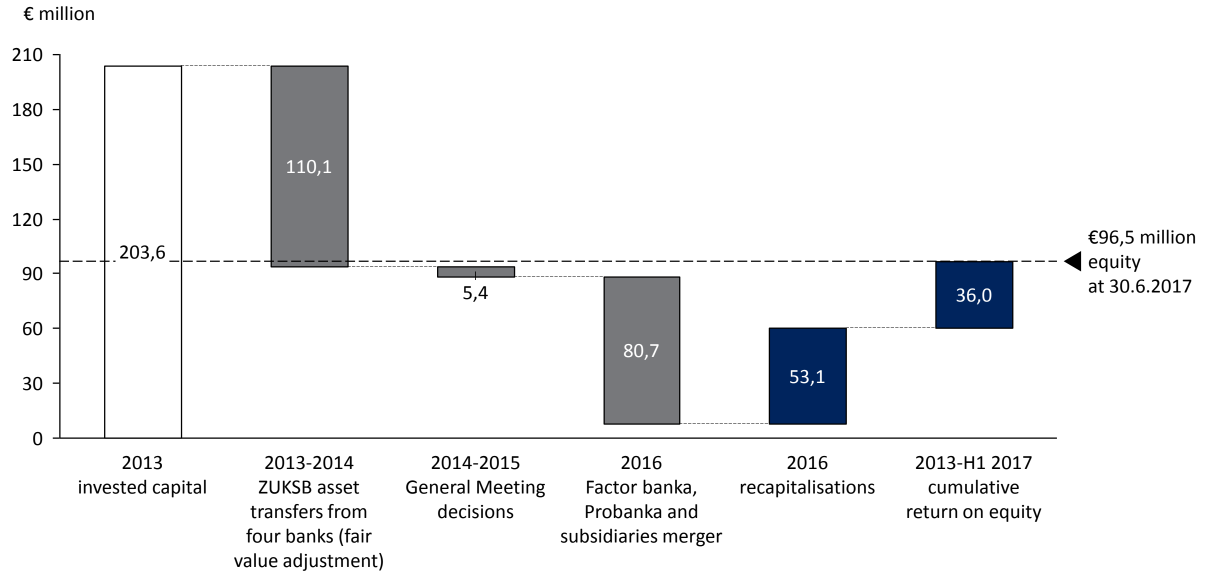



I these were liabilities guaranteed for by the Republic of Slovenia this has an important effect on reducing the contingent debt exposure of the state.

Large positive result from the revaluation of the loan portfolio, together with more than halved financing costs and lower operating costs, also due to insourcing of accounting, advisory and legal services, compared to the previous period were the main drivers for the €17,1 million profit at half-year bringing BAMC's equity to €96,5 million as at 30 June 2017.

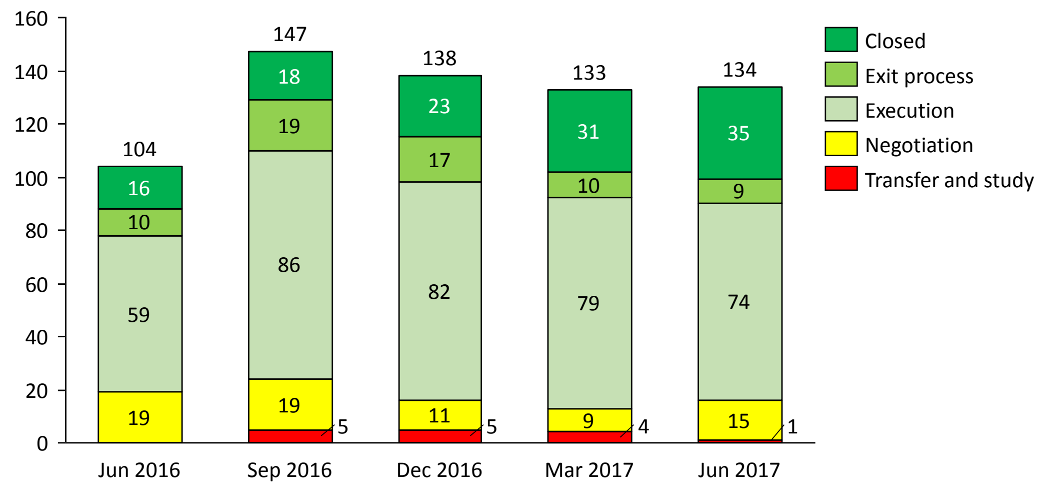
[1] Cash generated data presented here and elsewhere in the document is retrieved through "pure cash flow" principle which differs from accounting recognition of events in both timing and scope. Not all inflows may count as cash generated for the calculation of the statutory KPI.

Figure 4: Equity effects since inception




Further progress has also been made in restructurings with notably more closed cases than six months ago.

Figure 5: Progress in restructurings




**Note:** Case progress is estimated monthly by case managers. The number of cases in restructuring or recovery may vary due to changed circumstances in case management or a change in BAMC strategy pursued towards a specific debtor.
Progress in additional cases acquired with the merger of Factor banka and Probanka into BAMC is tracked after the reorganisation, i.e., since July 2016.
This metric differs in purpose and methodology form the more conservative restructuring/recovery classification used for valuation purposes and therefore cannot be compared to data presented in Figure 9 and the financial part of the Half-year report.

# Presentation of BAMC

Table 2: Basic company data on 22 September 2017

| | |
|---|---|
| Full company name | Družba za upravljanje terjatev bank, d.d.<br>Bank Assets Management Company |
| Short company name | DUTB, d.d.<br>BAMC |
| Registered office | Davčna ulica 1, 1000 Ljubljana |
| Telephone | +386 8 2054 235 |
| Fax | +386 1 4293 859 |
| E-mail | info@dutb.eu |
| Website | www.dutb.eu |
| Core business | Activities of collection agencies and credit bureaus |
| Registration entry | 2013/11708, District Court of Ljubljana |
| Company ID number | 6339620000 |
| Tax number | 41251482 |
| VAT number | SI41251482 |
| Share capital | €104.117.500,00 |
| Number of shares | 104.117.500 ordinary no-par value shares |
| Owner of shares | Republic of Slovenia |

| Board of Directors of BAMC | | Term ending on |
|---|---|---|
| Non-executive directors as at 22 September 2017 | Miha Juhart, Chairman of the Board | 27 January 2022 |
| | Janez Širovnik, Deputy Chairman of the Board | 31 December 2017 |
| | Juan Barba Silvela | 28 March 2021 |
| | Mitja Križaj | 27 January 2022 |
| Executive directors as at 22 September 2017 | Imre Balogh, CEO | 30 September 2021 |
| | Janez Škrubej, CAM | 31 December 2017 |
| | Aleš Koršič, CAO | 31 December 2017 |

**Note:** On 5 January 2017 the Government, acting in the capacity of the BAMC General Meeting, appointed Miha Juhart and Mitja Križaj as non-executive directors for the period of five years with their mandate beginning on 28 January 2017.
Due to his resignation from the function the term of former non-executive director Marko Simoneti ended on 27 January 2017.

## Corporate governance and decision-making

BAMC has a one-tier system of corporate governance, where the highest decision-making body is the Board. Following the provisions of ZUKSB and the Articles of Association, the Board comprises four non-executive directors and three executive directors. The Board has four committees: the Audit Committee, the Accreditation Committee, the Remuneration Committee and the Board Credit and Investment Committee. For the Audit, Remuneration and Accreditation committees, the committee members comprise of non-executive directors and one external member with the relevant professional experience in Slovenia. The Board and its committees function in accordance with the relevant rules of procedure.

BAMC has an internal audit function that reports directly to the Audit Committee of BAMC. In addition, Risk and Compliance Management Committee is supporting the work of the executive directors and this committee's reports are a standing item in each of BAMC's Board meetings. Moreover, the compliance and corporate security function also report to the Board, ensuring independent oversight of the activities of BAMC over all operative levels.

The Board established the Executive Credit and Investment Committee and the Operative Credit and Investment Committee to decide on assets owned or managed by BAMC. The Board also established the Board Credit and Investment Committee in respect to just give consent to the decisions/proposals of Executive Credit and Investment Committee if necessary.

Limits between different types of credit and investment committees are clearly established, and participants at the specific levels of committees are clearly defined. Operational Credit and Investment Committee now takes more operational decisions for cases with higher exposures and most of the decisions for cases with smaller exposures, while executive level committee still controls all high impact decisions related to larger exposures. Committee membership and voting is designed in a way to fully exclude any potential conflict of interest.

The decision-making system has been renewed with a full four-eye principle which allowed operational heads to fully cover the operational decisions for minor exposures. While executive directors adopt decisions with greater impact for BAMC, strategic guidelines for managing assets are still set by the Board entirely. Decisions regarding granting additional loans (provided with ZUKSB) is also one of the objectives of detailed review by legal and financial analysis departments, separated from credit management.

With such decision-making committee structures responsibilities are clear with more responsibility delegated to operative level while even strengthening the depth of decision-making and control on high volume/high impact cases on the executive level.

## Organisation

The organisational structure set up in the previous year allows BAMC to manage assets in the most efficient and effective way, including horizontal controls built into the processes by a clear segregation of duties between case/real estate/equity management, financial analysis and valuation verification, mid-office and legal support. Corporate defence lines are provided by functions of internal audit, compliance and anti-money laundering and corporate security, all reporting to the Board.

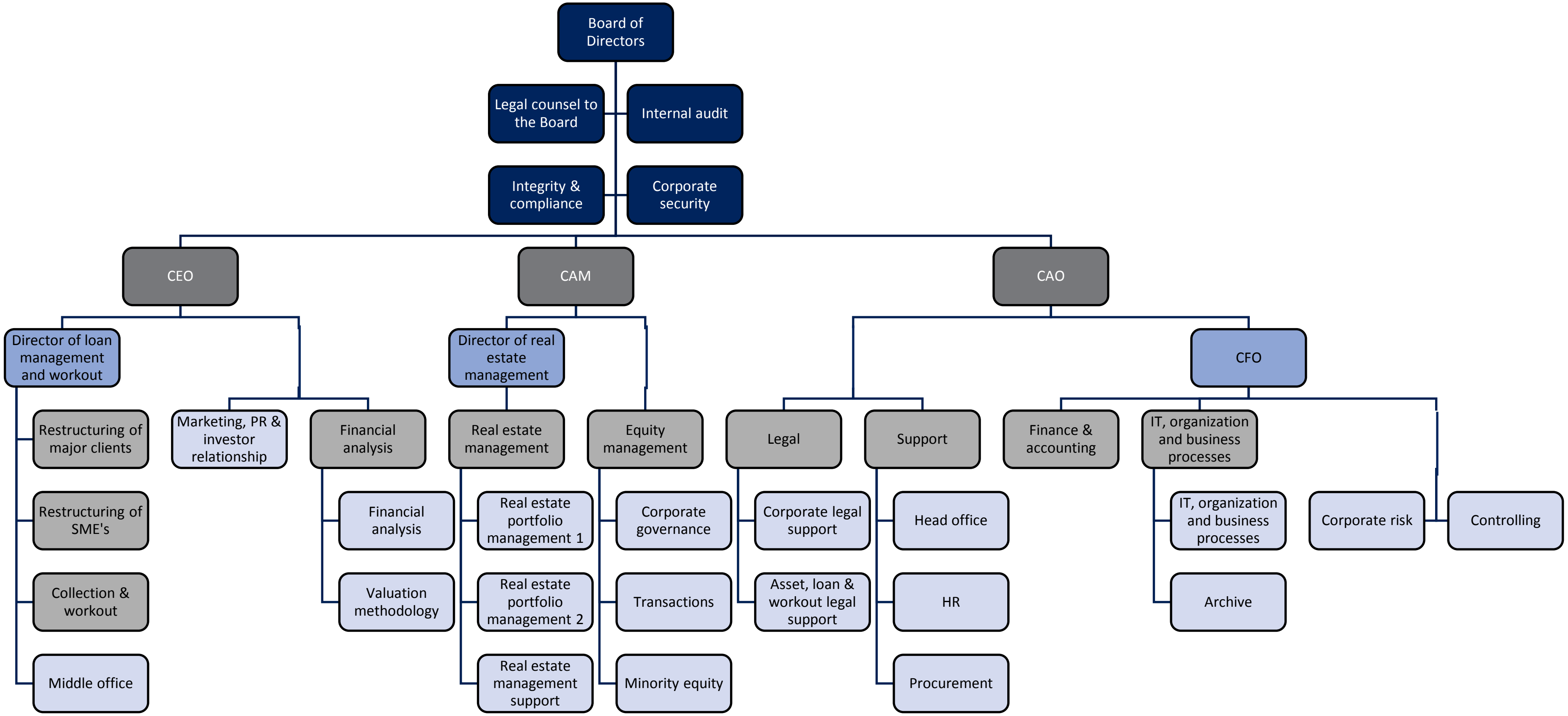
BAMC's total headcount decreased by 5% (8 employees) in H1 2017, while core headcount remained at the end-of-year 2016 level.

Table 3: Headcount by working area

| Organizational unit | Total employees | | Core employees | |
|---|---|---|---|---|
| | 30 Jun 2017 | 31 Dec 2016 | 30 Jun 2017 | 31 Dec 2016 |
| Credit management | 40 | 48 | 39 | 39 |
| Asset management | 34 | 35 | 31 | 32 |
| Analysis and legal support | 25 | 21 | 24 | 21 |
| General support and other | 44 | 40 | 42 | 40 |
| Top management | 6 | 6 | 6 | 6 |
| Unassigned | 5 | 12 | 3 | 7 |
| **Total** | **154** | **162** | **145** | **145** |

**Note:** Core employees relate to staff not employed in temporary projects.
"Unassigned" are employees, joining BAMC with the merger of 2016 who were/are on long-term sick leave or maternity leave.

FIGURE 6: ORGANISATIONAL STRUCTURE




**NOTE:** Organisational structure as at 30 June 2017.

# BUSINESS REPORT

## SIGNIFICANT EVENTS IN THE FIRST HALF OF 2017

On 5 January 2017 the Government, acting in the capacity of the BAMC General Meeting, appointed Miha Juhart and Mitja Križaj as non-executive directors for the period of five years with their mandate beginning on 28 January 2017. On 23 February 2017 the Board appointed Miha Juhart as its new Chairman.

On 27 January 2017 BAMC closed a sale of claims towards DZS d.d., Ljubljana, Delo prodaja d.d., Ljubljana and Terme Čatež d.d., Čatež to York Global Finance Offshore BDH (Luxembourg) S.a.r.l.

On 1 February 2017 BAMC made an early repayment of €168,0 million of syndicated long-term loan due to excessive liquidity received from the sale of assets in December 2016 and January 2017 and recapitalization in December 2016.

On 26 April 2017 BAMC published its 2016 Annual report, receiving an unqualified auditor's opinion. The Government, acting in the capacity of the BAMC General Meeting, approved the BAMC 2016 Annual Report on 21 June 2017.

On 10 May 2017, after securing refinancing in the market, Sava turizem and Sava TMC, repaid their outstanding liabilities towards BAMC ahead of schedule in an almost €30 million transaction. With that the two companies fully repaid the claims BAMC held against them.

On 18 May 2017, after a very demanding sale process and upon fulfilment of all requirements stated in the Sale and Purchase Agreement, signed on 14 October 2016, BAMC sold its 47% ownership share in CIMOS d.d. to a strategic investor TCH, part of Italy's investment firm Palladio Holding Group.

At the end of May 2017 the financial holdings Vizija Holding and Vizija Holding Ena refinanced most of their liabilities towards BAMC. With additional market refinancing of the two companies in August 2017 the claims towards them transferred to BAMC and totalling over €40 million were repaid in full.

Following successful cash generation and upper large transactions BAMC has surpassed its statutory goal of at least 10% yearly cash generation already in May 2017.

On 30 May 2017 BAMC made an early repayment of €70,0 million of syndicated long-term loan due to excessive liquidity from successful completion of several transactions.

## MANAGEMENT OF ASSETS

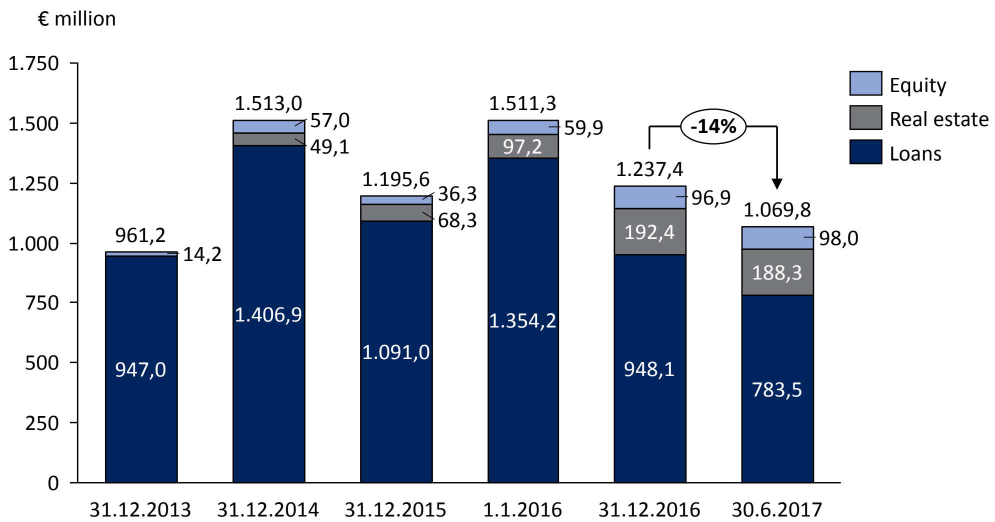
BAMC's assets are mostly managed individually, at the level of a claim towards a specific debtor, equity investment in a specific company or individual item of real estate. Where BAMC owns both claims and equity in the company, the maximization of enterprise value is targeted applying different strategies. In some cases, claims/stakes in a group of companies are being managed as a whole, due to ownership or other significant intertwined characteristics.

### ALL ASSETS ARE AVAILABLE FOR SALE

All assets under BAMC's management are available for sale at any time. This means BAMC is willing to sell every asset if it estimates an adequate price has been offered. BAMC is selling assets through competitive and transparent procedures which maximize their value.

As at 30 June 2017 BAMC had almost €1,1 billion of assets under its management. The majority (73,2%) was represented by loan claims, followed by real estate (17,6%) and equity holdings (9,2%). The latter two did not change much compared to the end of 2016, while the loan portfolio has reduced by 17,4% following successful liquidation and refinancing of claims.

FIGURE 7: ASSETS UNDER MANAGEMENT



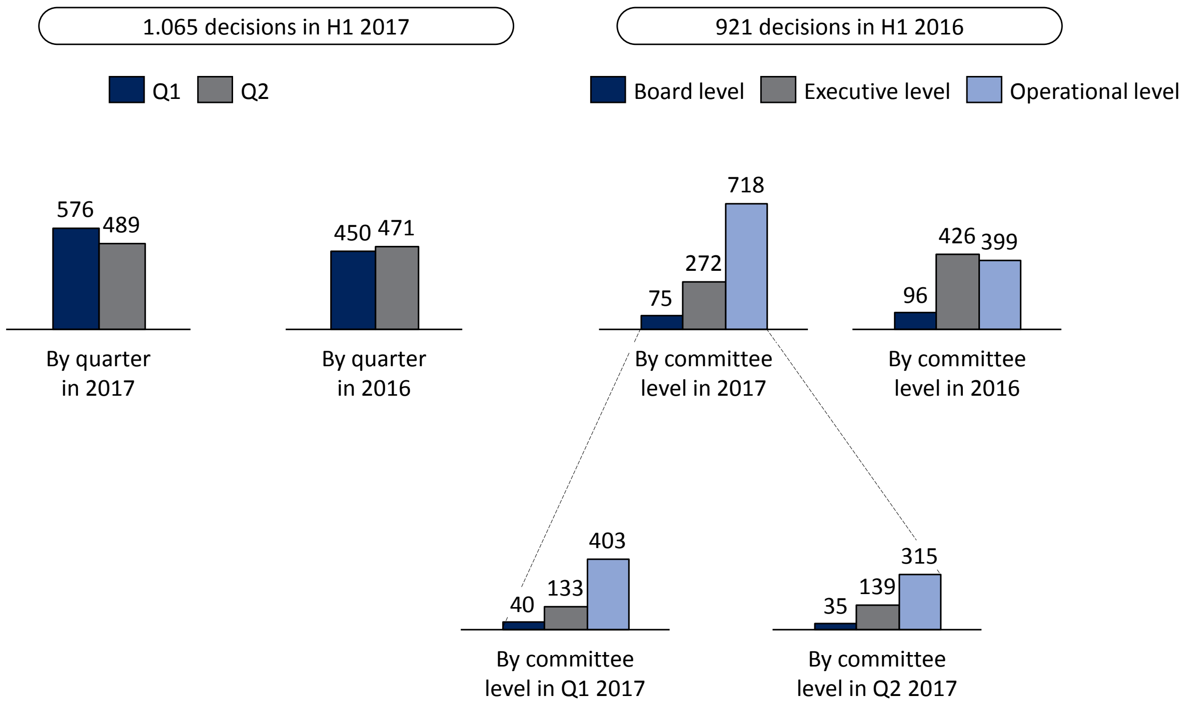

**NOTE:** 1 January 2016 displays the fair value of the portfolio at the merger of Factor banka and Probanka into BAMC. Since the merger BAMC also manages a minor leasing portfolio which is presented together with "Loans".

## CREDIT AND INVESTMENT DECISIONS

Asset management requires the adoption of numerous credit and investment decisions that relate to claims against debtors, equity holdings and real estate. The basis for adopting a credit or investment decisions is an action plan prepared by the case manager or asset manager. The action plan includes strategies for maximising the value of a case, as well as detailed data on the debtor, BAMC's exposure towards it, reasons that led to its illiquidity or insolvency and clear justifications of the decision proposal. Credit and investment decisions are adopted by credit and investment committees at different organizational levels based on size, complexity or policy implications of the exposure.

Based on prepared action plans BAMC took 1.065 credit and investment decisions on operational, executive and board levels in H1 2017.

FIGURE 8: BREAKDOWN OF DECISIONS TAKEN



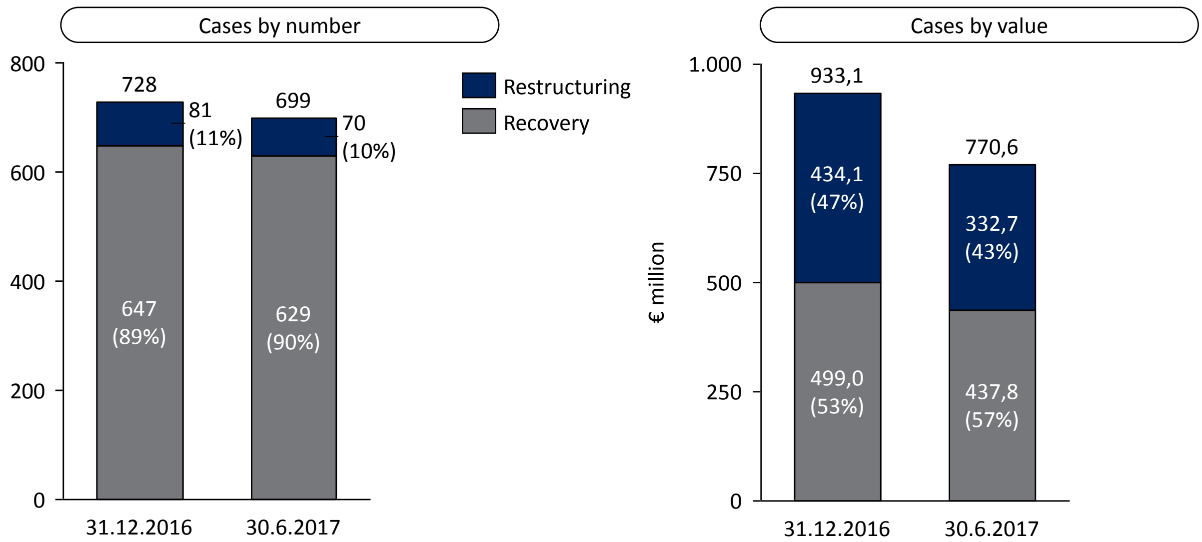
## LOAN PORTFOLIO MANAGEMENT

BAMC manages debtors of various exposures in its loan portfolio. 1.328 cases with smaller exposures were valued on a group level and 699 debtors were valued individually. These larger cases are presented in more detail.

### STRATEGIES TOWARDS DEBTORS[2]

Out of 699 individually valued claim cases at mid-2017, 70 were having a predominant restructuring strategy and 629 a recovery one. While the number of cases compared to the end of 2016 decreased by 4%, the value of the loan portfolio decreased by 17% as some larger transactions have been realised in H1 2017. The presented loan cases' estimated fair value of €770,6 million corresponds to 18% of the total gross exposure of almost €4,2 billion. While the share between restructuring and recovery cases remained practically unchanged count-wise, the share of recovery cases in the total loan portfolio has increased value-wise.

FIGURE 9: INDIVIDUALLY VALUATED CASES BY STRATEGY




**NOTE:** The value of cases reported differs from total loans' value reported in Figure 7 and elsewhere. This and the following figures present breakdowns of individual valuations while smaller exposures are valued as well but are not reported here.

[2] For valuation purposes the strategies are defined as follows:

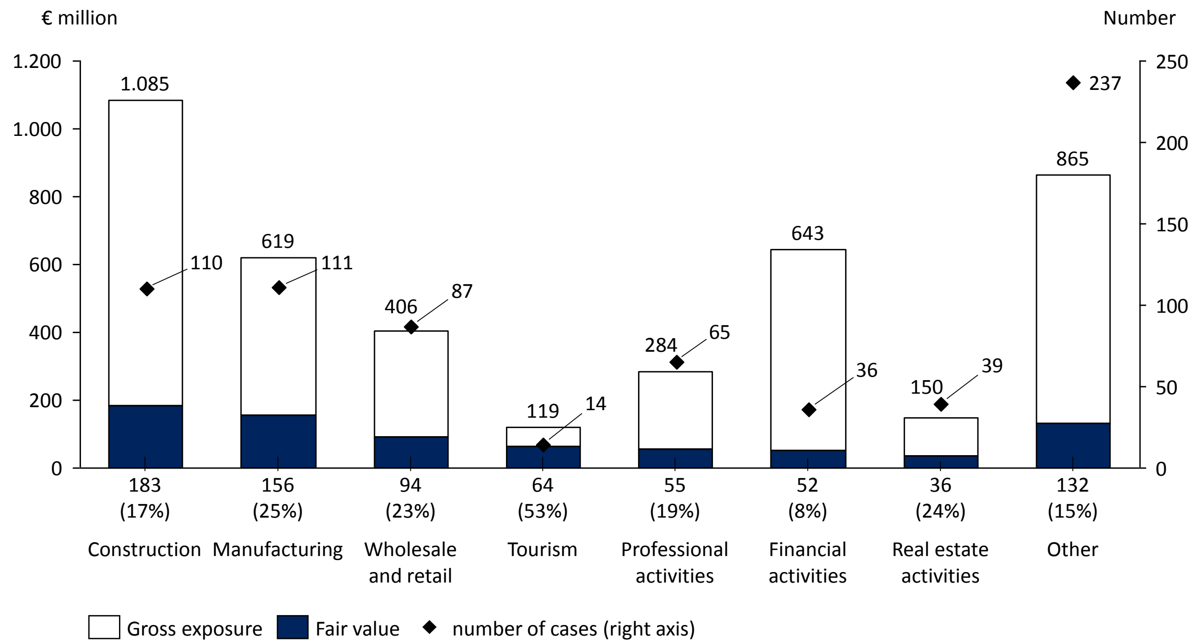
- The restructuring strategy is defined as a case, where BAMC is pursuing a restructuring scenario which has at least 50% probability of success. Nevertheless, these cases have two different value scenarios estimated depending on the success or failure of the restructuring.
- The recovery strategy is defined as a case, where the value for BAMC depends solely on the value of the collateral and BAMC's cash flows are related to selling the underlying assets. This category clearly includes the companies in bankruptcy. In addition to this, it includes all the other cases where the repayment is solely dependent on the asset values, regardless of the procedure used. For example, this includes enforcement proceedings, voluntary divestment plans etc.

It has to be noted that BAMC may, conditioned on not worsening its creditor position, pursue a restructuring strategy also in cases termed as recovery for valuation purposes, see Progress in restructurings (page 4).

### PORTFOLIO CHARACTERISTICS

More than a quarter of all loans' gross exposure is related to the construction industry, and although this sector is providing slightly below-average repayment at 17% it is the largest in terms of fair value. This is followed by manufacturing industry with 23% average repayment. The second highest share of total gross exposure stems from the financial activities industry which is characterised by a relatively low number of cases (resulting in the highest average gross exposure per case, €17,9 million) which provide the lowest average repayment at 8%. On the other hand, the tourism industry is estimated to hold more than half of value compared to gross exposure in a small number of cases.

FIGURE 10: LOAN GROSS EXPOSURE AND FAIR VALUE BY INDUSTRY




**NOTE:** Industry classification follows Standard Classification of Activities (2008). Industries are ranked by fair value. Those presenting a notable share in the portfolio are displayed separately while the remaining cases, including foreign ones, are grouped into the "Other" category.

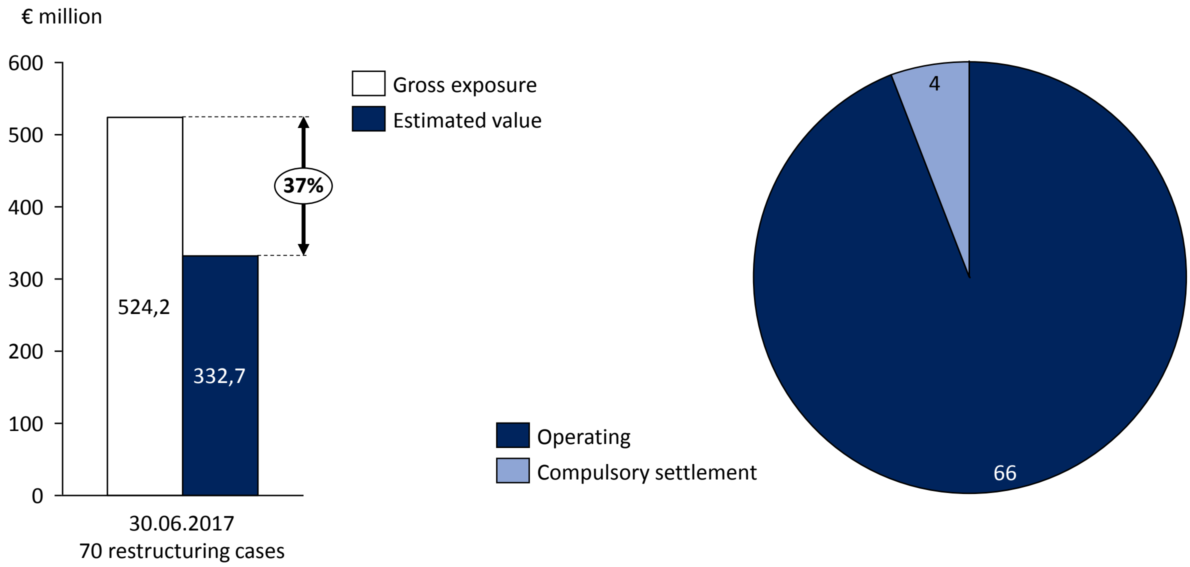
### CORPORATE RESTRUCTURING

BAMC's objective in the restructuring of companies is to ensure long-term efficiency and viability of the debtors' operations and their competitiveness, and to maximise the repayment of debt with cash flows from operations. BAMC is also attempting to reduce the indebtedness of the debtor to a sustainable level, thus improving its position and increasing debtor's value in sale of claims. Next to financial, operational restructuring is usually also required.

At 30 June 2017, BAMC evaluated 70 companies as restructuring for valuation purposes. With an outstanding debt to BAMC in the amount of €524,2 million the estimated fair value of the aforementioned claims was €332,7 million. Thus, a portfolio value difference to gross claims of 36,5%

suggests much more value can be extracted from the management of restructuring cases than from the recovery cases (which have an estimated portfolio value difference to gross claims of 88,0%).

Figure 11: Restructuring cases overview




BAMC implements financial restructuring measures in cooperation with other creditors. These measures include allowing debtors to extend deadlines for the repayment of liabilities, apply standstills, pay reduced interest on their debt, make partial debt repayments, improve their capital structure and secure additional liquidity. BAMC may convert its claims into equity, take over other claims and equity stakes or increase the capital of respective debtors with cash or in-kind injections.

### The Cimos case

With the transfer of claims from Slovenian banks in 2013 and 2014, BAMC became the biggest creditor of Cimos d.d. with claims exceeding €136 million and later, through debt-to-equity swap, also the biggest (47%) owner of the Slovenian car parts maker. BAMC initiated the creditors' compulsory settlement which gave BAMC the opportunity to appoint a new management that has executed fundamental operational restructuring which was essential for the company's future development. Parallel to this, efforts were underway to perform financial restructuring and find a new owner for the company.

Despite several complications, which significantly prolonged the sales process, sellers signed the share purchase agreement with TCH, part of Italy's investment firm Palladio Holding Group in October 2016. Until the closing of the transaction, several open issues had to be resolved, among which the toughest deal was an agreement with Croatian DAB and the signing of the MRA with banks. Following an extensive sale process in May 2017 Cimos d.d. finally got a new owner who already provided fresh liquidity to the company and, above all, a strategic partner, who is able to give the company a fresh start and ensure further growth and development. The investor will bring the skills and resources necessary to take Cimos d.d. further on the development path and fully restore its position as a best-in-class operator.

### MANAGEMENT OF EQUITY INVESTMENTS

BAMC obtains equity stakes via the management of assets when claims are converted to equity (D/E swap) as part of the restructuring of a debtor. Whether its claim is in form of debt or equity, BAMC always follows the principle of enterprise value maximisation. BAMC also acquired equity holdings via recovery measures, when it received equity holdings and shares that could not be sold in bankruptcy proceedings. A substantial equity portfolio was also received in the process of merging Factor banka and Probanka into BAMC.

By acquiring or increasing its equity holding in a debtor, BAMC temporarily assumes or increases its control over a debtor, where it reduces the risks relating to debtor's cash flows and thus increases the value of its assets via the appointment of its own members to supervisory boards or the direct appointment of management at limited liability (d.o.o.) companies.

Owing to the capital inadequacy and over-indebtedness of companies the conversion of claims into equity is an essential measure in many restructuring cases whereby BAMC, as the biggest creditor, entered into ownership of these companies. The aim and strategy of BAMC is not a long-term ownership in these companies but an improvement in their operations, with the aim of maximising the cash flow generated and consequently an increase in the value of the companies and sale of the investment. The procedures of sale of claims and/or ownership interests are public, transparent and oriented towards finding the highest number of potential investors in order to achieve the best repayment possible.

As of 30 June 2017, BAMC had equity exposures in 27 majority and in 29 important or minority owned companies.[3] In 13 majority owned companies from different industries BAMC became an owner through the financial restructuring in the past (debt-to-equity swaps) and now they are in different stages of business restructuring process with the purpose to prepare them for the sale processes. 10 majority owned companies are real-estate project companies (two in Slovenia, eight abroad), another two companies are also project companies, while two companies are in the process of liquidation.

TABLE 4: BAMC'S EQUITY PORTFOLIO CHARACTERISTICS AS AT 30 JUNE 2017

| Ownership | Count | Type of holding | Count | Domestic/foreign | Count |
|---|---|---|---|---|---|
| Majority (over 50%) | 27 | | | | |
| Important (over 20%) | 4 | Shares | 30 | Domestic | 41 |
| Minority (under 20%) | 25 | Ownership stake | 26 | Foreign | 15 |
| **Total** | **56** | **Total** | **56** | **Total** | **56** |

**NOTE:** BAMC had equity stakes in 73 companies on 30 June 2017. 17 companies in bankruptcy procedures are excluded from the table.

[3] Equity holdings in companies in bankruptcy procedures are excluded from the number. An updated list of companies is published on BAMC web site on a monthly basis.

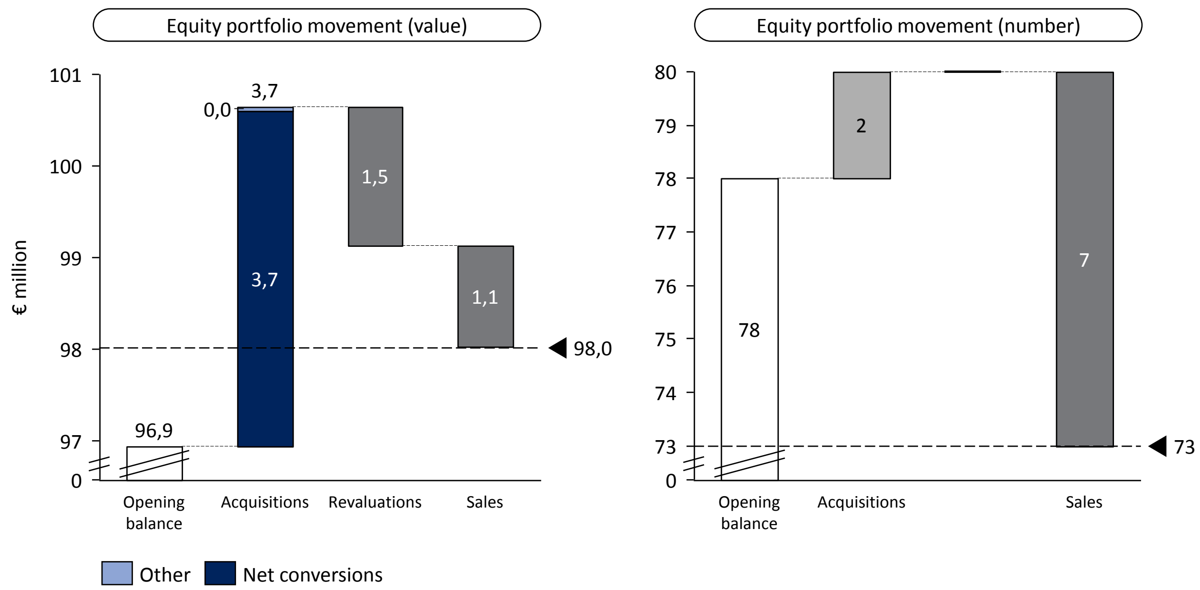
In H1 2017 the following regular activities were performed:

- For majority owned companies – actively monitoring the progress of the business restructurings, assessing the quality and viability of business plans and monitoring different types of corporate governance risk as well as preparing companies for the start of sales processes. BAMC was also involved in amending Articles of Associations and implementing ZPPOGD Law regarding remuneration of management,
- Managing minority ownership exposures through monitoring the business results of the companies, attending general meetings of shareholders and executing ownership rights in line with ZGD-1 etc.,
- Managing ongoing sale processes,
- Significant time was also dedicated to managing nine majority and six minority equity exposures abroad, given the complexity of the legal environment and the structure of the portfolio.

After a very demanding sale process and upon fulfilment of all requirements stated in the Sale and Purchase Agreement, signed in October 2016, BAMC sold its 47% ownership share in CIMOS d.d. in May 2017 to a strategic investor TCH, part of Italy's investment firm Palladio Holding Group.

In H1 2017 BAMC also sold and exited from six minority equity exposures and joined the consortium sales process for Cinkarna Celje d.d. (which ended with no sale), and Gorenjska banka d.d. (which still continues). BAMC also established one new company (DUP Pohorje d.o.o.) for the management of BAMC's diverse real estate in Pohorje region and afterwards started a sale process of the company and/or its real estate. The number of equity items increased for two new minority equity holdings, received from collateral enforcement.

FIGURE 12: EQUITY PORTFOLIO MOVEMENT IN H1 2017




**NOTE:** "Other" category includes capital increases and additional purchases.
The number data reported includes companies in bankruptcy and presents only complete transaction count (e.g., a partly sold holding is not counted as a sale in number terms).

Table 5: Debt to equity conversions and new acquisitions in H1 2017

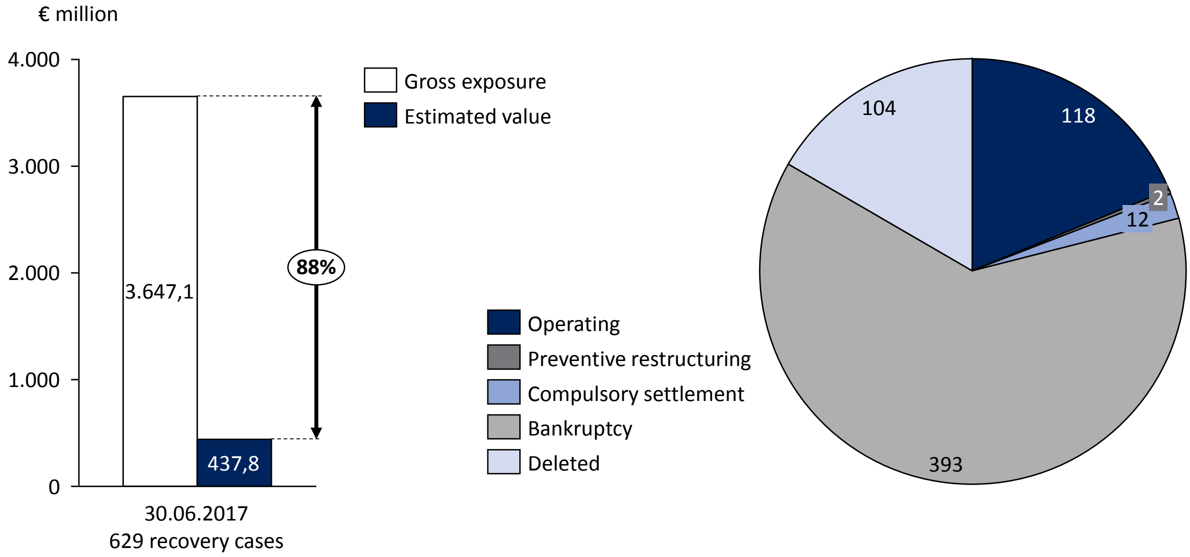
| Company (values in € million) | Nominal value of conversion into other company's equity or other assets | New acquisitions |
|---|---|---|
| Zvon ena holding d.d. | 3,4 | |
| Zvon dva holding d.d. | 0,3 | |
| Terme Dobrna | | 0,03 |
| **Total** | **3,7** | **0,03** |

## Loan management using the recovery strategy

In case of negative cash flows-making companies against which BAMC holds claims, when it is clear that it would be impossible to create greater value even through financial and operational restructuring than through recovery of collateral, BAMC's actions as a prudent and diligent manager dictate that it opts for the recovery strategy. A recovery strategy is also used in the case of companies against which bankruptcy proceedings had already been initiated before their transfer to BAMC. On the other hand, cashing of collateral may also be executed in agreement with the debtor, without enforcement and insolvency procedures.

At 30 June 2017, BAMC was individually valuing 629 claims as recovery cases, against which it held €3,6 billion in gross claims, the fair value of which was estimated at €437,8 million. Compared with companies in restructuring, recovery companies as a group have a substantially lower potential of repayment as the fair value of claims towards them was estimated at 12,0% of gross exposure while this estimate amounted to 63,5% of gross exposure in restructurings.

Figure 13: Recovery cases overview



## REAL ESTATE PORTFOLIO MANAGEMENT

Real estate accounts for by far the largest amount of collateral for claims managed by BAMC. Because of the poor quality of the claims acquired by BAMC, a recovery strategy is the most rational approach for majority of corporate debtors in terms of numbers. The majority of real estate collateral will be sold by bankruptcy trustees or by the corporate debtors themselves in the process of their deleveraging. In such cases BAMC is repaid by the proceeds, minus the costs of the sale procedures. Alternatively, BAMC may decide to take possession of the real estate, improve its value, and sell it later.

### MANAGEMENT OF PLEDGED REAL ESTATE

BAMC actively supports selling processes of pledged real estate managed by bankruptcy trustees and other selling procedures of claims collateralized with real estate. Using its valuation methodology, BAMC determines a fair selling price for each real estate unit and approves each real estate sale where the selling price is close or above the calculated price. On its web site, BAMC announces all current court auctions of real estate pledged to BAMC being offered for sale in diverse insolvency proceedings.

### TAKEOVER OF REAL ESTATE

When appropriate selling prices cannot be obtained in real estate collateral disposal procedures, BAMC decides to participate in the sale processes itself and to purchase the real estate by offsetting the claim held against the debtor. The basic criterion that BAMC upholds in taking the decision to take over direct ownership of a collateralised asset is an assessment of whether direct ownership and management of real estate, which may also require further development, including repair of defects, will allow BAMC to recover more than the selling price achieved in the disposal procedure by the bankruptcy trustee or the corporate debtor itself. BAMC's assessment also takes account of the management costs and financing expenses that it would incur by taking over the real estate.

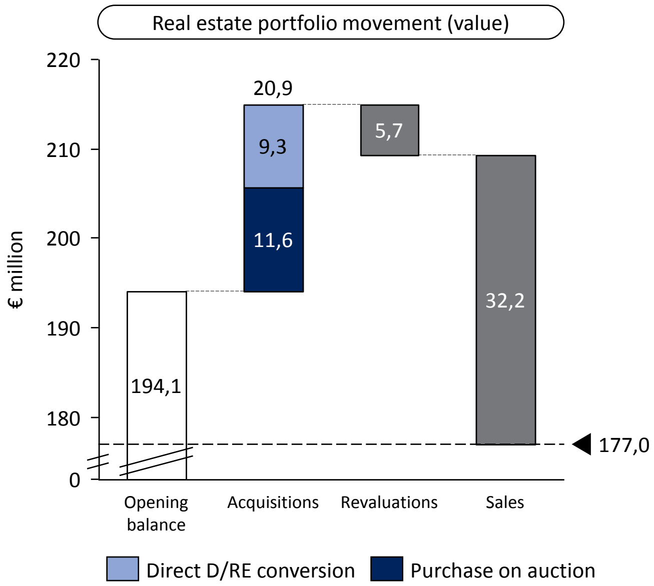
Similarly, BAMC opts to repossess real estate when there is no demand on the market in bankruptcy proceedings and it is impossible to sell it, having assessed that the real estate is not encumbered with contingent liabilities, for example due to environmental contamination.

### BAMC'S REAL ESTATE PORTFOLIO

In H1 2017 BAMC took over 34 real estate assets through debt-to-asset swaps, worth a total of €25,1 million. The larger real estate projects include a building land plot in the Brnik commercial district, two residential development plots in Količevo (Domžale), and Kozolci (Kranj), Shipyard Izola and a land plot for development of the Želodnik commercial-industrial district.

Sales of BAMC proprietary real estate in H1 2017 generated a total of €57,4 million (€40,4 million could be booked as transactions were finalised by 30 June 2017), where the properties sold included 31 finished real estate assets and 335 partial sales (where only part of a particular property is sold). The largest portion of overall real estate sales was made in the residential segment, a substantial part of which was made up of apartments in the Celovški dvori complex (€20,1 million) and Nokturno (€17,6 million). Major sales from the industrial and commercial segment include the TVM commercial building, Vošnjakova commercial building and Primorje commercial building, for the overall value of approximately €6,9 million. BAMC conducts sales either by itself or through a realtor selected in a public tender.

FIGURE 14: REAL ESTATE PORTFOLIO MOVEMENT IN H1 2017




**NOTE:** "Purchase on auction" category includes real estate units BAMC acquired through paying for them at the auctions but expectes all payments to be returned as real estate units in question were pledged to BAMC. In essence this is also a D/RE conversion accompanied with a cash outflow and inflow.

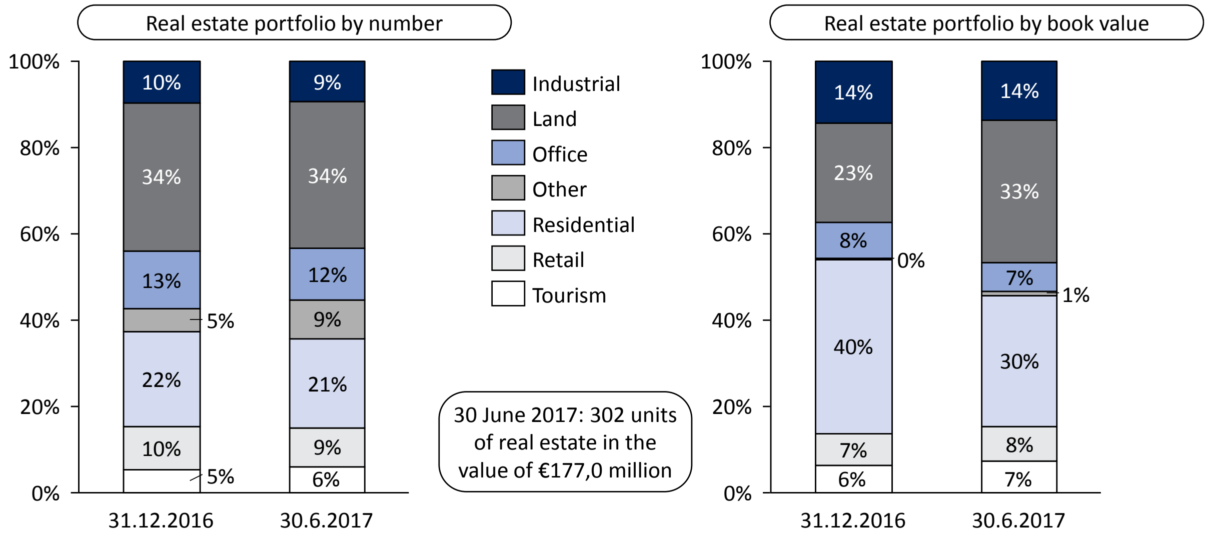
Net realisable value of real estate at mid-year 2017 stood at €201,1 million, wherefrom €188,3 million were disclosed as book value due to IFRS stipulations.

The difference of €11,3 million between €177,0 displayed in the figure and €188,3 disclosed in the financial statements are advance payments and converted/paid real estate with handover not yet performed by 30 June 2017.

In H1 2017, BAMC prepared a substantive conceptual framework and the legal documentation supporting the concept of real estate project development through joint investments/partnerships. Contingent on favourable developments in the real estate market and suitable choice of real estate, this endeavour will provide a basis for generating additional value of BAMC's real estate portfolio. For this purpose, BAMC also put out a public announcement of intent to issue a call for expressions of interest in future business partnerships, which attracted feedback from numerous investors, with whom BAMC has already conducted preliminary meetings. For each specific project there will be a public call for binding bids, which will provide a basis for transparent selection of the most advantageous partner to develop or finish a particular real estate asset.

At mid-2017 BAMC owned 302 units of real estate with a book value of €177,0 million. The majority of owned real estate are land plots and residential units, followed by Industrial sites. The usage of land plots is mainly residential while industrial sites are not in use.

FIGURE 15: REAL ESTATE PORTFOLIO STRUCTURE




**NOTE:** Net realisable value of real estate at mid-year 2017 stood at €201,1 million, wherefrom €188,3 million were disclosed as book value due to IFRS stipulations.
The difference of €11,3 million between €177,0 displayed in the figure and €188,3 disclosed in the financial statements are advance payments and converted/paid real estate with handover not yet performed by 30 June 2017.

## CELOVŠKI DVORI

In the case of the Celovški dvori development, BAMC took over 226 residential and 23 commercial units, which were almost fully sold-off in three stages, in accordance with the sales strategy. In H1 2017, BAMC delivered the real estate units from the first stage of the sale conducted in late 2016 (56 apartments), renovated all the other apartments, and successfully finished the second (51 apartments) and third stage of the sale (117 apartments and 23 commercial premises) through a call for binding bids. BAMC received a total of 1.500 binding bids for all of the aforementioned apartments, and achieved an average 20% premium on the opening prices. The average achieved market price for the apartments was approximately €2.350/m$^2$ of effective surface area, i.e., the apartment living area, excluding balconies, terraces and storage areas. In H1 2017, the yield from the sale of the aforementioned project amounts to approximately €20,1 million (excl. VAT).

## Nokturno

In the Nokturno residential project, BAMC attended an auction as a bidder and took over 215 Nokturno apartments and two retail premises with the appertaining 2 storage units and parking spaces. After extensive investments and maintenance in 2016, BAMC signed 47 contracts of sale based on binding bids attracted in the first sale process, which took place in the open door period, and these units were delivered to the new owners in Q1 2017. In February 2017, BAMC continued the sale strategy using traditional selling methods, resulting in the sale of 59 additional residential units by the end of H1 2017 (approximately 12 apartments per month). This is an exceptional result, considering that there were around 300 residential units sold in the entire Koper municipal region in 2016 (approximately 25 per month; source: GURS report 2016, p. 33) and considering that these apartments are above average-sized of a higher quality standard. The realized sale prices of the apartments between individual stages of the sale increased by an average of 3,5%, and the average realized market price per residential unit was €196.000 or €2.200/$m^2$ of selling surface area (both including VAT). By the time of report preparation the number of all sold units rose to 129.

## TVM office building

BAMC took over the business complex TVM Maribor in July 2016, together with the equipment for the production of buses as the only bidder for €3,5 million in the bankruptcy procedure of TVM d.o.o. Over the course of the bankruptcy process, the complex was rented by company TAM EUROPE d.o.o. (which also purchased the TAM brand), with whom BAMC renewed the lease contract until the sale of the complex. Although the complex is a larger real estate with an area of 22.000 $m^2$, the premises were well maintained so BAMC has taken over the business complex in good condition. On the basis of a public call for non-binding bids published in October 2016, several offers were received, following which BAMC published a public call for binding offers. The highest bid was submitted by TAM EUROPE d.o.o., with whom the sales contract was executed in May 2017. In July 2017, the buyer paid the full purchase price, and on 19 July 2017 the complex was handed over to the buyer thus successfully completing the sale process. In this process BAMC managed to achieve a significant added value.

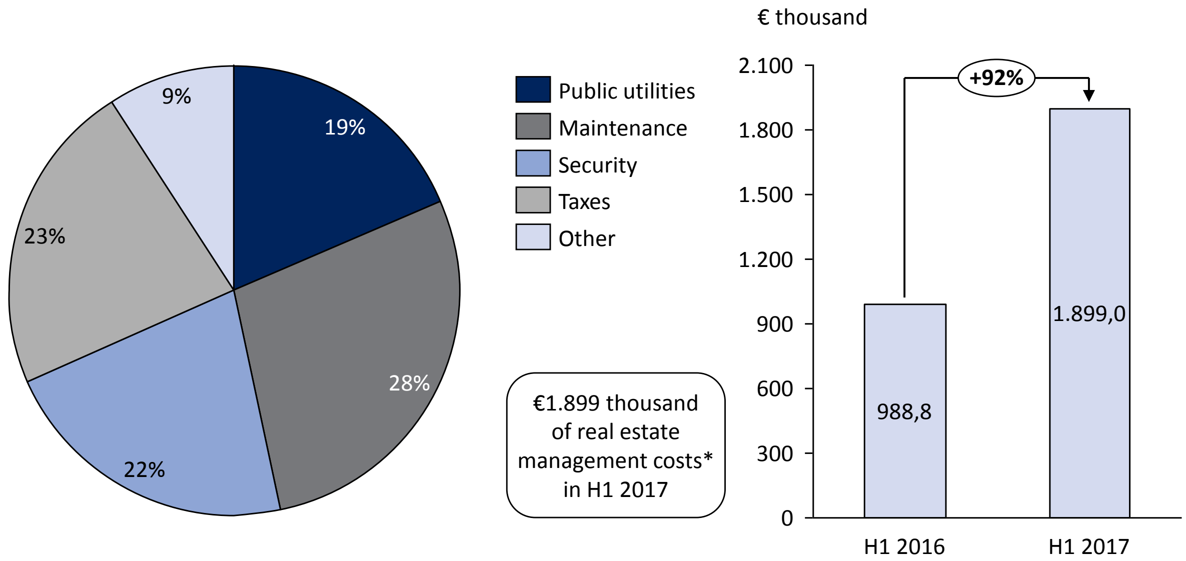
### REAL ESTATE FACILITY MANAGEMENT

After taking over ownership of real estate, BAMC takes a wide range of measures to ensure that the real estate is maintained properly and that the value of the acquired real estate is perserved, such as cleanig, waste disposal, security, insurance, fixing roof and windows/doors, changing locks, cuting gras etc. In addition, diverse legal and technical defects of the real estate have to be elimiated: obtaining missing documentation and permits, solving disputes with neighbors and former subcontractors etc. In specific cases also investments are needed: finishing works, buying missing parts of the real estate and similar. All properties have to be prepared for sale.

BAMC takes care of all the real estate it owns in line with the principle of due diligence, with buildings taken over being adequately insured, and damaged buildings being repaired with the aim of preventing any additional damage. Several existing lease contracts were extended and new ones concluded.

BAMC incurred real estate management costs of €4,3 million in H1 2017, mostly related to owned real estate and a minor part induced by collateralized real estate. The largest cost items were maintenance costs (which include various repairs), followed by taxes (which are almost entirely represented by NUSZ - compensation for use of building sites - amounting to €0,4 million in H1 2017).

FIGURE 16: REAL ESTATE MANAGEMENT COSTS




**NOTE:** *Presented are real estate management costs without transaction and capex-like real estate management costs. Realised real estate sales transaction costs in H1 2017 amounted to €623 thousand (€62 thousand in H1 2016) and real estate capex-like costs in H1 2017 amounted to €1.772 thousand (€175 thousand in H1 2016).

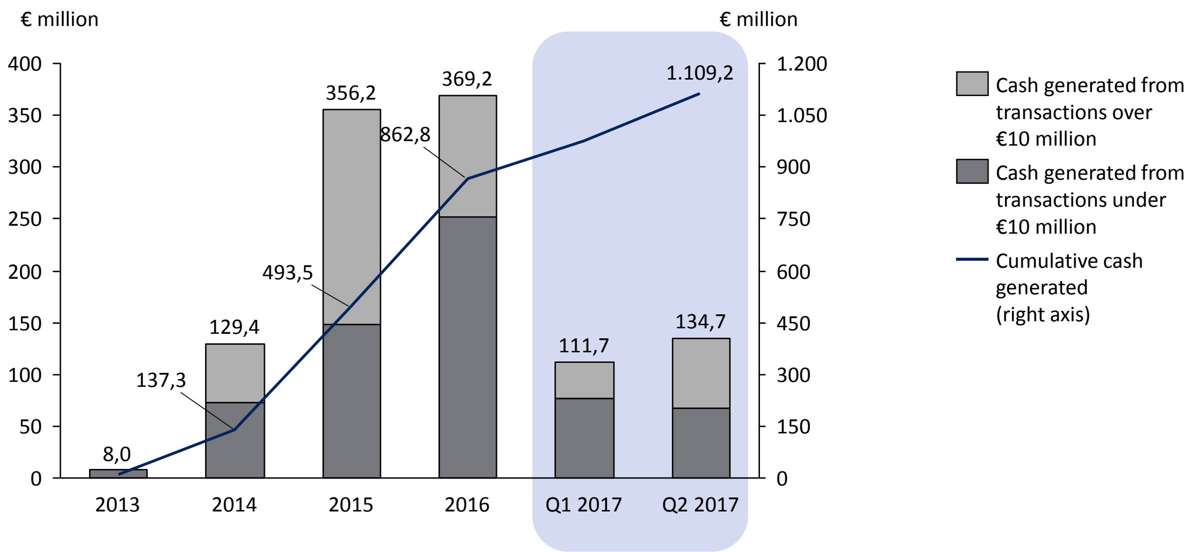
# FINANCIAL OVERVIEW OF H1 2017

## CASH GENERATED[4]

BAMC generated €246,4 million of inflows in H1 2017 from the management of acquired assets, which represents 12,2% of the asset transfer value[5].

Smaller (under €10 million) transactions at an average of €71,9 million per quarter provided a strong and stable cash inflow with larger transactions in the cumulative amount of €102,6 million topping a very successful half-year in cash generation. Since its inception until mid-2017, BAMC thus generated €1.109,2 million inflows from the management of acquired assets, surpassing the 50% transferred assets cashed threshold in May 2017 (54,8% of asset transfer value cashed by the end of June 2017).

FIGURE 17: CASH GENERATED




[4] Cash generated data presented here and elsewhere in the document is retrieved through "pure cash flow" principle which differs from accounting recognition of events in both timing and scope. Not all inflows may count as cash generated for the calculation of the statutory KPI.

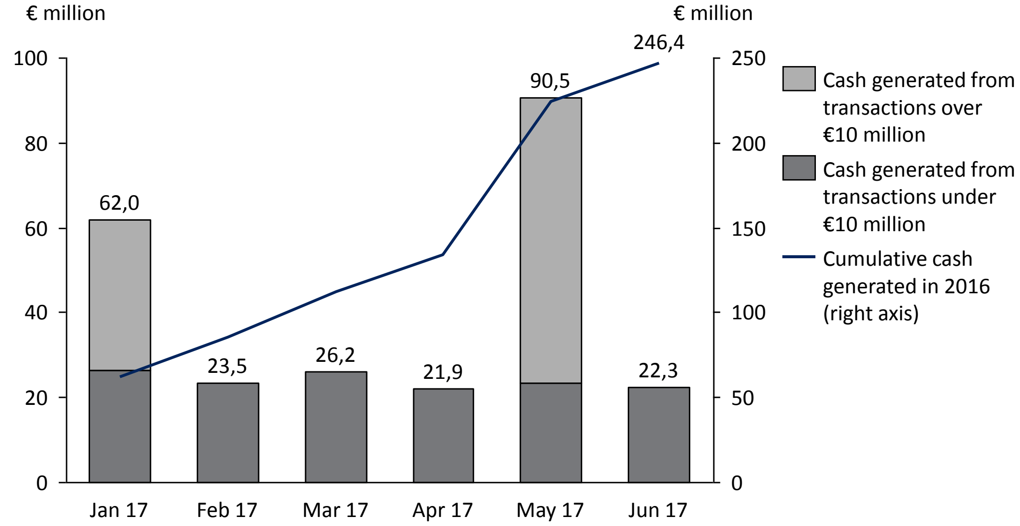
[5] Cash generated in proportion to acquired assets KPI in the amount of 12,2% is calculated as the ratio of inflows generated to the weighted value of the portfolio, where the date of transfer to BAMC is used as the weight. The same reasoning is applied to the purchases of additional exposures BAMC makes when such action is considered economically justifiable.

E.g., a hypothetical additional purchase of an exposure in the amount of €2,0 million on 31 March 2017 would be given a weight of 0,25 (effectively adding €0,5 million to the weighted value of the portfolio) for the H1 2017 denominator calculation as BAMC would only have quarter of a year available for the liquidation of acquired assets (by 30 June 2017). In all subsequent years following the acquisition the transfers/purchases are included in the KPI denominator in their full value.

With the merger of Factor Banka and Probanka into BAMC in 2016 the denominator of the respective KPI increased considerably as the book values of merged claims, real estate and equity were taken as "transfer values" of additional assets acquired.

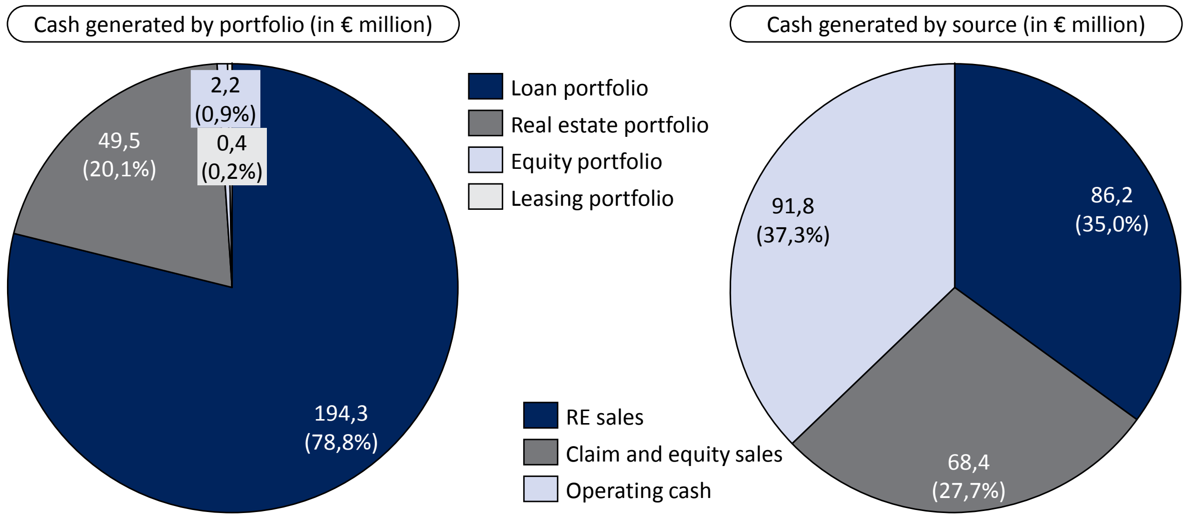
Also on an individual monthly level, smaller (under €10 million) transactions did not deviate much from the average almost €24,0 million per month. The largest single large transaction was the sale of DZS group claims to York in the beginning of the year.

FIGURE 18: MONTHLY CASH GENERATED IN H1 2017




Portfolio-wise, a great majority of inflows came from the loan portfolio, but this included considerable sales of real estate and other assets in insolvency proceedings, establishing an almost even, third-based, partition of inflows by source.

FIGURE 19: H1 2017 CASH GENERATED BY PORTFOLIO AND SOURCE




**NOTE:** "RE sales" include also sales of other physical assets both from ownership as well as from cashed collateral. Similarly, "claim and equity sales" include cash generated both from ownership as well as from cashed collateral. "Operating cash" includes regular payments from debtors and sureties, rents, dividends, leasing and other inflows.

## REPAYMENT OF DEBT

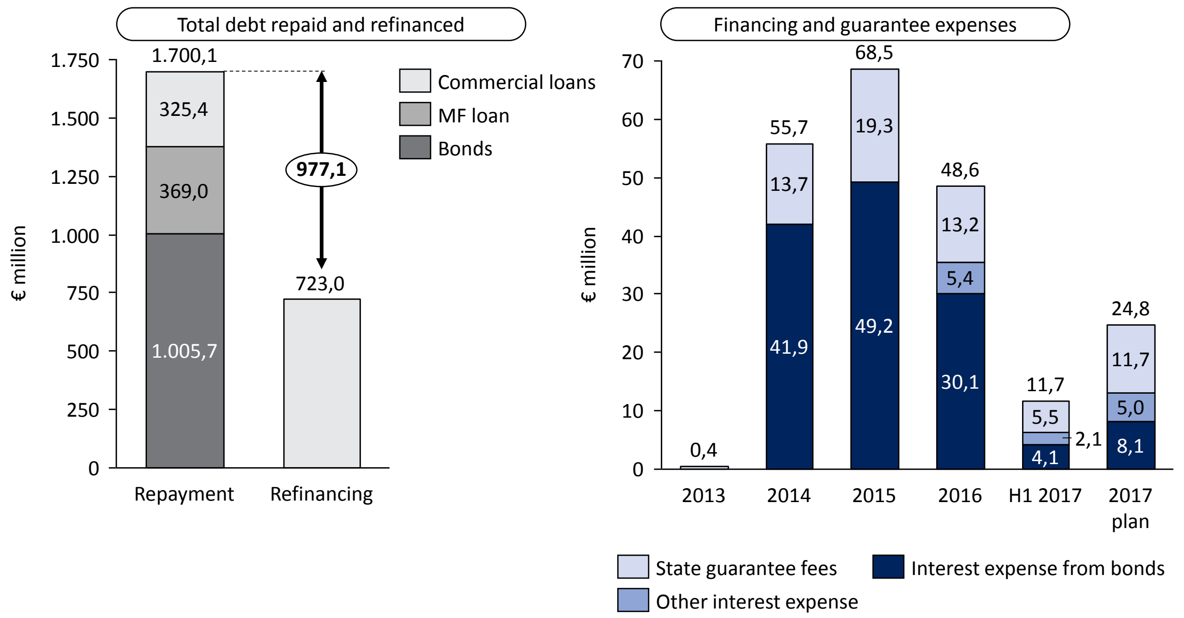
In December 2016 the DUT02 bond in the amount of €503,2 million fell due. This obligation was refinanced on the commercial loan market as the funds generated in 2016 were used to repay the Ministry of Finance loan taken over through the merger of Factor banka and Probanka in the beginning of 2016. BAMC draw-down a long-term €150,0 million one-bank loan and a €355,0 million syndicated loan. Both loans have an amortizing structure, maturing in mid-December 2021. BAMC has an option of early repayment, which gives it flexibility in managing its liquidity until 2021. The loans are secured with a state guarantee, subject to a 1% guarantee fee payable to the Republic of Slovenia. The interest rates for the two commercial loans are significantly lower than the 4,5% interest rate on the matured DUT02 bond. BAMC's costs of financing will thus be decreased by over €20 million in 2017 as a whole with savings already unburdening half-year results.

In the first half of 2017 BAMC repaid €51 million according to amortization plans and €238 million as additional early repayment of commercial loans, together €289 million in H1 2017.

The repayment of DUT02 bond and partial repayments of state guarantee-backed commercial loans present another important step in the fulfilment of BAMC's mission, as defined by the ZUKSB. Through the repayments BAMC reduced its debt, repaid invested funds and reduced the burden on the Republic of Slovenia and its taxpayers.

Since its inception BAMC repaid already more than €1,7 billion of debt which it had to partly refinance with €723 million, still resulting in a net repayment of €977 million. BAMC paid €133 million of interest on its debt since 2013, as well as €52 million of guarantee fees.

FIGURE 20: TOTAL DEBT REPAID/REFINANCED AND FINANCING EXPENSES




**NOTE:** Principal values without interest are reported as debt repaid. Some BAMC-held DUT bonds received as reimbursement in the transfer processes are excluded from repayments. 2017 data as planned in the BAMC Financial plan 2017-2022.

## KEY PERFORMANCE INDICATORS

The Guidelines, adopted by the Government in December 2016 set forward four key performance indicators under which BAMC is considered to operate in an economical, efficient and successful manner. Next to these, BAMC follows additional indicators to better present performance throughout its lifespan.

TABLE 6: KEY PERFORMANCE INDICATORS

| KPI | Definition | Since inception (by mid-2017) | | H1 2017 | H1 2016 | H1 2016* |
|---|---|---|---|---|---|---|
| | | Cumulative | Yearly average | | | |
| **Guidelines-defined KPIs** | | | | | | |
| Cumulative cash generated | Absolute amount (in € million) | - | - | 1.109 | 619 | 618 |
| Cash generated % | Cash generated / NPAs transfer value | 54,8% | 15,7% | 12,2% | 6,3% | 6,2% |
| EROE | Equity / invested capital with corrections - 1 | 59,5% | 14,3% | - | - | - |
| Cost efficiency | Operating costs / average total assets | - | 1,34% | 0,91% | 0,84% | 0,87% |
| **Additional BAMC-followed KPIs** | | | | | | |
| ROE | Net income (loss) / average equity | 21,1% | 5,6% | 19,4% | -12,6% | -12,6% |
| Funds returned to RS | Payback / RS invested assets | 76,6% | - | 0,0% | 37,1% | 35,5% |
| Gross funds returned to RS | Gross payback / RS invested assets | 98,5% | - | 3,3% | 36,5% | 34,9% |
| Debt outstanding | Debt / initial debt | - | - | 50,3% | 74,6% | 74,6% |
| Guaranteed debt outstanding | Guaranteed debt / initial guaranteed debt | - | - | 50,0% | 75,7% | 75,7% |
| **Basic data** (in € million) | | | | | | |
| Cash generated | | 1.109 | 317 | 246 | 126 | 124 |
| RS invested assets | Cumulative invested capital | - | - | 258 | 204 | 204 |
| Debt | Balance sheet debt value | - | - | 991 | 1.471 | 1.471 |
| Equity | Balance sheet equity value | - | - | 97 | 46 | 46 |
| Invested capital with corrections | | - | - | 61 | 13 | 16 |

**General notes:** *Data as reported in the 2016 Half-year Report (hereinafter: 2016 HyR). Due to changes in the methodology (see below) some KPI values have changed and are restated. Cash generated-related values are marginally restated due to timing review of cash generated in 2016.

Cumulative values represent the calculations of respective items since the inception of BAMC where applicable and where the respective KPI is not a cumulative indicator by itself.

As first assets were transferred to BAMC in December 2013, 2014 is considered the first year of actual operation for BAMC. Thus, the calculation of averages takes three and a half years of operation into account.

The following abbreviations are used in the table: NPAs = non-performing assets, EROE = economic return on equity, ROE = return on equity, RS = Republic of Slovenia.

**Notes to the KPIs' definitions:**

- "Cash generated %" denominator, "NPAs transfer value", has increased in 2016 due to the merger of Factor banka and Probanka into BAMC, raising the statutory 10% yearly goal in absolute terms compared to previous years.
- "Invested capital with corrections" is corrected for day-one losses and other returns of capital to the owner as well as recapitalizations. See Table 1 for details. 2016 HyR calculation did not include other extraordinary returns (see "payback" below) and revaluation of real estate acquired from NKBM in 2014 as part of the initial asset transfers.
- As defined in the Guidelines, operating costs used in the calculation of "cost efficiency" exclude transaction costs, incurred in assets' sales processes. See Table 14 for details. 2016 HyR calculation did not exclude transaction costs as the Guidelines were changed in December 2016.
- "Payback" includes all corrections to invested capital. 2016 HyR calculation additionally considered redemption of guaranteed debt, dividends and other extraordinary returns (the latter are now counted under corrections to invested capital). As part of the bond-based guaranteed debt was and most likely will be refinanced it is not correct to consider its repayment with refinancing as "payback".
- "Gross payback" includes "payback", total taxes (income tax, net VAT, tax on financial services, compensation for use of building sites [Slo. *nadomestilo za uporabo stavbnega zemljišča*] and real estate transaction tax [Slo. *davek na promet nepremičnin*]) and state guarantee fees paid. 2016 HyR calculation additionally considered guaranteed-bonds' interest paid. With the exclusion of bond repayment from "payback", bonds' interest payments were also excluded from "gross payback".
- "Initial debt" includes all debt initially raised/acquired with assets transfers. Specifically, these are the four bond issues for primary bank assets' transfers as well as liabilities towards the Ministry of Finance and some commercial banks taken over with the merger of Factor banka and Probanka into BAMC.
- "Initial guaranteed debt" excludes commercial banks' liabilities from "initial debt".

## INCOME STATEMENT

Core business of BAMC is managing non-performing assets, predominantly non-performing loans, therefore BAMC's operating and financial expenses have to be covered by realised capital gains, interest income and revaluation income in order to generate profit. BAMC recorded a net profit of €17,1 million in H1 2017.

In order to better present its business operations BAMC changed the format of its income statement[6].

TABLE 7: INCOME STATEMENT

| in € thousand | 1 Jan 2017 to 30 Jun 2017 | 1 Jan 2016 to 30 Jun 2016 | Index H1 2017/H1 2016 |
|---|---|---|---|
| Result from loans | 36.946 | 33.670 | 110 |
| Result from equity instruments and bonds | -343 | 12.687 | -3 |
| Result from inventories | 3.628 | -12.280 | -30 |
| Other income | 1.176 | 147 | 798 |
| Financial expenses | -12.190 | -25.710 | 47 |
| Operating costs | -12.129 | -14.116 | 86 |
| **Net profit/loss** | **17.086** | **-5.602** | **-305** |

BAMC's result for H1 2017 is considerably better than in H1 2016. More than halved financing expenses and 14% lower operating costs accounted for €15,5 million of savings compared to the previous period. Moreover, the positive result from the real estate portfolio more than outweighed the reduction in the equity portfolio.

### INCOME STATEMENT BREAKDOWN

Income from managing loans was €36,9 million in H1 2017, 10% higher than in H1 2016, but opposite in structure. The driving factor for positive income from loans in H1 2017 was the revaluation result while the net negative other income from loans was led by negative foreign exchange differences.

TABLE 8: RESULT FROM LOANS

| in € thousand | 1 Jan 2017 to 30 Jun 2017 | 1 Jan 2016 to 30 Jun 2016 | Index H1 2017/H1 2016 |
|---|---|---|---|
| Capital gains/losses | 4.350 | 30.208 | 14 |
| Net revaluation result | 33.151 | 1.779 | 1.864 |
| Other income from loans | -555 | 1.683 | -33 |
| **Total result from loans** | **36.946** | **33.670** | **110** |

[6] ZGD-1 allows a format that differs from prescribed. The changed format is in line with IFRS.

Result from equity and bonds in H1 2017 recorded a slight loss of €0,3 million due to negative revaluation result which was driving the segment results in the previous period. Additionally, considerable dividends were collected in H1 2017 at €1,1 million.

TABLE 9: RESULT FROM EQUITY AND BONDS

| in € thousand | 1 Jan 2017 to 30 Jun 2017 | 1 Jan 2016 to 30 Jun 2016 | Index H1 2017/H1 2016 |
|---|---|---|---|
| Capital gains/losses | 60 | 909 | 7 |
| Net revaluation result | -1.524 | 11.745 | -13 |
| Dividends | 1.121 | 9 | 12.139 |
| Other income from equity investments and bonds | 0 | 24 | 0 |
| **Total result from equity investments and bonds** | **-343** | **12.687** | **-3** |

Income from inventories relates almost entirely to inventories of real estate. The sales income of €40,4 million (the carrying amount of which was €32,2 million), almost eight times as much as in H1 2016, displays the full result of accelerated and successful sale of real estate in H1 2017. BAMC also increased income from temporary renting inventory of real estate to €1,2 million but recorded a €5,7 million of decrease in value of inventory of real estate due to revaluation.

As at 30 June 2017 BAMC estimated a surplus in the estimated net realisable value of inventory of real estate over the historical cost thereof in the amount of €12,8 million. In accordance with IFRS, this amount is not disclosed as revaluation income, but will be recognised as sales income when BAMC sells the real estate in question.

With repossessions from collateralised claims continuing, BAMC's real estate portfolio retained its size despite large sales, keeping real estate management costs at a level of €4,3 million in H1 2017. Notably, more than half of real estate management costs were attributable to capex-like and real estate transaction costs, while most of the remaining costs related primarily to the maintenance of real estate, security and taxes.

TABLE 10: RESULT FROM INVENTORIES

| in € thousand | 1 Jan 2017 to 30 Jun 2017 | 1 Jan 2016 to 30 Jun 2016 | Index H1 2017/H1 2016 |
|---|---|---|---|
| Income from rents | 1.168 | 768 | 152 |
| Income from inventories sold | 40.385 | 5.312 | 760 |
| Cost of inventories sold | -32.242 | -3.887 | 829 |
| Net revaluation result from inventories | -5.683 | -14.474 | 39 |
| Real estate management costs | -4.293 | -1.223 | 351 |
| of these real estate transaction costs | -623 | -62 | 999 |
| of these capex-like real estate management costs | -1.722 | -175 | 1.013 |
| **Total result from inventories** | **-665** | **-13.503** | **5** |

**NOTE:** Real estate management costs part of "Operating costs" in Table 7 are included here.

Following debt repayments in 2016 and partial refinancing with much less expensive borrowing from the commercial market (backed by guarantee from the Republic of Slovenia) in December 2016 the costs of financing reduced significantly in H1 2017, by €13,5 million compared to H1 2016. Lower debt level also facilitated lower guarantee fee payments in the respective period.

TABLE 11: RESULT FROM FINANCIAL EXPENSES

| in € thousand | 1 Jan 2017 to 30 Jun 2017 | 1 Jan 2016 to 30 Jun 2016 | Index H1 2017/H1 2016 |
|---|---|---|---|
| Interest expenses from debt securities and borrowings | -6.254 | -19.036 | 33 |
| Guarantee fees | -5.460 | -6.573 | 83 |
| Other financial expenses | -476 | -101 | 470 |
| **Total financial expenses** | **-12.190** | **-25.710** | **47** |

Overall, operating costs in H1 2017 were €2,0 million lower than in H1 2016, reducing in all categories but costs of services which were in turn driven by real estate management costs mostly stemming from capex-like costs related to necessary investments in the stock of real estate (notably Celovški dvori and Nokturno) prior to offering it in the market.

TABLE 12: OPERATING COSTS

| in € thousand | 1 Jan 2017 to 30 Jun 2017 | 1 Jan 2016 to 30 Jun 2016 | Index H1 2017/H1 2016 |
|---|---|---|---|
| Costs of material | -61 | -138 | 44 |
| Costs of services | -7.512 | -5.273 | 142 |
| Labour costs | -4.181 | -6.223 | 67 |
| Depreciation | -115 | -447 | 26 |
| Other expenses | -260 | -2.035 | 13 |
| **Total operating costs** | **-12.129** | **-14.116** | **86** |

**NOTE:** Costs of services in this table include all services rendered to BAMC. Thereof real estate management costs are included in Table 10 and other costs of services are presented in more detail in Table 13.

Excluding real estate management costs, all main cost categories displayed drastic reductions in H1 2017. The only one that increased, costs of outsourced back office and accounting services, did so because in H1 2016 back office services, which are provided to BAMC by NPL Port, had not yet been structured in such a way but were, prior to the reorganisation in the middle of 2016, performed in-house causing therewith related larger labour costs.[7]

[7] With merging Probanka in early 2016, BAMC insourced the back office services, which had been previously provided by Probanka, for five months. In June 2016, BAMC established the technical company NPL Port to which IT and back office services related to credit management were transferred.

Labour costs fell by a third in H1 2017 due to continued downsizing constantly in place since the reorganisation after the merger of Factor banka and Probanka in 2016. The average headcount reduced by 19% from 195 in H1 2016 to 158 in H1 2017[8].

TABLE 13: OTHER RESULT WITHOUT REAL ESTATE

| in € thousand | 1 Jan 2017 to 30 Jun 2017 | 1 Jan 2016 to 30 Jun 2016 | Index H1 2017/H1 2016 |
|---|---|---|---|
| Other income | 1.176 | 147 | 798 |
| Costs of material | -61 | -138 | 44 |
| Costs of services | -3.218 | -4.050 | 79 |
| Costs of outsourced back office and accounting services | -809 | -334 | 242 |
| Advisory fees | -991 | -2.186 | 45 |
| of these equity transaction costs | -124 | -347 | 36 |
| Other service costs | -1.418 | -1.530 | 93 |
| Depreciation | -115 | -447 | 26 |
| Labour costs | -4.181 | -6.223 | 67 |
| Other expenses | -260 | -2.035 | 13 |
| **Other result** | **-6.660** | **-12.745** | **52** |
| **Other result without transaction and merger-related costs** | **-6.536** | **-12.399** | **53** |

**NOTE:** Real estate management costs are not included here among "Costs of services" but rather in Table 10.

In the process of liquidating its assets BAMC also incurs transaction costs related to sales and sale-consultancy success fees which are also included in the costs of services. These amounted to €0,7 million in H1 2017 as presented in Table 14.

TABLE 14: TRANSACTION COSTS

| in € thousand | 1 Jan 2017 to 30 Jun 2017 | 1 Jan 2016 to 30 Jun 2016 |
|---|---|---|
| Real estate transaction costs | 623 | 62 |
| Equity transaction costs | 124 | 347 |
| **Total transaction costs** | **747** | **409** |

[8] The number of employees in NPL Port, a service company to which back office services were outsourced, was 21 as at 30 June 2017.

## BALANCE SHEET

TABLE 15: BALANCE SHEET SUMMARY

| in € million | 30 Jun 2017 | 31 Dec 2016 | Index 2017/2016 |
|---|---|---|---|
| **Assets** | **1.124,2** | **1.370,4** | **82** |
| Loans | 783,5 | 948,1 | 83 |
| Real estate | 188,3 | 197,7 | 95 |
| Equity | 98,0 | 96,9 | 101 |
| Cash and equivalents | 40,9 | 122,3 | 33 |
| Other | 13,5 | 5,4 | 250 |
| **Liabilities** | **1.027,6** | **1.291,0** | **80** |
| Bonds | 549,0 | 548,9 | 100 |
| Borrowings | 442,1 | 714,6 | 62 |
| Other | 36,6 | 27,5 | 133 |
| **Equity** | **96,5** | **79,4** | **122** |

**NOTE:** "Loans" category also includes minor leasing holdings.

### ASSETS

BAMC's total assets decreased by €246,2 million (18%) in H1 2017 and stood at €1.124,2 million at mid-year. The reason for this were a 164,7 million reduction in loans following successful liquidations and €81,4 lower cash holdings as a consequence of tighter liquidity policy and early debt repayments.

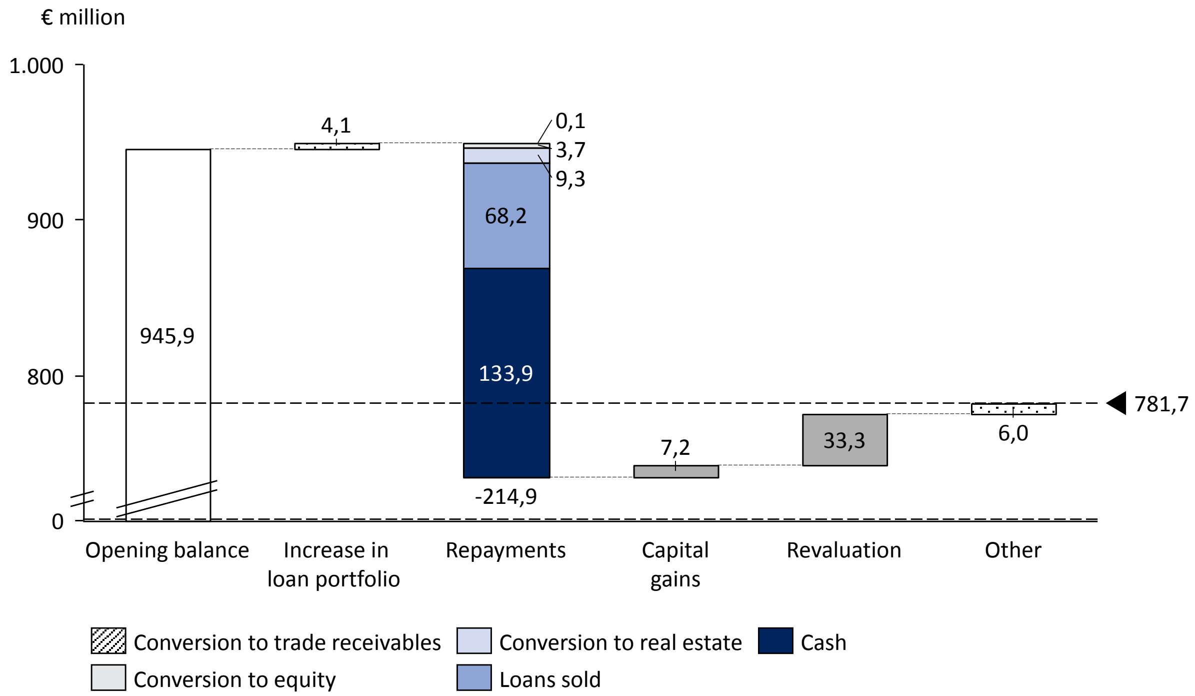
#### *LOANS*

Loans accounted for the highest proportion of BAMC's assets as at 30 June 2017. The value of loans totalled €783,5 million at mid-year, a decrease of 17,4% relative to the balance at the end of the previous year.

Repayments of loans in H1 2017 amounted to €214,9 million and include cash repayments in the amount of €133,9 million, sales of loans in the amount of €68,2 million, €9,3 million of debt to real estate conversions and €3,7 million of debt to equity conversions. On the other hand, BAMC granted some new loans and purchased certain loans from other creditors which increased the total value of the loan portfolio by €4,1 million. The revaluation effect increased the loan balance by €33,3 million.[9]

[9] The €33,2 million loan revaluation reported in Table 8 additionally includes revaluation result of the small leasing portfolio.

FIGURE 21: LOAN MOVEMENT IN H1 2017




**NOTE:** The presented loan movement does not include leasings which constitute the collective amount in the upper balance sheet summary.

### *INVENTORY OF REAL ESTATE AND EQUIPMENT*

BAMC discloses all real estate that it holds, except fixed assets, as inventory of real estate, representing the predominant part of inventories. In accordance with IFRS, the stock of real estate is disclosed at the lower of net realisable value or its historical cost.

At mid-2017, BAMC disclosed a carrying amount of real estate stock of €188,3 million while the estimated net realisable value of all inventory of real estate was €201,1 million. The carrying amount of real estate was down only €9,4 million in H1 2017 despite considerable sales in the period as BAMC continued to repossess real estate pledged to it as collateral from bankruptcy proceedings in order to offer them in the market as soon as possible.

### *EQUITY INVESTMENTS*

The fair value of equity investments in BAMC's ownership amounted to €98,0 million at 30 June 2017 and did not change much on the aggregate level but has seen both upward and downward revaluations within the portfolio, dependent on the performance and sales prospects of ownership stakes owned.

### *TRADE AND OTHER OPERATING RECEIVABLES*

Trade and other operating receivables represented the prevailing share of "other" assets with €12,3 million at 30 June 2017. Among them were €6,7 million of paid security payments and €2,7 million receivables from taxes towards the state.

### *LIQUIDITY MANAGEMENT*

In accordance with the liquidity policy adopted by the Board, BAMC manages liquidity with the aim of settling all of its obligations at maturity. When managing its liquid assets, BAMC takes into account the principles of security, liquidity and profitability, in the order specified.

BAMC had €40,9 million in cash and cash equivalents at its disposal at mid-2017. Any surplus funds available in H1 2017 were used for reducing debt ahead of schedule.

## LIABILITIES

BAMC financed its assets at 30 June 2017 mainly through debt sources, more precisely via liabilities in the amount of €1.027,6 million. The majority of liabilities are accounted for by issued bonds with Slovenian government guarantee that BAMC used to finance transfers of non-performing assets and loans towards various banks for which the Republic of Slovenia bears either subsidiary liability or provides an explicit guarantee.

### *LIABILITIES FROM BONDS AND LOANS*

After repaying DUT02 bond in full in December 2016, BAMC still had two outstanding bond issues at 30 June 2017 in the amortised amount of €549,0 million. Borrowings and other financial liabilities amounted to €442,1 million at mid-2017. With regular and early repayments BAMC decreased its borrowing exposure for €272,5 million in H1 2017.

TABLE 16: OUTSTANDING FINANCIAL OBLIGATIONS AS AT 30 JUNE 2017

| Financial instrument | Amount issued (in € million) | Amount outstanding | Interest rate | Issued | Interest payment | Maturity |
|---|---|---|---|---|---|---|
| DUT03 bond | 424,6 | 422,9 | 1,50% | Oct 2014 | Half-yearly | Dec 2017 |
| DUT04 bond | 127,0 | 125,8 | 1,38% | Dec 2014 | Half-yearly | Dec 2017 |
| Commercial loan | 200,0 | 200,0 | - | Dec 2015 | Quarterly | Dec 2017 |
| Commercial loan | - | 2,0 | - | upon merger | Half-yearly | May 2018 |
| Commercial loan | 355,0 | 81,5 | - | Dec 2016 | Quarterly | Dec 2021 |
| Commercial loan | 150,0 | 135,0 | - | Dec 2016 | Half-yearly | Dec 2021 |
| Commercial loan | 18,0 | 18,0 | - | Feb 2017 | Bullet | Dec 2017 |

**NOTE:** Nominal amounts without accrued interest reported in the table. Interest rates on commercial loans are not individually disclosed.

All financial obligations, expect the ones acquired with the merger and the 2017 commercial loan, are guaranteed by the Republic of Slovenia.

### *OTHER LIABILITIES AND PROVISIONS*

Other liabilities and provisions amounted to €36,6 million at 30 June 2017. The balance from the end of 2016 increased by €9,0 million and includes provisions for potential losses in lawsuits and issued guarantees in the amount of €11,4 million, €9,9 million of accounts payable relating to real estate purchases and received advanced and security payments in the amount of €9,1 million as the biggest items.

### EQUITY

BAMC's equity totalled €96,5 million at 30 June 2017 which is €17,1 million more than at the end of 2016. In the absence of extraordinary and events which would have a direct effect on equity the increase corresponds to the net profit in the period.

### VALUATION OF ASSETS

BAMC assesses the fair value of assets using an internal asset valuation methodology.

Most of the value in BAMC's portfolio is driven by the value of the underlying assets that is mainly pledged real estate and equity. The valuation of these assets is done based on the valuation methods which are also widely used by external valuators, i.e. mainly income and market approach. The discount rates used in this context reflect the estimated cost of capital for an average market investor.

The valuation of loans with a restructuring strategy is based on the binominal real option pricing model. In addition to the main restructuring scenario collateral values are also considered as an exit option. These are a safety net representing the outcome in case of restructuring failure. The riskiness of the loan is taken into account through the probabilities of the two scenarios instead of the discount rate. As the risk is accounted for separately, the discount rate in this context represents only the time value of money for BAMC.

For small credit exposures (lower than €300 thousand gross) the Expected loss model is used. Expected loss is influenced by the estimated probability of default and the value of the potential fall-back scenario in case the default occurs. The latter represents the value of the collateral pledged for loans of each borrower.

BAMC discloses changes to the fair value of loans, real estate stock and equipment, equity investments and bonds through profit and loss as revaluation. The assessed fair values of assets represent one of the key quantitative information inputs that BAMC takes into account when adopting decisions.

# RISK MANAGEMENT

## RISK MANAGEMENT SYSTEM AND MODEL

BAMC is exposed to numerous risks that could impact the financial or operational efficiency and have a negative effect on the value of capital. With the help of an effective risk management system BAMC can identify, measure, monitor and control the identified risks. This allows BAMC to lower and limit the impact of risks in order to fulfil its strategic goals. The risk management system is established on all levels of business management and decision-making processes. A risk management model is established with the Risk management policy, where good practices are set as general guidelines.

### PARTICIPANTS IN RISK MANAGEMENT

All BAMC employees are part of the risk management system in their daily operations. However, Risk management policy ensures a systematic approach in addressing key risks. In addition, compliance provides an overview on compliance rules and standards and informs employees regarding changes in the relevant legislation and internal acts. Compliance is a key body in preparing an integrity plan, and measures for identification and prevention of corruption risks and the risk of other wrongdoing or unethical conduct. Internal audit encompasses the evaluation of adequacy and effectiveness of risk management and internal controls as well as the quality of performance carrying out assigned responsibilities to achieve the organization's stated goals and objectives and provides an overall view on risk management on all levels of BAMC.

### RISK IDENTIFICATION

All employees are actively involved in identifying key risks for their business units and BAMC as a whole. This allows the risk management system to be adjusted to business processes and be consistent with BAMC's operational goals. The process of risk management is based on business processes, where risk owners and owners of business processes are actively involved in monitoring and estimation of risk (bottom-up approach). Role of the risk manager is to prepare a model and methodology and to associate all activities for risk mitigation with business owners. In addition, the management of BAMC adopts a "risk appetite" and shows guidelines with adoption of strategic and business decisions both for risk management department and process owners (top-down approach).

### RISK ESTIMATION

The risk management model is based on estimation of risk as a product of probability for such risk to realize and value or impact which would be caused for BAMC. Probability of occurrence is estimated based on historic data or frequency of such event to realize. Value of such risk is estimated according to the impact on BAMC operations, financial impact or any distress in business processes or to BAMC's reputation. Both, probability and value of risk, are estimated on a five-point scale which allows for clear and objective intensity of risks. In that way, risks are mitigated and monitored as a result of an objective analysis and not as a subjective opinion.

### RISK CATALOGUE

The risk catalogue was reviewed and amended in 2017 with main identified risks together with their estimation, mitigation and monitoring of impact of risks over time. Risk catalogue represents identified risks based on estimation of heads of departments, identified loss events, performed surveys among employees and is reviewed on a half-yearly basis. Each identified risk has a determined risk mitigation, total estimation of risk is regularly monitored.

### LOSS EVENTS MONITORING

Important role in risk management is monitoring of occurred loss events. BAMC categorises a loss event as each event which has a (potential) negative financial consequence for BAMC. Loss events show direct sign of necessary attention needed in such processes in order to lower the loss, caused by such event, and/or to prevent re-occurrence of such events. All employees are part of reporting of identified risks and loss events and have an important role in risk management system with their proposals to mitigate risks and loss events.

### RISK AND COMPLIANCE MANAGEMENT COMMITTEE

Risk and compliance management committee operates with systematic approach to risk management. The committee on an executive level is held on a quarterly basis or is convened if necessary, and it provides a prompt reaction to most important risk and compliance issues. Participants of the committee are risk owners of key business processes, which leads to maximal operability of the committee.

### INTERNAL CONTROL SYSTEM

Special attention of risk management was devoted to increased and empowered internal control system. The risk management department is involved in regular reporting system and has provided additional four-eye principle in key business processes, such as valuation of assets, and several risk reviews in decision-making process. The impact of internal controls is expected to be increased.

## INTERNAL AUDIT

The internal audit by definition is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Following this definition, the objective of BAMC's internal audit function is to represent a value adding activity to the company and helping the company achieve its goals. The internal audit function is reporting directly to the Board, which approves its audit charter, audit plan as well as budget and resource plan. The work of internal audit function adheres to the mandatory guidance of The Institute of Internal Auditors and The Slovenian Institute of Auditors.

The key focus of internal audit function is to contribute to the effectiveness and efficiency of the internal control system of BAMC through audit and advisory assignments. Besides following the accepted plan, the internal audit function is involved in day-to-day operations of BAMC through open discussions with employees who are seeking advice, wish to discuss the internal control and risk management issues or are trying to test their ideas with someone who can respond to informed questions and suggest workable solutions.

In the beginning of 2017, two internal auditors joined the Internal audit department. After getting to know the organization and its specifics they started with their internal audit work.

The work plan for the department was prepared and approved already in the end of 2016, with a key focus on the review of areas that have not yet been covered in previous years or were not covered sufficiently (the use of restructuring instruments, evaluation process and decision-making process). In addition to defining tasks started in previous years (procurement process and closing of cases), special attention was paid to the real estate segment of the pledged assets as well as those owned by BAMC.

At the end of April 2017, the Management Board adopted decisions on the start of two extraordinary internal audit tasks. The first is intended for independent monitoring of the course of the inventory and computerization of the collateral database, while the second special task aims to review the sales procedures performed and to identify any improvements.

At the beginning of 2017, the IAF Work Manual, where all IAF documentation is gathered, templates and approaches prepared and the methodologies used in previous years, was confirmed and came into force. Through the whole year Head of Internal Audit extensively supported investigation work that started in the two merged banks and which BAMC is, parallel to investigations under ZUKSB, required to proceed.

## KEY RISKS AND THEIR MITIGATION

Most important identified risks categorised as strategy, operational, reputational and financial risks are presented below.

### STRATEGY RISKS

#### *RISK OF UNSUCCESSFUL IMPLEMENTATION OF THE OPTIMAL RESTRUCTURING STRATEGY*

**Estimated risk exposure**

| Very low | Low | Medium | High | Very high |
|---|---|---|---|---|
| | | | | |

BAMC denoted 70 indebted companies with a restructuring strategy at the end of June 2017. BAMC will opt for the restructuring strategy in cases where financial and operational restructuring would yield a higher value compared to the disposal value of the collateral. There is a risk, however, that the restructuring will not be successful and that the recovery strategy will have to be used instead, or that the planned cash flows will not materialise in the amount and/or timing planned which would result in lower result from loans. This risk can materialise either due to developments in the macroeconomic environment or due to failed financial, and in most cases strategic and operational restructuring of the debtors. BAMC is managing this risk by active case management, corporate governance and strict performance monitoring of restructuring cases.

## Operational risks

### *Risk of error in legal proceedings*

**Estimated risk exposure**

| Very low | Low | Medium | High | Very high |
|---|---|---|---|---|

Particularly in debtor companies where BAMC is implementing the recovery strategy there is a risk that BAMC might miss the deadlines in judicial procedures involving foreclosure. BAMC may thus lose its rights for repayment through disposal of collateral. In order to lower that risk, a four-eye principle was introduced which inlcudes the involvement of a lawyer and a case manager.

Additionaly, new regulations on Court mail, monitoring of deadlines, deadlines for provision of documentation for insolvency proceedings and for enforcement proceedings are being prepared and will be effectuated until end of 2017. Certain changes will be the result of automation of the process of sending insolvency mail. Case manager have to review the content of the registration of the claims in insolvency procedure. The next check should be a review of the basic list of tested claims and the review of the final list of the tested claims.

## Reputational risk

**Estimated risk exposure**

| Very low | Low | Medium | High | Very high |
|---|---|---|---|---|

Reputational risk is a risk of loss resulting from damages to a firm's reputation. In case of BAMC it can be shown as negative public, political or industry opinion that can impact its core business activities and undermine BAMC's ability to achieve its objectives. BAMC's reputation could be damaged as a result of an actual or perceived manner in which BAMC conducts its operations. Negative opinion could be created due to increased operational costs, loss of significant legal cases, leak of information and in case of fraudulent actions. Adverse media publications, often incentivised by interested stakeholder groups, could also result in significantly negative perception of BAMC's efforts to meet its objectives.

Reputation and credibility of BAMC when dealing with debtors, stakeholders involved in other cases or potential buyers can also be severely damaged by unexpected Government decisions, instructions on its operations or other institutions.

## FINANCIAL RISKS

### *LIQUIDITY RISK*

**Estimated risk exposure**

| Very low | Low | Medium | High | Very high |
|---|---|---|---|---|
| | | | | |

Liquidity risk is the risk that BAMC will not be able to meet its financial obligations as they fall due. BAMC ensures maximum possible liquidity by always having sufficient liquid assets to meet its liabilities when due, under both normal and demanding conditions, without incurring unacceptable losses or risking damage to its reputation. The key liquidity risk for BAMC is the repayment of issued debt.

In December 2017, two bond issues and a commercial loan mature in the total amount of €766,7 million. Additionally, over €100 million of debt from two commercial loans taken in December 2016 amortize in 2017. BAMC is planning to repay its obligations with liquidity reserves generated from asset management and part by refinancing with state guarantee.

# BAMC SHARE

As at 30 June 2017 BAMC had share capital in the amount of €104.117.500 recorded in the companies register, comprising 104.117.500 ordinary, freely transferable, no-par-value registered shares. Each no-par value share has the same holding, and the same corresponding amount in the share capital. All the issued shares were paid up in full.

TABLE 17: BASIC INFORMATION ON BAMC'S SHARE

| | |
|---|---|
| Ticker symbol | DUTR |
| Class | ordinary, freely transferable, no-par value registered shares |
| Exchange quotation | not quoted |
| Share capital | €104.117.500 |
| Number of shares | 104.117.500 |
| Number of shareholders | 1 |
| Owner | Republic of Slovenia |

**NOTE:** Data as at 30 June 2017.

There were no changes in the ownership structure in H1 2017.

## REPORTING ON SUSPICIONS OF CRIMINAL ACTIVITIES AND COURT OF AUDIT COOPERATION

In accordance with the ZUKSB and the Guidelines, BAMC is duty-bound to determine the liability for the creation of loans and investments that have been transferred from banks to BAMC as risk-bearing items, for the transfer of risk-bearing items offers BAMC an insight into the loan files of individual bank debtors. In addition, BAMC also determines the liability for the creation of loans and investments, which BAMC manages since the merger of Factor banka in Probanka. Where there is a suspicion that risk-bearing items have been created as a result of a criminal act in connection with the actions of the members of bank management and supervisory bodies, bank supervisory bodies themselves or borrowers, Article 7 of the Guidelines requires BAMC to report this to the competent authorities.

BAMC is making efforts to successfully and comprehensively collaborate with law enforcement bodies and therefore cooperates with the National Investigation Bureau (hereinafter: NPU) and the Specialized State Prosecutor's Office of the Republic of Slovenia. BAMC has registered 11 additional irregularities in the first half year of 2017, bringing the total number to 68. In accordance with the agreed and established way of communication, BAMC frequently requests additional information from NPU regarding the name of cases/matters where criminal investigation was already initiated. BAMC has prepared seven criminal incidents in this time, which were reported for further investigation.

In 2016 the Court of Audit began its audit of BAMC's operations in 2014 and 2015. In order to facilitate easier and faster cooperation a standardised communication channel was agreed and established. In relation to the audit in question BAMC received seven information requests from the Court of Audit containing 342 questions and sub-questions in the first half of 2017, and has tried to be as prompt as possible in providing answers, explanations and documentation requested.

# FINANCIAL STATEMENTS OF BAMC FOR THE PERIOD 1 JANUARY 2017 TO 30 JUNE 2017

TRANSLATION OF THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SLOVENIAN LANGUAGE.

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management hereby confirms that the condensed financial statements for the six months ended 30 June 2017, including all its components, have been prepared in accordance with the Companies Act and amendments of the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (ZUKSB-A).

BAMC is, according to Article 4. (3) of ZUKSB-A, exempt from consolidating or equity accounting the companies whose assets were acquired by means of purchase / compensated acquisition of bank assets, or as part of corporate restructuring. Therefore consolidated financial statements were not prepared and equity accounting was not used for investments in associates. As per article 4. (5) of ZUKSB-A, BAMC in its financial accounting and reporting observes requirements of International Financial Reporting Standards.

The management hereby confirms that the relevant accounting policies were consistently applied in the compilation of the financial statements. The accounting estimates were made according to the principle of prudence and the diligence of a good manager. The management confirms that the financial statements, prepared in accordance with ZUKSB-A Article 4 (3) & (5), present fairly, in all material respects, the financial position of BAMC and of the outcomes of its operations for the period from 1 January 2017 to 30 June 2017.

The financial statements, together with the notes, have been prepared on a going concern basis, and in accordance with the current Slovenian legislation, all assets and liabilities are valued in accordance with ZUKSB-A.

The tax authorities may audit the operations of BAMC at any time from the day of the tax statements, which could result in an additional tax liability, default interest and fines for corporate income tax or for other taxes or levies. The management is not aware of any circumstances that could give rise to a potential material liability in this respect.

Ljubljana, 22 September 2017

| | | |
|---|---|---|
| Aleš Koršič | Janez Škrubej | Imre Balogh |
| Executive director | Executive director | Chief executive officer |

# FINANCIAL STATEMENTS

## BALANCE SHEET OF BAMC FOR THE PERIOD ENDED AS AT 30 JUNE

| in € thousand | Note | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|---|
| Intangible assets | | 151 | 213 |
| Property, plant and equipment | | 118 | 139 |
| Financial assets at fair value through profit or loss | | 881.318 | 1.045.060 |
| Loans | 1 | 781.676 | 945.947 |
| Leasing | | 1.616 | 2.168 |
| Equity investments and bonds | | 98.026 | 96.945 |
| Inventories of property and equipment | | 188.310 | 197.677 |
| Trade and other operating receivables | | 12.716 | 4.768 |
| Deferred costs | | 662 | 280 |
| Cash and cash equivalents | | 40.904 | 122.261 |
| **Total assets** | | **1.124.178** | **1.370.398** |
| Total Equity | | 96.529 | 79.443 |
| Share capital | | 104.118 | 104.118 |
| Capital reserves | | 0 | 154.117 |
| Accumulated losses | | -7.589 | -178.792 |
| Total liabilities | | 1.027.649 | 1.290.955 |
| Debt securities | | 548.980 | 548.855 |
| Borrowings | | 442.098 | 714.555 |
| Trade and other operating payables | | 22.128 | 12.199 |
| Provisions | | 12.059 | 12.824 |
| Other liabilities | | 2.383 | 2.522 |
| **Total equity and liabilities** | | **1.124.178** | **1.370.398** |

## INCOME STATEMENT OF BAMC FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE

| in € thousand | **1 Jan to 30 Jun 2017** | **1 Jan to 30 Jun 2016** |
|---|---|---|
| Income from loans | 36.946 | 33.670 |
| Income from equity instruments and bonds | -343 | 12.687 |
| Income from inventories of property and equipment | 3.628 | -12.280 |
| Financial expenses | -12.190 | -25.710 |
| Other income | 1.176 | 148 |
| Cost of material | -61 | -138 |
| Cost of services | -7.512 | -5.273 |
| Payroll costs | -4.181 | -6.223 |
| Depreciation | -115 | -447 |
| Other expenses | -260 | -2.035 |
| **Profit / loss before tax** | **17.086** | **-5.602** |
| Income tax expense | | |
| **Net profit / loss for the period** | **17.086** | **-5.602** |
| Attributable to owners | 17.086 | -5.602 |
| Basic and diluted earnings per share | 0,16 | -0,06 |

## Statement of other comprehensive income of BAMC for the period from 1 January to 30 June

| in € thousand | 1 Jan to 30 Jun 2017 | 1 Jan to 30 Jun 2016 |
|---|---|---|
| Net profit / loss for the period | 17.086 | -5.602 |
| Items that are reclassified to profit or loss (revaluation surplus of financial assets available for sale) | 0 | -58.685 |
| Income tax relating to revaluation surplus of financial assets available for sale | | 9.976 |
| **Other comprehensive income for the period, net of tax** | **17.086** | **-48.709** |
| **Total comprehensive gain / loss for the period attributable to owners** | **17.086** | **-54.311** |

## Statement of changes in equity of BAMC for the period from 1 January to 30 June

| in € thousand | Share capital | Capital reserves | Accumulated loss | Total equity |
|---|---|---|---|---|
| **Balance as at 1 January 2017** | **104.118** | **154.117** | **-178.792** | **79.443** |
| Covering accumulated loss using capital reserves | 0 | -154.117 | 154.117 | 0 |
| Total comprehensive result for the period after tax | 0 | 0 | 17.086 | 17.086 |
| Net profit/ loss | 0 | 0 | 17.086 | 17.086 |
| **Balance as at 30 June 2017** | **104.118** | **0** | **-7.589** | **96.529** |

| in € thousand | Share capital | Capital reserves | Accumulated loss | Total equity |
|---|---|---|---|---|
| **Balance as at 1 January 2016** | **0** | **-88.758** | **114.867** | **0** |
| Transaction with owner | | | | |
| Merger | 17.725 | -32.107 | -14.382 | 17.725 |
| Total comprehensive loss for the period after tax | 0 | -54.311 | -54.311 | 0 |
| Net profit/ loss | 0 | -5.602 | -5.602 | 0 |
| Items that are reclassified to profit or loss, after tax | 0 | -48.709 | -48.709 | 0 |
| **Balance as at 30 June 2016** | **203.625** | **17.725** | **-175.176** | **46.174** |

## STATEMENT OF CASH FLOWS OF BAMC FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE

| in € thousand | **1 Jan to 30 Jun 2017** | **1 Jan to 30 Jun 2016** |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit or loss | 17.086 | -5.602 |
| Adjustments for: | | |
| Amortization and depreciation | 115 | 446 |
| Write down of inventories | 5.683 | 14.473 |
| Foreign exchange differences | 886 | 14 |
| Interest | 12.190 | 25.710 |
| | **35.960** | **35.041** |
| Changes in: | | |
| Loans and receivables | 163.937 | -185.401 |
| Equity investments | -1.081 | -43.950 |
| Available for sale financial assets | | 2.352 |
| Inventories of property and equipment | 3.684 | -89.244 |
| Trade and other operating receivables | -7.948 | 3.644 |
| Deferred costs | -382 | -331 |
| Trade and other operating payables | 9.929 | 10.259 |
| Provisions | -765 | 0 |
| Other liabilities | -139 | 1.965 |
| **Net cash from operating activities** | **203.197** | **-265.665** |
| **Cash flow from investing activities** | | |
| Purchase of equipment and intangible assets | -32 | -5.290 |
| **Net cash flow from investing activities** | **-32** | **-5.290** |
| **Cash flow from financing activities** | | |
| Increase of borrowings | 18.000 | 388.141 |
| Repayment of borrowings | -291.011 | -182.059 |
| Interest paid | -11.511 | -13.946 |
| **Net cash flow from financing activities** | **-284.522** | **192.136** |
| **Net increase (decrease) in cash and cash equivalents** | **-81.357** | **-78.819** |
| **Cash and cash equivalents at the beginning of period** | **122.261** | **166.132** |
| **Cash and cash equivalents at the end of period** | **40.904** | **87.313** |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1: INTRODUCTION

### *VALUATION OF ASSETS AT INITIAL RECOGNITION*

According to the ZUKSB and the Decree on the Implementation of Measures to Strengthen the Stability of Banks (the Decree), the acquisition price of loans and receivables transferred in 2013 and 2014 from four banks of systemic importance (NLB, NKBM, Abanka and Banka Celje) was determined by the state and the European Commission. BAMC was not involved in the process of determination of the acquisition prices. BAMC was informed only that the transfer value (acquisition price) was determined according to the first bullet of paragraph one of Article 26, as set out in the Decree, which states that the transfer value comprises the value of the assets as determined by the European Commission and that the result of the asset valuation includes the management and financing costs. BAMC followed the guidance of IAS 39 and IFRS 13 which requires all financial assets to be recognized initially at fair value. All transferred assets were valued at fair value using an internal asset valuation methodology. The differences between the transfer values (acquisition prices) and fair values were recognized in retained earnings as a transactions with the owner.

### *FINANCING OF ASSET ACQUISITION*

BAMC issued four series of state-guaranteed bonds for each exchange of the NPLs transferred from banks (NLB, NKBM, Abanka, Banka Celje) in years 2013 and 2014. The bonds were at their issuance listed on the Ljubljana Stock Exchange and were also accepted as collateral for the Eurosystem liquidity operations.

On 23 August 2016 BAMC listed DUT03 and DUT04 bonds on the non-regulated Third market of the Vienna Stock Exchange. Following the decisions of bondholders' general meetings, Ljubljana Stock Exchange delisted the DUT02 bond on 1 September 2016 and DUT03 and DUT04 bonds on 9 September 2016.

In December 2016, BAMC redeemed the matured bond DUT02 and settled all financial liabilities assumed in the merger of Factor banka and Probanka, which the BAMC partially refinanced by state-guaranteed borrowings from two commercial banks.

## NOTE 2: BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### *2.1 GENERAL*

The financial statements have been prepared in accordance with the ZUKSB and the Slovenian Companies Act.

In December 2015, the ZUKSB-A10 was amended to exempt BAMC from consolidating and accounting following the equity method for all entities, over which it has control, joint control or significant

[10] In further text used ZUKSB

influence, and were acquired during the initial asset transfer and / or restructuring process as envisaged by the ZUKSB. Therefore, in line with ZUKSB consolidation exemption, BAMC has not prepared consolidated accounts and has not used the equity method for investments in associates. For these reasons these financial statements are not prepared in full compliance with IFRS. Apart from equity stake acquired to ZUKSB measures BAMC does not own any other material equity stakes.

Notwithstanding the above consolidation exemption, the ZUKSB sets out the basis of preparation of financial statements by incorporating, through cross-reference, all other pronouncements of the International Accounting Standards Board, referred to collectively as International Financial Reporting Standards (IFRS), which have been endorsed by European Union (EU) and are effective at the reporting date. For this reason, the notes to the financial statements may, at certain points, make reference to specific pronouncements of the IASB; however, it is important to emphasize that the consolidation exemption described above, overrides the requirements for consolidation under IFRS 10.

Details of the Company's accounting policies, are included hereinafter. These policies have been applied consistently in all years presented, unless otherwise stated.

The financial statements were prepared on a going concern basis. Management estimates that BAMC's lifespan, which is limited to the end of 2022, is sufficient to achieve the mission set under the ZUKSB i.e. to recover value from transferred asset without forced sale of assets and to fully repay all its liabilities.

Financial statements are prepared as separate financial statements of BAMC, Ljubljana.

BAMC recognizes and analyses revenues and incurred expenses at the level of individual asset classes (e.g. loans, equity investments and inventories of property and equipment). Management also regularly reviews the operating results on the level of the above mentioned asset classes. Nevertheless management considers all operations and activities, related to the mentioned asset classes, as interwoven and does not recognize and disclose them as separate operating segments.

### 2.2 BASIS OF MEASUREMENT

The financial statements have been prepared on a cost basis, except for financial assets which are measured at fair value as described in note 4. Critical accounting estimates and judgments.

Fair value measurement of financial assets was elected to better reflect the values of the transferred non-performing loans over the limited life-span of the Company as prescribed by ZUKSB.

### 2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements have been prepared and are presented in euro, which is BAMC's functional currency. All accounting information are presented in thousands EUR.

All transactions are translated to EUR on the date of transaction, while the balances are translated to EUR on the date of financial statements.

### *2.4 USE OF ESTIMATES AND JUDGMENTS*

Preparing financial statements requires the application of estimates, judgements and assumptions which affect the application of accounting policies and the value of reported assets and liabilities, the disclosure of potential assets and liabilities as at the reporting date, and the amount of revenues and expenditure in the period then ended.

The estimates, judgments and assumptions are subject to regular review. As the assessments are subject to subjective evaluation and a certain degree of uncertainty, later actual results may vary from previous estimates. The changes in accounting estimates are recognized in the period in which they were changed if the change affects that period only, or in the period of the change and in future periods, if the change affects future periods.

Estimates and assumptions are especially present in the following considerations:

- fair value of loans and equity investments,
- net realizable value of inventories of property and equipment and potential write-down of inventories,
- provisions for obligations towards employees and provisions for liabilities arising from legal disputes,
- potential tax items,
- the value of financial assets and revenues generated from their sale will suffice to cover the repayment of bonds maturing in 2017 and financial liabilities maturing later, therefore the financial statements were prepared on a going concern principle,
- determination of current and non-current part of provisions,
- determination of current and non-current part of loans, due and not due loans,
- Conversions of loans and receivables into underlying collateral.

## NOTE 3: ACCOUNTING POLICIES OF SIGNIFICANT ACCOUNTANCY ITEMS

### *3.1 PROPERTY AND EQUIPMENT*

Property and equipment is recognized at cost, including transaction costs related to the purchase of the asset. Acquired software that is integral to the functionality of equipment and is purchased together with the equipment is capitalized as part of that equipment. After recognition as an asset, an item of property and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Annual depreciation rates are determined with regard to the estimated useful life of the assets. The estimated useful life of the equipment is two to three years, and the annual depreciation rate is thus between 33.3% and 50%. Amortization/depreciation is charged on a straight-line basis over the useful life of each item of property and equipment.

Assets are derecognised upon disposal, or when it is determined that no further economic benefits can be expected to accrue from the use of the asset. The gain or loss on the disposal of property, plant and equipment is determined by deducting the carrying amount of the asset from the receipts on disposal, the amount being recognised as other income/ through profit or loss.

In the event of a change of circumstance affecting the estimated useful life of the property and equipment, the effects are recognised through profit or loss.

### *3.2 Financial assets at fair value through profit or loss*

The company classifies loans held for sale or redemption and investments in participating interests as financial assets at fair value through profit or loss.

#### *A) Loans*

Loans are non-derivative financial assets with fixed or determinable payments not listed on an active market. With regard to expected cash flows, loans are classed as current (expected cash flows within 12 months of the date of the statement of financial position) and non-current (expected cash flow in period of more than 12 months from the date of the statement of financial position).

Loans are recognised on the day when and only when the Company becomes party to the contractual provisions in the financial instrument.

Loans are originally recognised at fair value. The transfer of non-performing loans from financial institutions to the BAMC, in accordance with the ZUKSB, was carried out between banks under the 100% ownership of the Slovenian government, which is also the 100% owner of the BAMC. For this reason the aforementioned transaction was regarded as a transaction between undertakings under joint control. All the effects of this transfer are recognised directly in equity as a transaction with owner.

Upon the takeover of non-performing loans in accordance with the ZUKSB, which was carried out in 2013 and 2014, all the loans were reviewed (legal and economic due diligence) and evaluated at fair value in line with the BAMC’s guidance for the valuation of loans presented in Note 4. Critical accounting estimates and judgments. Differences between the transfer and estimated fair values, on the day of transfer, are recognised in retained earnings as transactions with the owner.

The same accounting policies as in the takeover of loan and receivables from banks were applied by the company in the absorption of the portfolios of loans and receivables of the two banks under 100% government ownership. Loans were measured at fair value in line with the valuation policy, and differences between the transfer value and estimated fair values were recognised in retained earnings as transactions with the owner.

Loans bought on the market, under market conditions and loans granted to companies, representing BAMC's restructuring cases, are initially recognized at cost and subsequently measured at fair value. Granting new loans represent one of restructuring instruments under ZUKSB.

Loans are valued twice a year on the basis of the adopted valuation policy, and the effects of the valuations are recognised in profit or loss as revaluation revenues/expenses on the annual basis. The fair value of loans are calculated based on the Binominal Option Pricing Model (BOPM) except for loans smaller than €300 thousand gross; see Note 4 for further explanations.

The company derecognises a financial asset when and only when the contractual rights to receive cash flow from the financial asset expire or when the company transfers such rights together with all risks and rewards associated with ownership of the financial asset.

### *B) Equity investments and bonds*

Investments are measured at historical cost upon initial recognition. On the day of the merger of the two banks all merged equity investments were measured at fair value, in accordance with BAMC's valuation methodology regarding equity investments, presented in the Note 4. Positive and negative differences between measured equities fair values and merged equities values, were recognised in retained earnings as transactions with the owner, as at the day of the merger.

The fair value of equity investments are determined using the valuation method on enterprise value level e.g. FCFF (free cash flows to firm) or quoted prices for the equity instruments listed on active markets.

When shares owned by the BAMC are traded on the prime market of Ljubljana Stock Exchange, the price at the close of trading on the valuation date is used in valuation. If it is determined that the market price and/or volume of trading does not reflect the attainable levels with regard to the size of the BAMC holding, another method and/or discounting may be used, with appropriate arguments.

The effects of valuation are assessed twice a year, recognised directly through a reduction/increase in the carrying value and recognised in profit or loss as revaluation income/expenses.

### *C) Conversions of loans*

In the process of recovery of loans, these may be settled through the transfer of the underlying collateral. Loans may effectively be converted into an equity investment, a property or even equipment.

Converted asset is recognised at carrying amount of converted loan (measured at last valuation before conversion). The difference between conversion value and carrying value of converted loan is recognized as income from loans in the income statement.

All converted assets, except inventory of property and equipment, which are subsequently measured aa lower of cost and net realizable value, are subsequently measured at fair value in accordance with the relevant valuation policy (see Note 4).

### 3.3 *INVENTORIES OF PROPERTY AND EQUIPMENT*

The BAMC executes purchases and acquisitions of property in various insolvency proceedings for the sole purpose of realising transferred non-performing loans or optimizing the return on existing properties. Both acquired and purchased property is disclosed under inventories.

Inventories are valued at the lower of cost and net realisable value. Net realizable value is estimated as the fair value less the selling costs of the inventory.

Twice a year the company reviews the criteria, based on which the inventories are valued, to determine whether there is any objective evidence requiring the recognition of a write-down i.e. whether there has been a reduction in the expected future cash flow from the asset owing to one or more events.

When inventories are sold, their carrying amount is recognised as an expense in the period in which the revenue from the sale of the inventories is recognised. The amount of the reduction of the inventories to net realisable value is recognised as a write-down in the period the valuation of the inventories is reassessed. The amount deriving from an increase in the net realisable value of inventories is recognised to the extent that it is a reversal of an earlier write-down. The amount of reversal is limited to the amount of the original write-down, such that the new carrying amount is the lower of cost and the revised net realisable value.

On the day of the merger of the two banks, inventories of the banks were measured at net realizable value, in accordance with BAMC's valuation methodology regarding real estates, presented in the Note 4.C. Differences between the net realizable value of inventories of the merged banks and their transfer value were recognised within the retained earnings as transactions with the owner, as at the day of the merger.

### 3.4 *CASH AND CASH EQUIVALENTS*

Cash and cash equivalents include cash in bank balances and sight deposits maturing in less than 3 months, and other short-term and readily convertible instruments.

### 3.5 *FINANCIAL LIABILITIES*

Issued debt securities are initially recognised on the settlement date and measured at fair value. Subsequently are debt securities measured at amortised cost using the effective interest method.

All other financial liabilities are originally recognised on the trading date, i.e. when the company becomes party to contractual provisions in the financial instrument.

The company recognises loans as non-derivative financial liabilities. Such financial liabilities are originally recognised at fair value, plus all directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The fair value of non-derivative financial liabilities is calculated for disclosure purposes as the present value of future payments of principal and interest discounted at the market interest rate at the reporting date.

The company derecognises a financial liability when the commitments stipulated in the contract have been discharged, cancelled or have expired. Financial assets and liabilities are netted and the net amount is disclosed in the balance sheet if and only if the company has a legally enforceable right to net the recognised amounts, or to redeem the asset and simultaneously settle the liability.

### 3.6 Provisions

Provisions are recognised if, as a result of a past event, the company has a present legal or contractual obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### 3.7 Income

Income includes capital gains on surpluses of payments received in excess of the carrying amount of non-performing loans, and gains and losses on conversion of assets, dividend receipts, gains and losses on the remeasurement of financial assets at fair value through profit or loss, and exchange rate differences.

### 3.8 Finance expenses

Finance expenses include borrowing costs (including costs of guarantee fees paid to the Republic of Slovenia), recognised in the income statement using the effective interest rate method.

### 3.9 Corporate income tax

Corporate income tax is recognised in the financial statements in accordance with the regulations applicable to the end of the reporting period. Corporate income tax comprises current taxes and deferred taxes. Corporate income tax is included in net profit, except when it relates to items recognised in other comprehensive income or directly in equity.

Current tax liabilities are calculated on the basis of the taxable income for the year. The taxable income differs from the net profit reported in profit or loss insofar as it excludes revenues and expenses that are taxable or deductible in other years, and items that are never taxable or deductible.

A deferred tax asset is not recognised for the unutilised tax losses, if it is not probable that the future taxable income will be available against which the tax loss can be utilized. The Company regularly reviews the probability of the taxable income being available.

### 3.10 Net earnings per share

The company discloses basic and diluted net earnings per ordinary share.

Basic net earnings per share are calculated by dividing the net profit for the financial year pertaining to ordinary shareholders by the weighted average of the number of outstanding ordinary shares in the financial year.

The calculation of diluted earnings per share are determined on the same basis, except that the net profit attributable to ordinary shareholders and the weighted average number of outstanding ordinary shares are adjusted for the effects of all dilutive transactions in relation to ordinary shares.

### 3.11 Determination of fair value

In numerous cases the BAMC's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities.

The fair value is the amount for which an asset could be sold or a liability exchanged between knowledgeable, willing parties in an arm's length transaction. The BAMC determines the fair value of financial instruments by taking into account the following fair value hierarchy:

- Level 1 - Fair value of financial assets and liabilities whose values are based on unadjusted, quoted prices for identical assets or liabilities in an active market,
- Level 2 - Fair value of financial assets and liabilities whose values are based on their quoted prices in inactive markets, or whose values are based on models for which the inputs to those models are observable either directly or indirectly for substantially the full term of the asset or liability,
- Level 3 - Fair value of financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The BAMC uses quoted prices as the basis for the fair value of financial instruments. If a financial instrument is not quoted on a regulated market or the market is considered inactive, the BAMC uses inputs of Level 2 and mostly Level 3 for determining the fair value of financial instrument. Where applicable, further information about assumptions made in determining fair values is disclosed in the notes specific to that asset or liability of the BAMC.

The BAMC determined fair values for measurement and reporting purposes using the methods described below. Where further clarifications in relation to the assumptions made in determining fair values are required, these are given in the notes relating to the individual asset or liability.

## NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with the ZUKSB requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, incomes and expenses. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgment involves an assessment of the likelihood of future events, actual results could differ from those assessments, which could affect the future reported amounts of assets and liabilities.

### *A) METHODOLOGY FOR VALUATION OF LOANS*

Individual valuations of loans are performed at borrower level for exposures higher than €300 thousand, while collective valuations at borrower level are performed for smaller exposures. These valuations are Level 3 in the fair value hierarchy and have features of unobservable inputs, which reflect assumptions using the best information available in the circumstances, and include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

**Individual valuation on borrower basis**

Individual valuations of loans are based on the Binominal Option Pricing Model ("BOPM"). For each borrower two possible scenarios, restructuring and recovery, are considered and the cash flows forecasted.

A key unobservable input in the valuation process is the estimate of the probability of realization: either restructuring or recovery scenario. If and when it is estimated that the recovery strategy is to prevail, then the recovery scenario, which reflects the collateral value, is assigned a 100% probability (see Note 4B and 4C for more details on valuation of equity and real estate collateral). In the event that the restructuring scenario is considered more likely, the BAMC uses the Default Probability Scorecard ("DPS") to establish the probabilities of the restructuring and recovery scenarios. DPS probabilities can be overruled by a decision of the case manager, subject to review and subject to appropriate argumentation regarding different case-specific risk factors and real options provided. This approach enables compliance with IFRS 13 and International Valuation Standards regarding:

- Usability and theoretical consistency,
- The repeatability of the process of valuation,
- Comparability of the valuation process regardless the valuator, and
- Identification of specific key business risks, connected with the probability of realization of the restructuring scenario, which are not considered in the discount factor.

The DPS model is a scoring model classifying up to 13 different business risk elements on a 7-point scale from low to high risk. If some elements include higher risk, the probability of the restructuring scenario decreases. The risk factors are determined according to the case manager's company-specific observations. According to the assigned risk classes, an average risk profile ("avgP") of the restructuring scenario is set.

The probability of the recovery scenario is calculated as (1 – probability of restructuring scenario).

Once the probabilities of restructuring and recovery scenarios are set with the use of the DPS model, the lender are assigned to strategy profiles. If the restructuring scenario is considered more likely, the BOPM model is applied. BOPM is a discrete model, which is based on the use of probability distribution and recognises that the BAMC may decide to change strategy – in essence it can switch to the recovery strategy if the restructuring strategy fails. Key inputs for the BOPM are:

- Probability of the restructuring scenario (determined with the use of the DPS model),
- Probability of the recovery scenario (determined with the use of the DPS model),
- Time to switch from restructuring to recovery strategy. BAMC assumes a switch to a lower value recovery strategy with immediate effect in order to recognise the prudence principle. The model considers the failure risk and does not allow this risk to be underestimated by means of postponing the failure. Furthermore, due to the early restructuring phase and turnaround nature of the restructuring projects, it is fair to assume that if a failure occurs at all, it occurs sooner than later,
- Value of cash flows according to each (restructuring and recovery) scenario. For the restructuring scenario, the borrower's cash flow forecast and debt servicing capability is taken into account. For the recovery scenario, the realistic outcome of realizing collateral is taken into account,
- The risk-free rate of return in the framework of the BOPM model is zero since it is already considered in the weighted average cost of capital ("WACC") of the BAMC and therefore is part of the present values of forecasted cash flows in both scenarios,

The WACC of the BAMC was calculated at the level of 2,39% as at 30 June 2017 (WACC as at 30 June 2016 was 3,14%).

In essence, the BAMC calculated the probability-weighted average of the present values of forecasted cash flows for both scenarios. Effectively this reduced the present value of loans from the higher restructuring values towards lower recovery values, while considering both the probability of failure and the collateral value provided by the recovery scenario. This is equivalent of the BOPM model with the assumption of a real option of the worse recovery scenario, applying with immediate effect and without delay.

**Valuation process and controls applied**

The BAMC performs individual valuations of loans on a borrower basis as per 30 June and 31 December every year.

The respective case manager is responsible for estimating expected cash flows and probabilities for both scenarios (restructuring and recovery). For the recovery scenario, the input for the value of the underlying collateral is based from the collateral valuations performed by the internal real estate management support department, external valuators and/or the analyst department.

The head of the analysts department is responsible for monitoring the valuation process and review all valuations for technical and logical correctness. Valuation reports, compliant with International Valuation Standards, are prepared by the respective case manager and are countersigned by a reviewer who reviewed the respective loan valuation.

This process, among others, includes the review of inputs such as:
In the restructuring strategy:

- Reasoning for the factors used in determining the restructuring probability (DPS)
- Sustainability of the projected cash flows
- Attributing cash flows to the correct source (operations, divestment, refinancing etc.)

In the recovery strategies:

- Use of appropriate inputs as collateral values and reasoning if deviations are assumed
- Assumptions used for estimated repossessions and time to sell

Additional logical and technical controls are performed and documented by the Corporate Risk Manager.

The Executive Credit and Investment Committee (“ECIC”) approves valuations subject to additional consent from the Board Credit and Investment Committee (“BCIC”).

The effects of these valuations are presented in the financial statements on an annual basis.

**Collective valuation on borrower basis**
Collective valuation is based on the Expected loss model. The expected loss is influenced by the estimated probability of default and the value of the potential fall-back scenario in the event that default occurs. The latter represents the value of collateral pledged for the loans of each borrower.

Exposures belonging to this class of loans are allocated into five groups based on the days in delinquency (days of delay in settlement of outstanding debt) and for each group, the probability of default is assessed.

Deduction the collateral value from the gross value of the loan results in a loss given default value (LGD). The loss given default is the value that the creditor would lose under the assumption the default had already occurred and the collateral had been realized.

The expected loss is therefore calculated as a product of the probability of default (predefined by the days in delay) and the loss given default, which is then used as an impairment level of each loan. The carrying amount of such loans is therefore calculated as the gross value of the loan less the expected loss.

**Valuation process and controls applied**

The BAMC performs collective valuations of loans and receivables on a borrower basis as at 30 June and 31 December every year.

The Head of the analyst department monitors the valuation process and reviews the valuations process for technical and logical correctness. This process, among others, includes the review of inputs such as:

- Correct classification of borrowers in specific groups based on days in delinquency
- Use of appropriate inputs as collateral values

The ECIC approves the valuations subject to additional consent from the BCIC.

The effects of these valuations are presented in the financial statements on an annual basis.

### *B) METHODOLOGY FOR VALUATION OF EQUITY INVESTMENTS*

The valuation methodology for equity investments and equity collateral is a Level 3 valuation in the fair value hierarchy and has features of unobservable inputs, which reflect assumptions using the best information available in the circumstances, and include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Key unobservable inputs in the valuation process are revenue growth, gross profit margin, capex, working capital and terminal growth of FCF.

The valuation methods on enterprise value level (e.g. FCFF for discounted cash flow method and EV/EBITDA for comparative method) are always preferred to those at the equity level or those based on dividends or book values. Exceptions to this are valuations of holding structures, where the preferred method is the net asset value approach.

Equity investments representing more than a 20% interest or carrying value above €5.000.000 are valued within an In-depth valuation process mainly relying on discounted cash flows analysis. For lower percentage shareholdings and carrying book values, the FCFF method is still preferred if the data quality is sufficient. Alternatively, the comparative method, based on European average multiples in the same industry, is acceptable for these types of holdings. For listed holdings, the market price is used where available and sufficient transactions occur to ensure liquidity.

**Valuation process and controls applied**

The BAMC performs valuations of equity investments as at 30 June and 31 December every year.

The respective analyst is responsible for the valuation of equity investments (as well as equity collateral).

The Head of business analysis monitors the valuation process and reviews all valuations for technical and logical correctness. This process includes a review of inputs such as:

- WACC of the underlying investment,
- discounts applied to the equity value,
- assumptions used in the projected periods (regarding revenue, costs, capex, working capital etc.),
- reasoning of the underlying assumptions used (majority/minority stakeholder, consolidated or individual financial statements etc.).

The valuation report is signed by the responsible analyst who performed the equity valuation and the reviewer who reviewed the specific equity valuation.

Additional logical and process controls are performed and documented by the corporate risk manager.

The ECIC approves valuations subject to additional consent from the BCIC.

The effects of the valuations are recognised in the financial statements on an annual basis.

### *C) METHODOLOGY FOR VALUATION OF REAL ESTATE*

The internal real estate valuation methodology applies to inventory of property and real estate collateral. It is compliant with International Valuation Standards and is a Level 3 valuation in the fair value hierarchy. It has features of unobservable inputs, which reflect assumptions using the best information available in the circumstances, including the entity's own data and taking into account all information about market participant assumptions that is reasonably available.

Key unobservable inputs in the valuation process are adjusted market rent, adjusted market price, investment costs, liquidity discount (i.e. time to sell).

Regardless of the stated above, the BAMC use the transaction value/price of assets as the fair value, in case the outcome of the sale transaction is not only possible, but very likely (i.e. contract signed, down-payment received etc.)

The **Market approach** is the most common method of estimating real estate values and provides the most realistic proxy of values. It is commonly used when sufficient quality data about transactions (Trgoskop, own database) or offers (nepremicnine.net, bolha.com) exists.

During the valuation process using this methodology the building is always valued together with the functional part of the land plot (land plot needed for the building to serve its purpose). As an entire property may also include a land plot larger than needed to form a sellable unit, this is also taken into account in the adjustment of the value.

Before market data is used it needs to be verified: were transactions among unrelated parties, has all the tax been included, do the surface areas match the GURS data etc.

**The income approach** is used in two different ways. If a constant annual return is expected until the expiration of usefulness of the real estate, the approach of capitalization of the stabilized annual return is used. If the return is expected to be limited for a specific number of years, the discounted cash flow approach is used.

Before the values using this method are derived, the adjusted market rent for the valued real estate needs to be assessed. The adjustment is performed through comparison of rents, which need to be comparable from the perspective of gross/net rent, comparable cost structure etc.

After the determination of the effective profit, which is a product of market rent and the property's surface area, an additional discount factor is applied for vacancy and indirect costs of the investment (studies, appraisals, technical documentation), investor profit, cost of financing, time to complete the project and assumption of time to sell are included.

**Discount rates used in valuations of real estate**
For the calculation of the discount rates, the bottom-up approach is used. Generally the following discounts are applied:

- Risk-free rate,
- Market risk discount,
- Liquidity discount,
- Management discount,
- Retention of capital discount (if the capitalization rate is used).

The risk-free rate is calculated using the Fisher equation based on the 3 year average yield of the 10 year Slovenian bond and using the three year average inflation.

The market risk premium/discount is calculated based on market data. This rate is adjusted according to the market price changes defined in the semi-annual report of GURS.

The liquidity discount is a market rate reflecting the time to sell.

The management discount represents the cost of ownership which is pre-defined for certain real estate types and reflects actual costs related to real estate, owned by BAMC.

The retention of capital discount is added to the discount factor to attain a capitalization rate, which is calculated according to the Ringo method.

**Valuation process and controls applied**

According to internal rules, the BAMC performs a valuation of real estate twice per year, namely, as at 30 June and 31 December every year.

A full in-depth valuation of the real estate is performed every 3 years. In the interim, valuations are performed periodically twice a year only taking into account changes in market conditions, changes in real estate management costs and changes in the estimated time to sell.

The full in-depth valuation is performed by certified appraisers in the Real Estate Management Support Department in cooperation with the Asset managers. If this valuation is performed during the calendar year, the estimated value is re-assessed to check the appropriateness of the value for financial reporting purposes at mid-year and at year end. If the re-assessed value falls within a 5 % margin it is presumed that the value is still appropriate.

During the 3 year period from the last in-depth valuation, the following adjustments are made twice a year:

- the real estate values are automatically adjusted through the use of a statistical index for various real estate types, which is published by GURS, semi-annually,
- Estimated time to sell is re-assessed and the present value of the real estate is adjusted accordingly.

Real Estate Management Support Department is responsible for valuation of inventory of real estate and real estate collateral. The valuation process is monitored by the Head of Real Estate Management Support Department who also reviews the valuations from a logical and technical point of view.

The valuation report is signed by the valuator and reviewer.

Additional logical and technical controls are performed and documented by the corporate risk manager.

The ECIC approves the valuations subject to additional consent from the BCIC.

The effects of the valuation, if any, are recognized in financial statements on an annual/half-yearly basis.

### NOTE 5: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – LOANS

| in € thousand | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Long term | 589.384 | 772.934 |
| Short term | 192.292 | 173.013 |
| **Total** | **781.676** | **945.947** |

#### MOVEMENT IN THE LOAN BALANCES FROM 1 JAN TO 30 JUN

| in € thousand | 1 Jan to 30 Jun 2017 | 1 Jan to 30 Jun 2016 |
|---|---|---|
| **Opening balance 1 January** | **945.947** | **1.091.006** |
| Merger of two banks | 0 | 267.042 |
| Merger five subsidiaries | 0 | 902 |
| Exclusion of loans given to five subsidiaries | 0 | -34.659 |
| Increase in loan portfolio | 3.713 | 10.229 |
| Repayments | -214.872 | -156.842 |
| Cash repayments | -133.873 | -117.308 |
| Conversion to real estate | -9.241 | -14.663 |
| Sell back (paid with the BAMC's bonds) | | 0 |
| Conversion to trade receivables | 81 | 0 |
| Loans sold | -68.175 | 0 |
| Conversion to equity | -3.664 | -24.871 |
| Increase/decrease on revaluation | 33.311 | 1.889 |
| Increase/decrease for capital gains/losses | 11.736 | 30.130 |
| Other | 1.842 | 633 |
| **Closing balance 30 June** | **781.676** | **1.210.330** |

### NOTE 6: RELATED PARTY TRANSACTIONS

Related parties are, in addition to the Government of the Republic of Slovenia as a 100% owner, deemed to be the following companies:

- Subsidiaries and associates
- Companies associated with the management and members of the Board of Directors, including the Audit Committee members and their close family members, and
- Companies associated with the Government of the Republic of Slovenia.

FROM JANUARY TO JUNE 2017 THE BAMC DID BUSINESS WITH RELATED PARTIES

| in € thousand | Subsidiaries | Associates | Companies associated with the owner (RS) |
|---|---|---|---|
| **Financial assets at fair value through profit or loss (loans)** | | | |
| Opening balance 1 Jan 2017 | 77.036 | 0 | 327.956 |
| Increase | 7.584 | 0 | 0 |
| Decrease | -64 | 0 | -6.885 |
| Closing date 30 Jun 2017 | 84.556 | 0 | 327.956 |
| **Deposits** | | | |
| Opening balance 1 Jan 2017 | 0 | 0 | 3.521 |
| Closing date 30 Jun 2017 | 0 | 0 | 3.521 |
| **Financial assets at fair value through profit or loss (equity investments)** | | | |
| Opening balance 1 Jan 2017 | 25.009 | 2.356 | 0 |
| Increase | 10 | 0 | 0 |
| Closing date 30 Jun 2017 | 25.019 | 2.356 | 0 |
| **Borrowings** | | | |
| Opening balance 1 Jan 2017 | 0 | 0 | 556.794 |
| Increase | 18.000 | 0 | 0 |
| Decrease | 0 | 0 | -274.229 |
| Closing date 30 Jun 2017 | 18.000 | 0 | 283.229 |
| **Debt securities** | | | |
| Opening balance 1 Jan 2017 | 0 | 0 | 556.794 |
| Closing date 30 Jun 2017 | 0 | 0 | 556.794 |
| **Income from loans** | 1.399 | 3 | 8.094 |
| **Income from equity investments** | 0 | 51 | 0 |
| **Interest** | | | |
| Interest income from deposits | 0 | 0 | 175 |
| Interest expense from borrowings | 0 | 0 | -1.579 |
| Interest from debt securities | 0 | 0 | -4.026 |
| **Other expenses and costs** | | | |
| Other expenses | -734 | 0 | -225 |
| Other costs | 46 | 0 | 0 |

The BAMC did not undertake business with companies that are associated with the BAMC Board members, including the Audit Committee and their immediate family members.